

**CORPORATE
RESPONSIBILITY
REPORT
2015**

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**ISRAEL
DISCOUNT
BANK**

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In case of any discrepancy the Hebrew will prevail.

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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 2015. 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. In 2015 the Bank celebrated eighty years since its establishment. Over the years of its existence, Discount Bank has been a leader in social action.

This is the fifth Corporate Responsibility Report published by Discount Bank. The report has been prepared in accordance with the GRI G4 (Global Reporting Initiative) Standard. In this report we have significantly enlarged the scope of disclosure in order to reflect the good work done in the field of social responsibility by the principle subsidiaries in Israel: MDB and ICC.

In 2010, the Bank joined the United Nations Global Compact initiative. This report constitutes also an annual update of this initiative in respect of 2015. 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 reporting structure reflects the Bank'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, 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 Bank.

December 25, 2016

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 publication of the Fifth 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 G4-24; G4-25

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 for a period of up to two years concerning corporate responsibility. 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 does not determine the reporting contents, though it is recommended to include therein 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 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.

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

- 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;
- 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, 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 fifth Corporate Responsibility Report

The Report was prepared in accordance with the reporting principles of the GRI (a non-governmental organization working in collaboration with the UN and organizations from all over the world, in order to develop and integrate global corporate reporting parameters among organizations worldwide).

Within the scope of the commitment to the said reporting principles, this Report was structured according to the GRI G4 Guidelines - "Comprehensive", and includes reference to all Aspects identified as material (see extensive discussion further on²). 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 activity³.

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.

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. This effort resulted indeed in improvement; however, further efforts are required for the systematical gathering of data regarding the various reporting issues. 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

² G4-18; G4-23

³ G4-17

data that are in contradiction with the data presented in previous social responsibility reports published by the Bank⁴. In cases where previously published data had been changed or corrected, this fact was distinctly noted.

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 this report we have significantly enlarged the scope of disclosure in order to reflect the good work done in the field of social responsibility by the principle subsidiaries in Israel: MDB and ICC. Previous reports did not include reference to these social activities, with the exception of a small number of issues⁵.

By the nature of things, as this is the first report in which the activities of the said subsidiaries is reflected, the challenge facing the subsidiaries in the coming years is the expansion and intensification of reporting, while establishing an appropriate data base as well as data gathering and reporting procedures.

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.

Reporting in accordance with the G-4 reporting Guidelines may be made at two options: "Comprehensive" - where the report responds fully to all indicators regarding all reporting aspects - mandatory aspects and aspects defined as material; "Core" - where with regards to the material reporting aspects, the report responds to policy aspects and to one indicator respecting each aspect.

⁴ G4-22

⁵ G4-23

The reports of MDB and of ICC are at the "Core" reporting level, and as regards many aspects, they are very near to the "Comprehensive" reporting level.

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 G-4 reporting standard, it is required to perform a process for the identification of material aspects⁶ 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 for the next social responsibility report, the report for the year 2016, the Bank plans to validate the list of material aspects and make the necessary changes therein, where required.

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

⁶ G4-18

Alternatives for the manner of defining the approach to each Aspect. In accordance with G4, 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 alternatives⁷.

⁷ G4-18

Aspects defined as material⁸

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

⁸ G4-18; G4-19; G4-20; G4-21

Material Aspects - reporting Boundaries⁹

	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.

⁹ G4-18; G4-19; G4-20; G4-21

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

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 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.

As stated, the Bank plans to validate the list of material aspects as part of the preparations for the next social responsibility report, the report for 2016, and in this respect the Bank would re-examine the products of the said validation process.

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 two previous social responsibility reports, constitutes an annual progress report in respect of the years 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 2015 Annual Report and 2016 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 2015 annual report of ICC and MDB is available on their websites.

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. It is clarified that the reported data relevant to these subsidiaries has not been examined within the framework of the appropriateness control process of the report.

Review of the Report by the GRI. Corporations which wish to do so may submit their social responsibility report to the GRI for a Materiality Disclosure Service. Concurrently with the publication of the Bank's fifth social responsibility report, it has been submitted to the GRI for such service. This report successfully completed the GRI Materiality Disclosure Service.

Control over the appropriateness of reporting - Discount Bank

G4 in Accordance - Comprehensive

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 **2015 Discount Corporate Responsibility Report** (reviewing the Bank's performance in the 2015). The said Corporate Social Responsibility and Sustainability Group have an over fourteen 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. 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 guidelines of the GRI 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:G4 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:G4 at the "In accordance-Comprehensive" transparency level, and accordingly we testify that based on the information, 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 process of identification of material aspects has not changed in this report, and it relies on the materiality process performed towards the writing of the social responsibility report for 2014. This is based on the assumption that there were no material changes in the operations of the Bank so that it is not anticipated to see changes in the positions of its stakeholders and therefore also in the list of material aspects. Consequently, the list of material aspects, on which this report is based, is identical to those 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 governance 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 G4 principles.

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 GRI:G4, at a "In Accordance - Comprehensive" transparency level, 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 2015.
- Discount Bank publishes every year a social responsibility report. Nevertheless, the report is being published almost a year 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 2015.

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:

- Extending and intensifying the scope of the report** - The present report contains a significant enlargement of the information provided with respect to the principal subsidiaries of the Bank in Israel (ICC and MDB). Moreover, regarding certain issues the Bank expanded the reporting and now publishes information and data not presented in prior reports.
- Strictly keeping of a balanced reporting** - 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.

C. 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 indices regarding corporate responsibility - A part of the aspects relating to corporate responsibility at the Bank are conducted in an orderly and measurable manner, though some are not as yet. In order to continue and improve, the Bank has to present in a clear manner in its next report its goals with respect to corporate responsibility aspects, so that the attainment thereof could be examined, showing whether the expected improvement has been reached.

B. Validation of material aspects with the stakeholders - This is the second report of the Bank written in accordance with the reporting guidelines of GRI: G4. In accordance with these guidelines, it is expected that towards each reporting cycle, the Bank should perform a review for the validation of material aspects. In view of the time that had passed since the Bank performed a review of material aspects, and particularly in view of the inclusion of the subsidiary companies in this report, it is recommended that towards the next report, the Bank should perform a new review of the positions of its stakeholders as well as of the aspects material to its operation, and should form an updated materiality matrix.

C. 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.

Profile, Corporate Governance, Vision 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.

In 2015, the Bank celebrated eighty years of operation. 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 132¹⁰ 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 79⁸ 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"), 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;

¹⁰ The number of branches updated as of December 31, 2015.

- **Non-financial investments and underwriting** - the subsidiary "Israel Discount Capital Markets and Investments Ltd." (hereinafter: "DCMI") engages in investment banking, investments in private equity funds, venture capital funds and in other non-financial investments. DCMI also engages in the field of securities distribution and underwriting and managing the issue of securities, by means of a subsidiary company.

International activity

The international activity of the Discount Group is mostly 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 private banking activity.

In 2015, measures were taken for the focusing of the international operations, as part of the implementation of the strategic plan. In this framework, the operations of Discount Bank Latin America and of IDB (Swiss) Bank were sold and the London Branch closed down (For additional details, see the 2015 Annual Report, pp. 77 and 234).

Mercantile Discount Bank - general background

Mercantile Discount Bank (MDB) was incorporated on October 25, 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 the mortgage centers operating within the branches. The bank specializes in business, from minute businesses to middle market and large 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 divers services regarding their securities operations through a wide layout of consultants located at the bank branches, as well as through investment consulting centers and dealing rooms.

Furthermore, MDB has international relations with brokers, enabling customers to transact business also on foreign securities markets. The Bank offers its customers a wide 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 79 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. The company 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 the company is engaged are the issue of credit cards and the clearing of transactions made by credit cards.

The income of the company 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. The company has several subsidiary companies and one affiliate, through which it provides to

customers a part of its services. Such services were provided in 2015 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 (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, the company 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 cash withdrawal machines at trading houses). These companies provide to their customers, in cooperation with the company, supplemental services to those provided by the company, with the view of offering customers as wide as possible services platform.

The company 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. The company 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 2015

2015 was the first year of operation in which was implemented the strategic plan announced by the Discount Group in August 2014.

As part of the concept of business focusing in areas within the business core and the strategic targets, the minority interest in Diners has been acquired by the ICC and a process has begun for the merger of Discount Underwriting and Issuing with Clal Finance Underwriting, in order to create a leading underwriting body in the market.

Concurrently, the Bank has discontinued operations which were outside its core business field - the closing down of the provident fund operating company of the Bank and the sale of all its holding in the First International Bank, in a way that has preceded the outline determined at the time.

Outside Israel, the Group is focusing and will focus on one central arm, the bank in New York (IDBNY), which is presenting an impressive growth, and in fact, 2015 was a record year in its business results. Accordingly, the operations in Europe (IDB (Swiss) Bank and the London Branch) have been discontinued and the sale of the operations of the Bank in Uruguay (DBLA) has been completed.

The strategic teams at the Bank and at the subsidiaries have operated and continue to operate vigorously for the strict implementation of the many projects deriving from the strategic plan.

Many changes have been implemented in the course of the year, among which, the implementation of "Lean" processes and the establishment of the banking service center, dealing with operational processes that had been removed from the branches, which contribute to growth and an increase in income, alongside efficiency measures and the reduction in expenses generally and in payroll expenses in particular. In 2015 the Bank had to face the implications of the early retirement of some 500 employees at the end of 2014.

Ample attention has been given in 2015 to the reduction in office space used by the Bank. Several branches were merged, and several buildings (used by branches and by Head Office units) were vacated and part of them were sold. These measures resulted in direct savings in the expenditure of the Bank and to capital gains. In addition, the Board of Directors has approved an outline for the construction of the Discount Campus, which in the first stage, is expected to concentrate all operating units of the Bank, including the establishment of a new central computer facility for the Bank.

The brand name "Discount is beneficial to the family" has been refreshed, and the Bank has introduced a new and differentiated marketing language, which relies on family values and is suitable for the manner in which the Bank views the relationship between the Bank and its customers.

Many investments have been made in infrastructure and in technological services. Digital services to Bank customers, by cellular phones and the Internet (application and the operations website) have been upgraded and new innovative services have been introduced, such as: "widget" for the capital market and the "Discount Touch" (login to the bank account via a fingerprint).

The integration of a change supporting organizational culture continued to form a central goal for the Bank's Management. The upgrading of the infrastructure in the field of human resources has gained momentum and made progress. For the first time in Discount Bank, an attendance clock was introduced since January 2015, which is a part of the cultural change taking place in the Bank.

A new infrastructure has been established for the management of intra-organizational communication, which includes an organizational portal "Facebank", promoting a dialogue and joint public debate. At the same time, "round table" meetings have been held, comprising meetings with members of Management, in which over 700 Bank employees have participated.

Ample management attention has been given during the year to preparations and upgrading of the infrastructure required for dealing with cyber risks and cross-border risks, all this alongside the continuing integration of the risk management, compliance and obedience culture.

Central moves in 2016

In 2016, Discount Bank instituted three central move, 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 for the years 2014–2018.

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 in the Bank's financial report for September 30, 2016, p. 21).

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 its cost, in a manner that would ensure the preservation of the retirement achievements, those reached until now and those being formed following the implementation of the new plan.

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 under the assumption of the exercise in full of NIS 760 million (see in the Bank's financial report for September 30, 2016, p. 220).

The signing of a wage agreement for the years 2014–2018. On November 30, 2016, the Management of Discount Bank and the national committee of Discount Bank employees signed a new wage agreement for the years 2014–2018.

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).

Principal activities and events at Mercantile Discount Bank

The year 2015 was the first 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:

- "Branch methodology" - implemented within the framework of which are homogenous work procedures and organizational distribution for all bank branches, with the integration of work procedures and concepts intended to improve customer service;
- "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.

As part of the implementation of the strategic plan, MDB has established a "back office operational unit", operating in two national centers. The operation of the new unit relies on employees previously engaged in the Head Office or in branches of the bank and is the responsibility of the Operating and Information department.

Principal operations and events at ICC

Acquisition of non-controlling rights. On November 29, 2015, ICC and Diners entered into an agreement with Dor Alon Finances Ltd. (hereinafter : "Dor Alon") on the one part, and with Alon Blue Square Israel Ltd. (hereinafter : "Blue Square") on the other part, whereby ICC will purchase in full the holdings of Dor Alon and of Blue Square in Diners (49%) (hereinafter together : "the sold shares"), so that upon consummation of the transaction, ICC is now holding all the rights (100%) in Diners. The transaction was consummated on December 15, 2015. In consideration for the transfer of the shares, ICC paid on that date to Blue Square and Dor Alon a total amount of NIS 130 million.

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 the financial statements of the Bank as of September 30, 2016, p. 20).

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, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. 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).

For additional details, see the 2015 Annual Report (pp. 354–355 and p. 397).

Communication with investors in securities of the Bank

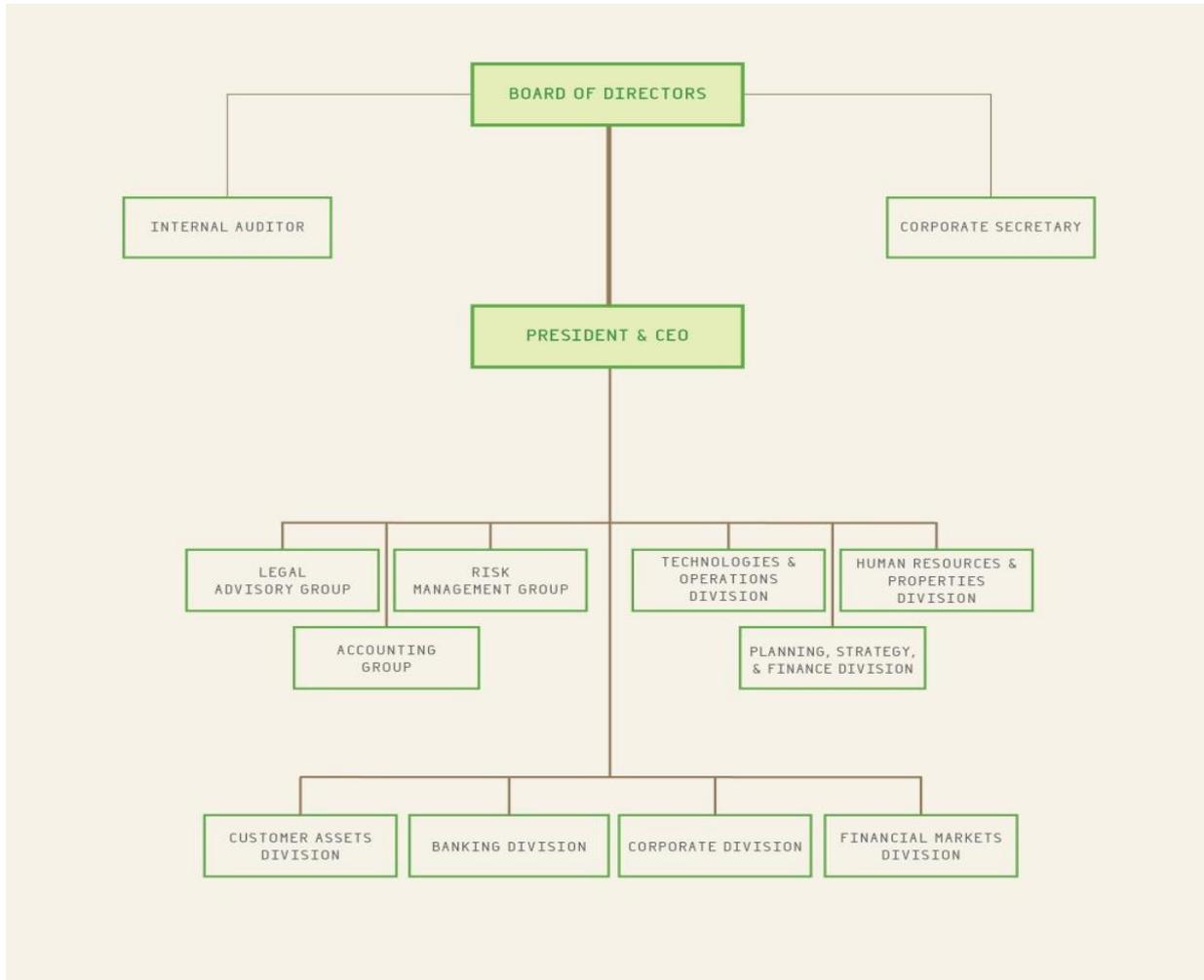
The first and principal layer of communication with investors in securities of the Bank¹¹ is the layer of regulatory reports - reports in accordance with instructions and guidelines of the Supervisor of Banks and in accordance with the provisions of the Securities Act and the Regulations under it. These 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.

¹¹ 64-26

Discount Bank's Organizational Structure Chart



* In July 2016, the Customer Asset Division was abolished and its units were merged into existing divisions and groups. Concurrently, a Subsidiaries Division has been established.

** Among other subordinates of the Bank's Chief Risk Officer, who heads the risk management group, 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.

For additional details, see also 2015 Annual Report (p. 402).

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⁽²⁾

The Corporation	Discount Bank	Mercantile Discount Bank	ICC
Number of Directors	13	13	9
Directors qualified as external Directors	10	6	3
Of which:			
External Directors ⁽¹⁾	4	-(4)	-(4)
External Directors in terms of Directive 301 ⁽²⁾	6	6	3
Directors with professional qualifications ⁽³⁾	13	13	
Directors with accounting and financial expertise	13	3	5
Women	3	2	1
Men	10	11	8
Age			
up to 49	1	2	-
50-60	3	7	5
61-70	9	3	4
Over 70	-	1	-

Notes:

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

(2) 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.

(3) 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.

(4) 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. In 2015, 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. The Chairman of the Board of Directors of ICC in 2015 was Mr. Yuval Gavish, a Senior Executive Vice-President of Israel Discount Bank, who did not hold any other office at ICC.

For additional details regarding the Bank's Board members, see the 2015 Annual Report (pp. 371-378)¹². For additional details regarding members of the Board of Directors of Mercantile Discount Bank, see the 2015 annual report of this bank (pp. 343-349). For additional details regarding members of the Board of Directors of Israel Credit Cards, see the 2015 annual report of this company (pp. 204-208).

¹² The data regarding Directors appearing in the 2015 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 October 2014 (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 secondary 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 secondary 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 discuss everything pertaining to the field of credit at the Bank and at the Group. Within the aforesaid framework, the Committee discusses, inter alia, the following matters: credit policy (prior to the discussion by the Board of Directors); the effectiveness of the credit policy; 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 and approves the yearly and multiyear credit control work plan.

The Committee is authorized to discuss and approve credit applications, and this 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, as well as 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 makes recommendations to the Board of Directors with respect to their approval. The committee has been authorized by the Board of Directors to discuss 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 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.

All of the external Directors, as defined in the Companies Act, are members of the audit committee. The chairman of the committee will be an external Director, as defined in the Companies Act. The majority of the committee members shall be independent directors (who are at least qualified as External Directors within the meaning of Proper Conduct of Banking Business Directive No. 301).

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.

Computer and Operations 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, information technology risk tolerance statement, 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 and external 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.

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

The following topics are also included among the duties of the committee:

- Discussion of periodic reports and/or reports of a nonrecurring nature regarding matters relating to risk management at the Bank and the Group, as detailed below:
 - Discussion of the monthly update of the Head of the Risk Management Group and the monthly report regarding legal and regulatory instruction relevant to banks in Israel;
 - Quarterly discussion 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 discussion 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 discussion of the report of the Head of the Financial Markets Division, including the general overview by the Bank's Chief Economist;
 - Quarterly discussion 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;
 - Quarterly discussion acting as the subcommittee for the U.S. operations risk management;
- 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 Group 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 DCMI), with a focus on 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, material operational risks, changes in the model catalogues and credit risk relating to household customer operations;
- Discussions, of the Group policy documents and of basic documents relating to risk management, according to the frequency prescribed in them, with a recommendation for their approval by the Board of Directors;
- Discussion of the operational risks survey, including fraud and embezzlement survey, of the compliance infrastructure survey and the Group enforcement survey;
- An annual discussion with the Chief Risk Officer, in the presence of only the Committee members and the Chief Risk Officer;
- The study of reports on deviations and on operational failure events, made as close as possible to the date of their discovery, as well as the study of current reports on material issues relating to risk management.

Furthermore, 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.

Coordination Committee - the Committee is authorized to discuss changes and adjustments to the duties and powers of the secondary 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 secondary 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 an annual 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 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.

The above stated applies also to the board of directors of ICC, and 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, are not held in the presence of the directors who act also as officers of the owner banks.

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 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.

On May 26, 2014, the Supervisor of Banks published an amendment to the Proper Conduct of Banking Business Directive No. 301 - "Board of Directors", according to which, among other things, the Supervisor of Banks was, empowered to determine instructions regarding the gradual increase in the number of directors of a banking corporation that had become a banking corporation having no core controlling interest, until the number of fifteen is reached. In his letter dated June 25, 2014, the Supervisor of Banks informed the Bank, that by the power vested in him as stated, he approves a gradual increase of one additional Director for each of the next three annual general meetings of shareholders in 2014-2016.

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.

In the case of a banking corporation not having a core controlling interest, candidates for office as directors are proposed to the general meeting of shareholders by the committee as well as by anyone holding more than two and one half percent of a certain class of means of control in the corporation, and by a group of holders numbering two or three holders, each one of them holding over one percent and not more than two and one half percent, and together not less than two and one half percent and not more than five percent, of a certain class of means of control (hereinafter: "group of holders").

The Bank's articles have been amended following the amendment of the Banking Act and the Banking Ordinance, in order to modify them to the possibility that the Bank would operate as a banking corporation having no core controlling interest.

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. Concurrently, it has been determined, that the provisions of the amended regulation shall not apply to Directors officiating at the Bank immediately prior to its becoming a banking corporation having no core controlling interest. The amendment 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 December 2, 2015, it has been decided to appoint four directors out of the five candidates proposed by the committee, as stated (in 2014: eight directors out of the ten 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

The Corporation	Discount Bank	Mercantile Discount Bank	ICC
Number of members of management	11	10	9
Women	4	3	2
Men	7	7	7
Age			
up to 50	7	4	6
51-60	4	5	3
60 and up	-	1	-

For additional details regarding the Bank's members of Management, see the 2015 Annual Report (pp. 379-381)¹³. For additional details regarding members of Management of Mercantile Discount Bank, see the 2015 annual report of this bank (pp. 349-352). For additional details regarding members of Management of Israel Credit Cards, see the 2015 annual report of this company (pp. 208-210).

¹³ The data regarding members of the Bank's Management appearing in the 2015 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)

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 Proper Conduct of Banking Business Directive No. 301A on 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. It is further stated that the remuneration of the chairman of the board shall be determined in relation to the manner of remuneration of the members of the board of directors, the complexity of the operations and the scope of the office of the chairman of the board.

The provisions of the Amendment shall 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.

Remuneration plan for the Chairman of the Board and the President & CEO

Remuneration plan for 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). For further details see Note 35 F to the 2015 Annual Report (pp. 355–356).

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.

For additional details, see Note 35 to the financial statements as of December 31, 2015 (pp. 356–359).

Remuneration plan for the vice presidents

Remuneration policy for officers of the Bank (2014-2016). A special meeting of the Bank's 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. Among other things, the plan includes the following components: the maximum monthly salary and the considerations in determining it; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in

a total of up to six monthly salaries, where the engagement terminates within a period of up to two years from inception, and up to four monthly salaries following the end of two years, as stated; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers shall be 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 shall apply to the terms of office and employment of officers of the Bank, to be approved as from the date of approval of the remuneration policy. In no way does the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, existing at date of approval of the policy.

The approved remuneration policy shall 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 shall be adopted as part of the Group's remuneration policy, which shall apply, 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 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.

The annual award in respect of 2015. The entitlement to awards did not materialize in respect of the year 2015. The Remuneration Committee and the Board of Directors have decided to grant to five members of Management an award for their special contribution in respect of 2015, in a total amount of NIS 500 thousand (see item 8(b) in the 2015 Annual Report, p. 256).

The actual remuneration for 2015 of Board members, the president & CEO and of members of Management 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 Proper Conduct of Banking Business Directive No. 301A on the matter of remuneration policy published by the Supervisor of Banks in August 2015, 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 compensation 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.

The Bank's annual General Meeting of Shareholders, held on November 8, 2016, approved the remuneration policy applying to officers of the Bank, in accordance with Section 267A of the Companies Act, as well as the terms of office end employment of the Chairman of the Board and of the President & CEO. The revision of the policy and of the office and employment terms was required in order to modify them to the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), published on April 12, 2016, and to the amendments of Proper Conduct of Banking Business Directive 301A in the matter of the remuneration policy of a banking corporation. The Bank is acting to approve the remuneration plan for the vice-presidents, which agrees with the new remuneration policy.

For details regarding remuneration of employees at MDB, see "Additional disclosure according to the third Pillar of Basel - as of December 31, 2015" (pp. 92-98 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 (pp. 157-159 and "Additional disclosure according to the third Pillar of Basel - 2015 annual report (pp. 52-58 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 2015 Annual Report (pp. 383-386).

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 2015 annual report of this bank (pp. 322-324).

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 2015 annual report of ICC (pp. 210-212).

Risk Management Group

The Chief Risk Officer is Mr. Avi Levi who took office on July 21, 2016 and heads the Risk Management Group. Mr. Yair Avidan acted as Chief Risk Officer during the reported period. 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 is required also to assist 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 group: identification and correct evaluation of the exposures; verification of capital adequacy, ensuring the long-term stability of the Group, taking into consideration, among other things, changes in exposures and in the business and regulatory environment and for compliance with risk appetite as determined by the Board of Directors; involvement in material processes of decision making, such as: strategic processes, 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, planning of capital, and the examination of capital

adequacy, including the allocation of capital, employee remuneration aspects, and more, all with the aim of verifying the integration of risk management aspects in these processes and the examination of their effect on the risk profile at the Bank and the Group; current reporting to the Management, to the Board of Directors and to committees of these organs.

The Risk Management Group combines under it the independent functions of risk management, comprising the units managing credit risks, market and liquidity risks, operational risk, including business continuity risks and fraud and embezzlement risks, as well as compliance risk and prohibition of money laundering and finance of terror risks, cross-border risks, IT risks, and cyber risks.

The managers of the risk management units operate, as stated, as the second line of defense and conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies. 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. Furthermore, an information system unit operates within the framework of the layout, 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 2015 Annual Report (pp. 127-185) 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 2015 annual report of this bank (pp. 116-163) 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 2015 annual report of ICC (pp. 49-76) as well as the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risks" of ICC.

Vision and Values

The shaping principles of the Bank¹⁴

The shaping principles are designed to guide the Bank in determining its vision and strategy, including in the actual implementation of the strategy, with the aim of effecting a breakthrough and differentiation in the local banking system.

The shaping principles are as follows:

- Focus on the customer, it's family and their needs, becoming a leader in personal, people-oriented and professional service.
- Development of the excellence of the human resource, employees and managers, which is key to the Bank's success, including encouraging the employees to show initiative, creativity and innovation.
- Management by goals, motivating action and success.
- Long-term stability and profitability.
- Involvement with and commitment to the community both as an organization and as individuals.

The strategic vision

Following the determination of the shaping principles, and in their light, the strategic vision for leadership and distinction in the banking industry has been determined:

- Discount Bank is the leading bank in Israel in providing an all-inclusive financial solution to its customers, personally and professionally, while placing emphasis on people-oriented service and focusing on the needs on the customer and its family, and is the first choice of every family in Israel.
- Increasing the return on the Bank's equity while focusing on growth in the households and small businesses segment, alongside increasing organizational efficiency and focusing of the resources on improving the service and experience of the Bank's customers.

¹⁴ It is noted that the Bank's Management intends to examine changes in the vision and values of the Bank, and if such changes are made, they shall be reported in the next social responsibility report.

Market identity

- Discount Bank is the best bank for families in Israel, and is a leader in providing a personal, people-oriented service experience, which is based on listening to and understanding the customers' needs.

Core values

The core values are fundamental values characterizing Discount Bank and its employees:

- **Love of mankind - awareness of humanity, tolerance and attentiveness as principles expressing mutual esteem and respect in personal relations.** The love of mankind itself is expressed in the Bank and its employees putting the customer in the center of their activity, in the relations with colleagues at work and in the importance attributed by the Bank and its employees to work for the community, of which they form a part.
- **Professionalism - professional qualifications, know-how and experience based on a constant process of learning and improvement.** As leaders of banking combined with people-orientation, the Bank and its employees cultivate qualifications and know-how in the best manner, strive for excellence and adopt valued principles of conduct as an integral part of professionalism.
- **Integrity - personal honesty, integrity and innocence and action in the light of principles of fairness, reliability and transparency.** Integrity reflects the human quality of the professional, and as a financial institution, the Bank and its employees are committed to it in their relations with external and internal customers, in order to be worthy of their trust and provide them with the service they expect.
- **Initiative - awaking to a new activity that attains its goals and realizes targets.** Constant initiative, both organizational and personal, is one of the cornerstones of a business organization in modern times, which operates in a competitive, dynamic and changing environment. Showing initiative in service, attentiveness to changes and the courage to be innovative in all areas of activity, are the factors that guide and differentiate Discount Bank and its employees from their competitors, and cause customers of the Bank to choose the "Discounters" as their bankers.

- **Commitment - identification with the way and its targets and adoption of which as a way of life.** The belonging to the "Discount family" expresses the commitment of employees of the Bank to act towards the realization of the values of the Bank and its vision. This commitment is reflected in the involvement and concern and in accepting personal and mutual responsibility for the success of the Bank and its employees.

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. An extensive absorption process of the updated Code was undertaken in 2015, through courseware distributed to all Bank employees. As part of the said integration process, the Code of Ethics and the reference mechanisms for consultation/reporting have been linked on the website. Only a few approaches were made in 2015.

The reporting mechanisms are an anonymous telephone line and forms addressed to the Ethics Committee also for consulting purposes.

The Code of Ethics is available for perusal on the Bank's website.

The formation of a new ethical code is planned to begin in 2017.

Mercantile Discount Bank. The Code of Ethics of MDB was recently updated in 2016. The revised Code is based upon three layers incorporating the following values: the human layer, relating mainly to the values of: responsibility, fairness and integrity; the organizational layer, relating mainly to the values of: professionalism, excellence and commitment; the inter-personal layer, relating mainly to the values of: cooperation, mutual respect and tolerance.

The branding of the Code of Ethics reflects the undertaking of MDB and its employees to operate in accordance with the way of the Code: "for us" (meaning both - for our benefit and in our way).

The officer in charge of ethics at MDB is a member of Management, Ms. Ronnie Lars - VP

Head of Human Resources and Administration Division. The revised Code will be introduced and implemented in the near future. The Code would be available on the employee portal and on the 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 on October 28, 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.

Corporate governance questionnaire

Starting with the annual report for 2012, reporting corporations in Israel publish a corporate governance questionnaire, in the recommended format published by the Israel Securities Authority. The Bank's corporate governance report for 2015 presents extensive information regarding the corporate governance at the Bank.

The Bank's corporate governance report for 2015 is available for review on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the Bank's 2015 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 will be concluded in 2016, and a new survey, to be performed over three years, will begin in 2017. The survey applies to all units, and 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 unit operates at each division or group, 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 group. The risk management group 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 group 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.

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 58 special examinations were made in 2015. No exceptional activity was identified in 18 cases. Work at the Bank of 8 employees was terminated. Some 69 special examinations were made in 2014. No exceptional activity was identified in 12 cases. Work at the Bank of 14 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 2014-2015 included two cases 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 Audit Group.

ICC. In the years 2014-2015, the internal audit of ICC performed examinations of three events regarding the following matters: extraction of information by an employee (not information about or regarding customers), reporting attendance hours and examination of a complaint regarding the prima facie suspicion of providing business information to competitors. In two of the cases the employees involved terminated their employment with the company, and no deficiency was found in one case.

Additional cases have been examined by the security officer in cooperation with the officer in charge of employee fraud prevention of the company, within the framework of current control and approaches by managers.

Mercantile Discount Bank. In the course of 2014–2015 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 six 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. All other cases mainly involved transgression of procedures and transactions in accounts of related persons.

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, among which are procedures prohibiting the receipt of gifts by employees from parties with whom they maintain relations within the framework of their work.

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 laws and regulations".

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 Group 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 in the effective management of compliance instructions, including with respect to anti-money laundering and terror financing at the Bank and at the relevant subsidiaries in the Discount Group, and beginning with the year 2016, also with respect to internal enforcement fields in the securities laws and cross-border risks. Among his other duties, the Chief Compliance Officer examines and verifies the Bank's readiness for any new operation related to customer service, in order to verify the compliance and implementation of the local or international 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, compliance risk management is performed in an overall manner covering all compliance instructions applying to the Bank, 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 2015, 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 2015 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, who assist in verifying the implementation of the provisions of the law and regulation in the different matters of compliance and prohibition of money laundering, 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.

"Whistle blowing" mechanism. At the end of 2011, a "hot-line" was installed at the Internal Audit Group 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.

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.

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 2015 with respect to non-compliance with laws and regulations.

Police investigation regarding ICC, notices by the State Attorney 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 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 Attorneys 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.

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 Bank

The economic value produced by the Bank 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 Bank's activity as a leading financial institution creates, as stated, value for the Israeli economy. The Bank pays taxes to the authorities as prescribed by law, employs a large staff and thus contributes to the livelihood of many families. The Bank 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 Bank 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 HertzeliLinblum Museum (see Chapter 5 below).

In addition, some of the Bank'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 Bank 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 Bank's 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

On August 20, 2014, the Board of Directors approved the Discount Group's strategic plan for the years 2015-2019.

The plan that was drawn up is based on in-depth analysis and detailed planning work carried out at the Bank, with the assistance of an international consultancy firm. The plan encompasses 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 has been constructed on three central pillars - far-reaching efficiency measures, growing the retail segment and inculcating an organizational culture supporting change.

The first pillar focuses on efficiency measures and stringent management of expenses, including:

- Reducing the size of the Discount Group's workforce by more than 1,000 employees, of which some 700 by the end of 2017. During the years 2014-2015, a decrease of 628 employees of the Bank was recorded, comprising a reduction of 9.7%;
- Adjustments to the organizational structure, with the aim of simplifying various processes and making them more efficient, as well as shortening the customer response time;
- Reducing the Group's real estate areas (in light of, inter alia, the downsizing of the workforce). Within this framework, real estate areas were reduced by 3,768 square meters in 2015 (following a reduction of 6,186 square meters in 2014).
- Savings in procurement costs and other expenses.

The second pillar in the plan focuses on long-term growth and profitability:

- Growing the retail segment, placing emphasis on private customers and small businesses, at the Bank and at its subsidiaries - Mercantile and ICC. In 2015, the Bank focused on growing its consumer credit operation and on further developing the households and small businesses segment. This measure was also supported by improved infrastructure and the development of models that enabled the portfolio to be enlarged and provided better credit accessibility to the public. Thus for example, in 2015 private credit at the Discount Group, excluding housing loans, grew by NIS 2,254 million, an increase of 10.4% compared with the end of the previous year.

- Strengthening the connection with the Bank's customers, by means of upgrading appropriate and useful value offers in a variety of distribution channels, and through implementing technological improvements and enhancing the customer experience. Within this framework, innovative digital services were introduced, as well as a new Internet site for private customers;
- Accelerating the process of transferring operational functions from the branches to the back-office, so as to allow bank tellers to focus on providing personal service to the customers. In 2015, a new back-office - "Banking Service Center" - was established in order to support the branches by the removal of operational activities and the concentration of expertise, with the aim of streamlining processes, shortening response times, making cost savings and freeing up time at the branches for activity that has value for the Bank's customers. In addition, speedier and simpler work processes, based on new technologies, are deployed at the branches, with the aim of streamlining the bankers' work and enabling them to focus on providing personal service to customers.

The third pillar which is the integration of a change supporting and customer focused organizational culture, which is based on performance and excellence and on the development and nurturing of the human capital, is the inculcation of an organizational culture. Within this framework, the Bank integrated in 2015 management tools based on performance: "Balanced scorecards" for the Level of the Group and of the Bank, as well as key performance indicators (KPIs) for the senior management echelon, which are being monitored on a current basis.

Points of emphasis for 2016

Integration of the strategic plan. Integration of the plan includes the launching and execution of some thirty strategic projects. The change administration established in 2014, continues to lead the coordination of the change plans, provide assistance in their execution, monitoring and control of their progress and reporting to the Management and the Board of Director.

In 2016, the Bank continues the implementation of the strategic plan, with a number of central points of emphasis, as follows:

- Acceleration of the efficiency plan:
 - Continuing the reduction in the labor force of the Discount Group, following the early retirement plan implemented at the end of 2014;
 - The closing down of additional branches and extensions and further efficiency as regards the Head Office premises of the Bank;
 - Acceleration of the efficiency plan as regards purchasing;
- Continued growth with a focus on Discount Bank customers;

- The continued improvement in the sales and service capabilities, and completion of the transfer of the operational activity of all the Bank branches to the banking service center;
- Improvement of the digital value offer and structure of a unique value offer;
- Preparation for future banking;
- Exploiting the potential of the subsidiary companies, including acceleration of the existing plans, both as regards efficiency and as regards the leveraging of growth engines;
- Continuing the strengthening of a performance based organizational culture;
- Continuing the construction of infrastructure (human resources, information technology).

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 over the years experience and specialization 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 2015 annual report of MDB, which is available on the website of this bank (pp. 6-7).

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.

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 %	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
	In NIS millions				
Interest income, net	4,225	4,218	4,250	0.2	(0.8)
Credit loss expenses	187	164	580	14.0	(71.7)
Income before taxes	1,366	⁽¹⁾ 793	⁽¹⁾ 1,089	72.3	(27.2)
Provision for taxes on income	568	⁽¹⁾ 271	⁽¹⁾ 269	109.6	0.7
Income after taxes	798	⁽¹⁾ 522	⁽¹⁾ 820	52.9	(36.3)
Net income attributed to the Bank's shareholders	750	⁽¹⁾ 505	⁽¹⁾ 830	48.5	(39.2)
Net income attributed to the Bank's shareholders - disregarding the impact of the retirement plan	783	⁽¹⁾ 896	⁽¹⁾ 1,221	(12.6)	(26.6)
Comprehensive income, attributed to the Bank's shareholders	719	⁽¹⁾ 905	⁽¹⁾ 32	(20.6)	2728.1
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.71	⁽¹⁾ 0.48	⁽¹⁾ 0.8		
The ratio of income before taxes to total equity in % ⁽¹⁾	10.3	⁽¹⁾ 6.6	⁽¹⁾ 10.8		
The ratio of income after taxes to total equity in % ⁽¹⁾	6.0	⁽¹⁾ 4.4	⁽¹⁾ 8.2		
Net return on equity attributed to the Bank's shareholders, in % ⁽¹⁾	5.8	⁽¹⁾ 4.2	⁽¹⁾ 7.2		
Net return on equity attributed to the Bank's shareholders, in % ⁽¹⁾ - disregarding the impact of the retirement plan	6.0	⁽¹⁾ 7.4	⁽¹⁾ 7.2		

Profitability - Disregarding certain components

	2015	2014	
	Page in 2015 Annual Report		
	in NIS millions		Change in %
Net income attributed to the Bank's shareholders - as reported	750	505	48.5
Disregarding:			
retirement plans	⁽¹⁾ 19	341	
loss from sale of operations of foreign investee companies	14	50	
Net income attributed to the Bank's shareholders - disregarding certain components	783	896	(12.7)
Net return on equity attributed to the Bank's shareholders, in % - disregarding certain components	6.0	7.4	
Disregarding:			
Loss on the sale of TRUPS	-	65	
On an other than temporary impairment (OTTI) in respect of FIBI's shares	99	47	
Provision for impairment of the value of the investment in shares of FIBI	-	26	
Net income attributed to the Bank's shareholders - disregarding certain components	882	1,034	(14.7)
Net return on equity attributed to the Bank's shareholders, in % - disregarding certain components	6.8	8.5	

Footnote:

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

Balance Sheet⁽¹⁾

	December 31,		
	2015	2014	
	In NIS millions		Change in %
Total assets	205,260	⁽¹⁾ 207,185	(0.9)
Credit to the public, net ⁽²⁾	127,216	120,123	5.9
Securities	38,935	37,353	4.2
Deposits from the public	157,404	152,903	2.9
Equity attributed to the Bank's shareholders	13,288	⁽¹⁾ 12,599	5.5
Total equity	13,634	⁽¹⁾ 12,989	5.0

Footnote:

(1) Excluding balances classified as assets and liabilities held for sale.

(2) For details regarding the distribution of credit to the public according to operating segments, see in the financial reports as of September 30, 2016 (p. 40).

Financial Ratios

	2015	2014
	in %	
Ratio of total equity to total assets	6.6	⁽²⁾ 6.3
Ratio of credit loss expenses to the average balance of credit to the public	0.15	0.14
Ratio of credit to the public, net to total assets	62.0	⁽²⁾ 58.0
Ratio of credit to the public, net to deposits from the public	80.8	78.6
Ratio of deposits from the public to total assets	76.7	⁽²⁾ 73.8
Ratio of total non-interest income to operating and other expenses	53.3	⁽²⁾ 49.2
Ratio of total non-interest income to operating and other expenses - loss from sale of operations of foreign investee companies and the retirement plans	53.7	⁽²⁾ 54.4
Ratio of operating expenses to total income	78.7	⁽²⁾ 87.0
Ratio of operating and other expenses to total income - disregarding the loss from sale of operations of foreign investee companies and the retirement plan	78.1	⁽²⁾ 78.7
Risk assets adjusted return ⁽¹⁾	5.8	⁽²⁾ 4.3
Risk assets adjusted return ⁽¹⁾ - disregarding the impact of the retirement plan	6.1	⁽²⁾ 7.6
Leverage ratio ⁽²⁾	6.5	
Liquidity coverage ratio ⁽²⁾	128.0	

Footnotes:

(1) Return on capital computed on the average balance of risk assets (December 31, 2015 - 9.06%, December 31, 2014 - 8.5%).

(2) The data is presented according to the new instruction, in effect as from April 1, 2015, and therefore no comparative data is presented. The ratio is computed in respect of the three months ended December 31, 2015.

Ratio of capital to risk assets

Basel III	December 31, 2015	December 31, 2014
	in %	
Ratio of common equity tier 1 to risk assets	9.5	9.4
Ratio of total capital to risk assets	14.3	⁽¹⁾ 14.8

Footnote:

(1) Restated, in respect of the retroactive implementation of the guidelines of the Supervisor of Banks in the matter of employee rights and in the matter of capitalization of software development costs, see Note 1C 5 (2) to the condensed financial statements, in the matter of employee rights, validated on January 1, 2015..

Developments in the market price of the Discount shares

	Closing price at end of the trading day		Rate of change in 2015 in %
	December 31, 2015	December 31, 2014	
Discount share	706	625	13.0
The Banks index	1,340.17	1,249.51	7.3
The TA 25 index	1,528.74	1,464.99	4.4
Discount market value (in NIS billions)	7.44	6.59	13.0

Market share

Based on data relating to the banking industry as of December 31, 2014, 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, 2015	December 31, 2014
	In %	
Total assets	14.8	15.6
Credit to the public, net	14.2	14.1
Deposits from the public	14.7	15.3
Interest income, net	17.1	17.0
Total non-interest income	15.9	17.7

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	
	2015	2014
	in NIS million	
Salaries and related expenses	3,396	4,086
Donations and social investments ⁽¹⁾	16.3	16.4
Dividend paid to the Bank's shareholders	-	-
Interest expenses	1,042	1,518
Provision for taxes on income	568	271

Note:

(1) For details, see Chapter 5.

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

	As at December 31	
	2015	2014
	in NIS million	
The total economic value produced by the Group ⁽¹⁾	7,278	7,371
Total economic value distributed by the Group to its stakeholders ⁽²⁾	5,912	6,578
Total retained economic value ⁽³⁾	1,366	793

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 2015, available on their respective Internet websites.

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.

Maala - This is a professional parent organization of businesses that are creating changes in the area of corporate responsibility. This organization was established in 1998 and is a part of a global chain of business organizations promoting social responsibility. The Maala Organization leads processes developing and implementing strategies for corporate responsibility (business activity integrating social, environmental and ethical values) as a business approach.

The members' organization of Maala numbers today some 125 domestic and global corporations of all economic sectors, headed by the business leadership - a group of 20 leading corporations in the economy, which responded to the call to lead, within the framework of Maala, the social responsibility of the business sector in Israel, and its integration as part of management culture. The leadership group takes an active role in outlining the direction of the organization and invests in the development of the arena of social responsibility in Israel.

The Bank is a member of the business leadership group of Maala.

The Bank submits a yearly report to Maala, as part of its participation in the Maala rating (see Chapter 5 below).

Union of Banks in Israel - The Union was established in 1960 and its members are the commercial banks operating in Israel. The object of the Union is to promote the industry affairs of the banking sector in Israel. Concurrently, the Union is active in the area of public information and the publication of relevant data.

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 Society for Human Resources Management - The Society was founded in 2004 with the aim of advancing and developing the profession of human resources in Israel as a factor which influences the business activity of organizations. The Society acts toward the advancement and development of those engaged in human resources and the formation of a supporting human resources community for all its members - through the holding of professional conferences, excellence competitions in human resources projects, development and management of the index for professionalism in human resources, study meetings, professional visits to various organizations, traineeship for novice human resources managers and public involvement in human resources legislation matters.

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 2015 was submitted in June 2016.

Commendations and prizes

The Bank's Technologies and Operations Division was awarded in 2015 a variety of prizes:

- The computer excellence for 2015 prize of the "People and Computers" magazine for:
 - The new operations site;
 - Innovative applications in Mobile (Discount Touch, My Finance, Discount Watch);
 - Development of an analytical panel in the data base allowing an easy and quick access to advanced administrative data, which advances the Bank, an additional step in the direction of "One organizational truth";
 - Advancing of the "open bank" project, the first of its kind in Israeli banking, within the framework of which, a platform had been established allowing exposure of the core business services to a protected internal and external use;
 - Open Source Innovation Award in respect of the establishment of a unique Linux farm;
 - The Elite Quality Recognition Award - JPMorgan for an exceptionally high STP rate;
 - The outstanding data system manager badge for 2015 of the "People and Computers" magazine;
 - The General Manager's badge of the "People and Computers" magazine for the clever use of technology.

Discount Bank and ICC were named in 2015 as a superbrand in Israel. 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.

Discount Bank was named in 2015 as a superbrand in Israel for the third consecutive year.

ICC was named in 2015, as a Superbrand in Israel for the fifth consecutive year.

Webi competition. This is considered the most regarded and prestigious competition of the "People and Computer" magazine, conducted for over ten years, in different areas, such as: communication, insurance, health, tourism, banking and more, and is considered as the Israeli "Oscar" prize for Internet websites and mobile phones in the country.

Within the framework of this competition for the year 2015, Discount has won the unique prize of "the banking website with the best user experience for 2015".

In reaching its decision for the winner, the Prize Committee stated that: "the operations website of Discount Bank creates an extraordinary user experience. The website provides accessibility to the different processes and its banking language is beneficial to retail customers".

International competition of the Gartner Company. ICC won the first place in the international competition of the Gartner Company, in the category of the most innovative digital customer service in 2015, for the development of the product of "online forms" for the customer service of the company. About 140 candidates from around the globe competed in the five categories. The final round was held at the annual convention of the company in Barcelona, wherein, the product was presented by a representative of the business technologies department of the company.

Diners Club Prize. Diners Club Israel Company, which is represented in Israel by ICC won in 2015 the prize - the largest franchisee for 2014 as regards transaction turnover and the number of cards, thus Diners Club Israel overcame twenty-five competitors from European market countries in which Diners franchisees operate, places in which Diners Club has been operating for decades. The prize comprises the most prestigious prize of all prizes granted annually by the global Diners Club.

Social Responsibility Ratings

"Maala" rating for 2015. In June 2016, "Maala" published its rating for 2015. 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 six central areas of corporate responsibility: environmental protection, business ethics, human rights and work environment, involvement with the community, corporate governance and social environmental 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.

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 2015, the Bank was awarded the 15th place in the rating.

BDI Code. A business leadership index rating approximately 500 companies in the market. In 2015, the Bank was awarded the 18th place in the rating. In 2015, MDB was positioned in the 132nd place in the rating and ICC in the 131st place.

The Customers

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- "Family program" - a unique program for families at Discount Bank;
- 65% of the properties of the Bank, MDB and ICC are accessible to the handicapped;
- Approx. 300 workshops and lectures regarding financial education;
- A credit volume of NIS 30,661 million to small and minute businesses;
- 94%-98% of local purchases.

General policy

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 2014 and 2015 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 132¹⁵ branches in Israel. 79 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, retail customers – households, small business segment, private banking customers, corporate customers and the middle market banking segment. (For details regarding the definition of the segments, see the 2015 annual report p. 299, for details regarding the activity breakdown by business segments, see the 2015 annual report pp. 302–304; for details regarding the activity breakdown by geographical areas, see the 2015 annual report p. 310).

¹⁵ As of December 31, 2015.

Among other things, Mercantile Discount Bank specializes in providing services to small and medium size businesses, and in providing services to the non-Jewish customers population 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, 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 6 "Discount your way" branches (one of them in 2015), 7 other branches (of which 6 in 2015 including one extension), a Regional Administration (the Dan Region, in October 2014) and a business center (the Dan business center, in December 2014).

The following branches were shut down in 2015: Ibn Gvirol branch in Tel Aviv, Ben Yehuda Branch in Tel Aviv, Allenby Branch in Tel Aviv as well as the Shenkar Branch in Herzliyah, Main Jerusalem branch and the Ir Yamim extension in Netanya.

Teller services have not been eliminated within the framework of the scaling down of the branch layout, and as of date of publication of this report these services are still available at all branches of the Bank (except for a few branches, which from the start were opened with no teller service).

Retail Customers - 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. A "family program" turns the existing family cell into a financial group, enjoying the variety of services and exclusive benefits. The program is enjoyed by the Bank's customers who join as a group to the "family program" at Discount Bank. 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 of a personal value in accordance with the status of the accounts and in accordance with the type of benefits elected by the participants, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties share or are involved in the accounts of the other family members.

At the present stage, 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. An exclusive benefit for new customers and for existing customers adding another family member as a new customer. "Family plus" 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. The interest amount being offset relates to a maximum debit balance of NIS 5,000 in each account participating in the program. It is emphasized, that the family member having a credit balance on their account, who assists another family member with a debit balance on their account, does so without forfeiting the interest due to them on their credit balance.
- **"2go key" card** - a rechargeable card, which family members may order for a customer who is not the account owner, including also children from the age of 14. The card may be recharged through the customer's account at the branch, by TeleBank or by the Internet. The 2go key card allows a daily cash withdrawal of up to NIS 400, and daily purchase transactions of up to NIS 400. The card provides security and control over expenditure.

- **Higher education savings** - a fifteen year savings account, with an additional full year of savings provided by the Bank. Family members may make saving deposits of NIS 150 to NIS 10,000 per month, and at the end of the period enjoy the accumulated principal amount and interest as well as an additional award by the Bank in the value of the annual principal amount linked to the CPI, a total amount of up to NIS 120,000 together with CPI linkage increments.
- **Family loan** - loans at preferential terms to existing members and new members of the family program.

Real Families. In continuation to the concept "Discount is good for the family" the Bank introduced in June 2015 a new communication platform - "Real Families". This is a new communication concept of "Real banking" - banking business based on attentiveness, learning and the offer of services and products suitable for the real needs of families in Israel.

For the purpose of the advertising campaign, the Bank has elected not to use presenters, and for the purpose of the new communication platform, tens of families representing the Israeli pattern were elected. These families documented themselves, the Bank participating in the documentation.

Business Family. In December 2015, the Bank introduced the "business family" program, as a direct continuation of the "Discount family" program. The program grants better terms to customers conducting at Discount Bank their business account as well as their and their family members private accounts. Complete separation is maintained within the framework of the "business family" program between the business account and the private account and the accounts of the family members. Notwithstanding the above, noting the family connection grants these accounts benefits and unique terms, such as: Exemption from charges upon the transfer of funds from the business account to the private account and vice versa, the possibility of benefits and rebates regarding check discounting commission, beneficial foreign currency exchange rates, and more.

"Discount Key"

In 2015, 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 2015, the Bank focused on differentiating service according to customer segments, focused on the needs of the customer, 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;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enabling 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;
- Familiarity and warm relations on the part of the service providers;
- Service initiative - anticipating the customer's needs and customizing products or services to such needs;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- The allocation of resources based on the requirements of the customer and the Bank's priorities;
- With a view of providing easy and handy communication with customers, the Bank has started the process of disposition of "mail 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 process of removal from the branches of the operational activity concurrently with measures for improving efficiency and changes in performance concepts continued.

The activity was designed to achieve the following targets:

- a. Removal of all operations not essential for customer service from the branch;
- 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, foreign currency drawing services and effecting payments. Approx. 100 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.

Furthermore, a process was completed in 2015, for the distant control of checks. The deposit of checks by means of the information desk, are transmitted on-line and are dealt with in real time by the back-office. This operation comprises an important layer of operational efficiency and in the saving of resources at the Bank level.

In 2015 the operation to complete the removal of the basic documents from the branches and to scan them, continued, thereby enabling computerized viewing of the basic documents by the business function and head office units. The removal of basic documents has been carried out at more than 100 branches until the end of 2015. The process is planned to be completed at the remaining Bank's branches during 2017.

In 2015 a move for transformation at the branches has been initiated, within the framework of which, several significant improvements have been made to work processes at the branches:

- A banking service center was set up that has absorbed additional operations from the branches: handling faxes, dealing with dormant accounts, executing account closures, depositing postdated checks, registering collateral, etc., in order to lighten and regulate the load borne by the Bank's branches, thereby enabling them to focus on service and initiatives. Through the end of 2015, eight branches had

been absorbed and until the end of the first quarter of 2017, all the Bank's branches will be absorbed;

- New models have been launched for the treatment of credit deviations and commission benefits;
- A new characterization of central operating processes has been made.

Complementary services to branch services

Marketing of mortgage products. In 2015, the Bank focused its operations in this field on existing customers. In this framework, 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 2015, sixty-four branches of the Bank operate in providing mortgage services countrywide.

The Bank operates a call center specializing in mortgages, which provides service in two main fields as follows:

- Sales center, handling approaches from customers interested in new loans. On the basis of determined criteria, the center is authorized to give the customer an initial approval for a loan, while the continuation of the process is conducted in a face-to-face meeting with the customer at the branch. Loan requests from persons who do not meet the determined criteria, are rejected, or, alternatively, a meeting is scheduled for them at the branch for examining the request.
- Providing response to existing customers regarding outstanding loans.

The Bank invests in the enrichment of knowhow of the staff operating in this field and in the improvement of procedures, focusing on shortening loan processing time.

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).

Goals and business strategy

In 2015 the Bank continued to implement the strategic plan for the Group, approved in 2014, which had defined the household segment as one of the segments in focus, 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 2015:

- 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 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 and sales 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 2016

In 2016, the Bank continues to implement the new retail strategy, while focusing on a number of fields:

- The 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 branches 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;
- Upgrading the marketing effectiveness 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.

Loans to students

Students are being offered loans for whatever purpose and loans financing tuition fees. Tuition fee loans include loans for split tuition fees and bank loans for the payment of tuition fees granted (also to parents of the student) against the presentation of a payment voucher.

The Bank offers a variety of loan models that are intended to answer the special needs of students. Thus for example, with the "Degree with Peace of Mind" loan, there is a 10-year repayment period, and the repayment of principal can be deferred for three years. With loans for students studying overseas for advanced degrees, the repayment period is 8 years and the repayment of principal can be deferred for 24 months. In a loan for the split of tuition fees, the payment voucher can be split into eight payments that are interest-free and unlinked.

Following are details of loans granted in the years 2014-2015:

Year	Any purpose loans	Tuition fees loans	Total
	NIS millions		
2014	269	6	274
2015	208	6	214

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 in the Arab sector and the Haredi sector). Three main channels are on offer: 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 comprises cooperation with the academic institutions by means of a tuition fees fund ("financial tranquility for the student"), whereby in most cases the institution pays the interest on the loan while the student repays only the principal amount. The third channel comprises 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 7% to 40% 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, 2015 to NIS 351 million, as compared with NIS 241 million at December 31, 2014, an increase of 45.6%.

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

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 2015 numbered 79 branches countrywide.

Most of the customers of MDB belonging to the household segment of this bank, receive banking services by means of the MDB branches organizationally belonging to the Acco and Nazareth regions (31 branches). Such branches are located in areas where the population has an absolute "non-Jewish" majority.

MDB views the retail segment as a central target of its business development and is diligently working on broadening the branch layout in the segment as well as improving the service to its customers.

Service to the Haredi customer population. MDB operates 9 branches at the heart of the Haredi sector. The branches are located countrywide, mostly in the Jerusalem, Bnei Braq and Ashdod areas. 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, such as the operation of branches until 9:00 PM on Thursdays.

Customers of the small 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 2015 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.

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 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 2013-2015, 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 2015 numbered 79 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 31 branches of this bank belonging organizationally to the Acre and Nazareth regions.

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 the Bank 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 the Bank (jointly with the institutional body) would be able to grant customers within the framework of this tender, amounts to NIS 650 million.

Private Banking customers

Strategic emphases

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants; and the private banking department, serving Israeli resident private 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 relations manager 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 customer assets 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 provides service to customers six days per week. The private banking centers in Herzliyah and Haifa and Tel Aviv 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 and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Service to corporate customers

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. In addition, available to the customers is the extension of the Jerusalem Main Branch, located at the premises of the Jerusalem Main Branch, as well as an additional extension in Haifa.

DCMI offers to customers of the corporate segment underwriting services and investment banking services.

The Capital Market Department. The aim of the department 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 department engages in the allotment of services to these customers, including the rendering of related services (brokerage, investment consultancy and administration).

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

The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.

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.

Scope of operations. According to data issued by the Central Bureau of Statistics, the import of goods in 2015, amounted to US\$61.3 billion, a decrease of 0.5% compared with 2014. The decline affected all groups of commodities: diamond imports - 26.8%, energy material imports - 42%, raw materials - 4%, investment products - 6.4%. Import of goods excluding diamond declined by 12.5%.

The export of goods in 2015 amounted to US\$53.4 billion, a decrease of 7.4% compared with 2014. This decrease stemmed from a decline in the industrial export - 4%, the export of diamonds - 23%, agricultural exports - 16.1%. The export of goods excluding diamonds declined by 4.3%.

The last quarter of 2015 saw increases in imports of consumable goods (2.8%), of raw materials (3.5%) and in industrial export (11.4%), as against the average for the previous three quarters.

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.) and in 2015, the Bank positioned itself as regards complex transactions in the foreign trade field. The foreign trade department continued in 2015 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 activity with customers.

Furthermore, in 2015, the Bank expanded its activity in the field of complex foreign trade financing.

In 2015 the rate of transactions performed online increased.

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 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 - 2015

In the course of 2015 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, reducing exposure to vulnerable areas and the concentration risk (to borrower groups and large borrowers), with the aim of improving the credit portfolio.

In addition, during 2015, the Bank focused on syndication and other complex transactions, as well as changed over to the pricing of risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.

The Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

Targets and business strategy

In 2016, 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 2016:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;

- Leading additional syndication transactions in conjunction with institutional bodies and the continued improvement of the syndication abilities;
- 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;
- Examination of the focusing on specific sub-sectors in the infrastructure sector;
- A decline in the existing risk profile by means of defining the credit 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;
- Participation in the financing of large merger and acquisition transactions.

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 Corporate-Commercial Division, operating in this segment through two sub-units, as follows:

- Business department - responsible for the large corporate customers of MDB (excluding customers belonging to the real estate sector) - include five specialized areas headed by credit officers having specialized qualifications. Banking services are provided to these customers through a number of branches.
- Real estate department - responsible for all real estate corporations conducting business with MDB, as well as for acquisition groups. 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.

Customers of middle market banking segment

Service to segment customers

Customers of the group's middle-market 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, geographically covering the five operating regions of the Bank: Jerusalem and the South, Tel Aviv, Sharon, The North and the 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, "Corporate Banking Segment").

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 2016

- 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, among other: focusing on business with local authorities and related corporations, Kibbutz settlements and Kibbutz industries, the food industry and small housing project financing, by the closed project finance method, including the issue of Sales Act guarantees, while reducing the activity in economic sectors having a high risk level;
- Increasing operations with businesses being members of the Manufacturers Association of Israel, through the cooperation with the Association, which makes possible the granting of credit to members of the Association at beneficial terms;
- Focusing on intensification of activity and increasing the profitability of the segment, while endeavoring to increase the activity of segment customers by way of intensifying foreign trade operations, securities operations, transfers and increasing the off-balance sheet activity which requires lesser capital allocation;
- 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 monitoring of customer condition at discussions of the credit committees, early identification of customers facing financial difficulties, through a monitoring committee designated for the monitoring of such customers, adding guidelines regarding the granting of credit to the segment and monitoring deviations from established rules, as well as monitoring the development of the credit portfolio and the drawing of conclusions;
- The implementation of advanced models for credit risk management, with the aim of improving pricing the marginal transaction and modifying the financing spread to the characteristics of the transaction and the risk to the Bank, while improving the ability to compete in attracting quality customers;
- Focused activity with customers who do not utilize their credit facilities in order to free risk assets for the growth in credit.

The Middle Market banking 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, investment products and capital market services.

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). The unit engages in allocating appropriate finance packages with the participation of institutional investors (who have advantage in raising long-term financing resources) or in cooperation with other banks in financing the transaction.

MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

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, non-marketable future contracts, 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, mutual funds and hedge funds, and in arbitration activity.

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 both marketable and non-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.

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 2015.

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.

"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 19:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors subscribed to the TeleBank service.

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 2015, 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 since 2008, pension consulting services to its customers and also to individuals who are not the Bank's customers.

For this purpose, the Bank entered into distribution agreements with most entities in the pension market, for the distribution of further education funds, provident funds and pension funds managed by the Bank, to customers.

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 significantly. 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;
- 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 and Arabic languages at the line management positions, during 2016.

MDB has an extensive activity in the Arab and Haredi sectors and thereby the required adaptation 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 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 department 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 Department. The establishment of the department 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 Department will take the lead solutions concept in three principal content spheres – direct channels, the CRM and customer concept and current account.

The department will be 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 department 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 2015:

Opening a bank account through the internet. The possibility of opening an account by means of the Internet, without having to visit a branch office. This is performed by providing details on the Bank's website and through a video chat between the customer and a bank officer at a designated center.

Deposit of checks using a mobile phone. The service of depositing Discount Bank checks (only) in customer accounts using a mobile phone widget. The service allows customers to enjoy the comfort of transacting the operation independently and at lower costs, even when the branch office is closed.

A new interface for information desks. In The interface improves users experience: updated visibility, easy and clear navigation and accessibility to handicapped customers.

A new marketing website for private individuals, private banking and foreign language speakers. A new marketing website, having a new and clean design, easy navigation and orientation, compatibility with mobile phones and accessibility to the handicapped.

My finance Discount. A capital market widget for cellular telephones. This innovative service allows customers to access the value of their securities portfolio and prices of securities contained therein in a quick manner with no need to access an application.

A new "Discount@Internet" (for private individuals). A new website "Discount@Internet" allows customers to manage their accounts quickly and efficiently.

The new home page is user friendly and easy to use, it includes information, frequent operations and important notices. In the banking world, information relevant to customers is presented in a clear and simple manner, including different summaries, graphic presentation and a ready link to performance of relevant operations in the account.

Business processes have been improved in order to allow customers to transact business on the website easily and efficiently.

Changing the charging date, recovery of passwords and cancellation of a credit card (ordering an alternative card) on Discount@internet. Services relating to the credit card field have been introduced to the new website. Alongside the detailed and friendly information regarding all bank credit cards attached to the account, the possibilities of changing the charge date, recovery of passwords and cancellation of a credit card by the customer have been added.

Voting in general meetings. The "voting in general meetings" service allows customers holding securities entitling them to vote in general meetings, to receive information about the holding of general meetings and provide identification to the voting website (of the Israel Securities Authority), by means of the web.

Closing an account by means of the Internet. Bank of Israel, requiring banks to allow customers to close their bank accounts using online channels, the Bank introduced an Internet service for the closing of accounts.

Discount Watch Application. The application is designed for the Bank's customers using the Apple smart watch. The Application presents to customers on the watch their current account balance, the last three entries (with no amounts), the amount of next credit card charge and the value of the securities portfolio - at a quick glance and with no need to enter the banking application.

Transfer of high amounts to third parties by means of "one time password" (OTP). A new service to private customers who match the criteria, allowing the transfer of high amounts to third parties through use of OTP (a one time password mailed by SMS, used by the customer for the transfer of funds through the Bank's website).

Receipt by SMS of a "discode" identifying customers of "Business +". This is a new service allowing subscribers of "Business +" to receive the changing password (OTP) by way of an SMS notice. This service increases possibilities to obtain the changing password and facilitates business customers in identification on the website.

Immediate loan by means of the "Business +" website. A new service for the Internet business subscribers, allowing customers matching the criteria to receive a loan by pushing a button on the "Business +" website.

Authorization to charge an account by means of the Internet. The new service allows customers to independently set up on the Internet a new authorization for the charging of their accounts and also transfer from another bank an authorization for the charging of their account. This, without having to fill-in forms or to physically reach the branch.

On December 31, 2015, the Bank had 352 thousand active subscribers to online services.

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.

ICC - Readiness for the digital era

In 2015, ICC continued to establish, promote and modify its assets and products to the challenges of the digital revolution - 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:

An innovative payment made by use of the Cal4U wallet application - the possibility of making payments at restaurants by means of an innovative and designated interface using the mobile phone;

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;

In addition, ICC is incessantly acting for its advancement in the world of digital availability providing value to customers as well as advanced service.

"Digital wizard" for the tailoring of credit products. In November 2015, ICC introduced a "digital wizard" assisting customers via the Internet to tailor the credit product most suitable to their needs. The wizard asks the customer to define his credit needs, on the basis of which, the program automatically offers him the product fitting his needs. 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 loans, 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 2015 were: FlyCard, CAL 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.

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, 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

In September 2013, ICC introduced for the first time the sales activity to micro merchants, MM. 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.

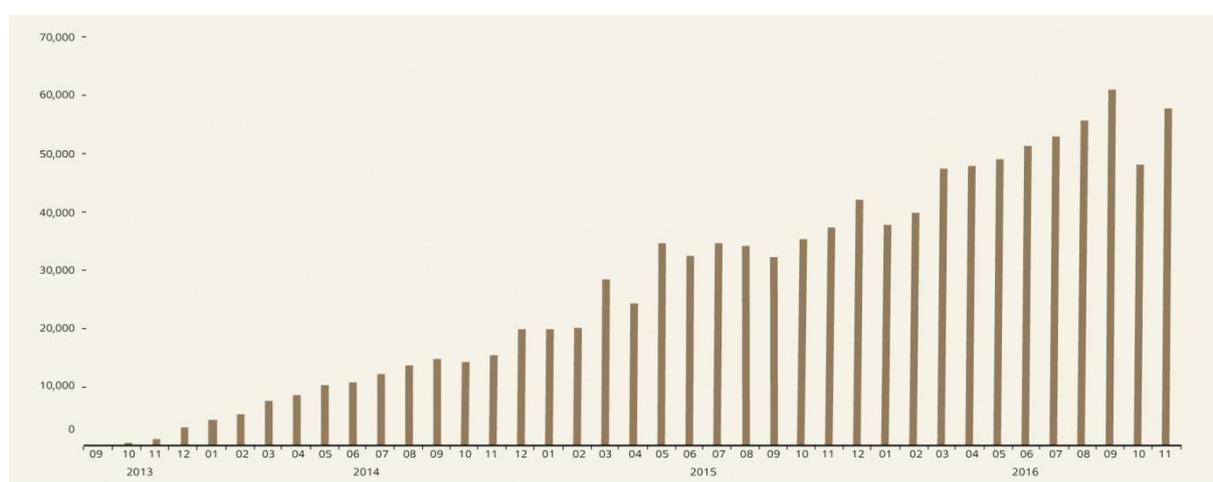
The aim is to provide micro merchants with the possibility of easy and secured collection, of the deferment of payments for up to twelve installments, command and control over their revenues, avoiding the wasting of time on collections, and all these under beneficial terms adjusted to their needs.

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.

Since the beginning of this activity, some 13,000 businesses have joined this service, and the number of transactions made by means of this application is growing continuously. The prominent sectors are: consulting services, cosmetics, apparel, insurance, medical and office equipment.

Quantity of transactions



Social networks

Official Facebook page of Discount Bank¹⁶. The Bank opened its official Facebook page at the end of 2010. At the end of 2015, there were approx. 65,630 members of the Bank's Facebook page (end of 2014 - 64,960 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

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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.

Social networks at ICC¹⁷. ICC has a Facebook web page with over 150,000 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).

In addition, ICC maintains a twitter account, by which it updates the followers from time to time with its marketing operations.

The Diners Company, a fully owned subsidiary of ICC, also has a Facebook page with over 33,000 followers, in which it presents current updates of its marketing operations, benefits to customers, etc.

Financial education

In March 2012, 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 ages¹⁸.

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

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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;
- 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 at the Herzlillienblum private Museum;
- 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 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 activities¹⁹.

Since 2012, date of starting this activity, and until the end of 2015, almost all of the Bank's branches participated in it, in over 300 different events.

Focused activity is conducted from time to time is 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.

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

¹⁹ 64-27

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.

The Group has started the development of a similar activity directed at the Arab sector, by means of the Mercantile Discount Bank branches.

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: - "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.
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.

The ICC Business Academy – enrichment workshops for trading houses clearing transactions with ICC²⁰

ICC introduced in June 2015, the ICC Business Academy. Chosen to lead this initiative, in cooperation with VISA Europe, is Ms. Gariani Yafit, who provided trading houses that conduct the clearing of transactions with ICC, with a tool-box for the management of their business, which include: a lesson in financial management, the formation of a business plan, how to create business cooperation, loyal customer retention, how to promote their business on the social networks and at limited marketing budgets, etc., etc.

The workshops were held country wide in the following cities: Rehovot, Haifa, Jerusalem, Kiriyat Bialik and Tel Aviv, and were granted by ICC without charge and with no obligations on the part of the trading houses. Some 100 trading houses participated in each of the five workshops.

"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.

Mercantile Discount Bank and ICC²¹. 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.

²⁰ 64-26

²¹ 64-26

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 the following threat scenarios: 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 Coordinator" 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 (2015), the Bank completed the accessibility of 40% of its properties in accordance with the due date prescribed by the regulations (June 22, 2015). The Bank completed the accessibility of the additional 25% of its properties towards the third stage dated June 22, 2016, so that

at date of the third stage, the accessibility rate for the Bank's properties was 65%, both as regards service accessibility and as regards modification for accessibility to buildings, infrastructure and environment.

Furthermore, the Bank is in the midst of advanced stages of implementation of accessibility modifications to the Internet websites.

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.

Fairness and honesty values are integrated in the daily operations of the Bank. These values are established in the core documents and the Bank foundation documents, and are being implemented in the field. Among other things, transparency and proper and fair disclosure to Bank customers are being emphasized, including the information that has to be provided to customers as regards banking products and services offered to them.

An additional layer, in which fairness values are reflected, is the advertising and marketing process of the Bank. Messages that are being related to Bank customers (including potential customers), are examined by control factors who verify that such messages do not mislead customers.

The above stated led, inter alia, to the fact that in the years 2014-2015 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; 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 compliance officer, compliance trustees and internal audit.

In accordance with Proper Conduct of Banking Business Directives, the Chief Compliance Officer is responsible for assisting the Management of the Bank and of the Group to manage in an effective manner the risks involved in the violation of compliance instructions. Furthermore, he is actively involved in the preparations for the introduction of new activities and products at the Bank. The Compliance Officer also monitors the rectification of the material deficiencies identified in matters of compliance. The Chief Compliance Officer submits quarterly reports that include a summary of his operations, to the Bank's President & CEO as well as to the CEO's of the subsidiaries in which he serves as a compliance officer.

In accordance with guidelines of the Supervisor of Banks, prior to the introduction 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 of the Bank

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. ICC is also a signatory of the advertising ethical code, and no complaints were received in the years 2014-2015 regarding violations thereof.

No complaint with respect to a violation of the said Code of Ethics was received in the years 2014-2015.

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 2015 the multichannel customer experience was measured through a recommendation of the unit index (NPS - Net Promoter Score). This index represents the level of "Promotion" or "Detractors" of the customers with respect to the service they received, and found to be the best predictor of customer loyalty. 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, new 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 was published in March 2015, for the first time at Discount Bank, in a cross-organization format. The results of the survey constitute a "base line" for a continuous process of measurement and improvement. The survey had measured 333 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 the first quarter of 2016. The mapping and improvement of services and respondents began at the end of the year, as well as the structuring of the methodology for the next survey.

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 satisfaction

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.

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

Post-connection survey

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 current operations of the branch, and allow comparison between periods of operation of the branch.

Some 40,000 measurements (including SMS surveys) were made in 2015. The rate of customers awarding a mark of 9-10 for the question on satisfaction made in 2015, was 81%. This, compared with 28,000 measurements in 2014 with an overall mark of 80%.

The service index marking is based on the question of "to what extent would you recommend the branch to a friend or family member". Customers are also being asked about additional parameters, such as: professionalism, initiative, personal treatment, telephone service, etc. The service markings serve as a management tool for continuing improvement. The service grades also constitute a parameter in various measurement processes, such as the excelling branch award.

Internet survey. It is planned in 2016 to begin service measurement also by means of satisfaction surveys for private customers on the Internet website. Upon exiting the transaction website, customers would be asked to rate their level of satisfaction from the most recent service received from the branch.

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 2015 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 2015, made at the end of the service call, was marked 3.37 (on a scale from 1 to 4, with 4 noting "excellent").

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 managers who failed to reach service targets and with outstanding managers.

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.

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 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. 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 2015 some 2,713 complaints and approaches were treated, compared with 3,378 complaints and approaches treated in 2014. In 2015 some 2,666 complaints and approaches were received, compared with 3,793 complaints and approaches received in 2014. Treatment of 1,859 complaints was concluded in 2015, compared with 2,136 complaints in 2014. The rate of justified complaints in 2015 was 27.5% as compared with 43% in 2014.

In addition, treatment of 854 approaches, requests and various clarifications was concluded in 2015, as compared with 1,602 in 2014.

Most of the complaints referred to matters of credit (11% of the complaints in 2015, as compared with 12% in 2014), current account services (19% in 2015, as compared with 20% in 2014), service and treatment (11% in 2015, as compared with 13% in 2014), self-service banking (10% in 2015, as compared to 5% in 2014) and commissions (6% in 2015 similar to 2014).

Complaints regarding disturbance to the vicinity

Two complaints were received at the Bank in 2015 with respect to disturbance to the vicinity. One complaint was with respect to false alarms sounding from a certain branch at different times. The Bank has made the necessary changes to the branch alarm system in order to avoid false alarms. The second complaint concerned noise created by the air conditioning units of a branch. Technicians of the relevant air conditioning company were called in to examine the complaint.

Customer complaints at Mercantile Discount Bank

578 complaints and approaches were dealt with in 2015, compared with 553 complaints and approaches in 2014. As of December 31, 2015, the treatment of 5 such approaches has not yet been concluded. The ratio of justified or partly justified approaches in 2015 to total complaints in respect of which a position might be established, amounts to 28% as compared with 29% in 2014. Of which, 14% (7 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% (as compared with 26% in 2014 and 20% in 2013).

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.

During the second half of 2015, ICC and Diners handled 831 complaints and approaches. 800 complaints and approaches were received in that period.

Most of the complaints referred to deferred charge cards (37.61%), other matters (12.58%), quality of service (11.71%), online transactions (8.63%) and revolving credit cards (5.43%).

Customer complaints to the Bank of Israel

The Bank-Customer Relations Department for banks in Israel, monitored by the Bank of Israel, deals with the complaints of the customers of all banks and credit card companies.

In 2015, the Department addressed 5,080 complaints and written inquiries of customers of all the banks and credit card companies, compared with 5,555 complaints and written inquiries in 2014. Of the complaints addressed during 2015, a position was taken ("not justified", "justified") in 1,018 complaints, constituting 20% of all the complaints addressed, compared with 1,602 complaints in 2014 (40%).

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 8.9% in 2015, compared with 15.1% in 2014. This average percentage in the entire banking system amounted to 11% in 2015, compared with 15.4% in 2014.

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 2014, some 69 cases of unjustified claims were received (out of 283 unjustified claims - 24.4%) in which ex gratia compensation was given, in a total amount of NIS 415 thousand. In 2015, some 60 cases of unjustified claims were received (out of 217 unjustified claims - 27.6%) in which ex gratia compensation was given, in a total amount of NIS 280 thousand.

Mercantile Discount Bank. The ratio of complaints against the bank, which the Supervisor of Banks had found justified, to all complaints against the bank in respect of which the Supervisor of Banks took a position, amounted in 2015 to 8.7%, as compared with 20% in 2014. The stated average ratio in all the industry in 2015 was 11%, compared to 15.4% in 2014.

In certain cases, MDB compensate customers despite the fact that their complaint had been found unjustified, this due to business considerations, generally wishing to

preserve longstanding and loyal customers. 22 unjustified complaints were recorded in 2014 (out of 88 complaints - 25%), in respect of which an ex gratia compensation in a total amount of NIS 73 thousand was paid. In 2015, 12 unjustified complaints were recorded (out of 39 complaints - 30.8%), in respect of which an ex gratia compensation in a total amount of NIS 901 thousand was paid.

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 in 2015 8.69%, compared with 14.3% in 2014. The total average ratio as above, in the whole industry was 11% in 2015, as compared with 15.4% in 2014. 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. 15 cases were recorded in 2014 in which ICC and Diners acted indulgently (out of 54 complaints not found to be justified, which were referred to the company - 27.7%) paying free willingly compensation in the amount of NIS 4 thousand. 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.

Quality of service

The Bank of Israel classified the manner in which complaints have been serviced in the Public Inquiries Departments in the banking system.

In 2015 the Bank maintained the "Good" marking in the overall rating of complaints.

In 2015, Discount Bank received the grade of 98.3% for the quality of its dealing with complaints, compared with 98.7% in 2014. The average grade of the five largest banks stood at 98.7% in 2015, compared with 98.8% in 2014.

ICC. The Bank of Israel rates only the five major banks. However, in accordance with data published by the Bank of Israel, the rate of approaches received by ICC in 2015, commending the company on its especially good and fair treatment, was 97.56%, and in Diners 100%, compared with 96.7% in ICC and 100% in Diners in 2014.

Mercantile Discount Bank. The Bank of Israel approached the bank regarding 41 complaints, of which 36 complaints have been properly handled and 5 complaints received an especially good marking. In 2015, MDB received the marking of 100% regarding the quality of handling of complaints, similarly to 2014. The average marking for the five major banks was 98.7% in 2015, as compared with 98.8% in 2014.

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.

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. 3 complaints were received during 2014. In one case, no support had been found for the customer's complaint and it was filed away. 2 cases refer to the entry of employees to data of other employees. During the years 2014-2015, no complaints were received in the matter of loss of customer data.

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.

In view of the increasing threat on the global banking industry in general and on the banking corporations in Israel in particular, including the Discount Group, the Bank is updating in 2016, the concept of its 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.

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.

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.

In 2015, 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.

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/misusage 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 defined by ABS and the three credit card companies.

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.).

Purchasing procedures at the Bank had been reorganized in 2011, when responsibility for most purchasing areas were transferred to a central purchasing department established in that year. 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 31.4% and approx. 37.4% of the Bank's total operating and other expenses in 2013-2014, respectively. 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.

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 85%), 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, purchase of sales promotion and marketing services, excluding advertising and media.

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.

42 complaints were lodged with the Bank in 2015, of which, following examination, 29 were found unjustified, while the additional 13 complaints were found to be justified and have been rectified by the contractors, 8 of which were in respect of delays in payment of employment termination compensation.

3 complaints were submitted to MDB in 2015, one of which was found justified following an examination and was rectified by the contractors.

No complaints were submitted to ICC in 2015 by employees of contractors.

Social purchasing

To the extent possible, the Bank and MDB engage with factors employing handicapped persons or those with special needs. For example, MDB purchased from AKIM Association and from Beit Issie Shapiro, in Chanukah and Purim of 2014 and 2015, personal packages of sweets, which were 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 2014-2015 on the part of suppliers. The content of this section applies also to MDB and ICC.

Goals set in the social report for 2014

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.

The Bank intends to expand the approach to additional suppliers and encourage them to join this activity.

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;
- About fifty handicapped workers employed by the Bank as temporary employees, would be accepted as permanent employees;
- An increase of 2.16% in the ratio of female managers to total number of managers;
- An increase of 9.7% in training hours for each employee.

Human Resources Policy

General

Discount Bank has 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, it works 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 insists 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 Division, which guides the employee from his hiring until termination, including from the aspects of: salary, welfare, employee development, guidance and professional training.

Discount Bank has 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.

The policy with regards to human resources at MDB is similar to that of Discount Bank.

ICC - Management of ICC views the human capital as a strategic key in achieving the success of the organization, and accordingly, invests in the cultivation and development of employees, 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;
- 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 2014-2015

Reduction in the labor force. The reduction in the labor force has been declared as one of the central goals of the strategic plan for the years 2015-2019. In 2014, the plan for the early retirement of employees was completed successfully.

Implementation of a wage agreement (2014). Completion of the wage increase move ("selective wage addition") based on an evaluation of employees, their contribution, the position they hold and their existing and anticipated wage level.

Installation of time-clocks. A collective agreement was signed in March 2014, in the matter of recording presence at work and overtime compensation. On January 1, 2015, for the first time, a time-clocks was installed for all employees of the Bank (with the exclusion of a small number of exceptions). Installation of the time-clock has brought about a significant change in the organizational culture at the Bank (for details regarding the collective agreement dated November 18, 2015, in the matter of computing the hours worked on the basis of a monthly calculation, see below "Collective labor agreements").

Principal activities during 2014-2015 at Mercantile Discount Bank

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. In 2015, MDB made preparations for a program for the encouragement of early retirement of employees, within the framework of the multi-annual efficiency plan. [G4-LA1]

New branch methodology. The Human Resources Division of MDB has taken part in the integration of the new branch methodology at the bank, a process that included elimination of knowledge gaps, modification of manpower at the branches and the manning of expert centers with respect to transactions and issues referred to them by the branches.

Branch methodology. A new work outline was implemented during 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, work routine, definition of duties and management routine.

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 and even enlarge the advantages of the bank.

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.

Challenges for 2016

Effective management of the labor force and its cost. The central challenge for 2015-2016 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 plan of 2014 on the one hand, and the utilization of the natural retirement potential in 2015-2016 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.

Efficiency plan. The preparation of an efficiency plan in accordance with the guidelines of the Supervisor of Banks and its implementation.

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.

Developing and empowering employees, by means of training, mobility and personal development.

Challenges for 2016 at Mercantile Discount Bank

The effective management of the labor force and its cost. The central challenge for the years 2015–2016 is the strict and restraining management of the labor force and its cost, in a manner ensuring the restraining of payroll cost alongside increased efficiency.

Assisting the efficiency move at the branches. Assisting in the process of transferring activities to the expert centers in order to enable the business activity and improve the level of service from the branches, from the different human resources aspects, including the creation of a respectful and supportive coverage for employees and managers expected to experience a change.

Providing supportive tools to the bank's units. Development and enrichment of employees by means of training, mobility and personal development.

Plan for the encouragement of early retirement. Preparations and implementation of an early retirement plan for permanent employees within the framework of an overall efficiency and curtailment of expenses process.

Employee hiring policy

Discount Bank continuously hires new employees 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, emphasis is placed on the candidate's skills and his suitability for the specific position for which he is intended on one hand, and for the overall Bank system, on the other hand, 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 of 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 policy of staff recruitment at MDB is similar to that of Discount Bank.

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 2015, 70% of the executive positions and 60% of positions in general, were manned by company employees.

Non-discrimination toward employees

The Bank's management has 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. No complaints regarding discrimination were received during 2015. Notwithstanding, as part of claims filed with Labor Courts, an argument of discrimination had been raised as one of many arguments raised in these proceedings. As regards all legal proceedings filed, no legal instance has determined that discrimination of any kind had in fact existed. It is noted, that in one of the proceedings opened in 2014, the verdict in respect of which was given in 2016, the Court ruled that the Bank had discriminated against the Claimant on age ground, awarding compensation to the Claimant.

Two actions were submitted against the Bank in 2015, inter alia, on grounds of discrimination: one of which, in respect of disability. This claim was dismissed following the death of the Claimant. In the other case, among the many allegations made, was one of discrimination on grounds of age. This claim is still being conducted in court. The Bank has totally refuted all these allegations in the framework of its defense. The legal proceedings are still being conducted.

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. No complaints regarding discrimination were received during 2015, and no actions against MDB were filed with Labor Courts in this matter. In matters of retirement on grounds of age, MDB acts in accordance with the law.

ICC. No complaints regarding discrimination were received during 2015, and no actions against ICC were filed with Labor Courts in this matter. 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 four years the Bank has been acting in cooperation with 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.

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.

The Bank allows ultra-orthodox female employees and employees of Ethiopian origin, who do not have prior employment experience, but have the appropriate technological qualifications, to integrate as software testers, thus enabling them to acquire knowhow and experience in the field of their studies.

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.

Employment under the "near shore" model - ultra-orthodox female employees

As of 2013, the Technologies and Operations Division uses the "near shore" model, whereby female employees of a company belonging to the ultra-orthodox sector are engaged by the Examination Department. A designated work area has been established for these workers near the location of the Bank, which provides response to their needs while offering solutions to infrastructure issues and to the existing work environment.

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 nine 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 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 staff of the Haredi sector is 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. 115 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.

ICC acts for the encouragement of employment in peripheral areas - a new 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 100 employees, and recently has expanded its operations, following which, it is expected also to enlarge its manpower position.

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 personnel 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 would be 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 would be 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 recently contacted "Call Yachol" Company, which specializes in the employment of handicapped persons at call centers. Within the framework of this engagement, "Call Yacholl" Company will provide advisory and classification services as well as assistance in the process of engaging and training of handicapped persons for employment at the Bank's call center.

Upon completion of this process, the Bank is expected to employ a team of approximately fifteen handicapped persons at its call center.

It is noted that the agreement dated November 30, 2016, signed between the Bank and the employee representative committee, determined that approx. 50 handicapped Bank employees employed by the Bank on a temporary employee status, would be admitted as permanent employees. Accordingly, these employees will enjoy, 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.

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 eighteen months, 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, 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, 2015	Arabs	Ultra Orthodox	Handicapped persons	Ethiopian descent
At Discount Bank	75	-(¹)	123	23
At ICC(²)	4	125	43(³)	4

Notes:

1) See hereunder.

2) The ICC data is of December 15, 2016.

3) The data is in accordance with the Expansion Order.

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.

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. 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).

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.

Within the framework of the new collective labor agreements, signed in June 2011 and approved by the Board of Directors on June 13, 2011, the validity of the Labor Charter was extended until December 31, 2016, and it has been agreed that unless otherwise informed by one of the parties to the other party by notice in writing of up to three months prior to the said date, the validity of the Labor Charter will be extended for one additional year, being repeated in each year.

A collective labor agreement was signed on November 30, 2016, between the Bank and the employee representative committee, which extends the validity of the labor charter for five additional years, until December 31, 2021, the prior notice mechanism, as stated above, remaining unchanged.

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 covered by collective agreement. As of December 2015, the Bank had 5,849 employees. This figure includes all of the Bank's employees, as well as those employed in the Bank through outsourcing. Of the above, 5,458 are tenured employees and temporary employees, engaged under collective agreements and constituting 93.3% of total employees. If we deduct the number of outsourced employees, the number of employees stands at 5,535 and the number of those covered by the collective agreements reaches 98.6%.

As stated, the employees who are organized under the employee representative committee are entitled to be elected to the committee and to elect the members of the committee, are tenured employees only, comprising some 75% of all employees who are not employed by outside parties. The said ratio at MDB amounts to 92%.

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.

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.

Collective labor agreements signed in 2015

The following agreements, among others, were signed in 2015:

- A collective agreement was signed on February 8, 2015, in the matter of extension of employment of workers employed by the project for the support of the community, within the framework of which, the temporary employment of handicapped workers, employed at the Bank in terms of this project, and whose employment was due to terminate in the years 2015-2016, was extended by three additional years.
- On November 18, 2015, a collective labor agreement was signed in the matter of: Adjustments and changes required to be made to the collective agreement of March 28, 2014, according to which, the computation of hours worked with respect to Bank employees to whom the agreement applies (as well as monthly temporary employees), would be made on a monthly basis. The agreement enables Bank employees to whom it applies, to complete hours of absence from work on a particular day, on which the employee worked the minimum number of hours as defined in the agreement, also during the month and not only on the same day, as was hitherto the case.

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 employment²²

Following is a summary of employment data in the Bank in the various categories and the changes therein:

	As of December 31,			Change	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Employees					
Tenured employees under personal contracts and members of management	4,149	4,115	4,501	34	(386)
Temporary employees	1,386	1,493	1,685	(107)	(192)
Manpower company employees	-	-	8	-	(8)
Software house	314	301	283	13	18
Total	5,849	5,909	6,477	(60)	(568)
Additional - employees on unpaid leave and maternity leave	185	186	180	(1)	6
Total	6,034	6,095	6,657	(61)	(562)

Following is a summary of employment data in Mercantile Discount Bank in the various categories and the changes therein:

	As of December 31,		Change
	2015	2014	2015 compared to 2014
Employees			
Tenured employees under personal contracts and members of management	1,248	1,248	-
Temporary employees	211	207	4
Manpower company employees	73	72	1
Software house	39	55	(16)
Total	1,571	1,582	(11)
Additional - employees on unpaid leave and maternity leave	32	43	(11)
Total	1,603	1,625	(22)

Employees of the Bank are classified into three categories for purposes of employment terms:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in the Labor Charter, special collective labor agreements and other employment arrangements. The item in the collective labor agreement of June 2011, relating to the updating of grades and stages, changed certain of the employment terms of new employees engaged as regular employees as from January 1, 2012.

On December 31, 2015, there were 4,062 tenured employees in the Bank (December 31, 2014: 4,027 tenured employees). The majority of the Bank's tenured employees are

²² The data in this Chapter does not include employees on unpaid leave and on maternity leave.

permanent employees, while a minority constitutes new employees on a trial period. As of December 31, 2015, the Bank's employees numbered 689 of the tenured employees, as stated, employed under a new employment agreement in accordance with the collective agreement of June 2011 (December 31, 2014: 548 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. In the labor agreement of June 2011, in the matter of the extension of the validity of the Labor Charter, the maximum temporary engagement period was shortened from five (with the possibility of extension of even up to seven years in special cases), to two years (this excluding in respect of employees engaged as tellers, concept branch and direct banking employees, whose maximum employment period remained five years). In an agreement dated September 12, 2013, the temporary employment period of these employees has been extended by one additional year, and it now amounts to three years (the agreement is valid for five years). Temporary employment may be terminated at any time, at the discretion of management. On December 31, 2015, there were 1,386 temporary employees in the Bank (December 31, 2014: 1,493 temporary employees), of which, 284 employees engaged by the Bank (December 31, 2014: 322 employees) and known as "computer temporaries". These employees are engaged in the IT field, and in accordance with an agreement dated 2002 between the Bank's Management and the representative committee of employees, may be engaged in a temporary status for a period of up to seven years. The item in the collective labor agreement of June 2011, regarding the engagement of computer employees, increased the quota of temporary computer employees which the Bank may engage, from the previous number of 350 to 750 employees.

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. As of December 31, 2015, some 87 personnel were employed (including members of management) under personal employment agreements (December 31, 2014: 88 employees engaged under personal employment agreements).

In addition, the Bank acquires services of manpower company employees and software houses. As of December 31, 2014 and 2015, no manpower company personnel were employed by the Bank.

As of December 31, 2015, some 314 software house personnel were in the Bank. These employees are engaged mainly in software development tasks (as of December 31, 2014: 301 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). For details regarding the collective labor agreement signed in the matter of the recording of working hours and the pilot project started in this respect at the beginning of May 2014, see above "Agreements signed in 2014".

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 in accordance with the required changes in provisions for severance compensation under the Expansion Order regarding the establishment of compulsory pension for every employee and under Amendment No. 3 to the Provident Fund Law, which are effective January 1, 2008.

According to the Expansion Order, the Bank was required to make severance contributions on a personal basis and up to a maximum rate (as from January 1, 2014 onwards) of 6% of the employee's salary or of the average wage in the economy, whichever is lower. According to the Amendment to the Provident Fund Law, the Bank's contributions for severance compensation cannot be deposited in a central severance pay fund, as hitherto was the practice, starting January 1, 2008 in respect of new employees and starting January 1, 2011 in respect of other employees.

In accordance with the collective labor agreement in the matter of pension from June 2011, the Bank provides for employee pension, as follows: employer contributions - 6% of the employees salary (including loss of ability to work where the employee elected executive insurance), minimum contributions by the employee - 5.5%, as well as a provision in the entire amount of severance pay 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, who started work as from June 2, 2011, and/or employees converted to the status of tenured employees as from January 1, 2012 - and 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 2015, was NIS 25 to NIS 33 per hour. The minimum wage in Israel (as of December 2015) 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 April 2014, the starting wage payable to most temporary new employees is NIS 30.30 per hour. The minimum wage in Israel (also in effect in December 2015) is NIS 25 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 minimum wage in Israel (as of July 2016) was NIS 4,825, therefore 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 2014-2015, was 6.94 and 6.84 times higher, respectively, than the average cost, and 7.77 and 7.72 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 a decline in the gap in 2015 compared to 2014 (a decline of 1.4% in the gap against the average wage, and of 0.6% against the median wage) (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).

Awards to employees and managers in 2014-2015

No awards have been paid to Discount Bank's employees in respect of the years 2014 and 2015.

Awards to Officers in respect of the year 2015. The terms required for the payment of awards to officers of Discount Bank in respect of the year 2015 have not materialized (see Note 23F to the financial statements as of December 31, 2015, item 8(b), p. 256). In respect of the principal subsidiaries of the Bank in Israel, Mercantile Discount Bank and Israel Credit Cards, the awards to which their officers were entitled have been reduced by 20% of the total award amount.

Awards to employees of Mercantile Discount Bank in the years 2014-2015. In respect of 2014, MDB granted awards to employees, on the basis of its business results in that year, in an amount equal to one and one quarter monthly salary on an average. The award in respect of 2015 has not yet been paid in full to the employees. To date, only the fixed amount of the award, at the rate of 45% of the monthly salary has been paid. Evaluation of the employees for 2015 has been completed, and accordingly, the difference would be paid at a near date. The difference is computed on a differential basis in accordance with the evaluation of the employees (comprising on an average 80% of the monthly salary).

ICC paid an annual award in respect of 2015 to managers and employees in accordance with the remuneration policy approved by the Board of Directors. No award was paid to officers of the company in respect of the year 2014. An award in respect of the year 2015 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 the 2015 annual report (pp. 157-159).

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.

The instruction states that, no later than June 30, 2014, banks have to approve a remuneration plan complying with the requirements of the instruction.

It has been further determined that the provisions of the Directive shall apply to a remuneration agreement that will be approved as of the date of the publication of the draft (June 3, 2013). With respect to the agreement approved prior to June 3, 2013, it has been determined that the agreement should be adjusted to agree with the provisions of the Directive no later than December 31, 2016.

The provisions of the Directive shall not apply to rights of a key employee, as defined by the Directive, accumulated until date of publication of the Directive.

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 report of the Bank for September 30, 2016, pp. 257-258).

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, 2015, pp. 253-258).

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, 2015 (pp. 253-258).

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.

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.

In September 2014, the subsidiary companies in Israel, which are subject to the directives of the Supervisor of Banks (ICC, MDB and DCMI) 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.

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. On August 13, 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. In addition, it is determined that members of the Board of Directors are entitled to a fixed remuneration only. Remuneration of the Directors, excluding the Chairman of the Board, shall be determined identically and in accordance with the manner in which the remuneration of an external director is determined under the Companies Regulations regarding the remuneration of an external director. The remuneration of the Chairman of the Board shall be determined in relation to the manner of remuneration of members of the Board, taking into consideration the size of the banking corporation, the complexity of its business activity and the scope of office of the Chairman of the Board.

The established requirements within the framework of the amendment to the instruction will apply to remuneration agreements approved subsequent to the publication of the amendment to the directive (including the extension or alteration of an existing agreement). Regarding a remuneration agreement approved before the publishing of the amendment, it was decided that the requirements shall apply no later than December 31, 2017.

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 2015 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2015 annual report.

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). Among other things, the agreement determines the right to long-service bonuses (Jubilee Bonuses) and to a onetime signing bonus. Among other things, the agreement provides for a selective annual increase in salary at an average rate of 3.5% for each of the years 2012, 2013 and 2014. The agreement remained valid until December 31, 2014.

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. According to the agreement, the parties shall continue negotiations, starting August 2015, in respect of a collective agreement for the years 2015-2017.

The agreement establishes the rate for the wage addition in respect of the year 2015, determines the rate of "seniority increment" payable to permanent status employees of ICC, and establishes amounts and rates of additional benefits to which ICC employees are entitled. In terms of the agreement, the parties are bound to maintain

industrial peace at ICC until February 29, 2016, with respect to the understandings to which the agreement relates, except for certain matters as defined in the agreement.

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.

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.

On May 22, 2005, an agreement was signed between the New Federation of Labor, the employee representative committee and the Accountant general at the Ministry of Finance, which states, inter alia, that the validity of the collective labor agreements existing at the bank shall be extended to December 31, 2009. Following this date, the collective labor agreements would be 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.

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, including a daily newspaper at no cost.

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.

2014 retirement plan. On August 20, 2014, the Bank's Board of Directors approved a strategic plan for the years 2015–2019, in the framework of which, as part of the efficiency measures, approval in principle was given to a retirement plan, which is designed for approx. 250 employees.

The Bank approached those employees to whom the defined criteria (age and seniority) apply, and offered them an early retirement under preferential terms.

In view of the extensive demand on the part of employees to join the plan, the Bank's Board of Directors, in its meeting of December 17, 2014, decided to extend the plan, allowing 130 additional employees to join it.

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 E, in the 2015 annual report (pp. 242–244).

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 on November 17, 2014, a framework for 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.

	Discount Bank ⁽¹⁾		Mercantile Discount Bank		ICC	
	December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014
The total number of retired employees	443	102	23	27	5	6
Of which: the number of early retirement employees	55	404	13	17	-	-

(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. In 2013 the Bank intensified the supervision over the outsourcing companies and 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.

Amendment 24 to the wage protection law, 1958. Amendment 24 to the Wage Protection Law came into effect on February 1, 2009, according to which an employer is required to provide his employees a monthly pay slip detailing the payment made to the employee. The amendment requires the pay slip to include certain details concerning the composition of wages. It is also required to state the number of days on which the employee actually worked, as well as the number of hours actually worked, including overtime, in accordance with the record keeping alternatives provided by the Law. The amendment set forth criminal sanctions and civil remedies.

Following the intensive negotiations have taken place with representatives of the employees, with a view of forming a collective agreement that would regulate the calculation of employee attendance in accordance with the provisions of the Hours of Work and Rest Act, including Amendment 24 to the Wage Protection Act, a collective agreement in the matter of recording attendance at work and overtime compensation

was signed. The agreement signed in the matter with the employee representative committee on March 28, 2014 took effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) on January 1, 2015.

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.

Characteristics of employees

General. Following are presented different sections regarding characterization of employees.²³

Gender segmentation

Distribution by gender of all Discount Bank employees:

	Clerks		Managers		Total	
	December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014
Men	1,576	1,573	630	673	2,206	2,246
Women	2,765	2,782	565	580	3,330	3,362
Total	4,341	4,355	1,195	1,253	5,536	5,608

Distribution by gender of senior managers at Discount Bank – group manager and above:

	December 31		
	2015	2014	Rate of Change (in %)
Men	41	40	2.5
Women	90	95	(5.3)
Total	131	135	(3.0)
Rate of women	31.3	29.6	5.7

Distribution by gender of all MDB employees:

	Clerks		Managers		Total	
	December 31		December 31		December 31	
Men	366	367	291	303	657	670
Women	681	670	152	157	833	826
Total	1,047	1,036	443	461	1,490	1,497

²³ Notes:

- (1) 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).
- (2) Starting with the report for 2015, Discount Bank counted also managers of a tenured employee status of a managerial grade and employees under personal employment agreements of an alternative managerial grade. Until 2014, also employees in an alternative position had been counted. Due to a change in measurement, certain of the data for 2014 have been amended, in order to present them in accordance with the principals applying to reporting as from 2015. Furthermore, certain of the data for 2014 of Discount Bank relating to this item, have been improved.

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	
	2015	2014	2015	2014	2015	2014
Discount Bank	60.2%	60%	59.9%	59.7%	47.3%	46.3%
Mercantile Discount Bank	56%	55.2%	53.7%	53.2%	34.2%	33.9%
ICC	69.2%	70.0%	-(1)	-(1)	52.6%	52.7%

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 20.2% lower, on average, than the wage of male managers (compared with 20.4% in 2014). Also, the average wage of female clerks is 14.0% lower than the average wage paid to male clerks (compared with 11.8% in 2014).

ICC. No difference exists between male and female employees in the level of salary per similar positions.

Age and seniority

Presented below are data regarding average age and seniority:

Age	Average age		Average seniority	
	December 31		December 31	
	2015	2014	2015	2014
Discount Bank	45.4	45.9	17.8	18.3
Mercantile Discount Bank	42.9	42.4	15.6	15.1
ICC	35.5	34.7	7.9	7.3

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 2014.

Presented below are data regarding the age breakdown of the employee as of December 31 for the years 2014-2015:

Age	Discount Bank			
	2015		2014	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	578	10.5	709	12.7
30 to 50	2,615	47.2	2,575	45.9
Over 50	2,343	42.3	2,324	41.4
Total⁽¹⁾	5,536	100.0	5,608	100.0

Note:

(1) Tenured and temporary employees, not including employees on layoff periods.

Age	Mercantile Discount Bank			
	2015		2014	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	156	10.5	174	11.6
30 to 50	962	64.6	968	64.8
Over 50	371	24.9	352	23.6
Total⁽¹⁾	1,489	100.0	1,494	100.0

Note:

(1) Tenured and temporary employees.

Age	ICC			
	2015		2014	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	517	35.9	462	33.2
30 to 50	786	54.6	780	56.0
Over 50	137	9.5	150	10.8
Total⁽¹⁾	1,440	100.0	1,392	100.0

Note:

(1) Permanent employees and temporary employees.

Academic education

	Discount Bank		Mercantile Discount Bank	
	December 31		December 31	
	2015	2014	2015	2014
Rate of employees with academic degrees	56.1	56.7	50.4	50.2
Rate of managers with academic degrees	81.2	80.8	54.3	53.6
Rate of clerks with academic degrees	47.7	44.9	48.8	48.7
Rate of women with academic degrees	52.6	53.6	50.0	49.3
Rate of men with academic degrees	61.5	61.4	50.9	51.3

Employee turnover

Discount Bank

During 2015, some 700 employees left the Bank (not including 54 employees, who were on unpaid leave or on maternity leave) and 668 new employees joined (of which 660 were temporary workers and 8 were tenured). Furthermore, 2 outsourcing workers and 2 workers under a personal labor agreement have been converted to the position of temporary employees and 6 temporary employees to a personal employment agreement status.

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 2015 was voluntary retirement among temporary employees. Among tenured employees, the main reason for retirement in 2015 was natural retirement.

Breakdown of employees leaving Discount Bank in 2015:

Termination due to	Temporary	Tenured	Total
Encouraged retirement	-	28	28
Natural retirement and leaving (includes: termination of contract)	89	68 (1)4	157
Resignation (wages and benefits)	363	25	388
Dismissal (imposed by Bank)	120	(2)4	124
Other	2	1	3
Total	574	126	700

Notes:

(1) 4 on a personal employment agreement.

(2) Of which 1 employee on a trial period, 1 permanent employee and two employees on a personal employment agreement.

An examination of the breakdown of the net additional employees according to regions in Israel reveals that most of the growth is in the central region, which includes the Head Office units, as is reflected in the table below.

164 employees were moved in 2015 from the position of temporary employees to the position of tenured employees and 2 employees from the position of an outsourcing employee to that of a tenured employee. In addition, 6 workers were converted from the position of temporary employees to the position of personal employment agreement.

Employee breakdown (joining and leaving) according to status/work location:

	Temporary				Tenured	
	Joining		Leaving		New*	Leaving**
	The Bank	Converted	The Bank	Converted		
Jerusalem	44	-	41	8	8	5
T.A.	57	-	77	10	10	7
Sharon	109	-	93	23	23	7
South	45	-	52	9	9	8
North	31	-	31	10	10	7
Remaining units	380	4	280	110	118	94
Bank total	666	4	574	170	178	128

* New includes temporary employees converted to tenured 60 in regions and 164 total in the Bank. Furthermore, there are 4 outsourcing workers that have been converted: 2 to the position of temporary employees and 2 employees to a tenured employee status, as well as 2 employees on a personal employment agreement who turned into a temporary employee status, and 6 temporary employees who turned into a personal employment agreement status.

** Not including retiring employees on maternity/unpaid leave: 49 temporary employees and 5 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 27.1 years, while the average age of retiring female temporary employees is 28.8 years, 55 years for tenured employees. On the other hand, the average age of new male temporary employees is 31.3 years and 42.1 years for tenured male employees. The average age of retiring male temporary employees is 32 years and 60.6 years for retiring male tenured employees.

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	429	1	357	106	106	59
Men	231	3	217	64	72	69
Bank total	660	4	574	170	178	128

* Joining - including temporary employees converted to the position of tenured employees. Furthermore, there are 4 outsourcing workers that have been converted: 2 to the position of temporary employees and 2 employees to a tenured employee status, as well as 2 employees on a personal employment agreement who turned into a temporary employee status, and 6 temporary employees who turned into a personal employment agreement status.

** Not including retirees who were on maternity leave or on unpaid leave: 49 temporary employees (48 female) and 5 tenured employees (5 female).

In addition to those leaving and entering the Bank, 1,133 employees changed their jobs or place of work in the Bank in 2015 (852 in 2014). 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 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	444	66.5	312	78.2
30 to 50	208	31.1	84	21.1
Over 50	16	2.4	3	0.7
Total	668	100.0	399	100.0

Hereunder are data regarding the age of employees who retired in the years 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	356	50.6	270	29.1
30 to 50	232	33.0	198	21.4
Over 50	115	16.4	459	49.5
Total	703	100.0	927	100.0

Mercantile Discount Bank

Breakdown of employees leaving MDB in 2015:

Termination due to	Temporary	Tenured	Total
Encouraged retirement	-	13	13
Natural retirement and leaving (includes: termination of contract)	-	10	10
Resignation (wages and benefits)	12	1	13
Dismissal (imposed by Bank)	10	5	11
Other	10	30	15
Total	32	60	62

* 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 the company, 126 employees changed positions within the company in 2015 (92 in 2014).

	2015		2014	
	Joining	Leaving	Joining	Leaving
Women	11	31	36	31
Men	24	32	15	33
Bank total	35	63	51	64

Breakdown of employees (joining and new) by age – MDB:

Hereunder are data regarding the age of new employees, in the years 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	21	60	24	47.1
30 to 50	12	34.3	27	52.9
Over 50	2	5.7	-	-
Total	35	100.0	51	100.0

Hereunder are data regarding the age of employees who retired in the years 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	9	14.3	9	14.1
30 to 50	30	47.6	23	35.9
Over 50	24	38.1	32	50.0
Total	63	100.0	64	100.0

ICC

Some 328 employees left ICC during the year 2015, and 209 new employees joined. As may be seen from the Table, the main reason for employees leaving in 2015 was resignation initiated by the employee and dismissal.

Breakdown of employees leaving in 2015 – ICC:

Termination due to	2015	2014
Encouraged retirement	5	6
Resignation (wages and benefits)	205	213
Dismissal	124	109
Other	1	-
Total	335	328

Employee breakdown (joining and leaving) according to gender – ICC:

	2015		2014	
	Joining	Leaving	Joining	Leaving
Women	134	243	136	228
Men	40	92	73	100
Bank total	174	335	209	328

In addition to the employees leaving or joining the company, 126 employees were moved to other positions within the company in 2015, and 92 employees were moved in 2014. 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 - ICC:

Hereunder are data regarding the age of new employees, in the years 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	164	78.4	124	71.3
30 to 50	43	20.6	48	27.6
Over 50	2	1.0	2	1.1
Total	209	100.0	174	100.0

Hereunder are data regarding the age of employees who retired in the years 2014-2015:

Age	2015		2014	
	Number of employees	%	Number of employees	%
Up to 30	201	61.3	198	59.1
30 to 50	120	36.6	129	38.5
Over 50	7	2.1	8	2.4
Total	328	100.0	335	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 2014-2015 - the Bank:

	2015	2014	
	Illness	Illness	Change in %
Men	26,051	23,987	8.6
Women	53,667	52,436	2.3
Total	79,718	76,423	4.3
Absence percentage⁽²⁾	5.78%	5.45%	6.1

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 2014-2015 - MDB:

	2015	2014	
	Illness	Illness	Change in %
Men	4,580	3,551	29.0
Women	10,271	8,120	26.5
Total	14,851	11,671	27.2
Absence percentage⁽²⁾	3.56%	2.81%	26.7

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 2014-2015 - ICC:

	2015	2014	
	Illness	Illness	Change in %
Men	5,337	4,887	9.2
Women	12,451	11,355	9.7
Total	17,788	16,242	9.5

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.

Unpaid absence days

Unpaid absence days are days for which payment to the employee is not made by the Bank, but by an external party, or for which no payment is made at all (leave of absence). The number of unpaid absence days is counted according to the number of calendar days in the period of absence.

Presented below are data regarding unpaid absence days⁽¹⁾ in Discount Bank in 2014-2015:

	2015	2014	Change in %
Maternity leave/Leave of absence	50,831	44,642	13.9
Vacation/Illness ⁽²⁾	5,178	6,838	(24.3)
Break before leaving ⁽³⁾	-	-	-
Total	56,009	51,480	8.8
Absence percentage⁽⁴⁾	2.77%	2.51%	10.4

Notes:

- (1) The counting of days is of the number of calendar days in the period of the employee's absence, and it refers to the total number of days in the calendar year and not to the number of possible workdays in the year.
- (2) With respect to vacation or illness days in excess of the balance standing to the employee's credit. The data presented in this line in the Table is based on an estimate, due to the impossibility of calculating the days.
- (3) With respect to days prior to termination of employment, during which the employee did not work and was not entitled to vacation days.
- (4) The absence percentage is calculated as the total number of absence days, during the aforesaid period of absence, divided by the product of multiplying the number of calendar days by the number of employees at the end of the reporting year. It should be noted that the total number of absence days includes all employees in respect of which events of the type listed in the table were 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 unpaid absence days⁽¹⁾ in MDB in 2014-2015:

	2015	2014	Change in %
Maternity leave/Leave of absence	9,900	8,642	14.6
Vacation/Illness ⁽²⁾	85	120	(29.2)
Break before leaving ⁽³⁾	-	-	-
Total	9,985	8,962	11.4
Absence percentage⁽⁴⁾	2.40%	2.15%	11.6

Notes:

- (1) The counting of days is of the number of calendar days in the period of the employee's absence, and it refers to the total number of days in the calendar year and not to the number of possible workdays in the year.
- (2) With respect to vacation or illness days in excess of the balance standing to the employee's credit. The data presented in this line in the Table is based on an estimate, due to the impossibility of calculating the days.
- (3) With respect to days prior to termination of employment, during which the employee did not work and was not entitled to vacation days.
- (4) The absence percentage is calculated as the total number of absence days, during the aforesaid period of absence, divided by the product of multiplying the number of calendar days by the number of employees at the end of the reporting year. It should be noted that the total number of absence days includes all employees in respect of which events of the type listed in the table were 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.

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 2014-2015:

Number of events	2015			2014		
	Men	Women	Total	Men	Women	Total
Discount Bank	39	76	115	41	99	140
ICC	11	22	33	7	28	35
Mercantile Discount Bank	18	10	28	21	15	36

Maternity leave

Presented below are data regarding taking maternity leave in 2014-2015 - Discount Bank:

	Gender	2015		2014	
		No. employees	Rate in %	No. employees	Rate in %
Employees entitled to maternity leave ⁽¹⁾⁽²⁾	Man	178	37.2	163	33.7
	Woman	300	62.8	321	66.3
	Total	478	100.0	484	100.0
Employees taking maternity leave ⁽³⁾	Man	1	0.3	1	0.3
	Woman	315	99.7	338	99.7
	Total	316	100.0	339	100.0
Employees who returned to work after maternity leave ⁽⁴⁾⁽⁵⁾	Man	1	0.3	1	0.3
	Woman	292	99.7	314	99.7
	Total	293	100.0	315	100.0
Employees who returned to work and were still with the Bank 12 months thereafter	Man	1	0.4	1	0.4
	Woman	233	99.6	246	99.6
	Total	234	100.0	247	100.0

Note:

- (1) Data for the year 2014 - entitlement to maternity leave - female or male employee whose baby was born between January 1, 2014 and December 31, 2014.
- (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
- (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 2014 data for the number of male and female employees who returned and were still at work are as of December 31, 2015.
- (5) The 2015 data for the number of male and female employees who returned and were still at work are as of October 31, 2016.

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 2014-2015 - MDB:

	Gender	2015		2014	
		No. employees	Rate in %	No. employees	Rate in %
Employees entitled to maternity leave	Man	45	42.1	38	42.2
	Woman	62	57.9	52	57.8
	Total	107	100.0	90	100.0
Employees taking maternity leave	Man	2	3.1	2	3.7
	Woman	62	96.9	52	96.3
	Total	64	100.0	54	100.0
Employees who returned to work after maternity leave ⁽¹⁾	Man	2	3.1	2	3.7
	Woman	62	96.9	52	96.3
	Total	64	100.0	54	100.0
Employees who returned to work and were still with the Bank 12 months thereafter	Man	2	3.1	2	3.7
	Woman	62	96.9	52	96.3
	Total	64	100.0	54	100.0

Note:

(1) The 2014 data for the number of male and female employees who returned and were still at work are as of December 31, 2015.

(2) The 2015 data for the number of male and female employees who returned and were still at work are as of October 31, 2016.

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.

Reserves - Selection of reserves for a position and their training

"Management reserve". Selective training for an initial management position, which includes behavioral training for gaining a grade adjusted managerial roll concept, as well as banking-professional knowledge supplementation for those selected to serve as segment managers at the branches. In 2015, some 22 trainees from all divisions of the Bank qualified for management.

"Horizons". A development and training, three year course for candidates for the position of branch manager. Graduates of the course, who serve in managerial positions at branches (segment managers), underwent the last training chapter - selective and qualifying branch management training. Upon completion of this development track, 23 trainees were qualified for branch management.

Development of acting managers

"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 2015, some 161 managers participated in the "executive training room", undergoing training in relevant management subjects, such as managing for results.

Management reading. Strengthening professionalism in management by the regular (once a month) publication for managers of articles/lectures/TED video clips on management topics.

Program for the development of team leaders. Training was conducted for 45 team leaders in 2015.

Development of organic teams. Development of five organic teams in a number of units took place in 2015.

Personal development

Personal development is performed through a variety of methods:

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 as the business manager. Assistance and counsel was given to 106 managers in 2015.

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 to 10 units in 2015.

In total, 1,785 instruction course days were held in 2015, in all managers development activities.

Professional guidance

In 2015, 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, maintaining knowledge in sales and managing customer relations for the branch management grade, financial consulting, comprehensive training in direct banking, in light of the increase in importance of this field and of basic banking - training for bank tellers and service teams.

In 2015, a guidance process was started with regard to the law dealing with accessibility for customers with disabilities. Within this framework, 74 experiential workshops were conducted for 1,181 employees. In these workshops employees serving customers were given the experience of a customer with disabilities.

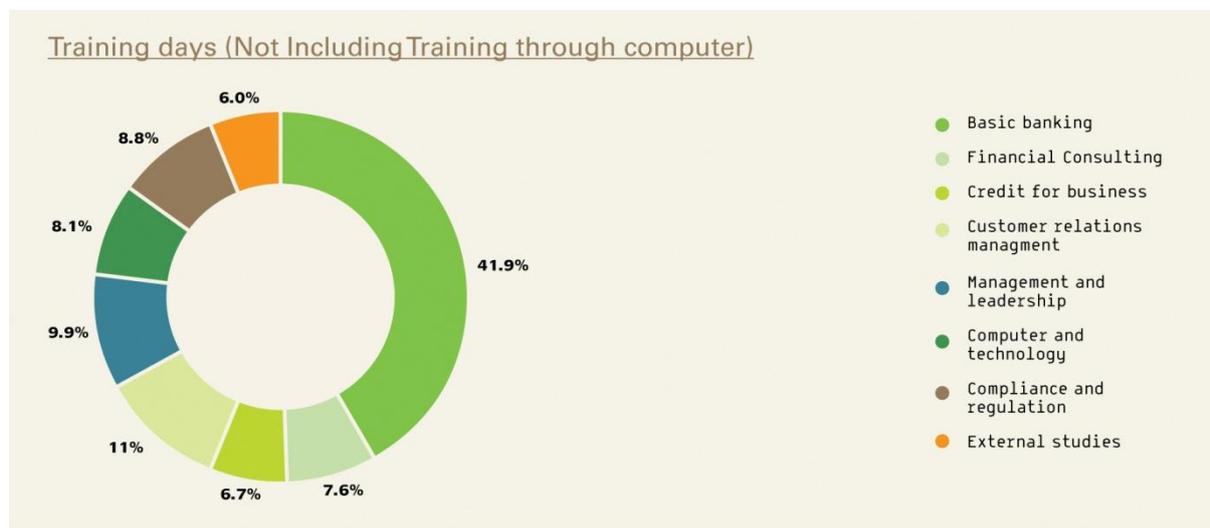
The scope of professional and managerial training

The number of frontal training in 2015 reached approx. 26,130 compared with 26,029 training days in 2014, an increase of approx. 0.4%. The data regarding the number of training days relate to actual training days on the College premises. Notwithstanding, a significant increase took place in the data of training through computer, which amounted in 2015 to 37,530 interactions of network self study, compared with 27,080 interactions in 2014 an increase of 38.6%. 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 2014-2015^{*}:

	2015	2014
Average training hours - clerk	35	32
Average training hours - manager	31	25
Average training hours - total	34	31

^{*} 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 2015, compared with NIS 10 million in 2014, a decrease of approx. 30%. The said decline derived from the process of the reexamination of operations and the modification thereof to the goals of the Strategic plan.

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 despite the reduction in the budgetary scope, the level of exposure to training increased, due to the use of digital means.

Knowledge management

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at the Bank. In 2015, several procedures were conducted for the preservation of the know-how existing in the hands of employees having unique know-how critical to the organization, who had retired from the Bank.

New knowledge sites on organizational issues were established, such as: human resources, organizational development and training, as well as regarding work supporting professional areas, such as: pension consulting, internal audit and a website for managers focused on human resources and employee management aspects.

A new organizational portal is presently being set up, which would provide a platform for an innovative and up-to-date know-how management system.

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.

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 2015, approx. 20 managers participated in the course (in 2014 - 30 managers);
- 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 2015, approx. 50 managers participated in the program.

Personal development. Personal attention is provided by the organization to managers a managerial position, 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 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	2015 (hours)	2014 (hours)
Entering the position	Managers	Not held	57.7 hours for CEO
	Employees	8 hours per employee	8 hours per employee
	Representatives ⁽¹⁾	232 hours per Representative	224 hours per Representative
On the job training	Employees and managers	17.42 hours per person	19.4 hours per person

(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 2015 (including training, consulting for managers, development of managers and senior Management) amounted to NIS 1.4 million, similarly to 2014.

Training data at Mercantile Discount Bank

In 2015, the number of frontal training hours at MDB amounted to 36,230. In addition, 11,200 interactions were recorded for computer self-study.

The average training hours per employee amounted to 23. The data does not include academic studies.

Organizational culture

In 2015, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service.

Facebank. A new 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.

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 will begin in 2017.

Internal communication²⁴. 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 2015, including: Senior Forum - a quarterly meeting led by the

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President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

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. Five sessions of the "Round table" meetings were held in 2015, in which over 800 Bank employees participated;
- "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.

ICC

Emphasis was given in 2015 to the incorporation of strategy supporting culture.

Branding and incorporation of strategy supporting culture:

- Creation of a communication language and the branding of the strategy in the company "Growing clever together";
- Designated training for managers for the incorporation of the strategy;
- Training courses on the subject of credit defined as a strategic goal.

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. The ethical code of ICC was incorporated in 2015, including, inter alia, a compulsory study of the code applying to all company employees. Incorporation will continue in 2016, which is to include in-depth learning by middle level managers, who will continue to incorporate it among their employees.

Intra-organizational communication²⁵. 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.

A variety of communication means were implemented in 2015, including:

- The quarterly extended management forum;
- "Conducting a dialogue" - an online site, which includes tools helping the manager to conduct a dialogue with his workers regarding existing and changing organizational matters, such as: ethics, understanding of the credit activity, innovation, etc.;
- Round table meetings of the different grades with the CEO;
- Campaign for the encouragement of internal mobility of employees and progress to an additional position in the organization;
- Creating a uniform and joint language with the employee representative committee "together we are best for you", strengthening the bond while maintaining mutual responsibility;
- Changing campaigns and exposure to current organizational activity.

Feedback interviews

Feedback interviews are a very 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.

In 2016 the performance appraisal process was conducted in respect of performance in the year 2015. As part of this process, 99% of the employees earned feed-back discussions.

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, and is also a tool for the identification and nurturing of excellence and the creation

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of a culture focused on results. A renewed examination of the process was made in 2015, in anticipation of the integration of a new model 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 has been applied in the feedback discussions in respect of the year 2015.

An evaluation was made in respect of 100% of employees. The system documented feedback discussions with 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 cleverttogether". In cooperation with the managers, a summarized evaluation form was devised in 2015, reflecting the capabilities required of workers and managers in order to achieve the strategy and business goals.

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 2015 included conversations and provided a summing-up evaluation for 100% of all company employees.

Position Survey

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.

During the period reviewed in this report, the survey was performed at the beginning of 2015 and covered approx. 12% of all Bank employees.

The findings of the survey and the perceptions arising there from have been presented to the management of the Human Resources and Assets Division as well as to the Bank's Management.

The surveys are analyzed by the Human Resources and Properties Division, and the understandings being formed following this analysis, 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 34% of company employee participated in the survey conducted in 2015, resulting in ICC rising to the twenty-seventh 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 treatment of deficiencies and gaps, both at organization and unit levels.

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 unit in the organization in general, and in the Bank in particular, 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.

The Bank's Welfare Department is engaged in development and prevention in an integrated manner: assisting the individual – the worker and his family and the development of welfare programs for all employees and common interest groups.

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.

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 by-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, unit's human resources coordinator, peers at work, etc.

In 2015, the Welfare Department dealt with 673 inquiries, compared with 712 inquiries in 2014.

Procedures in case of death of an employee or his next of kin. A new procedure was established in October 2015, with respect to death arrangements:

- A wreath for the funeral of an employee or of his next of kin.
- Delivery of a condolence set to the bereaved family in the case of death of an employee or his next of kin. The set includes food products for the mourning week, candles, skullcaps and disposable tableware.
- Publication on FaceBank of an obituary, allowing employees to add condolences.
- A condolence set and obituary on FaceBank is provided also in the case of death of a retiree of the Bank.

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 Department.

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 2015, 14 events of group pressure situations were treated, compared with 13 in 2014.

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.

35 radiation and air quality tests were performed in 2015, compared with 25 tests performed at the Bank's units in 2014.

Welfare programs

The welfare programs come 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. The Welfare Department organizes and produces seminars on 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 2015, 303 workers (without their spouses) participated in retirement seminars. 72 workers and their spouses participated in retirement workshops in 2014.

Workshops and seminars

The Bank offers its employees a wide range of seminars 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 the Bank's centers and sites throughout Israel. In 2015, there were 6,390 participants in the workshops and seminars, compared with 5,452 participants in 2014.

Medical tests and blood insurance

In 2015, 108 employees received blood insurance by donating blood, compared with 188 employees in 2014. 198 employees and their spouses had general medical tests performed in 2015, compared with 228 tests in 2014. In 2015, some 250 tests were performed on the Bank's athletes, compared with 230 in 2014.

In recent years, the Bank does not maintain illness avoiding programs, such as medical examinations for the early detection. With the increase in awareness of the need for such examinations, these are being offered free of charge by the health funds and employees are undergoing such examinations within the framework of the health funds. In view of the declining interest in examinations offered by the Bank, it has been decided to discontinue them.

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.

Sports activity and medical insurance

The Bank offers to all its employees and their family members membership of fitness clubs, swimming pools and country clubs in various places around the country, at beneficial prices and payment arrangements.

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 (Ashdod and Upper Modi'in are in construction) 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.

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 2015, an educational computer program dealing with safety issues was distributed to all of the Bank's employees which included information regarding risks at the Bank's offices and branches which is intended, inter alia, to encourage employees to spot hazards in their work environment and to report these to the parties who are charged with dealing with them.

In 2015, a safety testing program was activated 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).

A program was drawn up to establish and construct an array of safety trustees at the Bank's branches and sites, and to involve them in conducting the ongoing safety testing at their units. Implementation of the program toward the middle of 2015.

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 2014-2015, which resulted in exercising the Bank's insurance policies:

	2015	(1)2014
Customers (third-party)	6	4
Employees (employers liability)	3	1
Total	9	5

Note:

(1) The data for 2014 were re-examined this year, and an amendment was made to them.

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. An officer in charge of safety has been appointed by ICC. 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.

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 conducts periodic routine checks as well as a radiation survey once a year. These checks did not reveal any exceptional findings, such as the existence of Radon gas or the lack of oxygen.

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 Regulations enacted under it. The Bank has appointed an officer, in term of the Act, who is responsible of investigating complaints and reporting her findings and recommendations to the Head of the Human Resources and Properties, who acts as the representative of the employer for the purpose of taking decisions.

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. Recently, the Bank had purchased a comprehensive educational software on the subject which was modified to its requirements and distributed to all Bank employees, as well as in respect of new employees, who are required to conduct the learning, within the framework of courses for familiarization with 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 to labor agreements to which the Bank is a party.

Additionally, when the complainant decides to turn to the police, the Bank guides her and gives her full support and assistance.

Five complaints regarding sexual harassment were received in the Bank in 2015: In the first case, the Plaintiff was a temporary employee and the accused was also a temporary employee. Examination of the case did not reveal sexual harassment. The accused was asked to keep physical distance from the Plaintiff.

In the second case, the approach was of the manager of the unit who overheard that an outsourcing cleaning lady employed for one day had been harassed by a worker of a renovation contractor working at the site. The renovation contractor came to the site and warned all his employees accordingly.

In the third case, the Plaintiff was an outsourcing worker and the accused was also an outsourcing worker. During the examination the Plaintiff withdrew her complaint and the case was closed.

In the fourth case, the Plaintiff was a tenured employee and the accused belonged to the managerial level. The examination found improper behavior but no sexual harassment. The employee has been duly warned.

In the fifth case, the Plaintiff was a temporary employee while the accused was the unit manager. The examination found neither harassment nor any persecution.

Furthermore, the arbitration proceedings conducted since January 13, 2014, between the Bank and representatives of the employees, were concluded on January 8, 2015. The subject matter of the arbitration was the decision of the Bank to terminate the employment of a Manager who, already in 2013, was found to have sexually harassed a female employee of the Bank. In the framework of the arbitration verdict, given by the former President of the National Labor Court, the Bank's request to dismiss the employee was admitted, and the employment of the said Manager was terminated on January 11, 2015.

Two complaints regarding sexual harassment were examined in 2014. In one case the Plaintiff was the spouse of a customer who alleged verbal harassment of his wife. The accused was a temporary employee. It was not possible to complete the examination in full due to the fact that the customer did not appear to give evidence. In the other case the Plaintiff was a temporary employee about to be dismissed, the accused being a manager. The examination did not reveal any harassment.

Also examined was a claim alleging an affair between a manager and a temporary employee. The parties were summoned and denied the existence of an affair between them.

Instruction in the matter of prevention of sexual harassment. A study flash was published in May 2015 in the matter of "prevention of sexual harassment". In May and June 2015, about 95% of Bank employees completed the study flash.

ICC

ICC has appointed a "responsible officer", as required by Law, whose duties are the dealing with complaints and submission of conclusions and recommendations to the VP Human Resources, 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. In addition, once in every year a designated learning on the matter is communicated to the employees, which also includes a knowledge test.

Punitive sanctions are taken in cases where sexual harassment has been found.

Two complaints were received in 2015 involving sexual harassment: In one case, a company employee complained that an outside contractor (whose service is provided within ICC) had communicated with his spouse on the social network. Investigation of

the case showed that no sexual harassment was involved but an improper approach and expression. The contractor was asked to discontinue communication with the spouse. No complaint had been submitted by the spouse.

In the second case, a female worker intimated that she had found a passport photograph of a man in the pocket of her dress. The photographed person is unknown to the organization. This was a nonrecurring event and no complaint was submitted.

Two cases regarding sexual harassment were examined in 2014. In the one case, the company received notice of an incident involving two employees while on company organized vacation. A full examination of the case was not possible, due to the refusal of the injured party to submit a complaint.

The second case that was examined involved verbal remarks made by one employee towards another. The injured female employee refused to submit a complaint but asked to conduct a conversation with the other employee and that he would be made aware of his offensive manner of speech. A meeting was held with the said employee in which he rendered his apologies.

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.

Two complaints involving sexual harassment were received in 2015: in one case, an outsourcing female employee (cleaning services) complained that another employee (also outsourcing) had accosted her with improper expressions. Clarification of the case was stopped due to lack of cooperation on the part of the female employee. The second case included several anonymous complaints regarding a specific employee as well as improper conduct. A discussion was held with the manager directly in charge of the employee and the employee, requiring higher attention in the unit. No further complaints have been submitted in the matter.

Three cases involving sexual harassment were examined in 2014. In one case, the bank was informed that an outsourcing employee (cleaning services) felt being maltreated

by the function directly in charge of her. A full examination of the case was not possible as the employee did not provide details in addition to a telephone call and asked not to file a complaint. However, the matter was discussed with the said function and his attention was drawn to the applicable rules in the matter. The second case that was examined relates to an anonymous letter received by the bank. The case was discussed with the relevant employee and, to the extent possible the facts mentioned in the letter had been examined. The responsible team did not find ground for the issue of guidelines in the matter. The third case that was examined involved a complaint received from a third party being related to an employee of the bank. Due to lack of information and of a formal complaint, the handling of the case included an interview with the employee and the drawing of his attention to the duties of the employer in such a case. In conclusion, the team was under the impression that the case did not involve sexual harassment and that the manager in question is cognizant of the duties applying to him and shall in the future act with maximum care in this matter.

Claims made by employees

In the years 2014-2015, some 20 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, unlawful dismissal, hearing, maltreatment, violation of agreement, wage differences, request for attendance reports, severance pay differences, absence of pension insurance, recognition of labor relations, etc. Following are details of submitted claims.

- 13 claims were submitted in 2014. Of which, 12 claims have been concluded to date: 2 claims were dismissed at the primary stage; in one case, a verdict was given, according to which the Bank was ordered to pay the Plaintiff 14% of the claimed amount; 9 claims were concluded by compromise agreements, whereby the bank paid various amounts, very low when compared to the amounts claimed, and without the Bank admitting any of the Plaintiffs' arguments; an additional claim was concluded by a verdict dismissing the claim of the Plaintiff. The plaintiff has appealed this decision to the National Labor Court, and the appeal is still being conducted.
- 7 claims were submitted in 2015. Of these claims, 4 have been concluded to date: one was dismissed following the death of the Plaintiff; 3 claims were concluded by compromise agreements, within the framework of which the Bank paid various amounts, very small in comparison with the amounts claimed, without the Bank

having admitted any of the Plaintiffs' claims; 3 claims are still being conducted by the Labor Court.

- In addition, 4 claims submitted in the years 2012-2013, were concluded in 2014-2015: one claim, submitted in 2012 and 2 claims submitted in 2013, all by compromise agreements. One claim submitted in 2013 was also concluded by compromise agreement in 2015.

Mercantile Discount Bank. Three claims were served against the bank in 2014 and one claim in 2015. All claims were in respect of alleged unlawful dismissal. Two of the claims served in 2014 were concluded in 2015 and one in 2016. Two claims were settled by compromise agreements, with the payment of very small amounts in comparison with the amounts claimed. One claim was dismissed by the Court. The claim served in 2015 was concluded in that year by a compromise agreement, according to which the claim was dismissed with no order for costs.

Work in aid of the community

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- An amount of NIS 16.3 million has been donated to the community;
- Approx. 25,000 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;
- 182 scholarships have been granted to students of the Arab sector;
- Employment during the summer vacation of girls at risk and youth with visual impairment;
- 260 thousand visitors at the Herzlilinblum private museum;
- The granting of sponsorships to 30 events and social organizations in 2015;
- 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 employee/branch/unit in each month, 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 2015 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, the handicapped, the infirm, etc.

In addition to the activities in the "Lema'an" Project - Discount Employees for the Community, described below, activities were carried out in 2015 also in the areas of culture and art, providing sponsorships and making donations.

Voluntary activity continued in 2015 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.

Volume of activity

Following are data regarding the scope of expenditure of the Discount Group in respect of the activities:

	In the year	
	2015	2014
	In NIS thousands	
Direct expense including the "Lema'an" project activities	6,804	6,077
Sponsorships ⁽¹⁾	267	58
Direct current cost of operating the Hezelilienblum Museum ⁽²⁾	5,531	5,964
Indirect expenses - payroll ⁽³⁾	3,398	3,784
Miscellaneous expenses ⁽⁴⁾	332	529
Total⁽⁵⁾	16,332	16,412

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	
	2015	2014
	In NIS thousands	
Education and training	3,532	3,074
Herzliya Museum	5,531	5,964
Persons having special needs	1,031	820
Health	700	480
Adoption of IDF units	298	300
Other social causes	1,243	1,402
Indirect and miscellaneous expenses	3,997	4,372
Total	16,332	16,412

Note:

(1) The data for 2013 has been restated following a re-examination of the data.

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 2015 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, Make-A-Wish Israel, Ezra LaMarpeh, Beit Lewenstein, NaLaga'at Center, Yedid, 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 2015 to assist families in need towards the Passover holiday. The Bank has contributed an amount of NIS 54 thousand to the "Warmth" Association, which assists in delivering food parcels to families in need.

"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 operating at fifty-four schools 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 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 2015

- 17 years of activity;
- 85 schools around the country;
- 6,500 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, Lafia, 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, 762 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 2015, similar to 2014.

A Sprint for the Future program in the Arab sector. In 2014–2015, 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.

Within the framework of the program, Mercantile Discount Bank granted in each of the years 2014 and 2015, 72 study scholarships to students of the Arab sector, who were found deserving a scholarship according to determined criteria. 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 2014 and 2015. The program includes also a festive annual event for students and their families, enrichment seminars for students and the employment of a coordinator belonging to the sector, who accompanies the activity in this sector.

Within the framework of the program to date:

- NIS 2.52 million have been granted as student scholarships;
- 42,390 study hours have been granted to the community;
- 315 students from 42 locations participated in the program;
- of which, 136 students received NIS 16,000 during three years.

The Zussman Joint Prize for 2015. Ms. Sharon Chezkiyah, CEO of the "Sprint for the Future" Association, was awarded the Zussman Joint Prize for 2015, which is considered the most prestigious and important prize regarding social activity in Israel.

The Prize was awarded to the "Sprint for the Future" Association for its special and significant contribution to the removal of families from poverty and distress circles. The Prize is awarded for the original and innovative activity and achievements in the advancement of youth coming from peripheral social and geographic areas, with the aim of reducing social gaps through education and knowledge.

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 2015 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 2015 approx. 1,080 Bank employees contributed their time and engaged in volunteer activities on a regular basis. These volunteers were active in 129 voluntary positions (2014: approx. 1,075 volunteers who were active in 113 voluntary positions). The Bank estimates that 25 thousand hours were devoted to voluntary activities in 2015 (2014: approx. 27 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 progress²⁶.

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 Herzlililblum 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 advertizing the volunteer activities on FaceBank, a designated website "Human resources for you", noting the elected "volunteer of the month", granting tickets to fundraising events, etc.

Hereunder are presented various examples of projects and voluntary activities within the framework of the "Lema'an" project.

²⁶ G4-26

Volunteer Activities in partnership 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.

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.

Volunteering of the Bank's senior forum at the food distribution center at Tel Giborim in Tel Aviv, operating within the framework of the Association for Advancement of Education in Jaffa. As part of this activity, forum members packed some 150 food parcels for families in need, towards the coming Passover Holiday.

Population with special needs

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 2015, 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 the Heletz School for special education. Income from sales was contributed towards the continued activities of associations employing population with special needs.

Assistance for Holocaust survivors

Cooperation continues with "Yad Ezer L'Haver" Association in Haifa. Voluntary work, which is focused on holidays.

Holocaust survivors residing in southern Tel Aviv and in Jaffa. A joint voluntary project of Discount employees and the Jaffa Institute. Some fifty Bank employees have enrolled for voluntary work in this project assisting in the distribution of food parcels to the elderly homes.

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 Tel Aviv 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 and holocaust survivors.

The Tel Hashomer Safra Children Hospital. Volunteers of the Bank hold for some years running Purim and Hanukkah happening in which the sick children and their families participate.

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, eight young persons excelling in their studies and especially outstanding in their community volunteer work, 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 eight elected youth are to undergo a several months' course increasing their proficiency and skills, within the framework

of which they would be qualified to lead varied projects for the reduction of various differences and social advancement in Israel.

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.

Happening for children of the "Hayim" Association. A huge happening was held in August in Givataim for children of the "Hayim" Association (cancer patients). Discount employees took part in the event operating stands, offering refreshments, etc.

An intra-organizational communication of the activity

Current updates regarding voluntary work and community activities are provided to employees by means of FaceBank – a new organizational portal, in the format of news websites prevalent on the Internet, launched in the Bank in 2014.

"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 activities.

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. 17 youth were

employed at the Bank in 2015, and in 2014, 21 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. 10 girls joined the project in 2015, and in 2014 - 9 girls joined the project for a period of two weeks in July.

"The March of the Living"

In April 2015, a delegation of Discount Bank employees participated, for the thirteenth 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 50 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 2015, the Museum hosted 260 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 2015, some 140 events were held for corporations, business forums and organizations, similar to 2014.

Cooperation with the Ministry of Education. The Herzlilinblum 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 sixty tours 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.

Workshops for children and youth during school vacation. During the summer and holiday vacation periods the Museum conducts workshops for children aged 6-12 and their families as well as for youth aged 13-17. These workshops expose them to economic contents worlds by interactive means such as imaging, games, trivia quizzes, films and other tangible means.

About 240 tours for children and their families were conducted during the school vacation in 2015, compared with 200 tours in 2014: "My money, a seminar for young economists" - economic seminars.

Financial education. As part of the voluntary work of organizations in aid of the community, commercial companies and investment houses conduct financial education activities for children belonging to different Associations. Ten such activities have been conducted.

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 2015, may be mentioned:

Exhibitions by the artists of the Um-el-Fahem Gallery. On March 26, 2015, Mercantile Discount Bank held a gathering of its customers and the opening of an exhibition of works of the leading artists of the Um-el-Fahem Gallery. Present at the event was the CEO of Mercantile Discount Bank and the Bank's President & CEO (who served also as Chairperson of the Board of MDB). Mrs. Nehamah Rivlin, wife of the President of the State of Israel, honored the opening event of the exhibition.

The opening event and an additional event on the following day, served as sales events of the exhibited works, the consideration thereof being a donation to the Um-el-Fahem Gallery upon its becoming a recognized art museum.

On March 27, 2015, the Bank opened to the general public, an exhibition of the works of artists of the Um-el-Fahem Gallery.

"Adorned - Pioneers and Dreamers". The exhibition presented a group of ladies, each of whom excelled in her achievements and contribution to Israeli society in different areas of engagement and in different content worlds: art, literature, science, law, the theatre, statesmanship, cinema, fashion and more. The exhibition was held at the Herzlilinblum Museum from April 2013 until June 2014, moving afterwards to Haifa.

A festive opening event was held on January 6, 2015, at the Haifa Auditorium, on the occasion of the moving of the exhibition to Haifa, in the presence of the Mayor of Haifa, the Bank's President & CEO and the Management of the Herzlilinblum Museum. The works were exhibited at the Auditorium for several weeks, following which they were moved to the Haifa "Madatech" for permanent exhibition.

"Heroics - Breaking through for 80 years" Exhibition. The exhibition presents the activity of Discount Bank since its establishment in 1935, a period during which the Bank was a central partner in the development of the economy and contributed a great deal to its shaping.

Over an axis of eight decades, the exhibition presents break through events in many fields, in which the Bank left its marking on the national economy and on Israeli society. The contribution of Discount Bank to society and the country was reflected in events, such as: the establishment of settlements in Galilee, the transportation of food and arms during the War of Independence through ships, bringing new immigrants from Egypt (among whom was Eli Cohen - our man in Damascus), realization of the Israeli hi-tech vision and unique technological developments.

By means of photographs, rare documents and unique artifacts, some of which have never been exposed until now, the exhibition presents to the visitor a succession of events as individuals and as a society.

The opening event of the exhibition was held at the Museum on July 2, 2015, with the participation of over 200 guests. Honoring the event were the founding family, Recanati, the Bank's Management, the President & CEO and the Chairman of the Bank, former members of Management and senior retirees, Mrs. Nadia Cohen, widow of Eli Cohen, and many others.

"Paporisch" - an exhibition of the works of the artist Ruth Weinstein Paporisch, opened in November 2014, and was open until the middle of February 2015. Ruth Weinstein Paporisch presented in the exhibition thirty of her works created in the last two years, and which depict the legacy of her father, the well known geographer Dr. Yehoyakim Paporisch, one of the founders of "Tichon Hadash" High School in Tel Aviv, and who became known mostly due to his great contribution to education and to the teaching of Geography in Israel.

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", a selection from the art collection of Discount Bank celebrating the 80th anniversary of the Bank. An exhibition of works from the Israeli art collection of the Bank opened at "Rubin Museum" in November 2015 and was on show until March 2016. Works of some fifty Israeli artists, both young and old, were on show. The works had been selected with attention given the special place which the Israeli landscape had found in visual art created in Israel and the reference there from to the abstract.

Lending works of art. The Bank attributes importance to exhibiting the collection to the public and from time to time, several works of art are lent to exhibitions. Cooperation with various museums continued in 2015. Within this framework the Bank lent works from its art collection. The Bank has loaned an art work of the artist Yohanan Simon, painted in 1965, to an exhibition held in 2015 at the Israel Museum in Jerusalem, commemorating 50 years since its establishment.

A work by the artist Ron Amir, belonging to the Discount Bank collection, was lent to the exhibition "With us it is not like with them" at the David Yellin College in Jerusalem. Five works of art of the artists: Assaf Evron, Igaël Tumarkin, Talia Keinan, Asher Yossi and Pavel Wolberg, all of the Discount Bank collection, were given on loan to the "Coverage" exhibition at the Kupferman House in Kibbutz Lohamei HaGetaot. The video-art installation "Dancing for Maya" of the artist Sigalit Landau, and the work "Tel Aviv" of the artist David Reeb, were given on loan to the "The Last Sea - Israeli Art and the Sea" exhibition at the Ashdod Museum. Four works of arts from the collection of Discount Bank were lent to the Haifa Museum of Art, for the

exhibition "From Andy Warhol to Contemporary Art: Culture, Color, Body". One work of the artist Hagit Lalo was lent to the Tel Aviv Museum.

"Alin Beit Noam" fundraising event. A fundraising event was held on January 26, 2015, in which were exhibited art works, which the Bank had assisted in collecting. The works were sold during the event held at the Herzliyah Dan Accadia Hotel, in the presence of the Bank's Chairman of the Board.

"Kiryat Malachi - a town that loves people". A photographic exhibition opened at the Kiriyat Malachi Branch in an event held on October 13, 2015, in the presence of the Bank's President & CEO. At the exhibition, one could learn about the way of life of the town's inhabitants and of the importance of folklore in the local culture, as a top value for the coexistence between the different communities in the town.

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. On April 1, 2015, an exhibition of the works of Clem\$, a pop art artist, was opened at the Dizengoff North Branch. The Head of the Banking Division and many other guests participated in the event.

Guided public tours. Guided tours of the Bank's art collection, open to the public, are conducted on Friday mornings at the Discount Tower. 34 tours were made during 2015, in which some 840 visitors have participated. Some 50 tours were made during 2014, in which some 1,300 visitors have participated.

Mercantile Discount Bank. Mercantile Discount Bank held on March 26, 2015, a customer convention and the opening of an exhibition to bank customers of the best artists of the Um-El-Phachem Gallery, in the presence of the CEO of Mercantile Bank and the President & CEO of Discount Bank. The exhibition provided exposure to the artists from the Arab sector in Israel.

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 2015, 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

Coverage Exhibition. Sponsorship of the Exhibition held at the Kupferman Collection at the Kibbutz Lohamei HaGetaot, in which were presented works of art from the Discount Bank collection.

A Night of Philosophy and Art. Sponsorship of events held at several centers in Tel Aviv within the framework of "A Night of Philosophy and Art" initiated by the Institut Francais on the night of May 28, with the participation of French speaking public and admirers of Francophone culture.

Klezmer Festival. Sponsorship for the Festival held in Park Ra'anana on August 6, 2015.

"Festival of Theatre". Sponsorship granted to the Festival held at the "Habima" Theatre, between August 9 and 22, 2015.

Solo exhibition of the artist Eliahou Eric Bokobza. Sponsorship for this exhibition, held at the Diaspora House, presenting a discussion of the many identities of the artist from the ethnic, religious and cultural aspects.

Bethlehem Festival. Sponsorship to a family festival in Jerusalem held during the Succoth Holiday.

The Rabin Legacy. Sponsorship for the Rabin Legacy event held at the Charles Bronfman Auditorium.

Docaviv Negev Yerucham. Principal sponsorship for a family festival showing some of the best documentary films from Israel and the world over.

Theatronetto festival. Sponsorship for the festival and for solo appearances at the Jewish-Arab Theatre in Jaffa, held during the Passover Holiday.

Educational sponsorships

Likrat Shabat Association - Sponsorship for a Gala event held on January 21, 2015.

Gala event of the Educating for Excellence Association. The Association acts towards reducing social gaps in Israeli society. The event was held on May 29, at the Habima Theatre with the purpose of raising funds for the activities of the Association.

Sponsorship for social activities and activities in aid of weak populations

The Pardess Association – Sponsorship for the Spring Festival held on March 30, 2015. The Festival is held annually in aid of the welfare of the inhabitants of the Shapira Neighborhood in Tel Aviv.

"Credit Point" Exhibition. Sponsorship of the Exhibition, the income of which was intended to support the activities of "The Spirit of Israel". The Exhibition was opened at the Herzlilinblum Museum, in the presence of the Bank's President & CEO and other senior figures in the Israeli economy.

Haifa Rotary Club. Gala event of the Haifa Rotary Club, all its earnings is dedicated to the club.

Lirot Association. Sponsorship for an event of the Association engaged in the research of eye health and prevention of blindness in Israel.

NATAL Association. Sponsorship for an event of the Association for Victims of Terror and War.

Alin Beit Noam. Sponsorship for an event of the Association engaged in conducting various project for improving the quality of life of handicapped persons.

Association Asperger - Israel. Sponsorship for an event of the Association engaged in supporting children suffering from this syndrome and their families, maintaining ongoing relations with them encouraging their integration in the education system, in the army, in employment and in the community.

Fair Chance for Children. Sponsorship for an event of the Council engaged in supporting children in Boarding schools.

Health sponsorships

Friends of the Bnai Zion Medical Center Association – Sponsorship for a Gala event for the friends of the hospital held on January 15, 2015.

Lirot Association. Sponsorship was granted to the eye health awareness and prevention of blindness in Israel month held in December 2015.

Assaf Harofeh Medical Center. Sponsorship was granted to the convention of quality of the Assaf Harofeh Medical Center institutions and to a study session at the hospital.

Environmental protection, science and business sponsorships

Institute of Internal Auditors. Sponsorship for the annual convention held on January 14-15, 2015.

MOONA Association. Sponsorship for the Space for Change event held in Majd al-Krum on January 27, 2015.

Open Day in the Arava. A research and development exhibition of the Arava farmers held on January 28-29, 2015.

Union of Municipal Corporations. Sponsorship for the annual conference of the Union, held on February 10-12, 2015, in Eilat.

The Fourth Commercial Real Estate Convention. Sponsorship of the convention held at the Habima Theatre on April 29, and which, among other things, discussed the situation in the commercial real estate market, sources of finance, "green" construction, etc.

The Seventh National Energy Convention. Sponsorship of the convention held on May 26, in Tel Aviv, in the presence of the Minister for National Infrastructure, Energy and Water Resources, and heads of the gas and energy sector in Israel.

The Economic Convention for French Jews in Israel. Sponsorship of the "Blanc Blue TLV 2015" Convention, held on May 31, at the Tel Aviv Harbor.

Convention of the Building Contractors Union. Sponsorship for the Haifa region Building Contractors Union, held on September 2, 2015, at the Dan-Carmel Hotel in Haifa.

Involvement in and contribution to the community by the principal subsidiaries

ICC - social involvement and contribution to the community

ICC views with great importance the contribution to the community, and therefore invests financial and administrative resources in work for the benefit of the community and in contribution to fellowmen.

"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 third 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.

"Another lesson". For the past seven 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.

"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.

"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).

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.

NFTE Israel. The ICC employees have joined the NFTE activities, the network for teaching entrepreneurship, adapted to the needs of youth at risk in Israel, providing them with hope and tools for initiating a change in their lives.

NFTE is an international program operating in 21 countries, including Israel, within which youth learn how to write a business plan and how to establish and manage a small business.

Volunteers integrated into a variety of program tracks, and thus contributed their professional knowledge and accompanied the youth through the thinking process and business plan creation. During the year, the business plans are presented at two major events held by NFTE, at the end of which, a representative of the winning team represents NFTE Israel at the international contest.

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 as an integral part of its comprehensive activity and its 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 includes monetary contributions, 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.

"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.

"Sprint Mercantile" project. During the past decade, the Bank, 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. 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. The social "profit" of this project is twofold and threefold – the student undertake in consideration for the scholarship to devote time in helping pupils in the areas in which they reside. Moreover, in this way the future generation acquires social values and awareness of the importance of contribution to the community.

"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 2015, employees of the Bank conducted five enrichment study courses at schools of the ultra-orthodox and Arab 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. The pupils visited branches of the Bank, closely observing the business activity conducted at the Bank.

Activity in aid of the community conducted by employees of MDB. As stated above, MDB who operates through eighty 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, study assistance and financial guidance, the collection of medication in cooperation with the "Friends for Health" Association, and more.

Green Discount - for the Environment

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- A reduction of 5% in the consumption of energy compared with the year 2014;
- A reduction of over 19% in the bank's carbon footprint, compared with the year 2014;
- Investment of NIS 3.7 million, in energetic efficiency projects;
- 744 tons of paper were recycled;
- Credit exposure of NIS 1,067 million to projects involving solar energy;
- 74,800 beverage bottles, 5,700 batteries and 9,927 tons of electronic waste 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.

The Bank intends to implement in 2017, a wide action for the exposure of this issue to Bank employees (whether by the distribution of learning material or by alternative means, such as updates on FaceBank).

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.

At the same time, several projects are in effect for the replacement of the air conditioning systems with VRF units, for the replacement of lighting with the more economical LED lighting, for the installation of security systems (the switching off of lighting at the branches and head office upon turning on the alarm systems), for the selective supply of power for lighting and air conditioning on days on which a branch does not operate (rotation days), for the installation of timer clocks, etc.

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. MDB also examines the possibility of installment of VRF units at existing 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.

At ICC light bulbs have been replaced by energy saving LED T5 bulbs. Moreover, the automatic switching-off of computers operates at weekends 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.

The steps described above in ICC led to a 17% saving in electricity consumption, compared to 2014.

Electricity consumption

Following are data regarding the consumption of electricity by the Bank in KW/H:

Electricity consumption from Israel Electricity Company	2015		2014		2013		Change in % ¹	
	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2015 compared to 2014	2014 compared to 2013
Discount Bank	53,407,111	335	56,529,575	339	61,629,000	368	(5.5)	(8.3)

1) The percentage change is computed on the absolute amount.

Fuel consumption

Data regarding fuel consumption for employee travel and generators:

		2015		2014		2013		Change in % ¹	
		In Liters						2015 compared to 2014	2014 compared to 2013
Benzene for transportation	Discount Bank		599,300	⁽¹⁾ 598,450		582,197		0.1	2.8
	MDB		475,231	427,670		387,644		11.1	10.3
	ICC		601,803	⁽²⁾ 665,045				(9.5)	
Diesel oil for transportation	Discount Bank		15,100	14,977		17,002		0.8	(11.9)
	MDB		6,303	3,392		3,321		85.8	2.1
Diesel oil for generators ⁽³⁾	Discount Bank		6,000	4,000		9,000		50.0	(55.5)
Total Discount Bank			620,400	617,427		608,199		0.5	1.5
Total MDB			481,534	431,062		390,965		(11.7)	10.26
Total ICC			601,803	665,045				(9.5)	

Notes:

- 1) A low consumption of petrol was reported by mistake in the social report for 2014 (589,450 instead of 598,450)
- 2) The consumption of fuel in the first quarter of 2014 has been assessed on the basis of the average monthly consumption.
- 3) Use of emergency power generators by ICC is negligible (a few tens of liters per year). MDB does not consume diesel oil for generators.

Presented below are the principal data relating to energy consumption, from various sources, for the years 2013-2015:

Energy source		Energy Consumption in GJ units ⁽¹⁾					
		2015		2014		2013	
		Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter
Electricity from the grid	Discount Bank	192,266	1.2	203,506	1.22	221,864	1.32
Diesel for generators	Discount Bank	216	0.001	144	0.001	323	0.002
Benzene for transportation	Discount Bank	19,617	0.123	19,594	0.118	19,107	0.114
	MDB	12,689	0.31	14,002	0.315	15,597	0.40
	ICC	19,699	1.36	21,774	1.51		
Diesel for transportation	Discount Bank	544	0.003	538	0.003	611	0.004
	MDB	120	0.003	122	0.003	242	0.006
Total Discount Bank		212,643	1.33	223,782	1.34	241,905	1.44
Total MDB		12,809	0.313	14,124	0.32	15,839	0.41
Total ICC		19,699	1.36	21,774	1.51		

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:

Scope		2015		2014		2013		Change in % ⁽¹⁾	
		Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2015 compared to 2014	2014 compared to 2013
Scope 1 ⁽²⁾	Discount Bank	8,618	0.054	17,767	0.107	16,357	0.098	(51.5)	8.6
	MDB	915	0.022	1,009	0.023	1,129	0.03	(9.3)	(10.6)
	ICC	1,406	0.097	1,554	0.108			(9.5)	
Scope 2 ⁽²⁾	Discount Bank	37,160	0.233	38,880	0.2334	43,314	0.2586	(4.4)	(10.2)
Scope 3 ⁽⁵⁾	Discount Bank	195	0.001	279	0.0017	239	0.0014	(30.1)	16.7
	MDB	5.27	0.0001	4.95	0.0001	9.14	0.0002	6.5	(45.8)
Total Carbon footprint	Total Discount Bank	45,973	0.29	56,926	0.34	59,910	0.36	(19.2)	(5.0)
	Total MDB	920	0.023	1,014	0.023	1,138	0.029	(9.3)	(10.9)
	Total ICC	1,406	0.097	1,554	0.108			(9.5)	

Notes:

- 1) The percentage change is computed on the absolute amount.
- 2) The computation is based on coefficients determined by the Israel Ministry of Environmental Protection based on the DEFRA coefficients. Calculation of direct emission (Scope 1) of MDB and of ICC does not include refrigerant gases emission.
- 3) Emission originating in the use of refrigeration gasses has been recalculated, following the improvement in the data. As a result, the total emission included in Scope 1 has been recalculated as well as the total carbon footprint of the Bank.
- 4) The calculation of emission resulting from the consumption of electricity is based on the emission coefficient of the power company for 2015.
- 5) Scope 3 includes emission from business travel. The computation is based on coefficients of the Greenhouse Gas Protocol.

The data in the Table indicate a reduction of 19.2% in the carbon footprint of Discount Bank, which is the result of three factors:

- A 5.5% reduction in the consumption of electricity (Scope 2);
- A significant reduction (approx. 56%) 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;
- Reduction in air travel.

These three factors add to the reduction of 4.2% 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 2015, the Bank consumed approximately 3 tons of R-22 type refrigerant gas and approximately 0.75 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 measures¹ to reduce greenhouse gas (GHG) emissions in 2015, and the annual savings which have resulted therefrom:

		2015			
Type of activity	Description	Investment in NIS thousand	Annual energy savings (in kwh)	Annual GHG emissions reduction (CO2e tons)	Expected annual financial savings ⁽²⁾ (estimate in NIS ⁽³⁾)
Energy efficiencies in buildings	Energy efficiencies in A/C systems	3,300	1,248,986	869	2,338,652
Energy efficiencies in buildings	Upgrading electricity control systems	273	936,739	652	1,753,989
Energy efficiencies in buildings	Installing building control systems	100	936,739	652	1,753,989
Total		3,673	3,122,464	2,173	5,846,630

Notes:

- 1) Savings in the consumption of electricity in relation to 2014. 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.

In 2015, due to cost-saving considerations, cut backs were made in the scope of construction and infrastructure projects, including renovations at branches and head offices units, and also infrastructure upgrades. As a result, there has also been a decrease in the scope of investments in this area.

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 three transportation facilities at the disposal of employees. One operates at 07:30 AM from the Arlosorov Train Station in Tel Aviv to the Bank offices at 160 Herzl Street, and at 15:30 PM from the offices at 160 Herzl street to the Haganah Train Station in Tel Aviv. In addition, 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 Days per week	Daily frequency Circuits	Average no. of passengers per circuit	Average no. of passengers per Month	Length of journey (in mins.)	Estimated savings in travel time (in hours)
Central Jerusalem	Discount College Rishon Lezion	4	2	6	192	60	192
Within Tel Aviv	Discount Tower, 160 Herzl St.	5	10	15	3,000	30	1,500
Central train station	Discount Tower, 160 Herzl St.	6	2	4	192	20	64
Total monthly savings							1,756
Total annual savings							21,072

Operating Paperless

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 (performed at all branches), extracting basic documents from the branches, the scanning thereof and presentation in the customer digital file (performed at 70% of the branches), converting paper documents to original digital documents (the first stage has been implemented covering 15% of the documents at branches on transactions without the customer's presence);
- **Paperless archives** - The process includes the conversion of paper documents to original digital documents. The number of bins in the central archives will be reduced by 70% over a period of seven years, within the framework of an effort that will result in saving 3,000 tons of paper;
- **Reduction in the number of reports printed on paper:** The production of printed reports to the branches has been terminated, these being made now via computer only;
- **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;

- **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.

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 are to be 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 would be 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.

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:

- Reducing the use of postal services - in 2016 the Bank began to extend the use of electronic mail instead of the printing of documents and mailing them in envelopes by means of the Israeli postal services;
- 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 is establishing 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;
- The Bank is preparing for work by means of digital scanning that would result in savings in the usage of paper;
- The Bank is preparing for the process on several plains: finishing form barcodes, 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;
- **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)	2015		2014		Change in % ¹ 2015 compared to 2014
	Absolute	Relative to employees	Absolute	Relative to employees	
Discount Bank	201	0.036	380.8	0.068	(47.2)
MDB	196.8	0.123	229.6	0.141	(14.3)

Notes:

- 1) The percentage change is computed on the absolute amount.
- 2) The quantity of paper waste sent for recycling was reported in prior years.
- 3) Paper consumption data of MDB has been computed on the basis of the number of paper packages purchased and the average weight of a package.

The annual average paper consumption of ICC amounts to 16.45 tons. This following several focused actions taken in 2011 to reduce the consumption of paper by the company. Since that year and over the following years, the consumption of paper by the company remained stable. ICC does not make use of recycled paper.

In the light of the efficiency measures taken by the Bank in recent years, it may be seen that the consumption of paper has been significantly reduced. At the same time, the quantity of paper waste sent for recycling has increased (744 tons in 2015, 610 tons in 2014 and 485 tons in 2013), 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. The purchase of new toner cartridges is marginal, being approx. 100 units per year.

Consumption of refurbished toner cartridges (in Units)	2015	2014	2013	Change in % ¹	
				2015 compared to 2014	2014 compared to 2013
Discount Bank	18,000	18,209	16,500	(1.1)	10.4
MDB	1,334	4,630	4,230	(71.2)	(9.5)

The reduction in consumption of renewed ink cartridges stems from 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. About 25% of the ink cartridges purchased in 2015 by Discount Bank were new 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 2015, 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 2015 included 9,600 electric bulbs, about 74,800 beverage bottles, 5,700 batteries and 9,927 tons 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

The Bank promotes the environmental issue through two principal moves:

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. 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 solar energy field and has put an emphasis on enlarging the credit to this area (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 the increased awareness of various environmental matters, some of the companies engaged in these sectors have begun to consider environmental criteria in their feasibility studies.

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 profitability 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 2015 Annual Report (pp. 84-127) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" for 2015.

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 solar energy field. This field began to develop in Israel in recent years, and is based on Regulations under the Electricity Market Act, designed to regularize the establishment of electricity production installations using solar and wind energies. The method chosen by the Regulators to provide incentives for renewable energies in Israel is the "feeding pricelist", according to which, the owner of the installation sells the electricity produced by him to the Israel Electric Corporation at a predetermined price. The feeding pricelist is based on an analysis of the costs involved in the construction and operation of an installation operating by use of photovoltaic technology and which is intended to allow the entrepreneur an appropriate return on his investment over the life of the installation. In many cases, the regulation includes an outline of amortization following identification of technological developments and a decrease in the cost of the installations. The feeding pricelist is secured for entrepreneurs who will construct installations supplying electricity up to the total agreed quota.

The Government of Israel publishes in recent years supply quotas for the construction of small installations (up to 50 kilowatts), medium installations (over 50 kilowatts) and large installations (over 12 MW). The said method has created a basic infrastructure for the granting of bank credit to this industry.

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 (photovoltaic and thermo-solar) amounted as of December 31, 2015, to NIS 1,067 million, compared with NIS 1,168 million on December 31, 2014. The reduction stems from the gradual repayment of loans granted in prior years.

Mercantile Discount Bank. The credit balance in this field is negligible.

Epilogue

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Thank you's!

And before Discount Bank's Fourth 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.

Thanks to the devoted team from BDO Ziv Haft's Corporate Social Responsibility and Sustainability Group - Nir Koren and Roni-Lee Gilad, for the shaping control process in preparing the Bank's social responsibility report.

A special thanks to the staff of **Ruth Kantor's Studio** for the prolific and original ideas.

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.

Reaction 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

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report		
					MDB	ICC	
G4-1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	7	Yes	N/R	N/R	N/R	
G4-2	Description of key impacts, risks, and opportunities.	10-11	Yes		10-11	-	
Organizational Profile							
G4-3	Name of the organization and its organizational profile	29	Yes	N/R	30	30	
G4-4	Description of the primary brands/services.	29, 95-120, 121-123	Yes		99, 102-103, 105-106, 111-112, 114, 118-119	31, 124-127	
G4-5	Location of organization's headquarters.	29	Yes		31	31	
G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	30, 33	Yes		29	29	
G4-7	Nature of ownership and legal form.	29, 36	Yes		30	31	
G4-8	Markets served.	29-30, 93, 103, 106, 108, 112, 114	Yes		30-31, 103, 105-106, 111-112, 114	31-32, 125-127	
G4-9	Scale of the reporting organization.	29-30, 36, 82-85	Yes		30-31, 85	31-32, 85	
G4-10	Total workforce by type of employment, type of contract and geographical area, by gender.	174, 191	Yes		6	174, 191	-
G4-11	Percentage of employees covered by collective bargaining agreements.	172	Yes		3	172	-
G4-12	Description of the organization's supply chain.	153	Yes	N/R	154	154	
G4-13	Significant changes during the reporting period in the organization, including size, structure, ownership and supply chain.	30, 32-34	Yes		35	36	
G4-14	Explanation regarding the implementation of the precautionary approach or principle.	252	Yes	7	-	-	
G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or which it endorses.	86-87, 89-90	Yes	1-10	89-90	89-90	
G4-16	Membership in associations/organizations and/or national or international advocacy organizations.	86-87	Yes	1-10	86	ICC is not a member of any organizations or associations	

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
GENERAL STANDARD DISCLOSURES						
Identified Material Aspects and Boundaries						
G4-17	List all entities included in the consolidated financial statements	12	Yes	N/R	N/R	N/R
G4-18	Explain the process for defining the report content and the Aspect Boundaries	12, 14-17	Yes		N/R	N/R
G4-19	All the material Aspects identified in the process for defining report content.	16-17	Yes		N/R	N/R
G4-20	For each material Aspect, report the Aspect Boundary within the organization	16-17	Yes		N/R	N/R
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	16-17	Yes		N/R	N/R
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	13	Yes		N/R	N/R
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	12-13	Yes		N/R	N/R
Stakeholder Engagement						
G4-24	List of stakeholder groups engaged by the organization	9	Yes	N/R	N/R	N/R
G4-25	Basis for identification and selection of stakeholders with whom to engage	9	Yes		N/R	N/R
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	37, 127-128, 209, 233	Yes		131	128, 131, 211
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	129	Yes		-	-
Report Profile						
G4-28	Reporting period	7	Yes	N/R	N/R	N/R
G4-29	Date of most recent report	9	Yes		N/R	N/R
G4-30	Reporting cycle (annual or biennial).	9	Yes		N/R	N/R
G4-31	Contact point for questions regarding the report or its contents.	270	Yes		N/R	N/R
G4-32	Report the 'in accordance' option the organization has chosen Report the GRI Content Index for the chosen option	12	Yes		N/R	N/R
G4-33	Organization's policy and current practice with regard to external assurance of the report.	21-26	Yes		N/R	N/R
Governance						
G4-34	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	42-49	Yes	N/R	49	50
G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	41	Yes		41	41

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
GENERAL STANDARD DISCLOSURES						
G4-36	Report whether the organization has appointed an executive level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	11	Yes		12	12
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	37, 39	Yes		49	50
G4-38	Report the composition of the highest governance body and its committees	40	Yes		40	40
G4-39	Indicate whether the Chair of the highest governance body is also an executive officer	40	Yes		40	40
G4-40	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	52-53	Yes		53	53
G4-41	Processes in place for the highest governance body to ensure conflicts of interest are avoided	46, 50-51	Yes		50-51, 54	50-51, 54
G4-42	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	14	Yes		N/R	N/R
G4-43	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	46	Yes		49	50
G4-44	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	42	Yes		42	42
G4-45	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	41, 49, 60	Yes		61	61
G4-46	Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	49	Yes		49	49
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	46, 48-49	Yes		49	50

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
GENERAL STANDARD DISCLOSURES						
G4-48	Report the highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	13	Yes		N/R	N/R
G4-49	Report the process for communicating critical concerns to the highest governance body	49	Yes		49	50
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	49	Yes		49	50
G4-51	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	55-59, 181-185	Yes		55, 59	55, 59
G4-52	Report the process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organization	59, 178-185	Yes		179-181, 186-187	179-181, 185-186
Governance						
G4-53	Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable	56, 182, 184-185	Yes		N/R	N/R
G4-54	Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	180	Yes		-	-
G4-55	Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	180	Yes		-	-
Ethics and Integrity						
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	62-64, 66-68	Yes	10	65	64

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
GENERAL STANDARD DISCLOSURES						
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	66	Yes	10	67	67, 69
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	69, 73-74 The number of reports to the mechanisms is not mentioned, as there are a few reports a year.	Yes	10	67	70, 73-74
SPECIFIC STANDARD DISCLOSURES						
Economic Performance						
G4-DMA	Generic Disclosures on Management Approach	77-80	Yes	N/R	55-56	55-56
G4-EC1	Direct economic value generated and distributed	82-85	Yes		85	85
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	266-267	Yes	7	-	-
G4-EC3	Coverage of the organization's defined benefit plan obligations.	177-178	Yes	N/R	178	178
G4-EC4	Significant financial assistance received from government.	78	Yes		78	78
Indirect Economic Impact						
G4-DMA	Generic Disclosures on Management Approach	77-78	Yes	N/R	77-78, 81	77-78, 81
G4-EC7	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	85, 228-229, 236, 238-239	Yes	N/R	248-250	246-248
G4-EC8	Understanding and describing significant indirect economic impacts, including the extent of impacts.	77-78, 128-130, 166-167, 227-233, 240	Yes		131, 167, 232, 248-250	131, 167-168, 246-248
Procurement Practices						
G4-DMA	Generic Disclosures on Management Approach	153-155	Yes	N/R	153-155	153-155
G4-EC9	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	153-155	Yes	N/R	153-155	153-155
Energy						
G4-DMA	Generic Disclosures on Management Approach	253-254	Yes	7-9	253-254	253-254
G4-EN3	Energy consumption within the organization	256	Yes	7-8	256	256

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
SPECIFIC STANDARD DISCLOSURES						
G4-EN4	Energy consumption outside of the organization	Measurement of energy consumption outside of the organization is not preformed	Yes	8	Measurement of energy consumption outside of the organization is not preformed	Measurement of energy consumption outside of the organization is not preformed
G4-EN5	Energy intensity	256	Yes	8	256	256
G4-EN6	Reduction of energy consumption	254-255, 258, 264	Yes	8-9	255	255
G4-EN7	Reductions in energy requirements of products and services	123	Yes	8-9	-	N/R
Emissions						
G4-DMA	Generic Disclosures on Management Approach	257	Yes	7-9	257	257
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	257	Yes	7,8	257	257
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	257	Yes		257	257
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	257	Yes		257	257
G4-EN18	Greenhouse gas (GHG) emissions intensity	257	Yes	8	257	257
G4-EN19	Reduction of greenhouse gas (GHG) emissions	258-259, 264-265	Yes	8-9	259	259
G4-EN20	Emissions of ozone-depleting substances (ODS)	258	Yes	7,8	-	-
G4-EN21	NO _x , SO _x , and other significant air emissions	The bank does not measure those emissions, as they are insignificant	Yes		The bank does not measure those emissions, as they are insignificant	ICC does not measure those emissions, as they are insignificant
Employment						
G4-DMA	Generic Disclosures on Management Approach	161-162, 171-172, 187	Yes	1,2,6	161-163, 171-172, 187	161-162, 171-172, 187
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	188, 193-196	Yes	6	188, 196-197	188, 197-198
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	176-177	Yes	N/R	178	177
G4-LA3	Return to work and retention rates after parental leave, by gender	201	Yes	1,2,6	202	-
Training and Education						
G4-DMA	Generic Disclosures on Management Approach	202, 204	Yes	6	202, 204	202, 204, 206-208

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
SPECIFIC STANDARD DISCLOSURES						
G4-LA9	Average hours of training per year per employee by gender, and by employee category	204	Yes	6	209	208
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	202-203	Yes	N/R	-	206-208
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	211	Yes	6	212	212
Diversity and Equal Opportunity						
G4-DMA	Generic Disclosures on Management Approach	166-170, 190	Yes	6	166-170, 190	166-170, 190
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	40, 54, 170, 191-193	Yes		40, 54, 191-193	40, 54, 191-193
Equal Remuneration for Women and Men						
G4-DMA	Generic Disclosures on Management Approach	161-162, 164-166	Yes	6	161-162, 164-166	161-162, 164-166
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	192	Yes		179	-
Non-Discrimination						
G4-DMA	Generic Disclosures on Management Approach	93, 165-166	Yes	6	93, 165-166	93, 165-166
G4-HR3	Total number of incidents of discrimination and corrective actions taken	157, 165	Yes		157, 166	157, 166
Local Communities						
G4-DMA	Generic Disclosures on Management Approach	227-229	Yes	1	227-229	227-229
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	227-230, 244-246	Yes		233, 248-250	246-248
G4-SO2	Operations with significant actual and potential negative impacts on local communities	144, 267-268	Yes		-	-
G4-FS13	Access points in low-populated or economically disadvantaged areas by type	93-94 The bank does not monitor its access point in low-populated or economically disadvantaged areas	Yes	N/R	93-94, 103	N/R
G4-FS14	Initiatives to improve access to financial services for disadvantaged people	120, 133-134	Yes		102, 120, 133-134	120, 134

General Standard	Disclosure	Response status and page in the Report Discount Bank	External Assurance	UNGC	Response status and page in the Report	
					MDB	ICC
SPECIFIC STANDARD DISCLOSURES						
Anti-Corruption						
G4-DMA	Generic Disclosures on Management Approach	68-71	Yes	10	68-71	68-71
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	68-71 All the bank's units are assessed for corruption risks, but the bank does not report which are the significant risks identified	Yes		68-71	68-70
G4-SO4	Communication and training on anti-corruption policies and procedures	69 The bank presents its anti-corruption policies and procedures training, but does not report the volume of participants in these trainings	Yes		69	69
G4-SO5	Confirmed incidents of corruption and actions taken	70	Yes		No incidents of corruption were identified during the reported year	70
Compliance						
G4-DMA	Generic Disclosures on Management Approach	71-74	Yes	1	71-74	71-74
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	75	Yes	1	75	75-77
Products and Services Labeling						
G4-DMA	Generic Disclosures on Management Approach	93, 128-130, 134-136	Yes	N/R	93, 120, 128-130, 134-136	93, 128-130, 134-136
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	134-136	Yes		134-136	134-136
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	135	Yes		-	135
G4-PR5	Results of surveys measuring customer satisfaction	137-142	Yes		-	138, 140-142

Principles of the Global Compact initiative²⁷

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.

²⁷ <http://www.unglobalcompact.org>