

Social  
Responsibility  
Report  
2013

ISRAEL  
DISCOUNT  
BANK

# Social Responsibility Report 2013



This is a translation from the Hebrew and has been prepared for convenience only.  
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 the years 2012–2013. 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. Over the years of its existence, Discount Bank has been a leader in social action.

This is the third Corporate Responsibility Report published by Discount Bank. Discount Bank was the first bank in Israel to publish a Corporate Responsibility Report (in 2005).

The previous report had been prepared on a "B" level basis prescribed by the GRI (Global Reporting Initiative) principles. The Bank decided to prepare the present report on an "A" level basis, being the highest transparency level.

In 2010, the Bank joined the United Nations Global Compact initiative. This report constitutes also an annual update of this initiative in respect of 2013. 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 CDP initiative, 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 Discount Volunteers, and all stakeholders in the social activities and projects led by the Bank.

Dr. Yossi Bachar  
Chairman of the Board of Directors

Lilach Asher-Topilsky  
President & CEO

July 31, 2014

## 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 the corporation 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).

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). Publication of the Bank's Third Social Responsibility Report (for the years 2012–2013) forms an expression of the Bank's commitment for social responsibility issues and for their importance as part of the Bank's organizational culture.

## 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 Supervisor of Banks issued on October 3, 2011, a circular, according to which banking corporations heading the banking groups will be 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.

Accordingly, it is the Bank's intention to publish a social responsibility report at least once every two years.

This report is the first report presented in accordance with the new instructions.

## 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 two main levels: the organization's activity and the banking products that it offers its customers.



- **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. The most significant challenge will be to gradually expand managing this area to the Group level - for the subsidiaries.

- **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.

The work process for managing this field will be expanded in the coming years, and will include broadening the measurement and reporting (inter alia, within the framework of the preparations for reporting in accordance with the GRI G4 standard), strengthening the manner in which certain topics are handled and, as stated, the gradual expansion of managing this field to the Group level.

## **DISCOUNT'S THIRD CORPORATE RESPONSIBILITY REPORT**

The Report was prepared in accordance with the reporting principles of the GRI (a non-governmental organization working for more than a decade 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 reporting standard (G3.1), which contains all the indicators of the industry additions to the financial sector. The present report relates to the different indicators at an "A" application

level, which requires attention to all relevant indicators for this activity. Additionally, the Bank presents its policies in every area, and an effort has been made to focus the report on items that are relevant and material to the Bank. 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 does not include the overseas activity.

The Report does not include reference to the Bank's subsidiaries, except with respect to a very small number of issues. In recent years, the Bank has conducted dialogues with its principal subsidiaries in Israel concerning social responsibility matters. In this respect, Israel Credit Cards Company Ltd., a subsidiary of the Bank, has conducted a mapping of the existing situation regarding these matters. Following the said mapping, there is a possibility that the Bank will publish in the future a report concerning the social responsibility of this subsidiary company.

The Report addresses, in the relevant contexts, the activities of the different divisions of the Bank, 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 data that are in contradiction with the data presented in previous social responsibility reports published by the Bank.

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.

**Distribution of the Report.** The Social Responsibility Report in Hebrew may be viewed on the Bank's website ([www.discountbank.co.il](http://www.discountbank.co.il)) and in English on the

Bank's website in the Investor Relations page ([www.discountbank.co.il/IR](http://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>).

**Reference.** In certain cases the report includes reference to details presented in the 2013 Annual Report. 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](http://maya.tase.co.il/bursa/report.asp?report_cd=885621)).

## 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. In 2014, the Bank obtained the consent of the Global Compact for deferral of the annual progress reporting for 2013, so that it could be integrated into this social report. 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.

## APPLICATION LEVEL OF THE THIRD CORPORATE RESPONSIBILITY REPORT

GRI prescribed the parameters that a reporting corporation must meet, at each of the defined application levels: A, B and C. As the table presented below shows, an increase in the application level requires compliance with a larger number of reporting indices. Moreover, if an assurance examination is performed, the application level is given a "+" increment (for example: A+).

Report Application Level	C	C+	B	B+	A	A+	
Standard Disclosures	G3 Profile Disclosures OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures OUTPUT	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured
	G3 Performance Indicators & Sector Supplement Performance Indicators OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report Externally Assured	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report Externally Assured	Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	Report Externally Assured

\*Sector supplement in final version

The Bank's Corporate Responsibility Report has undergone an assurance examination by an outside, objective body - Corporate Responsibility and Sustainability Group of BDO Ziv Haft - which determined that the Bank meets the GRI requirements for the "A" application level. The Report presents fairly the Bank's activities for the given period. Likewise, the Report is balanced and properly presents the Bank's activities in a variety of significant matters, in financial sector activity in Israel and for Discount Bank. In view of the aforesaid, the Report was certified at the "A+" application level. The opinion of BDO Ziv Haft is presented below, in the chapter.

**Review of the Report by the GRI.** Corporations which wish to do so may submit their social responsibility report for review by the GRI. Concurrently with the publication of the Bank's third social responsibility report, it has been submitted for a methodological review of the GRI. The GRI has examined the report and has found it attains the highest application level (A+) concerning completeness of compliance with the indices. The Bank had been required to make a small number of amendments to the Report, which following their integration, the GRI approval, presented on the next page, was received.



## Statement GRI Application Level Check

GRI hereby states that **Israel Discount Bank Ltd.** has presented its report “Social Responsibility 2013” to GRI’s Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 26 August 2014

A handwritten signature in black ink, appearing to read "Ásthildur Hjaltadóttir".

Ásthildur Hjaltadóttir  
Director Services  
Global Reporting Initiative



The “+” has been added to this Application Level because Israel Discount Bank Ltd. has submitted (part of) this report for external assurance. GRI accepts the reporter’s own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 06 August 2014. GRI explicitly excludes the statement being applied to any later changes to such material.

## ASSURANCE

### GENERAL

The Corporate Social Responsibility and Sustainability Group of the BDO Ziv Haft Consulting Company have been engaged by Discount Bank to perform an assurance process for the 2013 Corporate Responsibility Report reviewing the Bank's performance in the years 2012–2013. The said Corporate Social Responsibility and Sustainability Group have an over twelve 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 ASSURANCE APPROACH

The assurance control of the reporting examines the compliance of the Bank's report at the reporting level from the aspect of meeting all the necessary indicators, examining the data included therein and examining, on a sample basis, the process for producing the data. This assurance is performed in accordance with generally accepted auditing standards in dealing with the control of non-financial reporting, and does not include an examination of the manner of determining the topics that are material in relation to/for the stakeholders. The assurance statement is cautiously worded and is limited to determining the absence of misrepresentation (for the most part, provided by accounting firms). It is clarified that the assurance control described below is intended solely to examine that the reporting is in compliance with the GRI reporting principles.

## SUMMARY OF FINDINGS

In view of the above stated and in accordance with the examination performed by us, we confirm that Discount Bank complies with the GRI requirements for Level A+ reporting (which confirms that an independent external professional body has examined the validity of the reporting and the mode of conduct of the organization), and accordingly we hereby testify on the basis of the information at hand, as follows:

1. The information in the report meets the reporting transparency definitions of GRI G3.1 at a transparency level of A, including financial sector indices.
2. The report deals with main topics in which the Bank is taking action in the corporate responsibility field.
3. Based on a sample check, we have not found any contradiction between what is stated in the report and the Bank's actual work.

## WORK PROCEDURE

Prior to the beginning of the assurance, the Bank was provided with a systematic work plan for its performance. In the course of the work we attended the process of collating the data by the Bank, and submitted to the Bank our comments on the first draft report prepared by the Bank, we performed a feedback regarding several issues, as detailed hereunder and reviewed internal and external documents. All this, in order to understand the manner and quality of reporting.

Following are the principles under which the control has been performed:

- **Materiality of reporting** - A principle examining the extent to which the report addresses and determines the order of preference of corporate responsibility issues, which are material to the Bank's operation (as identified by the Bank and by stakeholders).
- **Stakeholder inclusiveness** - A principle that examines whether within the framework of the report, the Bank has defined its stakeholders and the manner in which the report provides them with relevant information that meets their expectations.
- **Comparability** - A principle testing the extent to which the Bank's report may be compared with reports of other entities in this sector around the world and with the Bank's performance over the years.

- **Accuracy** - A principle examining whether the details and accuracy of the reported data are presented in a manner which allows stakeholders to evaluate the Bank's performance.
- **Reliability** - A principle testing the extent of materiality and quality of the data and information presented and the processes performed within the framework of the report.

## RECOMMENDATIONS FOR CONSERVATION

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

- The Bank's commitment to transparency** - for some considerable time, the Bank meticulously conducted annual reports to additional corporate responsibility reporting frameworks other than the GRI, with these including: CDP, Global Compact, EIRIS, the Greenhouse Gas Emissions Registration and Reporting Group of the Israel Ministry of Environmental Protection, and participates in Ma'ala rating. This portrays the Bank's ongoing commitment to transparency in relation to its achievements in the field.
- Expansion of activities to strengthen the community** - during the reporting period, the Bank has also taken further measures to promote the "Sprint" program, to expand its financial education activities and for community advancement in Israel.
- Strategic focus on the customer field** - during the reporting period, the Bank developed the "Family Program" and has promoted measures to strengthen and support small and medium-size businesses, as well as to encourage loans to students. Identifying groups and supporting them strengthens the Israeli economy and society.

## RECOMMENDATIONS FOR IMPROVEMENT

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

- Managing the field in a systemic and consistent manner** - defining organizational objectives and goals that will serve to strengthen management of the field and the reporting in connection therewith. In this context, preparations need also to be made for the expected change in the reporting standard and the transition to the new GRI G4 standard, which requires reporting of bolstering activity in material fields.



- B. **Expanding the Group's capacity to implement corporate responsibility** - with this report, the Bank has advanced from level B to the highest transparency level - level A. However, some of the topics have still not been implemented and progress needs to be made in examining their treatment before the next report. Moreover, measures need to be taken to expand the reference to subsidiaries and to promote unified reporting over all the Group's activities.

Corporate Responsibility and Sustainability Group  
BDO Ziv Haft Consultancy and Management

July 31, 2014



Bank's  
Profile,  
Vision  
and Values

## THE DISCOUNT GROUP – GENERAL OVERVIEW AND STRUCTURE OF THE GROUP

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

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

During the 79 years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres. The Discount Group is the third largest banking group in Israel.

### DOMESTIC OPERATIONS

The Bank is a universal bank, which grants its customers comprehensive banking services in all areas of financial activity, through 145<sup>1</sup> branches in Israel. The Bank also offers its customers a variety of 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 80<sup>1</sup> branches.

The activities in Israel include additional areas, including:

- **Credit cards** – The Bank controls "Israel Credit Cards Ltd." and "Diners Club Israel Ltd.", which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use;

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<sup>1</sup> The number of branches updated as of December 31, 2013.

- **Securities portfolio management** - the subsidiary, Tafnit Discount Asset Management Ltd., ("Tafnit"; former "Tachlit Discount Asset Management Ltd.") which manages investment portfolios for private customers, corporations and not-for-profit organizations;
- **Non-financial investments and underwriting** - the subsidiary "Israel Discount Capital Markets and Investments Ltd." engages in investment banking, investments in private equity funds, venture capital funds and in other non-financial investments. This subsidiary also engages in the field of securities distribution and underwriting and managing the issue of securities, by means of a subsidiary company.

For details regarding the Bank's holdings in the First International Bank of Israel Ltd. (hereinafter : FIBI), which until March 13, 2014, was an affiliated company of the Bank, see Note 6 E (1) to the financial statements as of December 31, 2013 (pp. 410-413).

## OVERSEAS OPERATIONS

The international activity of the Discount Group is mostly conducted by subsidiary companies in the United States and in Switzerland and the Bank's London Branch. The international activity is characterized as business-commercial and private banking activity.

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, California and in the Cayman Islands. This bank has a banking subsidiary in Uruguay - Discount Bank (Latin America) ("DBLA") and representative offices in Latin America and in Israel. (For details regarding examination of the possibility for the sale of DBLA, see Note 18 to the interim financial statements as of March 31, 2014, p. 213).

In Switzerland, IDB (Swiss) Bank operates a branch in Geneva, as well as a representative office in Israel.

## PRINCIPAL OPERATIONS AND CENTRAL EVENTS DURING 2012-2013

**2012.** Efficiency and savings measures have continued during 2012 in several central fields, including: the retirement of 356 employees under the plan implemented from the end of 2011; the retirement of 140 employees (until the end of 2012), as part of concluding the merger of Discount Mortgage Bank Ltd. (hereinafter: "DMB") and increasing efficiency of the Bank's IT layout.

At the same time, progress has been made in 2012 in the Bank's move towards the development of private banking operations (see Chapter 3 below).

**2013.** In 2013 the Bank continued, as planned, in the reported period its preparations for the implementation of the Basel III instructions. The maintenance of capital adequacy and increasing the ratio of the core capital, in accordance with the instructions of the Supervisor of Banks and in accordance with targets set by the Board of Directors remained one of the central factors in the considerations and decisions of the Bank's Management. And indeed, the ratio of core capital to risk assets and the ratio of total capital to risk assets amounted on January 1, 2014, in Basel III terms to 8.9% and 14.2%, respectively.

Within the framework of the examination of various alternatives for enlargement of the capital base, the Bank examined in 2013 possibilities for the sale of holdings in Bancorp, a subsidiary in the United States in whole or in part. In January 2014 the Bank had decided not to accept any of the proposals regarding Bancorp.

In 2014, focus points of the strategic plan for the years 2014-2018 has been established and the plan would be submitted for approval of the Board of Directors until the end of August 2014.

The Bank continues to manage "the family program" as an ongoing plan creating value to existing customers as well as to new customers with family relations among them. During the reported period the Bank offered additional unique benefits, such as "family loans" (see Chapter 3 below).

Ms. Lilach Asher-Topilsky started her office as the Bank's President & CEO on February 19, 2014, and replaced Mr. Reuven Spiegel, whose tenure of office terminated on that date.

At the beginning of December 2013, the Bank turned into a banking corporation having no core controlling interest, following the sale of a part of their holdings in the Bank by the controlling shareholders until that date, the Bronfman-Schron Group (see under "Control of the Bank").

**Merger between the Bank and DMB.** DMB was a wholly owned and controlled banking subsidiary of the Bank. On June 28, 2012, DMB was merged with and into the Bank. Upon the completion of the merger, DMB ceased to exist without being liquidated, and for all intents and purposes, the Bank is deemed to be DMB.

## CONTROL OF THE BANK

**Control of the Bank until December 3, 2013.** Until December 3, 2013, the Bronfman-Schron Group was a controlling shareholder of the Bank (from January 2006<sup>2</sup>). The Bronfman-Schron Group held shares comprising 25.16% of the Bank's issued share capital and voting rights. The Bronfman Group's holdings in the Bank, comprised 15.1% of the equity and voting rights and Mr. Rubin Schron's holdings in the Bank, comprised 10.06% of the issued share capital and voting rights.

**Change of the Bank into a bank with no core controlling interest.** According to information provided to the Bank the Bronfman Group and Mr. Schron sold shares of the Bank on December 3, 2013, in an off the market transaction, as detailed in the immediate report dated December 3, 2013.

Upon the consummation of the transaction, the permit by the Governor of the Bank of Israel dated December 1, 2013, for the holdings of means of control in the Bank (hereinafter: "the holding permit") which is designed to enable the decentralization of the core controlling interest of a bank in a gradual manner, as detailed in the immediate report dated December 12, 2013, entered into effect. At date of entering into effect of the holding permit, the permit granted on January 29, 2006, to the Bronfman-Schron Group for the holding of the control and means of control in the Bank was abolished. In accordance with the above, the Bronfman-Schron Group ceased to be in control of the Bank and the Bank turned into a bank having no core controlling interest.

Following the said transaction, the Bronfman Group held shares comprising approx. 10.9% of the issued share capital and voting in the Bank, and Mr. Schron

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<sup>2</sup> The Bronfman-Schron Group acquired the shares from the State of Israel. To the best knowledge of the Bank, the State of Israel has completed by October 28, 2010, the sale of the remaining shares held by it, and since then, the State does not hold any shares of the Bank.

held approx. 6.24% of the equity as stated (it is noted that according to information received by the Bank, Mr. Schron sold on April 8, 2014, additional shares, reducing his holdings to 3.63%, as stated in an immediate report dated April 8, 2014).

It should be noted that on March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, 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 2013 Annual Report (p. 233-237).

## COMMUNICATION WITH INVESTORS IN SECURITIES OF THE BANK

The first and principal layer of communication with investors in securities of the Bank 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.

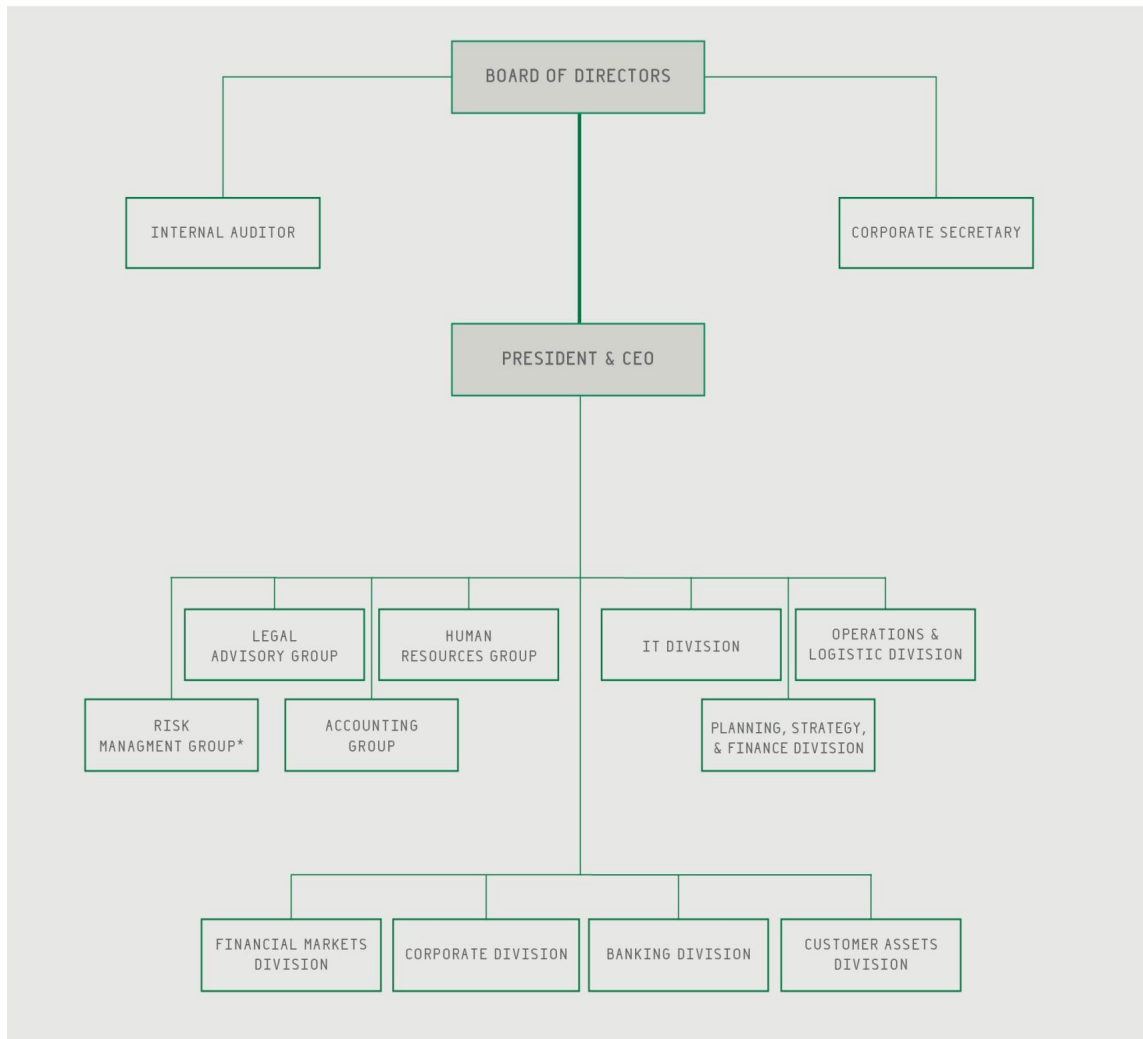
The Bank maintains an additional layer of communication with investors in securities of the Bank (existing and potential), as well as with other parties (such as: analysts and research agencies) in Israel and abroad, by means of the investor relations unit of the Planning, Strategy and Finance Division. 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 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.



## Organizational Structure Chart



\* 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.

It is noted that a meeting of the Board of Directors held on July 27, 2014, decided to approve the following organizational changes: the Operations Division, which includes the properties and construction department and the operational departments shall be split, and its units will merge with existing other divisions/groups. The properties and construction department will be

merged with the Human Resources Group creating one division named "Resources Division". The operational departments will be merged with the Technologies Division, which will be called now "Technologies and Operations Division".

## ISSUES REGARDING CORPORATE GOVERNANCE

### THE BOARD OF DIRECTORS

#### COMPOSITION OF THE BOARD

The Bank's Board of Directors numbers 11<sup>3</sup> members, 6 of whom qualify as external Directors: 2 of whom act as external Directors (in terms of the Companies Law, 1999), and 4 additional Directors who act as external directors in terms of Directive 301 of Proper Conduct of Banking Business Directives, and as such also qualify as external directors in terms of the Companies Law. All Directors have professional qualifications<sup>4</sup>, and nine of them also have accounting and financial expertise.

The age distribution of members of the Board of Directors is as follows: three Directors are aged between fifty-five and sixty years; seven Directors are aged between sixty and seventy years and one Director is seventy four. At a gender aspect, the Board is composed of nine male Directors and two female Directors.

The Chairman of the Board does not hold any other office at the Bank in addition to his office as Chairman.

For additional details regarding Board members, see the 2013 Annual Report (pp. 281-287)<sup>5</sup>.

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<sup>3</sup> The data regarding the Directors is as of March 20, 2014.

<sup>4</sup> 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.

<sup>5</sup> The data regarding Directors appearing in the 2013 annual report is up-to-date as of a date proximate to the date of publication of the report (March 20, 2014).

## 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.

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 and of the President & CEO and Management.

**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 process was last performed in the second half of 2013.

## 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 Directors and of its committees. Following are the main duties of the secondary committees:

**Strategy Committee** - to assist the Board of Directors in drawing up the business and marketing strategy of the Bank and the Group and, in particular, to examine and verify that: there exists a close relationship between the strategy and the risk appetite and risk management policy documents determined by the Board of Directors; the Bank has the ability to manage the risks stemming/deriving from the strategic plan; the Bank's capital requirements allow the implementation of the strategic plan; regulatory aspects have been examined; sufficient management information exists for the purpose of monitoring the implementation of the strategic plan and/or for updating the strategic plan.

The Committee is also tasked with drawing up recommendations for the Board of Directors on the subject of the Bank Group's entire overseas activities and its overseas investments.

**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: the credit strategy and the credit policy (prior to the discussion by the Board of Directors in plenum); the policy regarding credit for the acquisition of means of control in corporations (prior to the discussion by the Board of Directors in the plenum); the follow-up reports on exposures to

credit risk - the follow-up reports intended to ensure that proper approval and underwriting procedures are in place for the granting of credit, deviations from limitations, 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 also discusses the quarterly report submitted by the Internal auditor, which includes, among other things, a summary of audit reports prepared by him during the quarter and a report regarding the progress being made in rectifying audit findings raised in reports by the Supervisor of Banks and the internal audit department, in a semi-annual report as well as in an annual report regarding the activities of the internal audit. 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 the salary and remuneration of the Internal Auditor.

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, approves it 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.

The committee discusses the business continuity management policy and makes recommendations to the Board of Directors regarding its approval. Furthermore, the committee receives periodic reports as to the progress made in the treatment of the matter.

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, performed within the framework of the second pillar Basel).

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, as well as actions and transactions requiring approval of the audit committee in terms of the Companies Law and transactions in which an Officer of the Bank has a "personal interest", as required by Directive 301 of Proper Conduct of Banking Business Directives.

The Audit Committee is responsible for supervising the work of the Bank's external auditors, making recommendations to the Board of Directors regarding the appointment of the external auditors, and the scope of their work and their fees, and for bringing its recommendations before the Board of Directors.

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 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.

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 provision 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.

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

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; discussion of the Bank's ethics code. The committee also discusses topics relating to administrative enforcement.

**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 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).

**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/Insurance and Assets Committee** - In the computerization field, the Committee is authorized to discuss and approve and/or to make recommendations to the Board of Directors on everything pertaining to the Bank's and the Group's computerization, including: policy and yearly and multiyear work plans; monitoring and control over the work plans, including matters relating to content, budget and timetables; monitoring in the field of IT risks management and of the data protection policy.

In the insurance field, the Committee is authorized to discuss and decide insurance matters pertaining to the Bank, including banking insurance.

In the assets field, the Committee is authorized to discuss and decide the Bank's assets policy and to also discuss reviews dealing with the assets of Group companies.

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



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

- Discussion of the periodic reports that deal with material regulatory updates and developments and updates regarding developments at the Bank's subsidiaries and overseas extensions;
- Quarterly discussions of the risk document - monitoring the Group's risk exposure, including the principal exposures at the Bank, material subsidiaries and overseas extensions; financial reporting - monitoring the assets and liabilities management (ALM);
- Discussions of topics relating to the Financial Markets Division as a risk taker, including derivatives activity at the Bank and the Group, and the financing strategy;
- Discussions of the annual report of the Internal Capital Adequacy Assessment Process (ICAAP); review and presentation of the material subsidiaries and overseas extensions, placing emphasis on risk management aspects;
- Discussion of Group policy documents and fundamental documents in the field of Risk Management;
- Discussion of the operational risks survey, including the fraud and embezzlement survey, and of the compliance infrastructure survey;
- Discussion of new models and methods for risk assessment; discussion of systems for identifying risks; discussion of the recommendations for introducing a new product/operation; discussion of the exception reports and reports regarding operational failure events.

**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.

## 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.

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.

It is noted that on July 15, 2014, the Supervisor of Banks issued an amendment to the instruction, which imposed stricter limitations on banking corporations with respect to transactions with related persons.

## 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 subject to the instructions determined in the amendment to the Banking Act, 2012, which included a regularization of the operation of a banking corporation having no core controlling interest (as is the Bank), including special instructions in the matter of appointment of directors, their acting in office and termination of office.

Among other things, an instruction has been determined according to which voting on the appointment of directors shall take place only at the annual meeting of shareholders or at a meeting of shareholders convened with the approval of the Supervisor of Banks; an instruction limiting to three years the period of office of a director who is not an external director, and to nine years on a cumulative basis, of the period of office of such a director; and an instruction according to which the number of directors who are to be replaced in each year shall not exceed one half of the number of the acting directors.

According to the Law, 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 Act, 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.

It should be noted that on May 13, 2014, the Committee for the appointment of Directors in Discount Bank issued a notice to the public regarding the possibility of submitting until May 29, 2014, applications for candidacy for office of director of the Bank.

## THE BANK'S 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 THE BANK'S 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 age distribution of members of the Bank's Management<sup>6</sup> is as follows: four members are aged between forty-four and fifty years; six members are aged between fifty and sixty years and one member is aged sixty-two. At a gender aspect, the Bank's Management is composed of eight male members and three female members.

For additional details regarding the Bank's members of Management, see the 2013 Annual Report (pp. 273–275)<sup>7</sup>.

## 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 rules applying to external directors. 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.

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<sup>6</sup> The data regarding members of Management is as of March 20, 2014.

<sup>7</sup> The data regarding members of the Bank's Management appearing in the 2013 annual report, is up-to-date as of a date proximate to the date of publication of the report (March 20, 2014).

## REMUNERATION PLAN FOR THE CHAIRMAN OF THE BOARD AND THE PRESIDENT & CEO

**Remuneration plan for the Chairman of the Board and for the former President & CEO.** Remuneration plan for the Chairman of the Board and for the President & CEO who held office until February 19, 2014 (hereinafter: the former President & CEO) have been determined for five year periods (beginning on January 3, 2010 and January 1, 2011, respectively). The plans included salary, annual award and remuneration derived from performance of the Bank's shares of the phantom type.

The annual award was computed on the basis of three quantitative indices based on the performance of the Bank (the actual return on risk assets, efficiency ratios and operating and other income) and on a qualitative index.

The qualitative evaluation grading was considered as an average of the grades determined by all members of the Bank's Board, marked in a questionnaire completed by each of them in accordance with the said grading scale and in accordance with the following criteria, and was subject for approval of the Audit Committee and of the Bank's Board of Directors.

The criteria on the basis of which the said qualitative evaluation grading was determined, were the contribution made by the Chairman of the Board to supervision and control in areas concerning corporate governance, directives of the Supervisor of Banks (including directives in the matter of "Basel II"), internal audit and audit reports of Regulators (such as the Bank of Israel and the Israel Securities Authority), operational risks and control of risk levels of the Bank's Group; or the contribution made by the President & CEO in respect of the formation of goals and of leadership, advancement and implementation of processes and their realization in the said areas, respectively.

In June 2014, the Chairman of the Board announced the waiver of the award to which he was entitled in respect of the year 2013, in a total amount of NIS 2.16 million.

For further details see Note 13D(1) and Note 22 F, G and I to the 2013 Annual Report (pp. 442-443, pp. 495-499 and p. 501). In addition, see immediate report dated January 7, 2014.

**The terms of office and employment of the Bank's incoming 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 22 F and H to the financial statements as of December 31, 2013 (p. 496 and p. 499-501). In addition, see immediate report dated January 7, 2014.

## REMUNERATION PLAN FOR THE VICE PRESIDENTS

**Remuneration plan for the years 2011-2013.** Remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2011-2013, included salary, annual award and a long-term award.

The annual award to members of Management (excluding the Chief Risk Officer, the Internal Auditor and the Chief Accountant, hereinafter "control functions") was composed of an award based on a formula, computed in accordance with achievement of quantitative indices (return on risk assets, efficiency ratios, operating and other income) and an additional index focused on attainment in a particular year of the goals set for the division/layout headed by the member of Management. In addition, the annual award included an additional amount determined at the discretion of the Bank's President & CEO, as approved by the audit committee and the Board of Directors, distributed out of a budget the volume of which is determined in the plan. When deciding upon the allocation of the additional budget between the different members of Management, the President & CEO has considered, among other things, the following: attainment of the Bank's general goals concerning risk management; attainment of the Bank's general goals concerning compliance with the law, regulations and Bank procedures. Legal actions (including administrative



proceedings) and reports issued by regulatory authorities were also taken into consideration.

The annual award in respect of the control functions was approved by the audit committee and the Board of Directors (the Internal Auditor - according to the recommendation of the audit committee itself; the Chief Risk Officer - according to the recommendation of the risk management committee; and to the Chief Accountant - according to the recommendation of the President & CEO). In determining the said annual awards, the factors that were taken, among other things, into consideration were the work plan goals for any of the aforementioned officers, as well as the Bank's performance in the year of award and the maximum amount of the annual award to which each of the other members of Management were entitled in respect of that award year.

Payment of the annual award in respect of a particular calendar year was made in three installments: 60% of the annual award was paid no later than thirty days following the publication of the Bank's financial statements for the year in question. Two installments of 20% each are deferred and paid (linked to the CPI) following the publication of the financial statements for each of the two years following the said calendar year.

Payment of the annual award and of the installment of the deferred award that is due for payment, is made subject to compliance with all the minimum terms that had been determined in the plan (which are affected by the capital adequacy ratio and the core capital ratio, by the return on risk assets and by the net income - all these according to attainment of the goals determined in the work plan for the respective year).

Members of Management, including control functions were entitled to a long-term award depending on attainment by the Bank of cumulative net earnings goals over the period of the remuneration plan.

The actual remuneration in the years 2011-2013 of Board members, the president & CEO and of members of Management was in accordance with the plans and mechanism described above.

It should be noted that members of the Bank's Management and the Bank's Internal Auditor (which were the beneficiaries of the said remuneration plan) informed in July 2012 of their decision, each electively, to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it, in accordance with the said remuneration plans. This, in line with the savings and efficiency measures adopted by the Bank and in consideration of the existing public mood.

It should also be noted that the long-term award was paid after the elimination of the proportionate part of the long-term award in respect of 2012, and a reduction of 20% of the balance in respect of the years 2011–2013. For further details see Note 16I to the 2013 Annual Report (pp. 442–445). For details regarding the remuneration policy, including the remuneration policy with respect to officers of the Bank, see Chapter 4 below.

## 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 2013 Annual Report (pp. 256–259).

### RISK MANAGEMENT GROUP

The Chief Risk Officer is Mr. Yair Avidan who took office on June 9, 2010 and heads the Risk Management Group. 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 (control circle), excluding legal and regulation risks, which are the responsibility of the Chief Legal Adviser, and financial reporting risks, which are the responsibility of the Chief Accountant.

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 and the overseas extensions 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; compliance with risk appetite as determined by the Board of Directors; involvement in the material decision-taking processes and in the strategic processes, such as capital planning, formulating the strategic plan and the work plan, accompanying merger processes and major organizational changes, and managing the processes for examining new products, 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, as a risk-based management and control tool.

The Risk Management Group combines under it the independent functions of risk management, comprising the managers and units of credit risk management, market and liquidity risks, operational risk and IT risks as well as units for the management of compliance risk and prohibition of money laundering and finance of terror risks. Towards the end of 2012, the Bank established an embezzlement risk management unit operating as part of the operating risks unit. The new unit is engaged in the discovery, prevention and monitoring of embezzlements. The managers of the risk management units conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies, tools and infrastructure that support the risk management processes. In addition, the Chief Risk Officer is responsible for

control functions, including the credit controller, as well as functions in charge of supervision and evaluation processes, including supervision and control procedures over subsidiaries and overseas extensions, processes for the integration of the risk management culture, in accordance with the policy documents and the process for the evaluation of capital adequacy.

The Risk Management Group is organized and operates in accordance with Proper Conduct of Banking Business Directive No. 310 as a whole, as well as in accordance with specific Proper Conduct of Banking Business Directive s applying to the different risks. The Risk Management Group, through its compliance and prohibition of money laundering functions, is also responsible for the preparations made by the Bank with respect to changes in U.S. tax legislation, designed to apply to financial institutions outside the U.S. under the FATCA (Foreign Account Tax Compliance Act).

In view of Proper Conduct of Banking Business Directive No. 311, the Bank's Management decided to transfer the "second opinion" unit to the Risk Management Group, performed on July 1, 2013. This unit constitutes a single factor in the Bank which provides independent opinion regarding credit transactions, and will also determine credit rating, classification of debts and allowances.

For further details regarding the risk management at the Discount Group, see 2013 Annual Report (pp. 125-182).

## THE DISCOUNT CODE OF ETHICS

The Bank's code of ethics was formed a few years ago, and it defines the norms of conduct applying to all executives and employees of the Bank, in accordance with its values.

Management of Discount Bank assigns great importance to the implementation of the ethical code in practice; it is committed to the process and devotes time and attention to studying the subject in depth and monitoring its progress. A Management member (the Head of the Human Resources Group) was appointed to be in Charge of Ethics, who heads the Ethics Committee. This Committee is responsible for promoting an "ethical" organizational culture and assimilating the Bank's ethics plan.

During the years 2012-2013, the process of integrating the code in the organization continued. Managers from different units participate in 'ethics café' meetings, to enrich the ways of coping with ethical dilemmas and formulate solutions and courses of action. In addition, once a quarter, an ethical dilemma and a methodology for its solution are published in an internet newsletter. This, in addition to the 'bank of ethical dilemmas' from the organizational life which is maintained on the ethics website in the employees' portal, the integration of this issue in professional-managerial training and the establishment of mechanisms that encourage reporting such as the 'ethics hotline' (anonymous).

In 2013 a move for the updating of the Code of Ethics has started and is continued in 2014.

## **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 Bank's Board of Directors approved in January 2012 a work procedure vis-à-vis the subsidiary companies, which 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 work procedure vis-à-vis the subsidiary companies, supervision and control mechanisms have been set, which are designed to assure the proper and effective operation of the Discount group including with respect to the following items: activity and transactions with related parties; supervision by the Bank's Board of Directors over companies in the Group; reorganization and structural changes; the formation of a group risk management policy regarding various areas.

In addition, the Bank's Board of Directors has determined a procedure for the approval of transactions with interested parties in the Bank, which regulates

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

The corporate governance code was discussed in January 2014, by the corporate governance committee, and it has been decided to update it. The updated version will be submitted for approval by the Board of Directors.

## CORPORATE GOVERNANCE QUESTIONNAIRE

Starting with the annual report for 2012, reporting corporations in Israel are required to publish a corporate governance questionnaire, in the format prescribed by the Israel Securities Authority. The Bank's corporate governance report for 2013 presents extensive information regarding the corporate governance at the Bank.

The Bank's corporate governance report for 2013 is, among other places, available for review on the Bank's Internet website.

## ETHICAL ASPECTS

### COMPLIANCE WITH LAWS 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.

It has also been determined that the Board of Directors and Management are responsible for the protection of employees who report illegal or unethical actions or such that might impair integrity, against disciplinary actions or other negative implications in their respect.

Discount Bank strictly manages its business in a legal and proper manner, diligently complying with the provisions of the law in all its activities. The Bank acts in accordance with a detailed set of procedures intended to enforce compliance with the various legal and regulatory requirements. The procedures of the Bank are being updated from time to time in accordance with legislation and regulatory instructions. At the same time, if required, the systems supporting operations are also updated and 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 interpretation of the law and in complying with the duties under it during the regular operating 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.

According to the Bank of Israel instructions, a Chief Compliance Officer has been appointed at the Bank, whose duties are to verify compliance both to legislation and regulation requirements in respect of bank-customer relations (consumer instructions) and in respect of prohibition of money laundering and the finance of terror activities. Among other things, the Chief Compliance Officer examines and verifies the preparation of the Bank for any new activity concerning customer service, from the aspect of adhering to the consumer instructions, and concerning prohibition of money laundering. The Chief Compliance Officer also verifies rectification of various deficiencies in matters of compliance and prevention of their repetition.

It should be noted that a first line of defense ("the first circle") has been established in the business divisions - compliance officers/compliance trustees - which assists in verifying the implementation of the consumer regulation instructions and the prohibition of money laundering, and comprises a know-how center as well as performs training in the field.

In addition, the Bank's Internal Audit Group examines, among other things, morality and compliance with the law, with Directives of Bank of Israel and with procedures established by the Bank. This is performed within the

framework of audits conducted at the various units of the Bank and of across the Bank audits. 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.

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

## FRAUD AND EMBEZZLEMENT RISKS

In the middle of 2013, the Bank completed an operational risks survey, which had begun towards the end of 2011 and had been performed with the assistance of an external consulting firm. The risk of fraud and embezzlement has also been included in the survey. An analysis of all units of the Bank and the Group have been made by the survey, in order to identify risks of embezzlement and fraud. As part of the operational risk management policy, a designated chapter for the management of embezzlement and fraud risks is being included. The policy defines the manner of management, monitoring, reduction and reporting in respect of such risks.

The Bank operates control systems for the identification of suspected activity. An independent control unit is in operation in each Division and Group, serving as a first line of defense. The risk management group serves as the second line of defense, and the internal audit as the third line of defense. Clear procedures and guidelines have been established regarding the reporting format in case of suspected embezzlement. As part of this process, the internal



audit performs an extensive examination, which includes the issue of an audit report, and where required, also submitting the case to the Disciplinary Committee.

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. In 2013, following such measures, the employment of twelve employees was terminated. In 2012, the employment of twelve employees was terminated, and one case was even reported to the police.

Each manager of a risk center is responsible for the evaluation of the risks inherent in the operations of his unit, this within the framework of the operational risk survey, and in a current and dynamic manner, by means of a designated system for operational risk management. Concurrently, a challenge of risk evaluation is performed by the risk management group, in its role as a second line of defence, in accordance with the methodology determined by the risk management group, where each risk is being allotted a "grade", in accordance with parameters evaluated by the risk center manager.

A current dialogue, mostly by the divisional risk controller, is conducted as part of the work routine between the risk management group and the business divisions. Also, study sessions and lectures are being held from time to time, and designated forums are being convened in which a dialogue and professional brainstorming are performed.

The Bank's Management held discussions in the years 2012-2013, regarding embezzlement and fraud risks at the Bank and the Group, including the presentation of statistical data in Israel and in the world at large and in particular at the Bank, such as: the volume of risk, the level of risk and sensitive areas.

Discussions are being held from time to time at the levels of Management committees, Management, the risk management committee of the Board of Directors, professional forums of operational risk managers, the embezzlement risk forum, and divisional heads forum in the framework of concluding discussions of the risk survey.

The work program for 2014, plans designated guidance sessions for members of Management regarding embezzlement risks and ways of preventing/facing them. A designated learning is also planned for controllers of operational risks as well as for all Bank employees.

## 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 money laundering and the finance of terror have turned in recent years into one of the most significant enforcement and prevention subjects in international 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, enrichment films 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.

## FAIR COMPETITIVE BEHAVIOR

The Bank strictly maintains fair competition with its competitors and avoids denouncing its competitors and the services provided by them. Accordingly, the Bank treats its competitors with respect and maintains their reputation right and proprietary rights. Within the framework of its operations, the Bank avoids the use of illegal or improper means.

The Bank employs measures intended to maintain the management of its affairs in an honest and proper manner. For this purpose, the Bank integrates various procedures relating to permitted and forbidden acts in its employees operations, including procedures prohibiting the transfer or receipt of

information regarding its business competitors, which is not public knowledge and procedures forbidding the use of information known to employees regarding the Bank or its customers, and limiting the presents that employees may receive from parties with whom they come into contact during their work. Further procedures limit the granting of presents on behalf of the Bank for the purpose of achieving business goals.

## FINES

No fines in material amounts and no non-monetary sanctions were imposed on the Bank during the years 2012-2013 with respect to non-compliance with laws and regulations.

## UNFAIR COMPETITIVE BEHAVIOR

No events occurred during the years 2012-2013 in respect of which legal action has been taken against the Bank regarding unfair competitive conduct and violation of the antitrust rules, except for a procedure conducted in the matter of the decision of the Antitrust Commissioner regarding binding arrangements between the banks, as discussed below.

On April 26, 2009, the Antitrust Commissioner published a statement, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which binding arrangements existed between Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., Mizrahi-Tefahot Bank, the First International bank of Israel Ltd. and the Bank (hereinafter: "the banks"), in the matter of communication of information regarding commissions ("the Commissioner's Statement"). According to that stated in the Commissioner's decision, these binding arrangements had been in effect since the beginning of the 90's of the previous century and until the beginning of the investigation of the Antitrust Authority in the matter, in November 2004.

In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the statement of the Commissioner.

On March 27, 2014, the banks and the Commissioner signed an agreed order ("the agreed order"), whereby it is determined that the banks would pay an amount of NIS 70 million, of which an amount of NIS 14 million to be paid by Discount Bank ("the payment"), and this without the banks admitting their liability under the provisions of the law or admitting a violation on their part of the provisions of the law.

Subject to the approval of the agreed order by the Antitrust Tribunal and to the deposit of the payment by the banks, the decision would be cancelled and no enforcement measures would be taken against the banks in connection with the investigation that had led to the publication of the decision.

It has been determined, within the framework of the agreed order, that the payment may be used for compromise arrangements that might be reached by the banks as regards class actions that are pending against them, and which are detailed in the agreed order. The balance of the payment, which would remain at the end of twenty-four months from date of approval of the agreed order, shall be assigned to the State's Treasury.

The Antitrust Tribunal approved the agreed Order on June 16, 2014.

## INVOLVEMENT IN PUBLIC DEBATE AND IN LEGISLATION PROCESSES

The Bank supports the promotion of social and environmental agendas, though it strictly refrains from any political activity. The Bank does not support political bodies and does not contribute funds to political bodies or parties nor to politicians.

Procedures of the Bank prohibit the use by its employees of the Bank premises or resources for political purposes. Such procedures are being refreshed whenever elections are declared in Israel.

Activities of the Bank vis-à-vis the legislative authorities are sometimes conducted directly and sometimes through the Union of Banks, the activity of which in this connection might be considered as lobbying. Such activity includes, among other things, professional response or invitation to discussions held at meetings of committees of the Knesset. The Bank engages the services of a lobbying company, which updates the Bank on a regular basis with respect to various legislation initiatives, assists the Bank in forming its position and accompanies representatives of the Bank appearing before various committees.

## MARKETING AND ADVERTISING

Marketing and advertising are the showcase of the Bank and its immediate and direct line of communication with its customers and generally, therefore the Bank applies diligently basic principles with respect to whatever approach and means of marketing communication.

**Truth in advertising** - Strict measures are taken in the publication of valid information, which is being properly examined prior to its release.

**Social correctness** - Material published by the Bank is being edited in a respectable and adequate manner while strictly maintaining social correctness and avoiding impingement of populations, beliefs, etc.

**Ethics** - The Bank is committed to the advertising ethical code adopted by advertisers and television channels and includes principles designed to protect values (such as human dignity), populations (such as children), etc. The said code is obligatory both as regards production of marketing communication as well as the products themselves.

No complaint with respect to a violation of the said Code of Ethics was received in the years 2012-2013.

In addition to the basic principles, Discount Bank has set for itself an assignment of establishing its marketing and advertising in a language fit for all, having merit, based on:

- **Humaneness** - The features of the advertising language agree with the features of the values of the Bank and its vision.  
The customer (whether internal or external) is first of all a human being. Therefore, the communication with the Bank is made in a human language which customers of the Bank and its employees identify and are identified with, and which puts in the center the normative and reasonable human being and its needs.
- **Clarity and simplicity** - the Bank believes in a clear and understandable language. The approach to the customer, whether by films or printed material, should be easily understood, unpretending, devoid of professional terms and free of obstacles and obstructions in the understanding of the product or service offered.  
Hence, the language used in the campaigns of the Bank and the use of characters (Modi Bar-On and Israel Katorza) who communicate at eye-level.
- **Israeli characteristics** - Discount forms an integral part of the Israeli experience and this connection is expressed in its communications.

- The Bank, similarly to its customers acts within its people and its advertising is derived from the daily life of its customers and employees, the truth they are faced with and the society in which they live.
- **Self awareness and humor** - The sincerity that comes with the self-awareness and humor, directed sometimes towards the Bank itself, establishes direct relations and trust with customers.

These principals have established a humane, sincere, clear and Israeli approach in marketing and advertising, covered also by the umbrella of the identity of Discount as a people-oriented and smiling bank.

## VISION AND VALUES<sup>8</sup>

### THE SHAPING PRINCIPLES OF THE BANK

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.

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<sup>8</sup> It is noted that as stated in the Section "Strategic plan for the Discount group" below, the Bank is expected to adopt until the end of August 2014, a strategic plan for the years 2014-2018. It is possible that in this framework an adjustment of the Bank's vision would be made.

## 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.

## 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.

## 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.

### INDIRECT FINANCIAL 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 Hertzlilblum Museum (see Chapter 5 below).

In addition, some of the Bank's measures in the field of employees recruitment, are intended for the empowerment of certain populations and to increase their participation in the labor market. The Bank applies "reverse discrimination" with regard to Ethiopian immigrants (see Chapter 4 below) and 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 DISCOUNT GROUP STRATEGIC PLAN

On July 24, 2011, the Board of Directors of Discount Bank approved the Discount Group strategic plan for the years 2011-2013 ("the strategic plan"). The period of the plan is intended for the managerial focusing upon structural and financial change processes within the Discount Group and in efficiency measures. Since the date of approval of the plan, changes have taken place in the environment in which the Bank operates and in particular regulatory changes, the most significant of which is the change in capital requirements.

In 2013 focus points of the strategic plan for the years 2014-2018 were established. The relevant business focuses have been integrated into the Bank's work plan for 2014. In view of the change in the Bank's President & CEO of the Bank, it has been decided to allow the incoming President & CEO time to examine the plan and propose to the Board the updating of its contents, where required. Accordingly a review of the plan is being conducted at the moment, and concurrently work is being conducted on the formation of an efficiency plan, which will be implemented as a central layer of the strategic plan.

The central business focus in the plan relates to the retail segment, among other things, by differentiation and the creation of value to customers within the framework of the "Discount Family" plan.

The strategic plan for the years 2014-2018 will be submitted for approval of the Board of Directors until the end of August 2014.

## GOVERNMENT SUPPORT

The Bank does not receive Government support.

## THE BANK'S FINANCIAL DATA

### PROFITABILITY

	For the year ended December 31			Rate of change in %	
	2013	2012	2011	2013 Compared to 2012	2012 Compared to 2011
	In NIS millions				
Interest income, net	4,250	4,459	4,617	(4.7)	(3.4)
Credit loss expenses	580	726	778	(20.1)	(6.7)
Income before taxes	1,171	1,164	931	0.6	25.0
Provision for taxes on income	305	407	114	(25.1)	257.0
Income after taxes	866	757	817	14.4	(7.3)
Net income attributed to the Bank's shareholders	874	802	847	9.0	(5.3)
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares	1,032	875	847	17.9	3.3
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.83	0.76	0.80		
The ratio of income before taxes to total equity in %	11.1	11.7	10.2		
The ratio of income after taxes to total equity in %	8.2	7.6	8.9		
Return on equity attributed to the Bank's shareholders, in %	7.3	7.1	8.2		
Return on equity attributed to the Bank's shareholders, in % - disregarding the provision for impairment in value of the investment in FIBI's shares	8.6	7.8	8.2		

### BALANCE SHEET

	As at December 31		
	2013	2012	Change in %
	In NIS millions		
Total assets	200,507	201,012	(0.3)
Credit to the public, net	115,859	117,611	(1.5)
Securities	41,325	46,001	(10.2)
Deposits from the public	148,928	151,935	(2.0)
Equity attributed to the Bank's shareholders	12,233	11,838	3.3
Total equity	12,538	12,134	3.3

## FINANCIAL RATIOS

	As at December 31	
	2013	2012
	in %	
Ratio of total equity to total assets	6.3	6.0
Ratio of capital to risk assets	14.4	14.3
The core capital ratio	9.3	8.6
Ratio of credit loss expenses to the average balance of credit to the public	0.49	0.61
Ratio of credit to the public, net to total assets	57.8	58.5
Ratio of credit to the public, net to deposits from the public	77.8	77.4
Ratio of deposits from the public to total assets	74.3	75.6
Ratio of total non-interest income to operating expenses	58.5	55.9
Ratio of operating expenses to total income	77.5	75.5
Risk assets adjusted return <sup>(1)</sup>	8.2	7.8

Footnote:

(1) Return on core capital computed on the average balance of risk assets (December 31, 2013 - 8.0%, December 31, 2012 - 7.5%).

## MARKET SHARE

Based on data relating to the banking industry as of December 31, 2013, 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:

	September 30, 2013	December 31, 2012
	In %	
Total assets	16.1	16.5
Credit to the public, Net	14.2	14.6
Deposits from the public	15.8	16.4
Interest income, net	16.9	17.5
Total non-interest income	19.6	19.6

## ECONOMIC VALUE PRODUCED BY THE BANK

The economic value produced by the Bank results from its being a large economic entity, which pays taxes to the authorities as prescribed by law, employs a large staff thereby provides a living for many families and purchases services and products in a substantial volume.

## 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	
	2013	2012
	in NIS million	
Salaries and related expenses	3,619	3,444
Donations and social investments*	12	12.2
Dividend paid to the Bank's shareholders	-	-
Interest expenses	2,572	3,388
Provision for taxes on income	305	407

\* For details, see Chapter 5.

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

	As at December 31	
	2013	2012
	in NIS million	
The total economic value produced by the Group <sup>(1)</sup>	7,769	7,716
Total economic value distributed by the Group to its stakeholders <sup>(2)</sup>	6,323	6,233
Total retained economic value <sup>(3)</sup>	1,446	1,483

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.

## 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 and the Union of Banks. In addition, the Bank joined the Global Compact initiative of the United Nations.

**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 last report was submitted in March 2013. As stated, this report comprises an annual progress report for the year 2013.

**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. About fifty-five Israeli organizations are currently members of the Society. 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 - by holding learning meetings, professional tours of business organizations, traineeship for novice human resources managers and public involvement in human resources legislation matters.

Human resources officers of the Bank are authorized members of the Society. Discount Bank is the first bank and the second organization in Israel, which Human Resources Group has been awarded an organizational qualification by the Association (as from January 28, 2014).

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

**Reporting to the CDP Initiative** - report of the Bank concerning its action in respect of the measurement of the volume of greenhouse gases emission and the reduction thereof, as part of its commitment to reduce the effects of climate changes. The last report was submitted in October 2013, voluntary annual report.

**Reporting to investors through "EIRIS" (Ethical Investment Research Services)** - 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 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 last report was submitted in June 2014.

## COMMENDATIONS AND PRIZES

**The winning campaign prize of the Israeli Marketing Union - First Quarter 2013.** The innovation committee of the Marketing Union (formerly: the Advertisers Union) marks in each quarter the excelling marketing campaign in the market, based upon determined criteria, and awards the winning company the "Winning campaign prize". Discount Bank won this prize for the first quarter of 2013, with respect to the "Discount is good to the family" program.

Arguments from the Prize Panel decision: "The campaign process has presented innovation in the banking sector - the only banking program in Israel which provides benefits to family members due to their joint activity at the Bank. For the first time in Israel, the family cell turns into a financial group force. The innovation is found also in the products offered by the Bank ("the family plus", "the private refueling means", exemption from commissions, transfers within the family group, and more), and in the scope and depth of this campaign. Never before has a financial institution approached a family as one unified consumer power offering it such a package of products and a distinct communication package".

**Computer Excellence Badge for 2012.** In an ICT convention of "People and Computers" held in February 2013, Mr. Hadar Michaelis, head of information security at the Bank, received the Computer Excellence Badge for 2012, for excelling in information security management (CISO category). The citation of the Panel stated: "Responsible for a multi-annual effort in which the Bank has undergone no less than a transformation in the matter of information security. The Bank has made considerable investments in this field in recent years, including the engagement of professionals, conducting knowledge based and well funded projects, and the integration of very complex issues in the matter of information security, all this while facing timetable difficulties in a complex organization. He has managed and led this field in an uncompromising manner."

**"Adif" rating.** At the "Adif" conference for 2013, the Bank has been elected, for the third consecutive year, as a leader in the pension consulting layout category of the banks, within the framework of the annual election rating of the insurance, pension and finance media reporters and the readers of "Adif".

**The Minister of Immigration and Absorption Plaque granted to the Technologies Division.** In January 2014, the said Plaque was granted to the Bank's Technologies Division, in appreciation of the voluntary work of the Division's

employee at the children house "A Place in the Heart" for children from Ethiopia at the Jaffa community center. For details regarding the adoption of the "A place in the Heart" Association, see Chapter 5 below.

**Certificate of Merit from the "Latet" Organization.** Two senior managers of the Technologies Division received in February 2013 a certificate of merit for excelling in the management of the "Latet" Branch in Nataniyah, a project which included a monthly distribution of food parcels and medication coupons for 120 financially deprived Holocaust survivors, and for managing some sixty volunteers performing the said activity.

**Rating in social responsibility fields.** For details regarding the rating by Maala and the BDI rating (100 companies with the best working conditions), see the end of Chapter 5 below.

The Bank did not receive monetary prizes in the years 2012–2013.





# Discount's Customers

## 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 goal that the Bank has taken for itself is customer satisfaction - internal and external.

The Bank strives to create value for its customers in the various banking fields of operation.

In the beginning of 2013, the Bank launched 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.

## A WIDE DISPOSITION OF BRANCHES - SERVICING A WIDE VARIETY OF CUSTOMERS

The Bank offers its customers comprehensive banking services through a network of 145 branches in Israel. 80 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 2013 annual report pp.515-516, for details regarding the activity breakdown by business segments, see the 2013 annual report pp. 518-520; for details regarding the activity breakdown by geographical areas, see the 2013 annual report p.521).

Among other things, Mercantile Discount Bank specializes in providing widespread services to the non-Jewish 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"), as well as services to the ultra-orthodox population.

## RETAIL CUSTOMERS – HOUSEHOLD SEGMENT

### CENTRAL MOVES

#### DISCOUNT, THE BANK FOR THE FAMILY

In February 2013, the Bank launched a program, first of its kind 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 in accordance with the data of the partners in the program. 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 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 joining the program 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.

- **Participation award of up to NIS 2,000** - a monetary award of between NIS 750 and up to NIS 2,000, deposited in cash into the accounts of new participants. Customers who deposit a monthly salary of NIS 10 thousand and over, or who have deposit accounts of NIS 120 thousand and over, who are not entitled to other improved terms, shall receive an award of NIS 2,000.
- **"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.
- **Family loans** - family members participating in the family program are entitled to loans at attractive interest rates.
- **Family outing** - family members Discount are invited to enjoy together family benefits, by means of "Discount key". In each month customers are offered different family benefit at a reduced price.

### **DISCOUNT IS GOOD FOR THE FAMILY - EVEN IN TIMES OF EMERGENCY - DISCOUNT ASSISTS ITS CUSTOMERS IN THE SOUTH DUE TO THE SECURITY SITUATION**

As a result of the security situation, the Bank announced at the beginning of July 2014, a series of reliefs to customers of its branches in the South, who are under a continuous threat.

**Enlargement of approved credit facilities.** During this period, the Bank allowed business and private customers to increase their approved credit facility up to a rate of 10% of their approved credit facility, and up to an amount of NIS 15,000.

**Special loan to private customers.** A loan in an amount of up to NIS 30 thousand; at an interest rate starting with prime + 2.5% and up to prime + 3.5%; a repayment period of up to 36 months; the possibility of deferral of up to three months regarding repayments of principal; exemption from credit and collateral handling commissions.

**Special loan to small businesses.** A loan in an amount of up to NIS 100 thousand; at a nominal annual interest rate of prime + 2.5%; a repayment period of up to 36 months; the possibility of deferral of up to three months regarding repayments of principal.

**Relief regarding repayment of mortgage loans.** The Bank allowed the deferment of mortgage payments for a period of two months, subject to an application made by the customer through the telephone mortgage center.

**Telebank Discount** extended the service also to customers who are not subscribers to the service. In this framework, all customers were able to receive information and transact business.

At the same time, the President & CEO and members of the Management visited the Bank branches in the Southern region in order to assist and support Bank customers and employees at this time and realize their needs at first hand.

## "DISCOUNT KEY"

During 2012-2013, 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 140 marketing chains as well as discounts at hundreds of local shops.

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 channels: 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.

In August 2012, the Bank in cooperation with "Sonol" Oil Company granted customers holding Discount Key a discount on the cost of refueling. In addition, the Bank launched in the third quarter of 2012 a GPS based Discount Key application, which presents all the benefits and discounts granted to holders of the card.

In April 2013, 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.

## THE BRANCHES AS THE CENTER OF RETAIL OPERATIONS

The branches are the central link in the connection between the Bank and the retail customer. The retail experience occurs at the retail customer's meeting point with the Bank - in the branch. A customer visiting a branch should undergo a retail experience as a result of a combination of four major components: the pleasant appearance of the branch and its staff, quality service throughout his stay at the branch, clarity and simplicity of the products offered and messages given to him and timeliness and ease of consumption - simple processes and efficient performance. The Bank's Banking Division is in the advanced stages of adaptation to a customer focused structure, with the Bank providing a separate and different arrangement for each customer sphere.

## THE SEGMENT STRATEGY

A strategy that outlines a way according to which a distinct differentiation is to be made between customers in order to succeed in maintaining the customers and exhaust the potential inherent in them. In the course of 2012-2013, the Bank continued to improve the segmentation of customers of this sector in order to provide appropriate service to each segment. In addition to the distribution to service teams at the branches, based mainly on financial

parameters, customers were classified into sub-segments enabling improvement of the level of service provided to the customer, including the range of products, services and channels required by him.

## CUSTOMER SEGMENTATION

**In the household segment**, which has been in focus in recent years, various strategic emphases were determined for operation with each segment, in accordance with its characteristics and needs. In recent years the Bank has focused on the private sector including all its segments. Based on a segmental study of this sector, strategic emphases have been put on the activity with each segment, according to its characteristics, needs and order of priorities of the Bank. Based on the segmentation of the private sector, account channels have been established allowing, among other things, the granting of structured credit facilities in which the interest rate decreases as the facility is utilized, loans etc., while offering unique channels to customers having financial wealth and/or salaried customers.

Modifying the credit products to the said population segments is achieved by initiating approach to the customer and accordingly adjusting the credit facility to the needs of the customer, their repayment ability, and the acquaintance with them over the years as regards to structured credit lines, in which the interest rate decreases gradually in line with the increasing utilization of the credit facility. This activity supports the development of the consumer credit field at the Bank and allows full compatibility with the needs of the customer.

**In the small business segment** three principal kinds of customers were identified: business, business plus and extended business. The segments are defined in relation to parameters of volume of operations vis-à-vis the Bank, as measured mainly in the credit field.

## SERVICE CONCEPT

During 2012-2013, 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-channel - enabling the customer to perform banking operations everywhere, at any time, in every channel 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 improving the service and maximize the approach to customers according to their needs, the Bank has launched two new moves.

Identifying the customer's needs - a setup of questions presented to the customer has been devised, in order to improve familiarity with the customer, his family and their needs. The information obtained improves the ability of modifying products and services to anticipated needs and events.

In addition, the Bank has formed a contact policy for strengthening relations and familiarity with the customer, both for the management echelon and for the VIP and personal teams.



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

Removal from the branches of the operational activity concurrently with measures for improving efficiency and changes in performance concepts.

The activity was designed to achieve the following targets:

- a. The customer may choose between teller assisted banking services and self service banking;
- b. Removal of all operations not essential for customer service from the branch;
- c. Simplifying and shortening the remaining processes at the branch;
- d. Focusing on the customer and his needs in order to improve the service experience;
- e. Reducing the amount of paperwork and filing at the branch;
- f. Savings in manpower and costs.

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. A new service to customers will be launched in 2014, allowing the deposit of checks also at an ATM.

In 2013, the back-office continued to absorb new operations, which contributed to the simplification and cutting-down of processes in the branches. Concurrently, in 2013, the "making time at the branches" process was launched, moving out operations from the branches in order to free time for customer service and sales. The said project has been included as part of the areas of focus for 2014, supporting the Bank's strategic subjects.

Furthermore, a new process was launched in 2013, for the distance control of checks, the impact which would be noticed in 2014. The deposit of checks by means of an ATM, which is transmitted on-line, will be handled in real time by a back office. This activity constitutes an important layer in efficiency of processes and in the savings in resources at the Bank's level.

The activity continued for taking over from the branches the filing and maintenance of basic documents and their integration in a manner that enables the business factor to view the documents of origin. The removal of basic documents has been carried out at about 91 branches until now. The continuation of this process in some 20 additional branches is planned for 2014. Removal of the daily paperwork has been carried out in all of the branches. These activities saved office space at branches, reduced the use of paper, shortened the time required for locating documents and reduces risks.

## DIRECT CHANNELS

**Discount@internet.** The Bank's internet website allows customers to independently obtain information and transact business, such as bank transfers, deposits, loan applications and securities operations, from anywhere and at any time, 24 hours a day. Moreover, the service allows customers to enjoy unique benefits given to those executing transactions through the Internet. Bank customers enjoy surfing on a secure site, which enables peace of mind and security.

The Bank puts at the disposal of the website subscribers the "Mail@Discount" service, allowing the receipt of messages from the Bank through a secured mailbox on the website. The messages are kept for seven years from date of joining the service. This service provides the customer with paper saving, information storage and contributes to savings and efficiency trend at the Bank.

**Adjusted surfing.** The Bank's Customers may enjoy the advantages provided by all websites of the Bank, as well as adjusted surfing on the browser of the Smartphone.

**Discount by cellular application.** A service based on cellular application enabling Internet access to the account, obtaining information and executing banking transactions. Also by the cellular application, the customer can enjoy the same benefits granted to users of discount@internet.

**Discount by SMS.** Messaging service from the Bank regarding activity in the account as well as general information, according to customer's choice and at the customer's convenient time.

**Automatic Teller Machines.** Located in the front of Discount branches are automatic teller machines that enable customers to execute transactions and obtain information about their accounts. The use of ATM's saves waiting for tellers in the branch and enables a customer to execute transactions in his account by himself without the need to sign up for the service.

## COMPLEMENTARY SERVICES TO BRANCH SERVICES

**Marketing of mortgage products.** The merger of Discount Mortgage Bank with and into the Bank that was completed in 2012, enables the Bank to market mortgages having an overall view of the customer. The mortgage product was added to the basic product basket offered to the Bank's customers. The Bank focuses its operations in this field on the preservation of 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.

During 2013 the Bank expanded the mortgage services in its branches. At the present time, eighty-five branches of the Bank provide mortgage services countrywide.

The Bank operates two call centers specializing in the mortgage field: a sales center, dealing with approaches by customers interested in a new loan, including the current attendance to customers during the process of granting the loan, and a customer relations center providing responses to existing customers.

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 of credit cards.** The Bank markets to its customers credit cards issued by ICC, in accordance with joint issuance agreements with the Bank. 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 expanding the product basket offered by ICC to its customers, ICC offers to customers, who hold off-banking credit cards (by means of its subsidiary companies), various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice - "CAL Choice" and more), as well as rechargeable cards.

**Private banking services.** See hereuder.

**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.

## CONSULTING NETWORKS

**Securities-related services.** The Bank provides its customers with a wide variety of investment consultancy services, trading and operations in securities in Israel and overseas, to private customers, institutional customers and capital market players. The Bank offers a range of services, including: trading in shares in Israel and overseas, bonds (including convertibles), Makam's, options, foreign currency, structured deposits, ETF's, derivatives in Israel and overseas, issuances and borrowings, as well as providing professional, objective investment consultancy services in securities and financial assets.

**Investment centers.** Customers having deposits of over NIS 750 thousand or customers active in the capital market are entitled to consultancy services regarding their funds at nine 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 4 investment centers extensions were in operation at the end of 2013.

The services provided by the investment centers were enlarged in the course of 2014, from providing investment advisory services only, to pension consulting and in some of the centers to providing banking services that include credit (only for VIP customers attended to by the investment centers of the Household Segment).

**Consulting services in Bank branches.** Customers with deposits in the range of NIS 120-750 thousand are entitled to advisory services provided at the branches by authorized investment consultants that specialize in the capital market.

**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. In the end of 2012, the deployment of consultants was aligned to the needs and their number was slightly reduced.

**Portfolio management.** Directing inquiring customers to certified portfolio managers.

## ADJUSTMENT OF BRANCH LAYOUT

**A change in format of rapid banking services.** Since the beginning of 2013, rapid banking services at the branches are provided on a "self-service" basis, with no permanent assistance of the staff. Accordingly, a part of the staff who had been engaged in this service has been moved to other duties at the information and sales call center and in the teller layout at the branches.

**Conversion of branches to business branches.** In 2012, a move began to convert certain branches into business branches. Accordingly, the Bay Branch in Haifa and the Poleg Branch in Nataniyah were converted in 2012. In 2013, the Canfei Nesharim Branch in Jerusalem was converted.

**"Household Discount".** Most of the "Household Discount" branches were converted during 2013 into conventional branches. The "Household Discount" branches were initially designed to provide services to private customers only. Customer needs and the changing demographical environment led to an expansion of services provided by these branches, including services to business customers.

## MARKETING AND DISTRIBUTION

Marketing and distribution are conducted by way of advertising campaigns in the print media, television, radio and billboards. In addition, marketing is conducted through the following channels:

- At the branches - frontal activity through plasma 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, which provides marketing messages and marketing offers;
- Through the Discount Information Desk, 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).
- Direct channels - a service that allows the possibility of receiving a loan through the Internet.

## TARGETS AND BUSINESS STRATEGY

**The year 2013.** Three goals were set for the segment, in focusing the activity for 2013: focusing on profitability, growing the customer base and the volume of activity at the Bank and enhancing quality.

To achieve the aforesaid goals, the following are to be emphasized:

- **Positioning "Telebank" as a nationwide service and sales center** - initiating general banking calls and integrating "value" offers and sales into incoming calls, along with providing a voice response service to subscribers and customers, the referral of personal and general calls and the activation of retention centers for VIP customers and students;

- **Fulfilling customer potential** - by means of secondary segmentation, including adapting "value" offers surrounding "Family with Discount", products and prices, offering loans through a variety of channels, improving the activation of the promotional personnel - "Telebank" and tellers encouraging family savings;
- **Customer retention using mortgages as a retentive product** -improving customer service, primarily by shortening schedules; expanding the service spread, including greater activity with purchasing groups, providing "value" offers in association with mortgages;
- **Improving quality** -
  - Developing private and business credit models;
  - Continuing to deploy compliance officers in the branches;
  - Focused management of control-monitoring-collection, including significantly improving response time.
- **Customer retention** - A center for the retention of VIP customers was established at the end of 2012, which is to be expanded in 2014, to handle personally customers of this segment. In addition, a service center for students was established in April 2013, which operates a unique line providing available response as regards banking services to the student population and establish initiated relations with students nearing graduation.

**The year 2014.** Intensifying operations in the Household Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit.

## 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 2012-2013:

Year	Any purpose loans	Tuition fees loans
	NIS millions	
2012	193	7
2013	258	6

**Green gift.** Bicycles were distributed in 2012 -2013 to new student customers that met the terms of the program (a new customer; ordering an active credit card; transferring a salary of at least NIS 700 per month and/or transferring an investment portfolio amounting to NIS 25 thousand or more). Within this framework, many hundreds of bicycles were distributed in each of the aforesaid years.

## THE HOUSEHOLD SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

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 management believes that most of the customers belonging to such populations receive services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks.

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.

During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.



## CUSTOMERS OF THE SMALL BUSINESS SEGMENT

### SERVICE TO THE SEGMENT'S CUSTOMERS

**Financing of small businesses.** In July 2012, the Bank launched four funds for the 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 channels, while two additional channels are being offered to new customers. The total financing per customer offered by the fund, may reach NIS 1 million, including reduced collateral requirements. Operations in this field were enlarged in 2013, and the Bank granted finance of this type to hundreds of small businesses in geographical and sectorial distribution. Small businesses are being offered loans for investment purposes, while those which are new customers, enjoy in addition working capital loans. The Funds provided in 2012 new loans in the amount of NIS 40 million. New loans provided by the Funds in 2013 amounted to NIS 115 million.

**Dealing room.** In February 2012, a commercial dealing room was opened, providing dealing room services (purchase and conversion of foreign currency services and conducting hedge transactions) to customers of the Small Business segment and the Middle Market Banking segment at the Bank. Since its opening, a focused activity is being conducted, to connect certain customers to this dealing room. During 2013, the Bank conducted a focused activity for connecting business customers, both small and medium, to the commercial dealing room.

**Business credit card.** In the middle of 2013, the Bank launched a "business key" credit card. 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.

**Classifying branches as business branches.** With the aim of focusing operations and improving service, six branches were classified at the Bank during 2012-2013, as business branches offering service only to customers of the small and medium business segment and to VIP customers. These branches undergo structural modifications of the premises for service of business 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.

**"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.

**The small business segment at the Mercantile Discount Bank ("MDB").** 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. MDB management believes that most of the customers belonging to such populations receive their services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks. During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.

## PRIVATE BANKING CUSTOMERS

**Central moves.** In 2013, the Bank continued to intensify the activity of the Israeli and international private banking.

**The Israeli private banking field** expanded the disposition in Israel in accordance with the work plan, and during the month of June 2013 opened two new service centers in Tel Aviv and Jerusalem, in addition to the existing service centers in Herzliyah-Pituach and in Haifa. The unit focused on attracting new customers, intensifying the activity with existing customers and continuing the attachment of existing Bank customers, who fall within the private banking customer profile. Concurrently, a reorganization process continued to be conducted in the department, which included the transfer of customers not having a private banking profile, to other service layouts at the Bank.

As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. As part of the service concept, focused meetings were held also in this year with customers of the centers, on general subjects and current events, and cultural meetings with the participation of the Bank's senior Management were conducted.

A marketing Internet website designed for private banking customers was launched in 2013. This website reviews the variety of unique services and products offered to customers of this sector.

**Activity in the international private banking operations** was focused on attracting new customers as well as intensifying operations with existing customers, and in continuation, implementing transfer of customers who do not fall within the private banking profile, to the responsibility of the international banking branches.

As part of a plan for upgrading risk management processes in private banking, a comprehensive project of improving accounts of foreign residents is continued, including the closing of accounts and improvement of documents.

## 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 private banking department, serving foreign resident private banking customers; and the Israeli private banking department, serving Israeli resident private banking 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.

In accordance with the credit policy, the private banking centers do not provide credit to customers required for business purposes. Customers interested in obtaining credit for their business activity are referred to the proper service layouts at the Bank.

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

As an integral part of the business plan, the Bank focuses on the upgrading of the private banking risk management processes. The risk management unit at the customer assets division continued to intensify its operations during 2013 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. At the end of the training sessions, employees undergo knowledge tests.

## SERVICE TO CUSTOMERS

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

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

The segment's activity in Israel, for customers managing their accounts at the Bank branches, is conducted through four private banking centers, offering services: in Herzliyah Pituach and in Haifa - focusing on Israeli customers; and in Tel Aviv and Jerusalem - focusing on foreign resident 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 Israeli private banking provides service to customers six days per week. Office hours at the private banking centers in Herzliyah and Haifa have been extended, and the centers now 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.

## 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 in the large corporation department of the Corporate Division. The teams of business managers are segmented according to the business activity sectors of the companies. Each team serves as the banking address for all the financial needs of the corporate customer.

The customers have at their disposal the services in the Bank's branches, headed by the Tel Aviv main branch. 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.

An extension of the Jerusalem Main Branch was opened at the end of 2012, located within the premises of the Jerusalem Main Branch. Furthermore, an additional extension was opened in Haifa in the middle of 2013.

**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 credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.

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's distinction is in managing accounts of diamond merchants, while specializing in all services unique to this industry.

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

## FOREIGN TRADE OPERATIONS

**General.** The foreign trade department operates within the framework of the Bank's Corporate Division, providing varied services to customers of the various business segments engaged in international trade.

**Activity.** The business activity of the foreign trade department coordinates in each department all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.). The personal and direct relations with the customer are particularly emphasized alongside the current communication of the customer with his business manager at the Bank, with the view of intensifying the activity with customers.

During 2012-2013 the Bank continued expanding its business development activities in accordance with the devised plan, an initiated activity for the identification of potential customers was carried out. Concurrently, activity with existing customers was intensified, while providing customers with a professional and personal service.

**Technological improvements.** The years 2012-2013 were characterized by the success of the marketing efforts in increasing the pool of customers using foreign trade services on the Internet. The Internet system allows customers to make direct payments for imports, to open import documentary credits and to make payments in respect of import documents for collection.

## 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.

## TARGETS AND BUSINESS STRATEGY

**The year 2013.** In the course of 2013 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 foreign operations and reducing the concentration risk (to borrower groups and large borrowers), with the aim of improving the credit portfolio. In addition, measures required to attain the desired portfolio structure and the business targets, were taken. As a result of the above, and in view of the decline in the demand for credit on the part of large corporations in combination with challenges in the Bank's capital adequacy management field, the volume of the credit portfolio to the corporate banking segment has declined.

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" in the 2013 Annual Report (pp. 141-158).



**The year 2014.** In 2014, the Bank operates in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and while minimizing exposure to areas identified as vulnerable. This, whilst allocating risk assets according to risk adjusted return. In addition, the Bank focuses on small and medium size businesses, whilst continuing project financing operations for large corporations.

## CUSTOMERS OF MIDDLE MARKET BANKING SEGMENT

The service to the Bank's customers is provided by six business centers countrywide, covering geographically the six regions operated by the Bank: Tel Aviv, Dan, Sharon, Lowlands, Jerusalem and Southern Region and Northern Region. For additional details regarding service to small and medium businesses, see above "Small businesses segment".

The middle market banking segment enjoys professional banking services. Customers are provided with personal, professional and quality service that relates to all their financial needs by offering customized various banking products in credit, exchange-rate hedging, international trade, settlement through the use of credit cards, financing, specialist capital market investments, etc. Concurrently, solutions are also provided for meeting the financial needs of the owners of companies, and their executives and staff, who thus benefit from arrangements that afford them the status of preferred customers.

The products and services are adapted to the business requirements of customers and also include, alongside the varied credit products foreign trade services, risk hedging by way of financial instruments and investment services in various channels: deposits, securities and the handling of business and private accounts.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists, investment advisors 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 (see above).

For details regarding the dealing room services, see "Customers of the small business segment" above.

## 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 Bank's 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 real estate 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, mostly with respect to holding companies, the principal activity of which centers on the holding of companies in the real estate field.

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.

**Products and services.** The services offered include:

- Credit for residential construction projects and/or income generating properties projects (primarily office and commercial space considerable parts thereof are marketed in advance), including the granting of guarantees under the Sale Act to purchasers of residential units;
- Credit for the finance of acquisition of income generating properties intended for commerce or office premises;
- Credit for current finance and/or investments in Israel;
- Providing credit facilities and performance guarantees to construction companies in all construction sectors;

- The granting of credit for national infrastructure projects, energy and transportation at the construction and operating stages.

## 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 uniform 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 develops and modifies various transactions 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, interest rates and the CPI, interest swap transactions and other derivatives as required by the customer.

**Trading in securities.** The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments.

Following are details regarding the lines of trading operations in securities at the two desks:

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

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 asset management.

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.

Since March 2008, the Bank also provides pension advisory services. For this purpose, the Bank has entered into distribution agreements with most of the entities operating in the pension market, distributing further training funds, provident funds and pension funds managed by them (for further details see above).

## "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 23:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors subscribed to the TeleBank service, including foreign securities. Customers having investments in amounts of between NIS 700 thousand and NIS 4 million, obtain services from nine countrywide investment centers, 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 novel layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.

Alongside the above, the Bank has upgraded the service for all types of mobile telephones. The application installed by Discount is adapted to the Blackberry, Android and iPhone and versions and enables the receipt of information and the execution of capital market operations. In addition, customers can enjoy the "Discount SMS" service, which provides information regarding market indices at the end of trading.

## 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 and Russian languages may be used on the marketing website, and as from 2015, also English;
- 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 and French);
- ATMs provide guidance in Hebrew, Arabic and Russian, and, with 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;

- The Bank is acting towards the adding of the English language at the line management positions;
- Branches with an abundance of foreign resident customers like Nataniyah, Bat-Yam, Ashdod and Herzliyah Pituach, the service is also provided by English, French and Russian speaking bank officers.

## SOCIAL NETWORKS – THE DISCOUNT GROUP

**Official Facebook page of Discount Bank.** The Bank opened its official facebook page at the end of 2010. At the end of 2013, there were 59,790 members of the Bank's facebook page. 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.** A new channel was launched at the beginning of 2013, in the Bank's activity on the Twitter social network - under the name "Discount Invest". In the Twitter account - "Discount Invest", the Bank publishes information regarding market data (in Israel and abroad), economic and capital market reviews by experts on behalf of the Bank and other practical information for the benefit of customers (lectures and conventions regarding capital market issues, reference to articles in the economic press, etc.).

## 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 ages.

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.

**Lectures and seminars.** The Bank conducts lectures and seminars at branches and at the Herzlililnblum Museum in a variety of activities both of family economics and the capital market as well as in financial subjects for young persons. Since the beginning of this activity in 2012 and until the middle of 2014, 73 Bank branches participated in over 220 activities.

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

<b>Enrichment lectures</b>	
<b>Budget management</b> Correct financial conduct in an economically challenging period	An experiential lecture, presenting an image of the individual's financial conduct and the way to improve it: <ul style="list-style-type: none"> <li>- "It'll be OK" – regarding our economic management culture;</li> <li>- The breaking of myths – "all inclusive vacation";</li> <li>- Overdraft, loans and credit, management of the monthly budget – eradicate the deficit;</li> <li>- Duality and money, children and money, retirement age and money.</li> </ul>
<b>Capital market</b> 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.
<b>Psycho-finance</b> You and your financial matters	The relation between making economic decisions and investments in the stock exchange, and the personal psychological characteristics.
<b>Real estate investments, risk or chance</b>	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.
<b>Workshops</b>	
<b>Capital market workshop</b> Micro and macro, their relation to private investments and savings	<b>3 meetings, 2 subjects per meeting</b> <b>Meeting 1</b> – Macroeconomics + Bonds; <b>Meeting 2</b> – Mutual funds + ETN's; <b>Meeting 3</b> – 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	<ul style="list-style-type: none"> <li>- Family economics;</li> <li>- Pension;</li> <li>- Capital market.</li> </ul>
<b>Seniors field – financial education</b>	<ul style="list-style-type: none"> <li>- Israeli economy;</li> <li>- Psycho-finances;</li> <li>- Analytical reading of the financial press.</li> </ul>

The Group has started developing a similar activity in the Arab sector through the branches of Mercantile Discount Bank. The activity concerning family economics in the Arab sector was launched in 2012. Two large conventions were held in each of the years 2012 and 2013, with hundreds of participants.



**Printed media.** The Bank has published three booklets - the tips booklet - providing tips regarding family economics and sensible financial conduct; a booklet for young persons - on the subject of savings and sensible consumption; a booklet for children - on the subject of money. The booklets are distributed at the various activities of the Bank.

**Internet media.** The Bank has posted designated contents to its Internet website, under the tab "Financial education", which includes varied financial subjects: family economics, sensible consumption, how to get out of an overdraft, mortgage, financial consulting, financial education for youth, financial education for children, the capital market, etc.

**Additional activities.** A representative of the Bank participates in various forums that deal with financial education, both at the Knesset and at initiatives led by the Israeli Ministry of Finance and the Israeli Ministry of Education.

## ACCESSIBILITY

### ACCESSIBILITY MODIFICATIONS - EQUAL RIGHTS FOR PERSONS WITH DISABILITIES LAW

**General.** The Bank attaches considerable importance to making its facilities and services accessible to persons with disabilities, while complying with the provisions of the Equal Rights for Handicapped Persons Act and the Regulations under it.

The Bank is required to make accessibility modifications in accordance with the regulations that deal with accessibility modifications for buildings, infrastructure and environment (which came into effect in June 2012) and the regulations that deal with accessibility modifications to services (which came into effect in October 2013).

The accessibility modifications include, inter alia, accessibility modifications to means of physical access, overcoming height differences, the existence of bathrooms and parking for handicapped, interior design, service desks, automated devices placed at the service of the Bank's customers, the information given to the Bank's customers, the call center and the Internet website.

The Bank in making preparations to comply with the requirements of the regulations, as detailed below.

In accordance with the law, it is required until June 22, 2014 to complete accessibility to 20% of the properties in the matter of building, infrastructure and the environment, and to 15% in the matter of service.

**Preparations by the Bank.** In accordance with this Act, the Bank has appointed an "accessibility coordinator", whose duties are to lead and coordinate the accessibility activity at the Bank and serve as an address for any inquiry in the matter. As part of the preparations, the Bank has launched the DA (Discount Accessible) project, the substance of which is to make the required accessibility modifications in accordance with the new regulation, both as regards modifications required to buildings, infrastructure and the environment and as regards service accessibility modification aspects. Within the framework of this project, a multi-annual work plan has been established for the completion of accessibility modifications. A supreme steering committee has been formed, headed by two members of the Management, which duties are to manage and supervise the progress of implementation of the provisions of the Act.

In July 2013, the Bank entered into an agreement with an association that specializes in accessibility for persons with disabilities, which has professional personnel who are accompanying the Bank and advising it in making the necessary accessibility modifications, including defining what is required in order to rectify the accessibility shortcomings in all the relevant services and facilities.

**Modification of service accessibility.** All services requiring accessibility modifications have been mapped (such as: call center, Internet website, forms, self-service automatic machines, service and waiting stations, signposts, etc.) and for each subject requirements were defined in order to comply with the regulatory guidelines.

Until June 22, 2014, accessibility to service in 15% of the Bank's properties in accordance with the law was completed. Furthermore, procedures and guidelines were published with respect to making service accessible to handicapped persons: providing service with no waiting in line, assistance in reading documents, allowing the assistance of an escort, and more.

In addition, employee instruction has begun for the integration of the accessibility subject among Bank employees in general and among the providers of service in particular.

**Modification of the accessibility of BIE (buildings, infrastructure and environment).** A multi-annual plan has been devised regarding accessibility of all assets of the Bank. With the assistance of accessibility consultants, a comprehensive survey has been conducted at all the Bank's properties for the purpose of gap mapping and defining performance capacity, so as to make them accessible for persons with disabilities, in accordance with the accessibility regulations.

Each new branch or a renovated branch is made accessible in accordance with the accessibility regulations, including: ramps, lifts, washrooms for invalids, service and waiting stations, adjustment of the height of ATMs and Information Desks.

Until June 22, 2014, accessibility of buildings, infrastructure and the environment in accordance with the law, to 20% of the Bank's properties was completed. The Bank is presently preparing to establish accessibility in accordance with the law to an additional 20% of the properties.

## **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.

An infrastructure of procedures exists at the Bank, designed to enforce compliance with the various requirements of the consumer regulatory provisions. The procedures are updated from time to time in accordance with the regulatory directives and in accordance with the various activities performed by the Bank. Concurrently the systems supporting compliance with

the said regulatory provisions within various activities are being updated. In addition, in order to increase awareness to the importance of compliance, the Bank conducts study sessions on the subjects of compliance among the staff, including managers in general, and of compliance with the consumer instructions relevant to the work environment of specialized groups of employees in particular.

Compliance with the provisions of the consumer regulations are enforced on a regular basis by means of various control and supervision systems - the compliance officer, compliance trustees and internal audit.

According to Proper Conduct of Banking Business Directive No. 308, the Compliance Officer is responsible for coordinating the Bank's actions regarding compliance with consumer regulations. The compliance officer monitors the Bank's preparations for the implementation of the duties imposed on it under the consumer regulations, involved in an active manner in the preparations for a new activity at the Bank, for the purpose of verifying compliance of the Bank with the said duties relevant to the Bank's new activity, and monitors the rectification of various deficiencies in complying with the consumer instructions. The 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.

## COMMUNICATION WITH CUSTOMERS – IMPROVEMENT OF SERVICE

The service concept of Discount Bank sees in the customer an individual who provides the Bank and its employees significance, work and a living. The Bank aspires to create for its customers a personal service experience, causing them to continue and elect it as their bank.

The training move continued in 2012 for the integration of the service concept in the Banking Division which started in 2011. Integration was combined into various projects, such as management by segments and referring calls to the Telebank. Concurrently, the move was completed with respect to private banking in Israel, for the integration of the service concept of the segment among all employees of the department.

In 2013, the service field was transferred to the Banking Division, considering its strategic importance to the organization and the aspiration of bestowing an overall view of the service concept both to the line divisions and the head office units.

**Measurement of the customer's experience.** Measurement of the customer's multi-channel experience continued also in 2012-2013 at the branches and investment centers. In addition, the response standard through direct banking has been updated, both in respect of the customer addressing the Bank by telephone and in returning a call to the customer who had contacted the Bank branches.

A process of training, integration and constant measurement is conducted at the Bank with respect to the service field.

The service controls carried out in the Bank create an integrative picture of the level of service and improvement of the service over time. The measurement processes are carried out at the Branch level, the district level and the Bank level. The measurement itself is performed through outside specialist companies, which use the accepted professional tools.

## 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 or via the Internet. 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 survey	48 hours	All sectors	A daily survey on a permanent basis approaching customers who have had a direct service event
	Initiative	All sectors	Approach to customers who have undergone initiated service for clarification of their satisfaction
Designated surveys	Satisfaction	Small businesses at the branch	
	Satisfaction	Private banking	
	Visiting experience at the branch	Visitors of the branch	Focus groups
	Satisfaction	Students	
	Investment centers	Customers of investment centers	
	Service experience	All customers	Bank customers service experience survey
	Securities website	Customers using the securities website	
	Customers leaving the Bank	Customers who have left the Bank	
	Satisfaction	Young customers	
	Satisfaction	Business center customers	
	Business+ website	Customers using the Business+ website	
Discount website @Internet	Customers using the Internet website		

## 48-HOUR 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 within 48 hours 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 13,000 measurements were made in 2013. The overall mark of the 48 hours survey in 2013 was 79%, compared with 13,000 measurements in 2012 with an overall mark of 76%.

In 2013, it was decided to base the service index marking on the question of "the level of satisfaction from the last visit". Additional parameters are also measured, 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.

**SMS surveys.** In addition to service surveys conducted by telephone, in May 2014 the Bank began measurement by SMS messages sent to customers who transacted business at the Bank during the 48 hours preceding the sending of the message. One SMS question is sent to the customer asking him to grade in reply the level of service he had received at the branch. The marks awarded through the SMS messages are being weighted in the service index of the branch.

## MAINTAINING CUSTOMER SATISFACTION

The Bank applies several practices in order to maintain customer satisfaction:

- 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;
- 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;

- 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.

## 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 Discount 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.

## 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 in-charge of customer inquiries in the Bank coordinates the handling of complaints and customer inquiries through two main units: the customer inquiries center and the public inquiries department.

The said units dealt in 2013 with 6,974 complaints and inquiries, compared with 6,795 complaints and inquiries in 2012.

Most of the complaints referred to matters of credit (14% of the complaints in 2013, as compared with 18% in 2012), current account services (16% in 2013, similar to 2012), service and treatment (14% in 2013, similar to 2012), self-service banking (9% in 2013, as compared to 12% in 2012) and commissions (7% in 2013, as compared to 8% in 2012).

## CUSTOMER INQUIRIES CENTER

The customer inquiries center ("CIC") serves as the address for customers who did not find a response to their inquiry from others in the Bank.

Among the center's functions:

- To serve as another communication channel for customer inquiries in the Bank on various banking matters and on matters of treatment and service;
- Assisting all bank officials in the daily dealings with customer inquiries, while coordinating among the different parties in the system;
- Coordinating information on complaints from all the Bank's units, processing it and distributing it to all the managerial levels for the purpose of learning lessons;
- Viewing system problems in real time;
- Integrating a uniform approach to dealing with customer inquiries in all of the Bank's units.

In 2013, CIC dealt with 4,765 inquiries, compared with 4,818 in 2012.

## CUSTOMER INQUIRIES DEPARTMENT

The customer inquiries department examines complaints sent for the Bank's response by the public inquiries center of the Supervisor of Banks or those received in the CEO's office and in internal audits, complex complaints submitted through the CIC, as well as complaints regarding mortgages (following the merger of the Bank with DMB).

The department deals with very complex complaints, mainly those involving the amount of a customer's financial charges (claims regarding overcharged interest, erroneous transaction, disappearance of monies deposited in "no-wait" boxes, etc.), or the manner in which customer's monies are invested.

In 2013, the department received 1,406 complaints, compared with 1,247 complaints in 2012. In addition, the department dealt with 784 inquiries from branches and other internal parties, to clarify various matters related to customer complaints, compared with 730 inquiries in 2012.

Out of the complaints received, the servicing of 1,425 complaints was completed in 2013, compared with 1,402 in 2012. The percentage of complaints found to be justified, out of the complaints for which servicing was completed, reached 31% in 2013, compared with 28% in 2012.

## CONFIDENTIALITY AND PRIVACY

The Bank stringently adopts an array of actions and measures for retaining customer data in data bases, in order to protect them from impairment of their availability, 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, to the extent possible, 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.

Regarding violation of privacy, 12 complaints were received in 2013, of which 2 were found justified, with conclusions drawn accordingly to prevent recurrence of such cases. Seven complaints were received in 2012, and were not found justified.

In the years 2011 and 2012, no complaints were received in the matter of loss of customer data.

## 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 2013, the Department addressed 5,067 complaints and written inquiries of customers of all the banks and credit card companies, compared with 6,095 complaints and written inquiries in 2012. Of the complaints addressed during 2013, a position was taken ("not justified", "justified") in 1,131 complaints, constituting 73% of all the complaints addressed, compared with 898 complaints in 2012 (71.7%).

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 15.1% in 2013, compared with 20% in 2012. This average percentage in the entire banking system amounted to 21.1% in 2013, compared with 21.4% in 2012.

**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 2012, some 53 cases of unjustified claims were received (out of 237 unjustified claims - 22.4%) in which ex gratia compensation was given, in a total amount of NIS 296 thousand. In 2013, some 71 cases of unjustified claims were received (out of 253 unjustified claims - 25.4%) in which ex gratia compensation was given, in a total amount of NIS 65 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 2013, the Bank improved its results in all parameters used by the Bank of Israel to classify the handling by banks of complaints. The Bank was placed first among the large five banks in the number of justified complaints and in the quality of treatment by the complaints handling unit, and was graded "Good" in the overall rating of complaint handling.

In 2013, Discount Bank received the grade of 99.3% for the quality of its dealing with complaints, compared with 97.4% in 2012. The average grade of the five largest banks stood at 98.7% in 2013, compared with 97.8% in 2012.

## PREPARATIONS FOR IMPROVING SERVICE AND REDUCING COMPLAINTS

In recent years, the unit in charge of the public's complaints 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, in a discussion on matters that are prescribed by the Service and Sales Department;
- 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.

## APPENDIX: SUPPLIERS

Expenditure on purchases from suppliers and service providers is relatively low at the Bank. Payroll expenses constituted 64% and 62.5% of the Bank's total operating and other expenses in 2012-2013, 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 part of the purchase considerations, in the case of products having similar price and quality levels, the Bank gives preference to local purchases.

Moreover, from time to time, the Bank makes acquisitions from companies or associations that employ staff with disabilities. The scope of purchases that fall into this category is not material.

Within the context of its purchases, the Bank also acquires labor services.

**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 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 Bank is preparing in accordance with the requirements of the provisions of the law.

Within the framework of the preparations made by the Bank as a consumer of services, the following steps, among other things, have been taken prior to the Act taking effect: changes in agreements and engagements with suppliers of services, delivery of messages to outsourced employees, appointment of officers responsible for this matter, including the appointment of an external auditor for the examination of relations between suppliers of contract work and their employees. In 2013 the Bank intensified the supervision over all the relevant 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.

**Complaints regarding discrimination.** No complaints regarding discrimination were raised in the years 2012-2013 on the part of suppliers, with the exception of one case in 2013, where an argument regarding discrimination was raised on commercial grounds, within the framework of a suppliers tender regarding a certain matter. Internal control has examined the complaint and found it baseless.



# The Discounters

## 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 network, 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 crisis.

### 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. Despite and notwithstanding the aforesaid, in recent years, Discount Bank has adopted "reverse discrimination" toward immigrants from Ethiopia. Facts indicate that this population segment is unsuccessful in integrating in the work force, as was expected. The Bank has initiated the placement of new immigrants from Ethiopia in the Bank.

The employment of special-needs workers has also become standard practice. Additional details on this subject are presented in Chapter 5 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 special-needs personnel and girls in distress", in Chapter 5 below).

## NON-DISCRIMINATION TOWARD EMPLOYEES

The Bank's management has placed emphasis on preventing discrimination, and this principle is also implemented when new employees are hired.

**Complaints regarding discrimination.** As stated, the Bank denies discrimination of any kind. No complaints regarding discrimination were received during the years 2012-2013. 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. Furthermore, compromise agreements had been reached without the Bank admitting any discrimination claim and no determination that discrimination had in fact existed. This fact is reflected also, in most cases, in the small amounts paid in relation to the amounts claimed.

Four claims were served in 2012, containing charges of discrimination: one in respect of parenthood (still under court proceedings), two in respect of age (settled in a compromise) and one in respect of religion/nation (settled in a compromise). Two claims were served 2013, containing charges of discrimination, both in respect of age (one was settled in a compromise and one is still under court proceedings).



Whereas the claims against the Bank were found groundless, no further treatment has been required except as part of the conduct of the legal proceedings. 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").

## 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.

**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. A Retirees' Committee also exists, under which retirees of the Bank are organized.

**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. 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 2013, the Bank had 7,194 employees. This figure includes all of the Bank's employees, as well as those employed in the Bank through outsourcing. Of the above, 4,760 are tenured employees, engaged under collective agreements and constituting 66.2% of total employees. If we deduct the number of outsourced employees, the number of employees stands at 6,576 and the number of those covered by the collective agreements reaches 72.4%.

**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.** The Union of Clerks, Administrative Public Service Employees ("the UCAPSE") informed the Bank on April 25, 2013, of a labor dispute at Discount Bank. The main issues of the dispute relates to employee salary. The labor dispute was concluded on March 28, 2014, with the signature of two collective agreements in the matters of a selective salary addition, the recording of attendance at work and overtime compensation (see hereunder).

## NEW COLLECTIVE LABOR AGREEMENTS

### AGREEMENTS SIGNED IN 2011

Seven new collective labor agreements were signed in 2011, including:

- **A wage and selective supplement agreement for the years 2011-2012**, according to which all regular employees will receive an advance payment of an average of 6.5%, starting with January 2012. It was determined that a discussion regarding the completion of the wage supplement will be held following the publication of the Bank's financial statements for the year 2012. Furthermore, a supplemental payment was determined for employees of the clerical level in respect of the year 2009, at the rate of 0.75%, with effect from January 1, 2011. The maintenance, until April 1, 2013, of industrial peace on the subject of wages was also agreed upon.
- **An agreement regarding the updating of grades and stages and the determination of maximum wage** for new employees enrolled or employees granted the status of regular employees, beginning January 1, 2012, for the clerical and managerial levels, including a change of part of the employment terms of existing employees of the "regular" status (including the cancellation of certain components, such as jubilee award, tuition fees for children of employees, refund of health insurance payments, etc.).
- **Agreement in the matter of the application of a pension arrangement** to new employees, as defined herein, which include temporary staff being employed by the Bank at date of signature of this agreement, as well as to permanent employees and employees during their trial period who choose this arrangement of their own free will.
- **Extension of the validity of the labor charter until December 31, 2016.** The agreement has also determined the shortening of the process for settling disputes between the parties to the labor charter, and if not settled by the parties, submission of the dispute to an agreed arbitrator. The agreement further states that as from January 1, 2012, the employment period for employees of a "temporary" status shall be shortened to two years, and the trial period for employees of a "regular" status shall be shortened to one year, with an option for extension for an additional year subject to consent of the employees' representative committee.

- **Agreement regarding the employment of tellers and direct banking employees** enrolled as from January 1, 2012, for a period of up to five years, in accordance with employment terms stated in the agreement.
- **An agreement regarding temporary computer employees** that allowed the increase of the quota for employees engaged as temporary computer employees from 350 to 750.

## AGREEMENTS SIGNED IN 2012

An additional collective labor agreement was signed on February 15, 2012, according to which, the tellers agreement (see above) shall apply also to staff of the same position employed in the various "concept" branches.

A collective labor agreement was signed on July 17, 2012, with respect to the absorption and placement of twenty-three employees of the former Discount Mortgage Bank, who belonged to the managerial echelon of that bank. According to the agreement, the said employees have been employed by the Bank according to personal employment agreements.

**An agreement with respect to the transfer of the permanent staff of DMB to the Bank.** An agreement was signed on May 3, 2012, between the Bank, DMB, and the DMB's employee committee and the New Federation of Labor. The agreement states that following the merger, the permanent employees of DMB would be absorbed at the Bank as tenured employees. The Bank's Management is to offer beneficial retirement terms to tenured employees preferring not to be transferred to the Bank. Furthermore, the agreement states that employment of temporary staff of DMB will terminate upon the merger, though a small number of such employees will be absorbed at the Bank as temporary staff.

The agreement prescribes, inter alia, that the basic salary (as defined in the agreement) of a permanent employee of DMB, who is transferred to the Bank, will be adjusted to the salary table of a Bank employee (as defined in the agreement), subject to the terms specified in the agreement.

### AGREEMENTS SIGNED IN 2013

The following agreements were signed in 2013:

- An agreement was signed on September 3, 2013, concerning the extension of engagement of employees within the framework of the project for the support of the community, which extended the temporary period of employment of employees having special needs, engaged by the Bank as part of the project, and whose period of employment was to be terminated in the years 2013 and 2014, by 3 additional years.
- An agreement was signed on September 12, 2013, concerning the extension of the temporary period of employment of temporary employees engaged by the Bank as from January 2012 and thereafter, from 24 months to 36 months (the agreement is valid for five years).

### AGREEMENTS SIGNED IN 2014

The following agreements were signed in 2014:

- A collective labor agreement was signed on March 28, 2014, regarding a selective increase in salaries according to which an average wage increase at an overall rate of 4.5% had been agreed upon, composed of a supplement to the selective advance for the years 2011 and 2012 at the rate of 0.25%, a selective wage increase for 2013 at the rate of 3.25%, as well as a selective advance for the year 2014 at the rate of 1%. It has been further stipulated in the agreement that the wage negotiations in respect of 2014 shall begin on April 1, 2015 and until then, industrial peace is to be maintained at the Bank in the matter of the selective wage addition for 2014.
- A collective labor agreement was signed on March 28, 2014, regarding the matter of recording attendance and overtime compensation, intended to 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. The agreement will take effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) following a pilot project of five months which began on May 1, 2014, to be conducted at several units of the Bank having different types of operations. The pilot project will test the implementation in practice of the agreement and will settle all matters that would require attention as a result thereof. The date fixed for the full application of the agreement is January 1, 2015.

## EMPLOYMENT TERMS AND REMUNERATION

### PRINCIPAL CATEGORIES FOR TERMS OF EMPLOYMENT<sup>9</sup>

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 grading and stages, changed certain of the employment terms of new employees engaged as regular employees as from January 1, 2012.

On December 31, 2013, there were 4,408 tenured employees in the Bank (December 31, 2012: 4,325 tenured employees). The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period.

**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). Temporary employment may be terminated at any time, at the discretion of management. On December 31, 2013, there were 1,685 temporary employees in the Bank (December 31, 2012: 1,733 temporary employees), of which, 411 employees engaged by the Bank (December 31, 2012: 441 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.

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<sup>9</sup> The data in this Chapter does not include employees on unpaid leave and on maternity leave.

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) 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 contracts.** Prior to their engagement with the Bank, employees hired under personal employment contracts 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, 2013, some 93 personnel were actually employed (including members of management) under personal employment agreements (December 31, 2012: 102 employees engaged under personal employment agreements).

In addition, the Bank acquires services of manpower company employees and software houses. As of December 31, 2013, some 8 manpower company personnel were employed by the Bank (as of December 31, 2012: 38 manpower company personnel).

As of December 31, 2013, some 283 software house personnel were employed in the Bank. These employees are engaged mainly in software development tasks (as of December 31, 2012: 391 software house personnel).

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

Employees	Tenured employees, personal contracts and members of management <sup>(1)</sup>	Total temporary employees <sup>(1)</sup>	Manpower company employees	Software house <sup>(2)</sup>	Total
December 2011	4,853	1,722	6	613	7,194
December 2012	4,427	1,733	38	391	6,589
December 2013	4,501	1,685	8	283	6,477
Difference (December 2013 vs. December 2012)	74	(48)	(30)	(108)	(112)
Difference (December 2012 vs. December 2011)	(426)	11	32	(222)	(605)
<b>Positions</b>					
December 2011	4,918	1,676	2	560	7,156
December 2012	4,470	1,789	26	368	6,653
December 2013	4,533	1,734	5	284	6,556
Difference (December 2013 vs. December 2012)	63	(55)	(21)	(84)	(97)
Difference (December 2012 vs. December 2011)	(448)	113	24	(192)	(503)

Notes:

- (1) Including the positions of Bank employees the cost of which has been capitalized to fixed assets: 2013 – 226 positions, 2012 – 256 positions, 2011 – 370 positions.  
 (2) Including the positions of software house employees of which has been capitalized to fixed assets: 2013 – 175 positions, 2012 – 243 positions, 2011 – 463 positions.

## EMPLOYEE REMUNERATION

The principal salary components 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. There is also a supplemental payment of 4%, pursuant to the collective agreement from January 2006, which is paid to employees eligible for split working pay. According to a wage agreement dated March 28, 2014, the additional pay to employees working split hours has been increased to a rate of 6% for clerk grade employees and to a rate of 5% to the managerial staff, with effect from the beginning of 2014. Part of the employee's remuneration is linked to the CPI. 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. It should be noted that, at this point, the Bank does not have a computerized system for measuring the actual number of hours actually worked by employees ("time clock"), except in respect of part of the temporary employees. 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 calculated according to the employee's base salary, global overtime payment, 1/12 of the employee's 13th month salary and other additional benefits.

Bank employees are also entitled to certain benefits after their retirement, similar to those to which tenured employees are entitled.

The Bank is preparing for 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 take effect 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 agreement 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, concerning new employees - employees engaged as from June 2, 2011 - and existing employees, who chose this alternative, 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.

## EMPLOYEE TERMINATION BENEFITS

The Bank's liabilities for severance pay to employees, as required by the Severance Pay Law, is covered in full by deposits in severance pay funds and by insurance policies.

## 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 is NIS 24.27 NIS to NIS 30 per hour. The minimum wage in Israel (as of December 2013) was NIS 23.12, therefore, the starting wage at the Bank is 4.97%-29.76% 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-off salary of a teller 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.

### **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 (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.

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.

As of December 31, 2013, the staff of the managerial grade numbered 1,346 (December 31, 2012: 1,337 employees).

### **OFFICERS AND MEMBERS OF THE MANAGEMENT GROUP AT THE BANK**

Members of this group of employees must serve prior notice earlier than the period set by the law, and to a defined period of limitation on occupation (between two to twelve months), in respect of which they are entitled to an acclimation grant (4-8 monthly salaries).

For details regarding remuneration of Officers and members of Management, see Chapter 2 above.

It should be noted that an examination made prior to the approval of the remuneration plan for Officers of the Bank, shows that in accordance with this policy, the cost of average remuneration of officers who are employees of the Bank, based on the results of the Bank for the years 2011 and 2012, is 8.55 and 6.15 times higher, respectively, than the average cost, and 8.81 and 6.47 times higher, respectively, than the mean cost of remuneration paid to all other employees of the Bank and to outsourcing employees.<sup>10</sup> The said ratio does not include awards to members of Management and to employees, which might change the ratios between all terms of office and employment.

### AWARDS TO EMPLOYEES AND MANAGERS OF THE BANK IN 2011-2013

**Employee award (2011).** On April 29, 2012, the Bank's Board of Directors approved, in respect of the financial results for 2011, an award to the Bank's employees, employed in 2011 and employed at date of the decision in the amount of an average one basic monthly salary.

**Employee award (2012).** No awards have been paid to employees in respect of the year 2012.

**Employee award (2013).** In accordance with the business results for 2013, the Bank has decided to grant to its employees an award of an average amount of one and one third monthly salary. The financial statements as of December 31, 2013, included an adequate provision in respect of the said award in accordance with Management's estimations.

**Annual award for 2011.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2011, in a total amount of NIS 4.1 million. In accordance with the terms of the plan, an amount of NIS 2.5 million out of the above award sum was in April 2012, and the balance was divided into two deferred amounts the payment of which is subject to the fulfillment of threshold conditions in respect of the years 2012 and 2013, respectively. The entitlement to the deferred payments, became effective in the years 2012-2013, in view of compliance with the determined threshold terms.

The Chairman of the Board and the former President & CEO were entitled to an

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<sup>10</sup> For details regarding the computation mode, see the immediate report dated January 7, 2014 - item 10.1 in Appendix A to the report.

annual award in respect of the year 2011, in total amounts of NIS 1,629 million and NIS 1,889 million, respectively. In accordance with the terms of the plan, amounts of NIS 977 million and NIS 1,133 million, respectively, out of the above award sums was paid in 2012, and the balance was divided respectively, into two deferred amounts the payment of which is made in accordance with the "payment spread" mechanism, and is subject to a "negative award" mechanism. The Chairman of the Board, the President & CEO, members of the Bank's Management and the Internal Auditors have all waived entitlement to the annual award in respect of the year 2012 (see Chapter 2 above).

**Annual award for 2013.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2013, in a total amount of NIS 5.2 million. In accordance with the terms of the plan, an amount of NIS 3.1 million out of the above award sum was paid in April 2014, and the balance was divided into two deferred amounts the payment of which will be subject to the fulfillment of threshold conditions in respect of the years 2014 and 2015, respectively. The said amount is net of a deduction of 20% of the annual award and the denial of the discretionary award. The Chairman of the Board and the former President & CEO are entitled to an annual award in respect of the year 2013, in total amounts of approx. NIS 2,160 thousand and NIS 2,888 thousand, respectively (the Board of Directors and the Remuneration Committee have reduced the award to the Chairman of the Board from an amount of NIS 2,552 thousand to NIS 2,160 thousand). The payment to the former President & CEO was made in accordance with instructions determined in the plan regarding the termination of his employment agreement. In June 2014, the Chairman of the Board announced the waiver of the award to which he was entitled in respect of the year 2013, in a total amount of NIS 2.16 million.

## REMUNERATION POLICY

The corporate governance code for the Discount Group determines, among other things, that the Board shall prescribe 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.

It was further determined that the remuneration policy will ensure that changes in the business position of the Bank shall be expressed in the

remuneration terms and will include incentives that will reflect the economic goals of the Bank in the areas of risk management and compliance to laws, regulatory directives and procedures of the Bank.

**Amendment No. 20 to the Companies Act.** On December 12, 2012, the Companies Act (Amendment No. 20) Bill, 2012 (the "Amendment") in the matter of the terms of office and employment at public bonds companies, entered into effect. The Amendment imposes the duty on public companies of adopting a policy with respect to the terms of office and engagement of company officers within nine months since date of the Act entering into effect, which, among other things, would relate to considerations and criteria detailed in the Amendment. Within the framework of such considerations, a company should relate, among other things, to the objects of the company, attainments of goals, risk management, the officer's contribution to profits maximalization, the qualifications of the officer, remuneration differentials between officers and other employees and their effect on labor relations in the company, as well as the possibility of determining a ceiling for variable components. In addition, instructions have been determined in respect of considerations to be taken into account in determining retirement awards, as well as instructions regarding variable components comprising a part of the remuneration.

The Bank is preparing for the implementation of the requirements applying to it under the Amendment, and in this framework, the Board of Directors has approved a remuneration policy with respect to officers of the Bank, as detailed hereunder. It should be noted that the remuneration policy does not materially differ from the present remuneration terms of the Bank officers, as described above.

**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 an 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 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.

For additional details, see Note 16 K to the 2013 Annual Report (pp. 445-446).

**Proper Conduct of Banking Business Directive No. A301 in the matter of the remuneration policy of a banking corporation.** The Supervisor of Banks issued on November 19, 2013, a new Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation. The issue of the Directive is in line with the growing trend of supervisory authorities around the world, following the global financial crisis, and which stems from the acknowledgement that the subject of remuneration is an integral part of proper corporate governance of financial institutions, and that it must be ensured that remuneration does not encourage acceptance of exceptional risks that might endanger stability of banks and the financial system as a whole.

The Directive is intended to fortify corporate governance and control and documentation mechanisms in relation to the remuneration policy and ensure that remuneration arrangements are consistent with risk management framework and the long-term goals of the banking corporation.

Special emphasis is given in the Directive to the variable component of the remuneration:

- The Remuneration Committee of the Board shall have to determine in advance the adequate ratio of the variable remuneration and the fixed remuneration in respect of different groups of employees;
- The maximum variable remuneration shall not exceed 100% of the fixed remuneration, excluding exceptional cases;
- It is required to defer the payment of at least 50% of the variable component of the remuneration in respect of key employees over a period of not less than three years;
- It is stated that the granting of variable remuneration, which is not performance based, should be avoided, other than in exceptional cases.

The instruction states that, no later than June 30, 2014, banks have to approve a remuneration plan complying with the requirements of the instruction, and which would apply to all employees of the banking corporation and to all classes of remuneration.

It has been further determined that the provisions of the Directive shall apply to an individual remuneration agreement, including an extension or change of an existing remuneration agreement, as well as to a remuneration agreement that has been approved since the date of publication of the draft Directive (June 3, 2013). As regards an agreement that had been approved prior to June 3, 2013, it has been determined that it 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.

The instruction states that, no later than June 30, 2014, banks have to approve a remuneration plan complying with the requirements of the instruction, and which would apply to all employees of the banking corporation and to all classes of remuneration. In June 2014, the remuneration policy for all Bank employees, including key employees, was approved, as well as principles for the Group's remuneration policy.

In his letter dated March 18, 2014, the Supervisor of Banks deferred the date of implementing the requirement to approve a remuneration policy applying to the subsidiary companies in Israel, until September 30, 2014.



## 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.

The agreement shall remain valid until December 31, 2014, and will be renewed automatically each time for an additional period of three years, unless any of the parties will give notice to the other parties two month prior to the end of the period, of his wish to terminate or change the agreement.

Among other things, the agreement provides for an increase in salary for the year 2011, in accordance with the salary of the employee and with his relative period of employment, as well as for a selective annual increase in salary at an average rate of 3.5% for each of the years 2012, 2013 and 2014.

**MDB.** Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor charter" - 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. The present agreement was renewed on December 31, 2011 and remained in effect until the end of 2013.

On July 8, 2014, labor agreements were signed according to which, among other thing: the validity of the previous agreement was extended for a further two-year period, through December 31, 2015. At the end of that period, the validity of the agreement will automatically be extended for a further two years,

unless an advance notice is given by one of the parties, within a period of time of at least 60 days prior to the date of expiry of the agreement, as to the detailed suggestions for its amendment.

## PROMOTING THE EMPLOYMENT OF ULTRA ORTHODOX JEWISH WOMEN

### ICC

ICC operates a customer service call center in Modiin Illit, which employs approx. 170 ultra orthodox Jewish women and constitutes an integral part of the Private Customers Department. This service call center is suited to the needs of ultra orthodox Jewish women who live in the region. The call center was examined and is meeting business targets and measures, and combines in an integrative manner between the business needs of the organization and the customers and the personal needs of the center's female employees.

### THE BANK

**Examination Center of the Technologies Division.** As part of its employment policy, the Bank decided to embark on a pilot in the Nearshore model, within the framework of which female testers from the ultra-orthodox population segment and Tech Careers graduates - Ethiopian immigrants (see Chapter 5 below) will be placed to work.

One of the software companies was selected in a tender to lead the project, which involved recruiting female candidates from these population segments and training them.

It is important to note that most of the candidates had no background and employment experience. As such, the candidates went through a preparatory meeting, in which the do/don't do rules of interviews and of working together were discussed.

At the end of the course, the candidates were tested by a professional team from the Bank. Candidates who passed the professional exam were sent to an interview by the Bank's Human Resources.

Due to the special needs of the female employees from these population segments, an appropriate working complex was set up in the vicinity, and solutions were provided for infrastructure issues in the existing working environment.

The female employees commenced their employment with the Bank at the beginning of 2013. Some 12 female employees from the ultra-orthodox segment of the population are taking place in the project.

**Acceptance of employees at Telebank.** The Bank began in 2013 a project attracting female workers from the ultra-orthodox sector for Telebank work. Following identification and screening, suitable candidates has started training as a team. At the same time, the Bank made preparation for their integration both at the physical work environment level and by creating morning shifts (from 07:00 to 15:00) without having to work on the eve of holidays and on mid-holidays. As these workers reside in relatively distant areas (Kiryat Gat, Beit Shemesh and Bnei Brak), special transportation has been arranged for them.

A group of nine workers started work in August 2013, with additional six workers in October 2013. Additional training was provided for them as a group upon engagement, and all of them were integrated into work as a separate team.

## 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 state his arguments against the dismissal, and after the Bank has seriously considered each such case on its own merits.

## RETIREMENT OF EMPLOYEES

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.

**Retirement Plan 2011.** The program was put into operation at the end of October 2011, and terminated in March 2012. Within the framework of the plan, the retirees had the right to choose between receipt of a capital amount at date of retirement or of a monthly pension payment. For details regarding the monthly pension track, see Note 16G to the 2013 Annual Report (p. 441).

The employee retirement award has been computed as an additional percentage payable to them, in addition to the regular percentage of severance pay due to employees who were sixty-one years of age or under at date of retirement. For employees who were sixty-one years of age or over at date of retirement, the additional award has been determined as a percentage of the number of months remaining until the formal retirement age.

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.

Within the framework of the retirement plan 2011, 360 employees retired in the period to December 31, 2012 (four of which retired in 2011).

Following are details regarding the number of employees who retired from the Bank in the years 2011-2013:

The year	The total number of retired employees (including early retirement)	The number of employees who has elected early retirement
2013	94	8
2012	429	356
2011	59	5

The said Table reflects retirement data for the bank alone. For details regarding the scope of retirement among employees of DMB, see hereunder.

For details regarding employee rights in respect of severance pay, retirement benefits and pension payments, see Note 16 "Employee benefits" item E, in the 2013 annual report (p.441).

## EMPLOYEE RETIREMENT IN KEY SUBSIDIARIES

**Early retirement plan at Mercantile Discount Bank.** In 2012 Mercantile Discount Bank launched a voluntary retirement plan. Within the framework of the plan, 29 employees have retired at a cost of NIS 28 million.

## ADDITIONAL ACTIONS INTENDED TO REDUCE THE WORKFORCE

**Conversion and reduction in the outsourcing workforce.** In the years 2011-2013, the Bank took measures to reduce the employment of outsourcing staff by converting a certain number to a status of provisional computer staff. As a result of these measures, the workforce in this category was reduced by 108 employees in 2013 (2012 - 222 employees; 2011 - 226 employees).

**Employee retirement following the merger with DMB.** At date of the decision regarding the merger, the personnel of DMB numbered 463 employees. 104 employees retired from office in the period until completion of the merger. The remaining 359 employees were transferred to Discount Bank upon the merger. The employment of some 36 employees was terminated during the second half of 2012. 30 other employees, whose employment was supposed to be terminated, have been engaged by the "Telebank" unit, to fill the shortage in the workforce of this unit.

## 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.

**Amendment 24 to the Wage Protection Law, 1958.** On February 1, 2009, Amendment 24 to the Wage Protection Law took effect, whereby an employer will give his employees a monthly pay slip with details of the payments made to the employee. The Amendment prescribes an obligation to provide certain details in the pay slip according to wage components. Likewise, the number of days actually worked, and the number of hours actually worked by the employee, including overtime must be provided, in accordance with the time clock, according to the alternatives prescribed in the Law. The Amendment provided criminal sanctions and civil relief.

For details regarding the collective labor agreement signed in March 2014, which, among other things, is intended to allow the implementation at the Bank of the amendment, see above "New collective labor agreements".

**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, some 20 employees have already submitted such requests, and the Bank is preparing to act in accordance with the procedures required by the said ruling of the Court.

## CHARACTERISTICS OF BANK EMPLOYEES

### GENDER SEGMENTATION

At the end of 2013, 60.0% of the employees in the Bank were women, similar to the rate in 2012 (59.9%). The percentage of female tenured employees at the Bank at the end of 2013 was 62.0%, similarly to that of the end of 2012 (61.2%). The percentage of female managers in the Bank stood at 45.8% of all managers, compared with 45.6% at the end of 2012. A comparison of the wages of all men to the wages of all women shows that the average salary of male managers is 26.97% higher, on average, than the wage of female managers (compared with 29.53% in 2012). Also, the average wage of male clerks is 13.05% higher than the average wage paid to female clerks (compared with 12.55% in 2012).

### AGE AND SENIORITY

The average age of tenured employees in the Bank stood at 49.4 years of age at the end of 2013. At the end of 2012, the average age was 48.8 years of age. The average seniority of tenured employees in the Bank is 23.4 years, compared with an average of 23.0 at the end of 2012. The average age of all of the Bank's employees stood at 45.1 years of age at the end of 2013, compared with 44.6 at the end of 2012. The average seniority of all employees in the Bank is 17.7 years, compared with 17.2 years at the end of 2012.

Presented below are data regarding the age breakdown of the Bank's employee as of December 31 for the years 2012-2013:

	2013		2012	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	825	13.3	910	14.8
30 to 50	2,647	42.8	2,567	41.7
Over 50	2,714	43.9	2,683	43.5
<b>Total<sup>(1)</sup></b>	<b>6,186</b>	<b>100.0</b>	<b>6,160</b>	<b>100.0</b>

Note:

(1) Tenured and temporary employees.

## ACADEMIC EDUCATION

The percentage of tenured employees with academic degrees stood at 52.6% at the end of 2013, compared with 50.7% at the end of 2012.

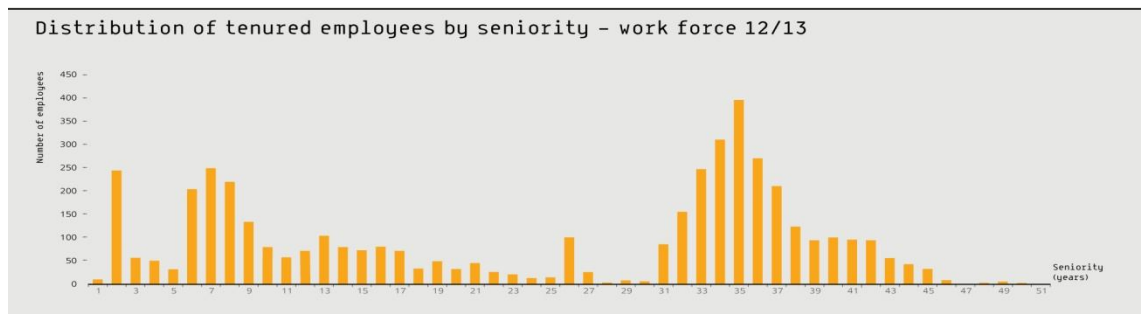
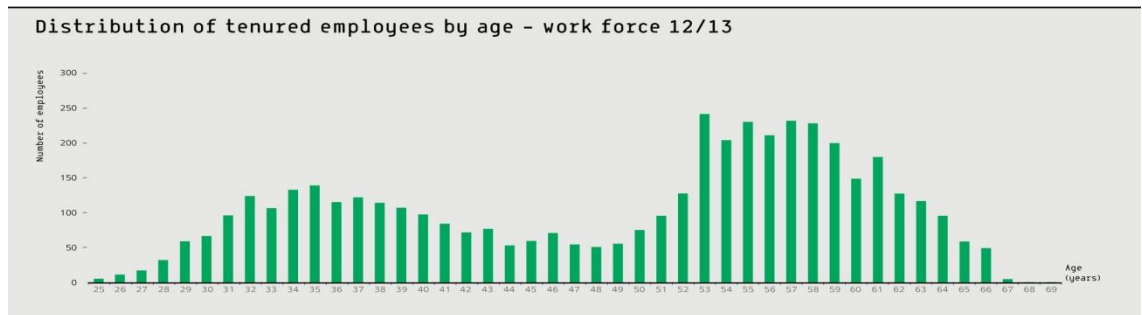
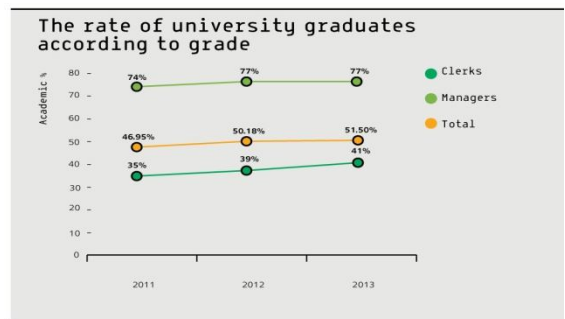
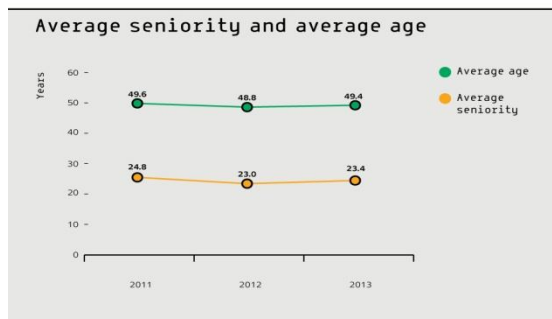
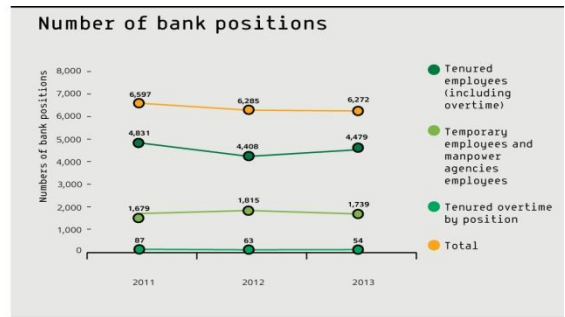
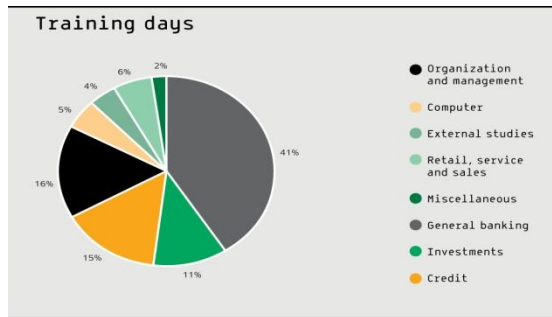
This increase was driven by two processes. The first, the hiring of academics mainly, and the second, encouraging the completion of academic studies among the Bank's employees, including partial participation in the necessary financing and giving special vacations on exam days.

The percentage of academics among managers is 77.2%, compared with 77.0% at the end of 2012. Among the clerks, the percentage of academics was 40.7%, compared with 38.5% at the end of 2012.

The percentage of academics among women stood at 47.3%, compared with 46.1% at the end of 2012, whereas the percentage of academics among men stood at 58.1%, compared with 56.7% at the end of 2012.



The Discounters



## EMPLOYEE TURNOVER

During 2013, some 528 employees left the Bank (not including forty-four employees, who were on unpaid leave or on maternity leave) and 513 new employees joined (of which 512 were temporary workers and 1 was tenured). Furthermore, 74 outsourcing workers and 1 worker under a personal labor agreement have been converted to the position of temporary employees.

The difference between the number joining and leaving reflects the decrease in manpower (it should be noted that these data do not reflect the decrease that occurred in 2013 in manpower employees - a decrease of 138 employees). 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 2013 was voluntary retirement among temporary employees. Among tenured employees, the main reason for retirement in 2013 was reaching retirement age.

### BREAKDOWN OF EMPLOYEES LEAVING THE BANK IN 2013:

Termination due to	Temporary	Tenured	Total
Encouraged retirement	0	9	9
Natural retirement and leaving	47	37	84
(includes: termination of contract)	36	1	
Resignation (wages and benefits)	276	15	291
Dismissal (imposed by Bank)	127	14*	141
Other	1	2	3
<b>Total</b>	<b>451</b>	<b>77</b>	<b>528</b>

\*Employees on a trial period.

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.

153 employees were moved in 2013 from the position of temporary employees to the position of tenured employees and 5 employees from the position of an outsourcing employee to that of a tenured employee. In addition, 74 workers were converted from the position of outsourcing workers to the position of temporary employee.

## EMPLOYEE BREAKDOWN (JOINING AND LEAVING) ACCORDING TO STATUS/WORK LOCATION

	Temporary				Tenured	
	Joining		Leaving		New*	Leaving**
	The Bank	Converted	The Bank	Converted		
Jerusalem	34		29	8	8	2
T.A.	100		85	18	18	11
Sharon	43	1	29	8	8	3
South	30		31	15	15	5
North	21		21	11	11	1
Remaining units	284	74	256	93	99	55
<b>Bank total</b>	<b>512</b>	<b>75</b>	<b>451</b>	<b>153</b>	<b>159</b>	<b>77</b>

\* New includes temporary employees converted to tenured 60 in regions and 159 total in the Bank. Furthermore, there are 74 outsourcing workers and 1 worker under a personal labor agreement that have been converted to the position of temporary employees.

\*\* Not including retiring employees on maternity/unpaid leave: 36 temporary employees, 8 tenured employees and 2 temporary female employees, who during maternity leave, were converted to the position of 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 27.5 years, while the average age of retiring female temporary employees is 30.4 years, 49.6 years for tenured employees. On the other hand, the average age of new male temporary employees is 30.1 years and 39.8 years for tenured male employees. The average age of retiring male temporary employees is 33.2 years and 54.7 years for retiring male tenured employees.

## EMPLOYEE BREAKDOWN (JOINING AND LEAVING) ACCORDING TO GENDER AND STATUS:

	Temporary				Tenured	
	Joining		Leaving		Joining*	Leaving**
	The Bank	Converted*	The Bank	Converted		
Women	344	37	283	82	86	43
Men	168	38	168	71	73	34
<b>Bank total</b>	<b>512</b>	<b>75</b>	<b>451</b>	<b>153</b>	<b>159</b>	<b>77</b>

\* Joining - including temporary employees converted to the position of tenured employees. Furthermore, there are 74 outsourcing workers and one worker under a personal labor agreement that have been converted to the position of temporary employees.

\*\* Not including retirees who were on maternity leave or on unpaid leave: 36 temporary employees (35 female and 1 male); 8 tenured employees (5 female and 3 males) and 2 other female employees converted to the position of tenured employees while on maternity leave.

In addition to those leaving and entering the Bank, 2,720 employees changed their jobs or place of work in the Bank in 2013. 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:

Hereunder are data regarding the age of new employees, in the years 2012-2013:

Age	2013		2012	
	Number of employees	%	Number of employees	%
Up to 30	354	69.0	435	48.1
30 to 50	154	30.0	411	45.5
Over 50	5	1.0	58	6.4
<b>Total</b>	<b>513</b>	<b>100.0</b>	<b>904</b>	<b>100.0</b>

Hereunder are data regarding the age of employees who retired in the years 2012-2013:

Age	2013		2012	
	Number of employees	%	Number of employees	%
Up to 30	263	49.8	296	31.2
30 to 50	202	38.3	257	27.1
Over 50	63	11.9	395	41.7
<b>Total</b>	<b>528</b>	<b>100.0</b>	<b>948</b>	<b>100.0</b>

## VACATION AND ABSENCE DATA

### DATA REGARDING ABSENCE DAYS

#### PAID ABSENCE DAYS

Paid absence 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<sup>(1)</sup> in 2012-2013:

	2013				2012			
	Vacation	Illness	Military reserve	Total	Vacation	Illness	Military reserve	Total
Men	48,738	23,088	2,242	74,068	46,640	21,749	3,126	71,515
Women	80,880	49,609	117	130,606	75,254	48,242	132	123,628
<b>Total</b>	<b>129,618</b>	<b>72,697</b>	<b>2,359</b>	<b>204,674</b>	<b>121,894</b>	<b>69,991</b>	<b>3,258</b>	<b>195,143</b>
Absence percentage <sup>(2)</sup>	8.38%	4.70%	0.15%	13.23%	7.92%	4.54%	0.21%	12.67%

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.

## 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<sup>(1)</sup> in 2012-2013:

	2013	2012
Maternity leave/Leave of absence	71,240	70,416
Vacation/Illness <sup>(2)</sup>	3,881	3,698
Break before leaving <sup>(3)</sup>	89	60
<b>Total</b>	<b>75,210</b>	<b>74,174</b>
Absence percentage <sup>(4)</sup>	3.33%	3.30%

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.
- (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 2012-2013:

	2013			2012		
	Men	Women	Total	Men	Women	Total
Number of events	39	76	115	27	65	92

## MATERNITY LEAVE

Presented below are data regarding taking maternity leave in 2012-2013:

	Gender	2013		2012	
		No. employees	Rate in %	No. employees	Rate in %
Employees entitled to maternity leave	Male	190	37.7	210	38.3
	Female	314	62.3	339	61.7
	<b>Total</b>	504	100	549	100
Employees taking maternity leave	Male	1	0.3	2	0.6
	Female	314	99.7	326	99.4
	<b>Total</b>	315	100.0	328	100.0
Employees who returned to work after maternity leave <sup>(1)</sup>	Male	1	0.3	2	0.7
	Female	293	99.7	302	99.3
	<b>Total</b>	294	100.0	304	100.0
Employees who returned to work and were still with the Bank 12 months thereafter	Male	1	0.5	2	0.9
	Female	220	99.5	225	99.1
	<b>Total</b>	221	100.0	227	100.0

Note:

(1) The 2013 data for the number of male and female employees who returned and were still at work are as of June 30, 2014.

All the male employees returned to work in the same post. The majority of the female employees returned to work in the same post (90%-92%).

## HUMAN RESOURCES PLANNING AND DEVELOPMENT

Development of human resources at the Bank derived from the strategic focuses and reinforces the Bank's ability to address successfully its business and organizational challenges, through:

- **Management and leadership** - establishing, cultivating and strengthening the managerial backbone, throughout its extent, by developing managerial leadership that supports strategy, focusing on the customer and contributing to business performance (performance, profitability and value maximization) and guidance towards the cultivating and development of the human capital.
  - (1) Long-term manpower planning - Managerial continuity ("bench depth") - an organizational process intended to secure a managerial cadre for the manning of key positions at the Bank, while lowering the risk level in the manning of key positions. The key positions in the Bank were mapped in 2013, including potential replacements and their readiness level, and also an outline of development plans for elimination of gaps has been defined (placement and training);
  - (2) Development of acting managers - construction and maximum use of the workforce:
    - Academic enrichment for senior management of the Bank and of subsidiaries in the Discount Group as leaders of strategic subjects;
    - "Mofet" - The multi-annual personal development program was completed in 2013, in respect of a cadre of twenty-five managers, who have been identified as having the potential to fulfill senior managerial duties;
    - "Power 200" - The formation of a foremost leadership group from among cross organization medium level managers. Cross-organizational apprenticeship is particularly emphasized as leverage for the integration of values and capabilities in the Bank's organizational and managerial culture;
    - "An executive training room" - a practical-implemental exercise environment, subject focused, for the maximization of the variety managerial skills and qualifications of the Bank's managers;

- "Branch Manager Forum" - a group experience development program for the improvement of managerial skills and leadership of branch managers;
  - Development of an organic team - development programs at the organic level were launched in 2013 for the formation of a team, strengthening of the managerial role concept and the development of management expertise and apprenticeship among the medium level managerial echelon in various units at the Bank;
- (3) Reserves - formation of the future managerial cadre:
- Training and classifying the reserves towards appointment for a role - "management reserve" (junior management) and "reserve for branch management" (middle management);
  - "Advanced banking" - a classifying development lane for the formation of a cadre having the potential for managerial roles at the branches;
  - "Horizons" - a development and training course for candidates for the position of branch manager.
- **Personal development** serves as a central layer of the management reinforcement, and is performed through a variety of methods for improvement of qualifications, evaluation and feedback:
    - Assisting and advising managers when assuming new duties and/or on the job managerial training;
    - The mentoring of managers and units undergoing change - Organizational diagnosis, development plans and consulting assistance to units in view of processes of change at the unit;
    - Developing organic teams - in 2013 intervention was carried out in several units.
  - **Improving professionalism and preservation of the professionals**
    - Position tracks - presenting a position development horizon and professional advancement in the central groups of engagement and in professional duties at the clerical level. The track vision includes the development possibilities map together with the knowhow contents and qualification requirements. The central track maps of the business divisions were intensified and improved in 2013, and a professional duties credit track has been formed;
    - The assimilation of customer focus concept at the branch layout - a comprehensive training response regarding the following subjects:



- The concept of managerial activity according to segments and customer focused initiating service;
- The absorption of sales and sales management skills into the managerial echelon and the branch bankers;
- The "Discount Family" project - Instruction for branch managers as leaders of activity at their units, as well as the formation of a designated website in the employees' portal;
- Referring general/personal calls to TeleBank - The training of service representatives and team heads of TeleBank and in the branches including guidance in the field;
- Training for segment managers and the managerial echelon at the branches regarding the subject of profitability;
- Reinforcement of professionalism of functionaries in the credit field: designated instruction improving the office concept and professionalism of all credit coordinators; instruction improving professionalism of branch managers and their deputies regarding the subject of credit; designated credit instructions for business bankers at the corporate division; improvement of credit instructions at all levels and positions;
- Training of mortgage representatives - instruction for service teams that serve also as mortgage consultants as well as instruction for the managerial teams at branches having a mortgage station;
- Administrative enforcement - a comprehensive instruction program in a mix of methods, for the integration of the subject. In 2013 training was applied to all investment consultants at the Bank. In addition, instruction sessions were held for the managerial echelon at the branches and for all bankers providing service to customers at all divisions of the Bank, and learning material in relevant matters has been distributed to all Bank employees;
- Compliance - training and fortifying the compliance officers. In addition training sessions were held for compliance trustees. Also put into operation was a guided framework for study and the sharing of dilemmas among officers responsible for integration and control, control managers and compliance officers. In order to integrate compliance at the Bank and strengthen the organizational awareness to the subject, a preventive communication process was

put into action, which, among other things, included the distribution of a quarterly electronic newsletter in the subject for all Bank employees;

- "Money laundering" - electronic instruction to all branch employees and designated learning material to tellers. Instruction to bankers of service teams (frontal instruction) and also to tellers and to new employees at the Bank head office (electronic instruction);
  - Strengthening the orientation towards the Bank and the banking industry - the improvement of knowledge and familiarity of employees making their first steps at the Bank, with the world of banking contents in general and with Discount Bank in particular.
- **Change management**  
Implementation of a multi-subject approach for the integration of change and its management in cross-organization strategic projects, while focusing on the human capital.  
A unified method for the management of change was devised and approved in 2013. In addition, during the past year an initial program was formed providing support for professional challenges facing the risk management group and its structure.

## TRAINING

Learning is viewed by the Bank as a principal value. It supports the availability of qualified human capital for the realization of the Bank's business strategy and the advancement of its goals, while stressing the maximum and exhaustive use of available internal capabilities and constant improvement.

During 2012-2013, the staff at the Bank received a widespread response to their professional requirements by means of extensive training and instruction towards the core position (qualification), improvement of business performance (proficiency) and elimination of performance gaps. Special emphasis has been given to the "personal touch" regarding each employee according to his knowledge requirements. The knowledge gaps in various areas were filled in during the said years according to the identification of needs conducted in the various divisions. Among other things, a response has been provided for training needs derived from regulatory directives that impact the banking industry and/or customer directives.

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.

**Scope of training.** The number of training days in 2013 reached 34,600 compared with 30,800 training days in 2012, an increase of 12.3%. The data regarding the number of training days relate to actual training days on the College premises, and it does not express the development, enrichment and extensive self study activities conducted in a variety of subjects and areas. Thus, in 2013, employees of the Bank performed some 12,170 distant learning interactions, an addition of thousands of learning days (2012: 12,680 interactions).

Presented below are data regarding the average annual training hours per employee for the years 2012-2013:

	2013	2012
Average training hours – clerk	40.4	34.45
Average training hours – manager	30.95	32.4
Average training hours – total	38.2	33.4

**Training in the field of human rights:** During 2013, 1,388 hours of training were given to employees on the topic of policy and procedures regarding relevant aspects of human rights. During 2012, some 2,759 hours were spent on such training.

**Work undertaking with respect to training.** Within the framework of integrating new employees into the Bank and/or existing employees earmarked for certain positions with respect to which training is required for the improvement of professionalism, the Bank asks such employees to sign a financial undertaking that commits them in advance to a defined period of

employment, with this being subject to and in accordance with statutory provisions. The existence of a requirement to sign such an undertaking is brought to the attention of the employee prior to his joining the Bank or prior to his being transferred to the new position. Other than in such cases, employees may terminate their employment with the Bank subject to giving advance notice.

**Training for security staff.** All security staff receives training prior to commencing their employment, inter alia, with regard to proper conduct vis-à-vis members of the public visiting the Bank's facilities.

## 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 11.5 million in 2013, compared with NIS 10.7 million in 2012. The increase in the investment for 2013, stems from a designated budgetary addition for strategic projects, which include the integration of the new system for sales management, the continued integration of the mortgage activities within the Bank and a project for the rewriting of procedures at the Bank. Concurrently, budget cuts were made regarding current operations. 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.

## KNOWLEDGE MANAGEMENT

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at Discount Bank. The knowledge management supports employee performance by identifying and accumulating professional knowledge, validating and updating the information in real time and using various means to make the information accessible to the work and learning processes.

In the past year, a move for mapping the processes and knowledge management systems in the Bank was conducted, pursuant to the Knowledge Systems Standard of the Standards Institute of Israel.

**The organizational portal** on the Intranet system at Discount Bank comprises a central tool in Knowledge management. Dozens of content experts maintain and upgrade on a current basis knowledge forums and information websites. These are linked to the business core activities and to central organizational processes, and support the employees' performance, their professionalism and customer satisfaction. A prominent example is the set-up of the "managers' world" – a knowledge base that supports the manager's work.

Additional organizational and cultural processes, such as management training, business continuity, community activity and accessibility of the Bank are accompanied by designated websites that provide response in terms of current information, interactive activity of the employees and assessment of the processes' effectiveness.

Statistical data indicate an extensive use by Bank employees of the information management tools, enabling use and optimal cooperation in professional and organizational knowhow.

**Sharepoint.** Upon reaching the decision to transfer all the business/organizational applications to the Sharepoint platform, a move has been initiated for the definition of the policy, operational concept and the functional characterization of the knowhow management using the system. The steering team and representatives of the knowhow communities have undergone instruction for obtaining familiarity with the concept and the system. In the meantime, work has begun on the characterization and the construction of sites in the system.

**Drawing conclusions.** Within the framework of promoting organizational learning and integrating risk management concept, the Bank cultivates a culture of drawing conclusions in order to expand organizational knowledge,

information sharing, duplicating success and avoiding failure. The move for assimilation among officers and units of the Bank of the concept and process of drawing conclusions continued in 2013. In addition, the subject has been integrated into banking instruction sessions and professional conventions.

## ORGANIZATIONAL CULTURE - PERFORMANCE AND "CONNECTIVITY"

**Management by objectives.** In order to assimilate an organizational - management culture of meeting objectives and performance orientation, the concept and methodology of management by objectives was employed by the Bank's Management and senior administration. Measurable objectives are defined in the main office and in the field which are in line with the business strategy of the Bank, and include also managerial and professional development of employees and managers. Through a training-oriented support system, the heads of the Bank's divisions and the managers who report to them (area/department managers) have defined effective individual objectives, and an objectives language was assimilated (performance-based dialogue, structured reporting formats, etc.). In continuation, the annual determination of targets has been integrated into the performance appraisal and feedback process, as detailed in the item "Feedback interviews" below.

**Belonging and commitment.** In order to increase the sense of belonging and commitment of employees, the Bank holds face-to-face meetings for the purpose of listening to employees and their participation in wide and cross-organization processes and projects, by means of the following communication channels.

## INTRA-ORGANIZATIONAL COMMUNICATIONS

The Bank is investing in the development of open, two-way communication with its employees. The intra-organizational communication system employs varied communication channels to promote dialogue, responsibility and commitment to the organization and its success.

In order to sense the employees' state of mind, challenges and questions, the Bank conducts meetings at different levels, discussion groups and feedback processes, including:

- "Round tables" - "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices;
- Intra-organizational surveys.

With a view to broadening employees' knowledge and understanding of the Bank's full range of activities and in order to deliver organizational messages, a variety of communication lines were used during 2012-2013, including:

For executives -

- Senior Forum - a quarterly meeting led by the CEO.

In the management chain -

- "Talking strategy" - "attachment" of managers to strategic and organizational processes in the Discount Group, as agents for communicating knowledge and its meanings;
- "Talking about results" - communication of business results and their implications to the management chain, with the aim of increasing the responsibility and commitment of the individual and the unit to the Bank.

For all employees -

- "Morning Magazine" - a weekly television newscast for updates from the organization's everyday life;
- Employee portal (Intranet);
- "Personal angle" - an Internet newsletter, which includes news and updates concerning various subjects of interest to employees;
- "Interest angle" - brief, to the point news updates on ad hoc basis.

## 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 2012, resources were invested in perfecting the measurement and evaluation tools, in order to create an objective and relative infrastructure for measurement of outputs, which creates real differentiation and instigating action. Inter alia, a new outline was prepared for employee evaluation. The evaluation process is transparent, encourages dialog between the manager and the employee as a platform for improving performance, and enables correlation between performance and remuneration. In 2012, the evaluation processes were formulated, a computer system designated for the evaluations was purchased and adapted, and a communication plan was formulated. In the beginning of 2013, all evaluating managers underwent training and the employee evaluation move was communicated in the new format formulated for it. During 2013, the feedback conversations move was launched in practice following which, the first process for performance appraisal and feedback was launched in its new format, in respect of performance in the year 2012. Some 6,176 discussions had been held in this process, an item reflecting 98% of employees.

In the beginning of 2014 the performance appraisal process in its new format was conducted for the second time, in respect of performance in the year 2013. Some 6,231 discussions had been held in this process, an item reflecting 99% of employees.

## **EMPLOYEE WELFARE – THE GAIN IS ALL OURS**

### **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, and takes the view that an employee receiving assistance in solving his problems could



become a better worker. 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.

## 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 psychosocial 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 2013, the Welfare Department dealt with 838 inquiries, compared with 882 inquiries in 2012.

## MANAGERS' INVOLVEMENT IN TREATMENT PROCESS

The Bank encourages 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 2013, 13 events of group pressure situations were treated, compared with 11 in 2012.

## HEALTH IN EMPLOYMENT

The Bank physician's unit handles this field using banking parties and non-banking parties to deal with employee complaints about the conditions in their work environment. For example, complaints about suspicions of radiation from electrical boards or electricity pillars or computers, symptoms of headaches and dizziness, due to a lack of ventilation or defect in the air conditioning system, etc. The complaints are sent, as applicable, to different Bank officials, to be dealt with (Human Resources Department Manager, Bank's physician, Property and Construction Department, etc.), or officials outside the Bank (occupational physician, Ministry of the Environment, Standards Institute, etc).

In 2013, complaints of 15 units were dealt with, compared with 20 units in 2012.

## 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, together with the spouse, 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 2012, 353 workers and their spouses participated in retirement seminars, of which, 37 couples. No retirement workshops were conducted in 2013.

## 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 2013, there were 7,567 participants in the workshops and seminars, compared with 7,450 participants in 2012.

## MEDICAL TESTS AND BLOOD INSURANCE

The Welfare Department, in partnership with the Bank's physician organizes various campaigns within the work place, for employees' convenience, for preventive medical tests and blood donations.

In 2013, 199 employees received blood insurance by donating blood, compared with 143 employees in 2012. 250 employees and their spouses had general medical tests performed in 2013, compared with 225 tests in 2012. In 2013, some

288 tests were performed on the Bank's athletes, compared with 290 in 2012. 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.

### **SPORTS ACTIVITY AND MEDICAL INSURANCE**

The Bank offers 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 Bank employees and family members participation in medical and dental insurance arrangements.

## **SAFETY IN THE WORK PLACE AND WORK ENVIRONMENT**

### **SAFETY IN THE WORK PLACE**

In July 2012, an officer was appointed to be in-charge for safety, which coordinates the topic of workplace safety and health at the Bank in place of the previous in-charge who had retired from the Bank.

At the end of 2013, an educational computer program dealing with safety issues was launched to all of the Bank's employees which includes 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 2013, a safety testing program was drawn up 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. Implementation of the program began in 2014.

In 2013, 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.

In 2013 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 began in 2014.

In 2012-2013, the safety procedures and instructions were updated and expanded.

Within the scope of the activity for integrating safety awareness, since 2013, all employees of the Bank receive a monthly 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 2012-2013, which resulted in exercising the Bank's insurance policies:

	2013	2012
Customers (third-party)	11	9
Employees (employers liability)	1	3
<b>Total</b>	<b>12</b>	<b>12</b>

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 is in the process of establishing safety committees.

## WORK ENVIRONMENT

**Work-life balance.** The Bank continues to promote an organizational culture of work-life balance, and has trained senior managers to lead the integration of personal and organizational effectiveness issues, such as the management of meetings and time management.

**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, aside from specially designated smoking areas in the head office premises. In the different Bank units, there is appropriate signage regarding the smoking ban and regarding special smoking areas where they exist. 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).

**An organizational health plan.** In 2013, a move began to introduce an organizational health plan. The plan will promote physical activity and 'proper' nutrition, and the management level will themselves serve as an example. The plan will also include intensive intervention among employees who will be identified as populations at risk. The move was initiated within the framework of a pilot in three of the Bank's branches in the Sharon region.

## 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 VP Human Resources, 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. Additionally, frontal guidance is given to new employees of the Bank on the prevention of sexual harassment,

within the framework of the introductory courses about the Bank that are taught in Discount College, and to veteran employees. 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, 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.

Two complaints with respect to sexual harassment were received in 2013: in one case, a tenured female employee complained against a tenured manager. Investigation indicated a serious case of sexual harassment and the Bank decided on the dismissal of the manager. Arbitration is being conducted in the matter in view of the opposition of the Employee Committee to the dismissal of the employee.

In the other case, the complaint was lodged by a temporary employee against a senior clerk. The investigation indicated improper behavior on the part of the senior clerk, though not amounting to sexual harassment. The clerk was reprimanded for this improper behavior.

In 2012, 8 sexual harassment complaints were received in the Bank, of which 2 were not examined, at the request of the complainants, who asked not to be exposed. Nonetheless, the Bank found it appropriate to take action in these cases as follows: in one case, where the alleged perpetrator was a company employee while the complainant was a regular employee, the alleged perpetrator was transferred to another unit. In the second case, the alleged perpetrator was called for a general warning interview. In the other six cases which were examined, the results were as follows: in one case harassment was confirmed and the perpetrator received a reprimand letter. Improper behavior had been found in three cases - two of the perpetrators were dismissed from work while the third person was severely reprimanded. No sexual harassment was found in two additional cases investigated.



Discounters  
for the  
Community



## 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 will encourage its employees who volunteer in the community and aspire to expand the circle of volunteers;
- Toward the holidays, the Bank will assist the needy by distributing food stamps;
- The Bank will enable the employment of special-needs employees;
- The Bank will assist in inquiries on health issues through the Discount Fund in the "Ezra LeMarpeh" Organization;
- The Bank will seek to deepen the ties with the community on specific programs.

**Areas of activity.** During the years 2012-2013, 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, 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 the years 2012-2013 also in the areas of culture and art, providing sponsorships and making donations.

Voluntary activity continued in the years 2012-2013 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.

## 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.

## VOLUME OF ACTIVITY

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

	In the year		
	2013	2012	2011
	In NIS thousands		
Direct expense including the "Lema'an" project activities	5,960	6,353	6,403
Direct current cost of operating the Hezelilienblum Museum <sup>(1)</sup>	4,130	4,011	3,196
Indirect expenses - payroll <sup>(2)</sup>	1,472	1,523	1,664
Miscellaneous expenses <sup>(3)</sup>	396	297	433
<b>Total</b>	<b>11,958</b>	<b>12,184</b>	<b>11,696</b>

Footnotes:

- (1) Guidance team payroll and building maintenance.
- (2) 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.
- (3) 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		
	2013	2012	2011
	In NIS thousands		
Education and training	3,137	3,266	3,260
Herzelilinblum Museum	4,130	4,011	3,196
Persons having special needs	896	683	848
Health	665	573	596
Adoption of IDF units	208	411	260
Other social causes	779	1,131	1,179
Indirect and miscellaneous expenses	2,143	2,109	2,357
<b>Total</b>	<b>11,958</b>	<b>12,184</b>	<b>19,696</b>

It should be noted that the data presented above do not include the Bank's investment in the financial education field.

## 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 2012-2013 are: Discount Sprint, ALEH Negev - Nahalat Eran, Jordan River Village, Association for the Wellbeing of Israel's Soldiers, Association for Advancement of Education in Jaffa, AKIM, the Mayanei Hayeshua, Sheba and

Rabin medical centers, Yad Ezer Lachaver, Warm Home for Children requiring Artificial Respiration, Yad Sarah, Ilan, Alut - the Israeli Society for Autistic Children, "Migdal-or" Association, Israel Cancer Association, The Foundation for Advancement of Druze Community Members, Ramon Foundation, Reuth Medical Center, Make-A-Wish Israel, Ezra LaMarpeh, Beit Weinstein, NaLaga'at Center, Lirot, Association for the Wellbeing of Israel's Soldiers, Alin Noam House, Silent Angels, Zichron Menachem and more.

### ASSISTANCE TO NEEDY FAMILIES BEFORE THE JEWISH NEW YEAR AND PASSOVER

In line with the Bank's tradition, the Bank rallied once again to assist needy families in 2012-2013. Some 1,100 food coupons were distributed for the Jewish New Year in 2012 of which, 700 to Holocaust survivors and the remainder to other needy persons. In 2013, The Bank distributed towards the Passover holiday 180 gift cards in the value of NIS 300 each, to families in need through the "Hom" association. In addition to needy families, the distributions in the said years included also needy servicemen, families of young persons participating in the "Sprint Discount" and of the "Migdal-or" Association, etc.

## "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 eight 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 four 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;
- **"Sprint for the Academy" Program.** Assists graduates of the programs of the Association to enter into the academic world.

## GENERAL DATA "SPRINT FOR THE FUTURE" - DECEMBER 2013

- Fourteen years of activity;
- Sixty-four activity centers around the country;
- One hundred and eighty classrooms per year;
- Six thousand young persons per year;
- Seventeen thousand young persons have participated in the programs of the Association during its years of activity;
- Six hundred students 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, Kiriyat Shmonah, Acre, Beit Shean, Tiberias, Isifya, Kisra Samia, Salalme, Upper Nazareth, Nazareth, Um-el-Fahem, Or Akiva, Bnei Brak, Ariel, Ramla, Lod, Jaffa, Tel Aviv, Jerusalem, Dimona, Shderot, Yeruham, Ofakim, Beer Sheva, Rahat, Tel-Sheva, Kseiffa, Churra 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 80% of the "Sprint" program graduates completed their high school studies with a full matriculation certificate. Some 85% of the "Sprint for Excellence" graduates completed their high school studies with marks of 85 and over in their science oriented matriculation certificate. 54% of whom reached high distinction with average marks of over 95.2.

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.

**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 and the finance committee of the Association. The Bank's Accounting Group provides accounting and payment services for the Association. Audit work at the Association was performed by the Bank's Internal Audit in 2012 (though she does not act as the internal auditor of the Association).

**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, 610 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.

**A Sprint for the Future program in the Arab sector.** In 2012-2013, 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 2012 and 2013, seventy-seven 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 0.6 million in each of the years 2011 and 2012. 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 1.8 million have been granted as student scholarships;
- 30,870 study hours have been granted to the community;
- 200 students from thirty-four locations participated in the program;
- of which, 75 students received NIS 16,000 during three years.

**"Sprint for the Future" Annual Event (2014).** A meeting was held in May 2014 between the senior officers forum of Discount Bank and students and graduates from peripheral areas of the "Sprint for the Future" Association. The meeting discussed social, economic, educational and employment issues, during which

new and unique initiatives have been formed for the reduction of social gaps and for the breakthrough by graduates of the Project to the center of action in Israel.

**Sprint for the Future annual event (2012).** An evening of gratitude and appreciation was held at the end of April 2012 in honor of the participants in the work of the Sprint for the Future Association. The event marked twelve years of operation of the Project and noted the cooperation with the Bank.

## 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 the years 2012-2013, 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 2013 approximately 815 Bank employees contributed their time and engaged in volunteer activities on a regular basis. These volunteers were active in 113 voluntary positions (2012: approx. 1,200 volunteers who were active in 194 voluntary positions. The Bank estimates that 33 thousand hours were devoted to voluntary activities in 2013.

The voluntary activities of the employees are generally carried out during their free time, except in exceptional situations where the Bank's Management gives ad hoc approval for certain activities to be performed during work hours. However, there are employees, primarily those in the Social Responsibility Unit, the staff of the Herzlilblum 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 a designated website "Lema'an", electing the "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.

## 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.

**Renovation of the computer room at the "Neveh Opher" children club.** The first computer room was constructed in 2007. A cash donation was made in 2012 for the renovation of the computer room for the benefit of the children of the club.

**"Keren Or" children club.** The "Keren Or" children club in Bat-Yam on the border with Jaffa, operates under the auspices of the Association for the Advancement of Education in Jaffa. Children of the club, of age groups from first to sixth grades, come to the club from elementary schools in the area.

The volunteer project was launched several years ago, and since then it is conducted on a regular basis. During the years 2012-2013, the activity continued on a weekly basis. Discount Bank volunteers arrive at the club every week and assist the children in preparing their homework, participate in their games, join them in various activities, listen attentively to their problems and generally provide them with attention and warmth. From time to time, the volunteers contribute to the club books, items of clothing and games. In events held towards the holidays and also at the end of the school year, the Bank provided to the club games suitable to the need of the club children as well as presented each child with a personal gift.

**WIZO children clubs.** Employees of the adopting branches in the Haifa and Northern Region volunteer at the children clubs operating for the sake of sheltered children during the year, at holidays, birthdays and other events in cooperation with the club managers.

**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 Discount Mortgage Bank, with the aim of assisting children at risk with their school homework.

Following the approach of the volunteer work coordinators of the staff of Discount Mortgage Bank staff (which was merged in June 2012 with and into the Bank) requesting the continuation of the work with "A Place in the Heart" Association, it has been decided to continue the adoption of the club by the staff of the Technologies Division, who will also examine, among other things, activating the computer room in the club (existing but inactive).

**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, drug rehabilitation center, Chimes - Rehabilitation Work Centers (adult population having special needs), children with special needs, hospitals etc.

## VOLUNTEER ACTIVITIES IN SCHOOLS AND YOUTH VILLAGES

**Ben Shemen Youth village.** The volunteer activity of employees of the Technologies Division continued at the Ben Shemen youth village, operating within the framework of "Discount Sprint". In 2012, employees of the Division renovated the youth club, school bags and equipment were purchased and donated to the school, a "Purim" happening has been held, etc.

**Mikveh Israel Youth Village.** The voluntary work of the employees of the Operations and Logistics Division is continuing in aid of youth in the youth village, which also operates within the framework of "Sprint Discount".

## PERSONS WITH SPECIAL NEEDS

**The Haifa Blind Association.** A unique volunteer work modified for the blind, such as "Lag Baomer" Jewish holiday activity, summer parties at the swimming pool, lectures on capital market issues, a visit to the Herzlilienblum Museum etc.

**"Stage for the Artist" project.** A project in the framework of which the Haifa and Northern Region branches initiated exhibitions of artists having special needs and sheltered children, who exhibited their works at customer meetings held at the branches.

**Kishorit.** A home for persons with special needs. In addition to the monthly monetary support to the communication class, within the framework of which, members of Kishorit produce a television magazine "KishoriTV", which highlights the members of Kishorit, their dreams, aspirations and successes, the Carmiel Branch maintains continuous relations with residents of the village. Among other things, all branch managers in the Haifa and Northern Region have been invited to get acquainted with Kishorit, and a meeting of managers was held at the place.

## ASSISTANCE FOR HOLOCAUST SURVIVORS

Cooperation continues with "Yad Ezer L'Haver" Association in Haifa. In addition to voluntary work which is focused on holidays, memorial days, distribution of food coupons, etc., the Bank contributed air conditioners and prints from the Bank's art collection for each room in the Holocaust Survivors House, in Haifa.

## ABSORPTION CENTERS

**Activities at the Neveh Sha'anani Absorption Center in Haifa** - There are eighty families at the Center undergoing an absorption process for a period of approximately one year after which they are starting their independent life in Israel. The voluntary work of the staff of the Beit Hakranot Branch includes painting the premises, the setting-up of a library, the purchase of plants and at holiday times the purchase and preparation of food parcels delivered personally to each family by the staff of the branch.

**Activity at the Kiryat Gat absorption center** - An additional absorption center for immigrants from Ethiopia has been adopted by the Kiryat Gat Branch. Branch employees carry out current volunteer work for the benefit of the immigrants families.

## 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 2012-2013. 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

LeMarpe" 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.

**Schneider 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.

**The "Hope" enterprise.** In 2013, the Bank joined the "Hope" Enterprise together with: Ananey Communications, Ness Technologies, Joint Israel, Altshuler Shaham, The Friendship Foundation, ORT Israel and Orange. This enterprise will be the first social Internet "Google" enterprise in Israel, which would connect anyone who is willing to give with anyone who requires help, and would coordinate all the information about rights and laws in the State of Israel - social and civic work and the various possibilities for volunteer work.

**Taglit Project.** This is a project established by the Israeli Government with the participation of Jewish donors and communities all over the world, designed to create a bond between youth in the Diaspora and the State of Israel. The participation of Israeli youth in the Project, serving as companions for youth from abroad visiting the country, has been expanded in the recent year also to employees of Israeli corporations. Some thirty Bank employees participated in the project in 2012, escorting the young people from abroad for five days.

**Bazaar for items produced by the handicapped.** In 2012–2013, 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 having special needs working under the auspices of the following associations: "Beit Miriam" (ILAN), "Sheculo Tov" (emotionally handicapped), Kfar Idud (slightly retarded), the "Enosh" in Rishon le'Zion (emotionally handicapped), "Meital House" (a framework for adult special education), and the Heletz School for special education to children. Income from sales was contributed towards the continued activities of associations employing the handicapped.

**"Birthday Angels" Project.** In 2011, several branches belonging to the lowland region have joined a project intended to adopt clubs for children in high risk situation in the geographic areas in which the branches operate. The main activity in this respect is the celebration of birthdays of children belonging to the club. The participating branches were provided with game sets for the children from the "Birthday Angels" Association and funds for birthday presents and refreshments from the Bank. The voluntary work in the project continued in the years 2012–2013.

**The "For the Community" website.** The "For the community" website operates on the employee Intranet site. The site includes up-to-date contents regarding the Bank's activities in aid of the community, details regarding volunteer work performed by the Bank's various units as well as details regarding additional areas of volunteer work which may be joined.

## "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.

The bank supports the Squadron 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 of the Ashdod Branch employees. Furthermore, naval servicemen participate in various events of the Bank.

In June 2012, it was decided to renew the adoption for an additional period of three years.

At the beginning of 2011, DMB committed to adopt Regiment "Tiger" of the Artillery Corp for an additional period of three years. Upon consummation of the merger between DMB and the Bank, the latter has also taken over this commitment. Employees of the mortgage department (formerly employees of DMB) continue their voluntary activity for the benefit of servicemen of the regiment.

## TECH-CAREERS ASSOCIATION – TECHNOLOGICAL TRAINING FOR ETHIOPIAN IMMIGRANTS IN ISRAEL

The 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.

Discount Bank has supported the association from the outset. Managers in the Bank's Technologies Division participate in the Association's guidance program, as mentors for students in the Tech-Careers College, and assist them in the final stages of their studies and in their search for a job after their graduation and their integration in the employment market.

During 2012, the Bank's tests center prepared to accept employees within the framework of the Nearshore project. It has been decided that some of the testers recruited to the Bank will be graduates of the testing course of the Tech-Careers College, and, accordingly, managers in the Technologies Division supported the course in its different stages.

The support framework included, inter alia, meeting with the professional team in the College, to learn about the contents of the course, and participation in deciding its contents.

Once the training of the testers was completed, a concentrated screening day was held in which all students in the course had an exam and job interviews. Candidates who passed the screening successfully began working in the Bank (through one of the software companies) at the end of November 2012.

## EMPLOYMENT OF SPECIAL-NEEDS PERSONNEL AND GIRLS AT RISK

As part of its personnel recruitment policy, the Bank offers special-needs 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.

As of December 31, 2013, some 63 handicapped personnel were employed at the Bank (70 handicapped personnel in 2012).

**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. 25 youth were employed at the Bank in 2013, and in 2012, 27 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. 15 girls joined the project in 2013, and in 2012 13 girls joined the project for a period of two weeks in July.

## "THE MARCH OF THE LIVING"

In April 2013, a delegation of Discount Bank employees participated, for the eleventh 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 80 of the Bank's staff and ICC's staff. This continued a tradition started on 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 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 advanced 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 2013, the Museum hosted 220 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 and architectural tours.

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 2013, some 140 events were held for corporations, business forums and organizations, for units of the Bank and their customers. In 2012, some 100 events were held.

**Cooperation with the Ministry of Education.** The Herzlilnblum Museum is recognized by the museum department of the Ministry of Education and forms part of the study program in matters of economics, civics and the financial education field, recently introduced into the educational layout.

As part of the continuing cooperation with the Ministry, a new tour has been developed in 2013 for middle and high school students, dealing with the economic policies of the late Prime ministers Mr. David ben-Gurion and Mr. Menachem Begin, as a derivative of their ideologies.

**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 2012-2013, the Museum directed most of its activity 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.

During the academic year, some eighty 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, seminars of five hours on the subject of the Stock Exchange and the monetary policy of the Bank of Israel.

**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 three hundred tours for children and their families were conducted during the school vacation in 2013, similar to 2012: "My money, a seminar for young economists" - economic seminars; "The cup is ours" - tours focused on the sports exhibition held at that time.

## 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 since the beginning of 2012, may be mentioned:

**Future currency, January 2012.** An exhibition at the Museum on the subject of money, a daily subject involving human, psychological and technological layers.

The exhibition was aimed at presenting relationship to means of payment that would be in practice in twenty years time. What is going to happen to our money during the present century? How will the future of the global economy be reflected? Does the material from which money is made have significance, and who decides now-a-days which material has a greater influence? Artists from Israel and abroad faced these and other questions at the exhibition alongside architects and product designers.

**Records and goals - one hundred years of sports, February 2012.** The exhibition presented one hundred years of sports in Israel in a variety of sport fields, such as: ball games, athletics, swimming, ladies sports, sports for the handicapped, etc. Records and achievements of sportsmen and sport teams in Olympic Games, in the Maccabiyah Games, at Hapoel sports conventions and in various contests are intertwined over the timeline in the exhibition's space.

A special corner at the exhibition was dedicated to the eleven sportsmen murdered in Munich, in which, in addition to their sports achievements, were presented their life stories and personal effects.

**Adorned - Pioneers and Dreamers April 2013.** The exhibition presents for the first time a group of women from various contents world and occupations, which excelled in their achievements and contribution to Israeli society, such as art, literature, science, law, theater, politics, cinema, education, journalism, etc. The women presented achieved local and international esteem and recognition.

Of the women presented are: Hanna Rovina, Prof. Ruth Arnon, Golda Meir, Lea Goldberg, Naomi Shemer, Dorit Beinisch, Hannah Senesh and others.

The exhibition presents documents, decorations, and personal effects, part of which are exposed to the public for the first time.

Many events have been held within the framework of the exhibition, among which: The granddaughters of Rebecca Sieff and their families; Mrs. Rachel

Bolton and her guests, Mrs. Dorit Beinisch, former President of the Supreme Court, family and friends, children of Mrs. Diddie Ross-Harel and their families, Mrs. Yael Rozen - an event for the Education Department of the Tel Aviv University and an event for colleagues and family; event dedicated to the poet Leah Goldberg; hosting the family and friends of the late Naomi Shemer, on occasion of her birthday. Two academic study days were also held within the framework of the exhibition, with the participation of lecturers from the gender field, with 100 participants in each study day. Several additional events were held by women associations (Naamat, WIZO, Emuna), and more.

In addition to the said exhibitions, the Museum presents shorter period art exhibitions, in part presenting works from the Bank's Israeli art collection and in part providing a stage for both young and leading artists. Furthermore, exhibitions were held, where the works shown were sold in order to raise funds in favor of social associations like Tamar, AKIM and the Association for the Wellbeing of Israel's Soldiers.

## ARTS

Discount's art collection contains some 1,960 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.

**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 2013. Within this framework the Bank lent works from its art collection. The Bank loaned five works of the artist Naftali Bezem to an exhibition of the artist "Toing and Froing" held in the Tel Aviv Museum of Art. Two works of art have been on loan to the Tel Aviv Museum of Art, for the exhibition "The Conspiracy of Nature" of the artist Deganit Berest. Seventeen works of art have been on loan to the Mané Katz Museum in Haifa, for the exhibition "After the School of Paris". In 2012 the following works were lent: "Shesh Besh" a work of the artist Zivi Geva, has been loaned to an exhibition of the artist's works named "Seem the Same" held at the Ashdod Museum; A work by the artist Gal Weinstein has been loaned to

"Contemporary Israeli Art" Exhibition, held in Paris; A work by the artist Pinchas Cohen Gan was lent to the exhibition "When my redemption comes I shall treasure my tears, works 1970-2012" at the Tel Aviv museum of Art.

**"My Family" - exhibition of drawings by AKIM children.** The exhibition was presented during March-April 2013 at the Herzlilinblum Museum. The drawings were offered for sale, all proceeds being contributed to the AKIM Association. The event was opened by the Chairman of Friends of AKIM association, Mr. Ami Ayalon and by the President & CEO of the Bank.

**"Compound".** A group exhibition presented at the Herzlilinblum Museum in December 2012 to February 2013. The artists participating in the exhibition were Adi Brande, Tali Navon and the late Yehudit Metzkel, whose works related to the question of place and time, of urbanization and the status of the individual in the human texture of the city. Gallery discussion groups were held during January 2013 within the framework of the exhibition, with the participation of the artists Adi Brande and Yehudit Metzkel (who passed away soon after the event).

**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. In this framework, the following exhibitions were presented in 2013: Sculpture exhibition at the Afeka Branch - The artist Jackie Vanunu exhibited her sculpture works at the Afeka Branch; Bat-Yam Branch - "Meetings between feelings and color" - An exhibition of Bat-Yam artists Carmel Center Branch - the artist Ilana Ud showed her works at the exhibition "My Haifa" held at the Branch; Haifa Main Branch - a group exhibition for Haifa artists; Tel Aviv Main Branch - sculpture exhibition of the artist Gadi Fraiman.

**"A Land of Promise" Exhibition (2012).** As part of the Art Weekend events opening the Tel Aviv Art Year, twenty-four video art films of Israeli artists were screened continuously at the "A Land of Promise" Exhibition. The Exhibition chose to screen three video art presentations belonging to the art collection of Discount Bank, produced by the artists: Sigalit Landau, Gal Weinstien and Tali Navon.

**The bathroom project of Yehezkel Streichman (2012).** The Streichman family donated to the Bank's art collection the 350 bathroom tiles produced by Yehezkel Striechman in the early seventies. The dismantling, cleaning and conservation work of the ceramic tiles and their new presentation on tablets has been effected by professional reconstructors on behalf of the Bank. The Ashdod Art Museum opened in March 2012 an exhibition of bathroom tiles created

by the Artist out of the Bank's art collection. Following the closing of the exhibition held at the Ashdod Museum, the tiles are now on a permanent exhibition at the Tel Aviv main Branch of the Bank.

**"My Haifa" photographs exhibition at the Haifa region management office (2012).** In a convention "Haifa Active and Healthy" organized by the Haifa Region Management in cooperation with the Haifa Municipality and in the presence of the Haifa Mayor Mr. Yona Yahav, an exhibition of photographs from the Bank's collection was presented. The photographs document the beauty and uniqueness of Haifa.

**Discount Art Album No. 16.** Taking part in this Album are the photography artists Uri Gershuni, Shachar Marcus, Hanna Sahar and David Adika. These artists have experienced a meeting of two worlds: photography, belonging mainly to the new world, and engraving which largely relies upon ancient techniques. The Album was launched in February 2013. To date, dozens of artists participated in the Discount Albums project which began in 1978, numbering 16 albums and 117 reproductions.

**Publications from the collection and on the collection.** Kunst in Israel im Wandel der Zeit 1906–2012 is a catalogue published in the German and French languages that tells the history of Israeli art in the years 1906–2012. The catalogue contains photographs of works from the Bank's collection and is intended for art collectors in Germany and France.

**The Agentek calendar** - a calendar published with the approval of the Bank containing photographs of works of art from the Bank's collection. The calendar was produced as part of the activity of Agentek in aid of the community of the company.

**Guided public tours.** Guided tours of the Bank's art collection, open to the public, are conducted on Friday mornings at the Discount Tower. Some 50 tours were made during 2013, in which some 1,800 visitors have participated. Some sixty tours were made during 2012, in which some 2,500 guests have participated.

**The Discount Museum website.** The Bank's art collection is considered one of the highest quality collections of Israeli art. The Bank attributes great importance to the maintenance and cultivation of its art collection and is proud to exhibit a selection of the works to the public at large through the Discount Museum website. The works selected for presentation are arranged according to themes in a manner that enables the public to learn about the structure of the collection and about the Bank's contribution to cultural and community life in Israel. The website address is: <http://www.discountbank.co.il/museum>.

## SPONSORSHIPS

During 2012-2013, the Bank granted sponsorship to entities and activities promoting goals in the fields of society, culture, art, education, sports, health, the environment, science and business.

### CULTURAL AND ARTISTIC SPONSORSHIPS

**Testimony Theatre.** 2013 was the sixth year running in which the Bank sponsors the project of Testimony Theatre, which commemorates the stories of Holocaust survivors on the theatre stage, and afterwards in an inter-generation meeting between high school students and Holocaust survivors. **Theatronetto.** Sponsorship for a festival held on March 28-30, 2013 in Old Jaffa. **Friends of the Israel Museum Association.** Tickets have been purchased for an event of the Association, for use by representatives of the international private banking (2013).

**Baka Community Center.** Sponsorship for a multi-cultural festival, held during the week of Succot (Jewish Holiday). The Center serves six communities of varied cultural, social and economic entwine, and the festival is intended to represent this multi-culture (2013).

**The International Photography Festival.** Sponsorship for the Festival, held during the Sukkot Holiday at the Jaffa Port with the participation of photographers from Israel and abroad (2012). **The Tel Aviv Soloist Ensemble.** Sponsorship for the gala performance of the Ensemble (2012). **The Harp and the Nightingale Association.** Sponsorship for the 18th international harp competition (2012). **The Tel Aviv Museum of Art.** Sponsorship for the exhibition of the works of the artist Pinchas Cohen Gan (2012).

**Convention of the Babylon Heritage Center.** Sponsorship for the convention commemorating 60 years since the conclusion of the "Ezra and Nehemiah" Operation, held at the Hilton Hotel on April 25, 2013, in the presence of the President of the State of Israel and other dignitaries.

## EDUCATIONAL SPONSORSHIPS

**"College for All" Association.** Sponsorship for the Association which directs children towards excellence and for the convention on the subject of "Six aspects on excellence, held on June 7, 2013, at the "Habimah" Theatre.

**Sponsorship for the film "Cats Square".** Sponsorship for a documentary film produced by Arnon Zadok and Doron Eran about the Sprint for the Future Association, and its work helping youth. The Association has been supported by Discount consistently since 2008 (2013).

**The annual educational convention of the "Chabad" institutes.** Sponsorship for the convention held in May 2013, with the participation of hundreds of heads of Chabad educational institutes. The Convention commemorated this year the two-hundred anniversary of the founder of Chabad.

**The Haifa University Friends and Alumni Association.** Sponsorship of an event for notables of the Israeli economy held by the Association, in which representatives of the Bank took part (2013).

**The Israel Conference of Education.** Sponsorship for the Israeli Convention on education with the participation of the Minister of Education (2012).



**The Israel Chess Federation.** Sponsorship for the Federation, acting towards the advancement of the chess game among children, youth and adults (2012). **Erlau Institutions.** Sponsorship of Erlau institutes convention, operating through a countrywide religious educational network (2012). **Mada Tech - The Israel National Museum of Science, Technology and Space.** Sponsorship for the annual fundraising event on the occasion of the 25th anniversary of the foundation of the Museum and the realization of its vision of introducing children and youth to scientific contents (2012). **Libi Found.** Sponsorship for a special Jewish New Year supplement of the Libi Found (2013). **Yad Lashiryon Association.** Sponsorship for an event of the Association commemorating the fortieth anniversary of the Yom Kippur War and documenting the battles of the 14th Armored Brigade. The event was held at the Latrun Yad Lashiryon on August 29, 2013.

## SPONSORSHIP FOR SOCIAL ACTIVITIES AND ACTIVITIES IN AID OF WEAK POPULATIONS

**The Leon Recanati Senior Citizen House.** Sponsorship was granted for holidays activities held for residents of the House (2013). **Krembo Wings.** Sponsorship for an event of the Association held on July 17, at the Ra'anana Amphitheatre, with the participation of leading performers, in aid of children of the Association having special needs (2013). **Assistance Center for Victims of Rape and Sexual Assault in Jerusalem.** Sponsorship for an fundraising event of the Center (because of the storm, the event was postponed from December 2013 and held at the beginning of 2014). **Elem - Youth in Distress Association.** Sponsorship for an event of the Association held at the end of 2013, at the Performing Arts Center, marking thirty years of activity of the Association, with the participation of senior members of the business community and volunteers. **"Spring Festival" at Shapira Neighborhood.** Sponsorship for the festival at the Shapira Neighborhood in south Tel Aviv, for creating awareness and raising funds for the rehabilitation of the neighborhood (2012). **Alin Association.** Sponsorship of a fundraising event of Alin Association - Beit Noam, assisting disabled persons to live a full and satisfying life while being socially integrated (2012). **Ohel Sarah Association.** Sponsorship for a professional convention of Ohel Sarah Association, a center for the education and rehabilitation of special care children (2012). **The Pardess Association.**

Sponsorship for an event of the Pardess Association, acting for the community development and advancement of weak populations of the south Tel Aviv quarters (2012). **Ilan - The Israel Foundation for Handicapped Children.** Sponsorship for an event marking sixty years of activity of the Foundation (2012). **Maslan.** Sponsorship for an event marking 25 years of activity in aid of victims of sexual assault and violence (2012). **"College for All" Association.** Sponsorship for this Association acting towards the advancement and development of children with potential for academic excellence (2012).

## SPORTS SPONSORSHIPS

**Sponsorship for the Cosell Sports Coplex.** Sponsorship for the physical training center of the Hebrew University in Jerusalem, active in providing health and physical training values to the public and to the University community in particular, in Jerusalem and Rehovot. **Sponsorship of the Tel Aviv University Sports club.** The Bank sponsors this club which offers a wide range of sport facilities to the Tel Aviv university students (2012). **Sponsorship of the Basketball Association.** Within the framework of the sponsorship, the Bank's customers enjoyed benefits when purchasing tickets for games of the Israeli basketball team (2012).

## HEALTH SPONSORSHIPS

**Blindday events.** Sponsorship was granted to events held on June 6, 2013, under the message "one can see and do things with closed eyes", and dealt with creating awareness, information and prevention of blindness. The sponsorship was granted to the event itself, a central rally and shirts and caps for the participants.

**Research Foundation of the Barzilai Medical Center.** Sponsorship for the Foundation within the framework of the joint operation of the Ashkelon Branch and the Barzilai Medical Center extension (2013).

**"One in Nine" Association.** Sponsorship for a fundraising event of the Association promoting awareness to breast cancer (2013).

**Larger than Life Association.** Sponsorship for a special broadcast day, within the framework of Reshet Broadcasting, held on August 15, with the aim of support and fundraising in aid of children of the Association and their families (2013). **"Extend a Hand".** Sponsorship for the association assisting

children suffering from cancer (2012). **"Bnai Zion Ladies"**. Sponsorship for the association for awareness of female health, on the Health Day held in Haifa (2012). **"Mariam Angel"**. Sponsorship of an event of the Association helping cancer victims in Nazareth; sponsorship for the anti-smoking awareness day conducted by the Nazareth Convent School, during which the school children marched in the city's streets (2012). **Lirot - The Israeli Research Association for Eye Health and Blindness Prevention**. Sponsorship for the Association, that encourages basic and applied research regarding diseases that cause blindness. The Association is engaged in increasing public awareness of the need for preventive eye medicine (2012, 2013).

## ENVIRONMENTAL PROTECTION, SCIENCE, AND BUSINESS SPONSORSHIPS

**The Arava research and Development Convention**. Sponsorship of an Open Day at the Arava, comprising the largest agricultural exhibition in Israel, showing the latest innovations in the field of modern agriculture (2012, 2013).

**Herzliyah Conference**. Sponsorship of the Herzliyah Conference focusing on the interaction between economics, society and governance (2012, 2013).

**Rotary Club**. Sponsorship for a business entrepreneurship convention and for the activity of Rotary Clubs (2013).

**Small and medium businessmen convention**. Together with the Jerusalem Region, joint sponsorship with the office of BDO Ziv-Haft, Certified Public Accountants, was granted to a convention, to which were invited the Jerusalem and southern Region customers and clients of the said office.

**The Marketing Union**. Sponsorship for the convention, where the Marketing Man of the Year awards had been granted (2012, 2013).

**MIT**. Sponsorship for the GEW - Global Entrepreneurship Week within the framework of which, corporations initiate activities in aid of the community (2012). **Global entrepreneurship week**. In an international event on the subject of entrepreneurship, the Bank joined the "Global entrepreneurship week" Association and a lecture was given on the "Herzelilinblum Museum", being an example for a unique entrepreneurship (2011).

**Israel's 29th Economic Convention**. Sponsorship for the convention held on June 4, 2013, which among other things discussed work economics, corporate finance, macro-economics and more.

**Convention of the Temech Association.** Sponsorship for the convention of the Temech Association - American Israeli Center for the Advancement of the Economy and Employment in Israel, which discussed the integration of ultra-orthodox women in the employment market (2013).

**The diplomatic club.** Sponsorship for an event for diplomats and foreign representatives founded by the "Jerusalem Post" (2012).

**Sponsorship for professional conferences.** Sponsorships for a convention of the Institute of Internal Auditors in Israel (2012, 2013); the annual convention of the Israeli Economic Association and for the annual provident funds conference in Eilat (2012).

**Sponsorship for the Israel Energy Conference** (2012).

## INVOLVEMENT IN AND CONTRIBUTION TO THE COMMUNITY BY THE PRINCIPAL SUBSIDIARIES

**"ICC for all".** In 2013 ICC commenced a social responsibility program, in cooperation with ten municipal authorities countrywide. Each department of ICC chose a target population and the staff of these departments lead social projects in accordance with that populations needs. Tens of significant activities have been conducted by the managers and staff of ICC within the framework of this program.

**"Another lesson".** Since 2010, ICC takes part in a project of "A Different Lesson" association, which channels the wealth of knowledge found among the public into enriching and enhancing the educational system, by inviting citizens from the business and public sectors, who are professionals in various fields, to come into the schools and give inspiring enrichment courses. Company employees joined this association's voluntary setup within the educational system and invited school children to the Company's offices for an inspirational day to experience the world of finance and credit.

**Participation in an educational project.** MDB Bank has been participating also in 2013 in a project conducted by "Yad Eliezer" Association, within the framework of which this bank has granted 400 scholarships to Yeshiva students, at a total cost of NIS 0.2 million, in consideration for their commitment to serve as tutors to children of disadvantaged families in the ultra-orthodox sector.

**"A computer for every child".** MDB, through the "A computer for every child" Association (under the patronage of the Government of Israel) has donated in 2013 computer kits to children of low income families. The donation this year amounted to one hundred computer sets at a total cost of NIS 0.1 million.

## SOCIAL RESPONSIBILITY RATINGS

**"Maala" rating for 2012-2013.** In June 2013, "Maala" published its rating for 2013. A new rating category was added as of 2012 - Platinum Plus (awarded to companies with an absolute score of over 90). The Bank has been rated in the Platinum Plus category, in 2012 and in 2013. 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.

The Maala index for 2014 was published in June 2014, the Bank being rated again as "Platinum plus".

**BDI rating - the best 100 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 2013, the Bank was awarded the 14th place in the rating. In 2012, the Bank was awarded the 12th place in the rating.



Green  
Discount  
for the  
Environment

## 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 will allocate 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 – Deputy Head of the Operations and Logistics Division in the Bank – as head of environmental policy, while defining his areas of responsibility and activity. The said in charge officer acted in this role in 2012. In 2013, the Bank's Management appointed a senior manager from the Construction and Properties Department (Deputy Department Manager) as the official in-charge for environmental policy. The officer in-charge reports directly to the Head of the 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 – 1% annually;
- Reducing gasoline consumption – 1% annually;
- Water – reducing usage – 1% annually;
- Waste – reduction at the source, separation, reuse and recycling – 10% by the year 2016.



## PAPERLESS BANK

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.

Consumption of paper by the Bank	2013		2012		2011		Change in % <sup>1</sup>	
	Absolute	Relative to employees	Absolute	Relative to employees	Absolute	Relative to employees	2013 compared to 2012	2012 compared to 2011
Tons	624	0.098	505	0.082	484.5	0.078	23.6	4.2

Note:

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

## 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	2013	2012	2011	Change in % <sup>1</sup>	
				2013 compared to 2012	2012 compared to 2011
Units	16,500	14,500	13,500	13.8	7.4

Note:

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

Use of recycled paper is in immaterial quantities.

## THE CONSUMPTION OF RESOURCES

### ENERGY USAGE

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.

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

	2013		2012		2011		Change in % <sup>1</sup>	
	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2013 compared to 2012	2012 compared to 2011
Electricity consumption from Israel								
Company	61,629,000	368	61,639,000	378	60,677,000	363	(0.02)	1.6
Generator fuel consumption	99,900	0.60	99,900	0.61	204,717	1.22	-	(51.2)
<b>Total energy consumption</b>	<b>61,737,900</b>	<b>369</b>	<b>61,747,900</b>	<b>379</b>	<b>60,900,160</b>	<b>364</b>	<b>(0.02)</b>	<b>1.4</b>

Note:

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

Presented below are the principal data relating to energy consumption, from various sources, for the years 2011-2013:

		Energy Consumption in GJ units <sup>(1)</sup>					
		2013		2012		2011	
Energy source	Details	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter
Indirect energy consumption	Electricity from the grid	221,864	1.32	221,900	1.36	218,437	1.31
Direct energy consumption	Diesel for generators	356	0.002	356	0.002	730	0.004
Direct energy consumption	Benzene for transportation	187,165	1.118	187,303	1.153	18,501	0.111
Direct energy consumption	Diesel for transportation	656	0.004	740	0.005	1,217	0.007
<b>Total - overall energy consumption</b>		<b>410,041</b>	<b>2.444</b>	<b>140,899</b>	<b>2.528</b>	<b>238,885</b>	<b>1.432</b>

Note:

1) GJ - Energy measurement unit (Gigajoules); 1 GJ = 277.777778 kwh.

## CONSUMPTION OF FUEL AND DIESEL OIL FOR TRAVEL

Data regarding fuel consumption for employee travel:

	2013	2012	2011	Change in % <sup>1</sup>	
	In Liters			2013 compared to 2012	2012 compared to 2011
Benzene for transportation	585,197	584,493	540,976	(0.4)	8.04
Diesel oil for transportation	17,002	19,182	31,517	(11.4)	(39.1)

## WATER USAGE

The Bank employs water saving means, such as faucet aerators and dual volume flush apparatuses at all units and branches of the Bank. At the Bank buildings at 17 and 41 Yehuda Halevi Street in Tel Aviv, rain water and air-conditioners water are being channeled to natural ground penetration and watering of the ground floor flora. Furthermore, these buildings have an infrastructure for the recycling of greywater for toilet flushing purposes. In addition, both buildings have outside paving, which allows penetration of rainwater for the replenishing underground reservoirs (it is noted however, that the use of recycled water, as stated, is negligible).

Bank water consumption	2013	Relative to employees	2012	Relative to employees	Change in % <sup>1</sup>
Cubic meters	45,560	7.34	42,242	6.85	7.85

Note:

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

It is noted that all the water consumed at the Bank are supplied by city water corporations.

## RECYCLING AND WASTE TREATMENT

The Bank acts for the responsible treatment of waste created by its operations, transporting it for responsible recycling, wherever possible. For the purpose of waste removal, the Bank has undertakings with vendors to remove the waste to authorized waste sites.

**Recycling of paper** – Containers have been placed in all of the Bank's units and branches for collecting paper. During 2012–2013 the Bank had an agreement with "Amnir" regarding the collection of paper and sending it for recycling.

**Plastic bottles** – Recycling bins have been placed in the head office locations, to which all of the plastic products, including bottles, are sent. "A.L.H." collects the contents and transports them for recycling.

**Collection of computer equipment no longer in use** – Outdated computer equipment that was collected from the different bank units, or equipment that has broken down, and for economic reasons it was decided not to repair, are collected in an equipment warehouse of the Bank. Periodically, this equipment is removed by a company that is authorized to treat and remove this type of equipment. Similarly treated are magnetic disks, which for data security reasons, are also shredded.

**Battery collection** – Placed in the main locations of the Bank's headquarters in Tel Aviv are standard containers for battery collection.

During 2012–2013 the Tel Aviv Municipality performed the orderly collection and burying.

Following is the volume of waste collected during 2012-2013:

	Measure ment unit	2013		2012		Change in % <sup>1</sup>
		Absolute	Relative to employees	Absolute	Relative to employees	
Paper	Ton	484.5	0.08	505	0.08	(4.06)
Bottles	Units	79,500	12.81	68,450	11.10	16.14
Batteries	Units	9,500	1.53	6,000	0.97	58.33
Electric bulbs	Units	10,900	1.76	10,880	1.76	0.18
Electronic waste	Units	2,109	0.34	1,847	0.30	14.19

Notes:

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

2) Paper waste data are included based on estimates, on the assumption that paper waste is approximately identical to the quantity of paper used.

Presented below are details regarding the types of electronic waste collected in the years 2011-2013:

Type of item	2013	2012	2011
	Units		
Screens and televisions	1,320	534	566
Servers	157	90	
Printers and scanners	755	1,000	172
Work stations (computers)	1,496	250	508
Other	149		32
<b>Total</b>	<b>3,877</b>	<b>1,874</b>	<b>1,278</b>

## EMISSION OF GREENHOUSE GAS

The Bank is voluntarily committed to targets for reducing the emission of greenhouse gases.

In each year, the Operations and Logistics 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 and to the CDP. 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).

### Carbon footprint:

	2013		2012		2011		Change in %	
	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2013 compared to 2012	2012 compared to 2011
Scope 1 (travel + generator diesel oil consumption) <sup>(2)</sup>	1,436	0.0086	1,448	0.0089	1,408	0.0084	(0.83)	2.84
Scope 2 <sup>(2)(3)</sup>	43,314	0.2586	48,477	0.2975	44,476	0.2660	(10.65)	9.0
Scope 3 (internal and overseas flights) <sup>(4)</sup>	230	0.0014	251	0.0015	216	0.0013	(8.37)	16.2
<b>Total carbon footprint<sup>(5)</sup></b>	<b>44,980</b>	<b>0.27</b>	<b>50,176</b>	<b>0.31</b>	<b>46,100</b>	<b>0.28</b>	<b>(10.36)</b>	<b>8.84</b>

#### 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.
- 3) In quantifying the indirect emission of greenhouse gases resulting from the consumption of energy supplied by the electricity network, use is made of the countrywide emission coefficient, which is affected by the mix of fuel used by Israel Electric Corporation. In 2012, following the decline in use of natural gas for the generation of electricity and the increase in use of diesel oil and fuel oil (among other things due to interruptions in the supply of natural gas from Egypt) the emission coefficient has increased by almost 7% compared with 2011. On the other hand, due to increased use of natural gas in 2013, due to the supply from the "Tamar" gas field, the said coefficient decreased by 11%.
- 4) The computation is based on coefficients of the Greenhouse Gas Protocol.
- 5) It is noted that the greenhouse gases originating in gases of air conditioning units, comprised in the years 2011-2012 about 5% on an average of total greenhouse gas emission at the Bank. As this data is based on estimates and not on measurement of cooling gas used to refill the air conditioning systems, this value is not included at this stage in the computation presented above. (In order to complete the picture, it is noted that the computation presented in the report to the voluntary layout for the reporting and recording center of the Israel Ministry of Environmental Protection, includes the said estimates).

Annual absolute reduction targets of 1% both in Scope 1 and Scope 2.

## ENERGETIC EFFICIENCY

### MEASURES TO REDUCE GREENHOUSE GAS EMISSIONS

Presented below are details regarding the investment in measures to reduce greenhouse gas (GHG) emissions in 2012-2013, and the annual savings which have resulted therefrom:

		2013			
Type of activity	Description	Investment in NIS	Annual energy savings (in kwh)	Annual GHG emissions reduction (CO2e tons)	Expected annual financial savings (estimate in NIS) <sup>(1)</sup>
Energy efficiencies in buildings	Energy efficiencies in A/C systems	2,600,000	<sup>(3)</sup> 19,016	13	12,478.30
Energy efficiencies in buildings	Upgrading electricity control systems	4,000,000	596,838	419	391,645.10
Energy efficiencies in buildings	Installing building control systems	80,000	scattered initiatives – not quantifiable <sup>(4)</sup>		
<b>Total</b>		<b>6,680,000</b>	<b>615,854</b>	<b>432</b>	<b>404,123</b>

		2012			
Type of activity	Description	Investment in NIS	Annual energy savings (in kwh)	Annual GHG emissions reduction (CO2e tons)	Expected annual financial savings (estimate in NIS) <sup>(1)</sup>
Energy efficiencies in buildings	Energy efficiencies in A/C systems	6,600,000	2,242,698	1,763	1,113,315
Energy efficiencies in buildings	Upgrading electricity control systems	8,500,000	559,188	440	335,750
Energy efficiencies in buildings	Installing building control systems	400,000	1,018,000	801	<sup>(3)</sup> 500,000
<b>Total</b>		<b>15,500,000</b>	<b>3,819,886</b>	<b>3,004</b>	<b>1,949,065</b>

Notes:

(1) In accordance with actual savings data.

(2) In 2013, installation began of energy efficient air-conditioning systems at the Haifa main-branch (conversion to VRF), the installation was completed at the beginning of 2014. The savings presented relate solely to 2013. The aggregate annual saving is expected to amount to 10%.

(3) In 2012, as part of the renovation of 10 branches, the lighting systems were replaced and the annual saving was calculated for all the branches. In 2013, on the other hand, lighting systems were replaced on a scattered basis and it is thus not possible to isolate the saving resulting from the installation of such systems.

In 2013, 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.

## EMPLOYEE TRANSPORT SYSTEM

In order to reduce greenhouse gas emissions resulting from employees' transportation on the one hand and in order to make things easier for employees on the other hand, the Bank operates two transportation facilities at the disposal of employees. 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. 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	7	224	60	224
Tel Aviv train station	Discount College Rishon Lezion	5	2	5	200	45	150
Within Tel Aviv	Discount Tower, 160 Herzl St.	5	11	10	2200	15	550
North train station	Discount Tower, 160 Herzl St.	6	2	4	192	20	64
<b>Total monthly savings</b>							<b>988</b>
<b>Total annual savings</b>							<b>11,856</b>

It should be noted that the shuttles from the Tel Aviv train station to the Discount College operated only in 2012. At the beginning of 2013, this shuttle route was discontinued due to the opening of a train station close to the College.



## 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 three 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.

**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 45 Yehuda Halevi Street. To date the building has been awarded 53 points out of the 55 points required for a Green Label certificate.

### 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.

Already some years ago, the Bank formed a credit policy with respect to environmental risks, and from time to time, as part of a periodic examination of the credit policy in general, the credit policy as regards environmental risks is also examined and updated.

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 2013 Annual Report (pp. 125–182).

## GRANTING "GREEN CREDIT" (GREEN BUSINESSES)

As part of the credit policy and of the overall process of relating to the environment, the Bank emphasizes 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:

- 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.

This field has grown significantly at the Bank in the years 2012-2013, in view of the emphasis put on the growth of credit to this field. The Bank's total credit exposure to this field as of December 31, 2013, (including credit facilities) amounted to NIS 740 million.



# Summary

## THANK YOU'S!

And before Discount Bank's Third Corporate Responsibility Report gets going... the pleasure of thank you's!

Thank you to the dozens of **Discounters** who worked so hard gathering and processing the material, who provided responses to interviews, ideas, comment, clarifications, proofreading, initiative and encouragement.

Thanks to the devoted team from BDO Ziv Haft's Corporate Social Responsibility and Sustainability Group - Dr. Jonathan Menuhin, Nir Koren and Rotem Blanc-Inbar, 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 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 INDEX AND GLOBAL COMPACT COP REPORT

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
<b>PART I: Profile and Strategy Disclosures</b>					
<b>Strategy and Analysis</b>	1.1	N/R	Statement from the most senior decision-maker of the organization.	5-6	Fully
	1.2	N/R	Description of key impacts, risks, and opportunities.	5-6, 8-9	Fully
<b>Organizational Profile</b>	2.1	N/R	Name of the organization.	19	Fully
	2.2	N/R	Primary brands, products, and/or services.	19,20	Fully
	2.3	N/R	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	25	Fully
	2.4	N/R	Location of organization's headquarters.	19	Fully
	2.5	N/R	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.	20	Fully
	2.6	N/R	Nature of ownership and legal form.	19	Fully
	2.7	N/R	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	67-71	Fully
	2.8	N/R	Scale of the reporting organization.	19, 59	Fully
	2.9	N/R	Significant changes during the reporting period regarding size, structure, or ownership.	21-22	Fully
	2.10	N/R	Awards received in the reporting period.	63-64, 189	Fully
<b>Report Parameters</b>	3.1	N/R	Reporting period (e.g., fiscal/calendar year) for information provided.	7	Fully
	3.2	N/R	Date of most recent previous report (if any).	7	Fully
	3.3	N/R	Reporting cycle (annual, biennial, etc.)	8	Fully
	3.4	N/R	Contact point for questions regarding the report or its contents.	207	Fully
	3.5	N/R	Process for defining report content.	8-10	Fully



## Summary

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	3.6	N/R	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	10	Fully
	3.7	N/R	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	10	Fully
	3.8	N/R	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	10	Fully
	3.9	N/R	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	10	Fully
	3.10	N/R	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	10	Fully
	3.11	N/R	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	10	Fully
	3.12	N/R	Table identifying the location of the Standard Disclosures in the report.	208	Fully
	3.13	N/R	Policy and current practice with regard to seeking external assurance for the report.	12, 14-17	Fully
<b>Governance, Commitments, and Engagement</b>	4.1	1-10	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	26-27, 28-33, 46-50	Fully
	4.2	1-10	Indicate whether the Chair of the highest governance body is also an executive officer.	26	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	4.3	1-10	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	25, 26	Fully
	4.4	1-10	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	36-37, 48, 150-151	Fully
	4.5	1-10	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).	38-42	Fully
	4.6	1-10	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	34-35	Fully
	4.7	1-10	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.	36-37	Fully
	4.8	1-10	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	44-46	Fully
	4.9	1-10	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.	27-33	Fully
	4.10	1-10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	27-28	Fully

## Summary

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
4.11		7	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	32, 34-35, 48, 50	Fully
4.12		1-10	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	60-62	Fully
4.13		1-10	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	60-62	Fully
4.14			List of stakeholder groups engaged by the organization.	10-11, 22-24, 101-108, 150-152, 164-166	Fully
4.15		The Global Compact COP is part of the Sustainability Report, which is the base for stakeholder dialogue	Basis for identification and selection of stakeholders with whom to engage.	10-11, 22-24, 101-108, 150-152, 164-166	Fully
4.16			Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	10-11, 22-24, 101-108, 150-152, 164-166	Fully
4.17			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.	7, 22-24, 25, 150	Fully

## PART II: Disclosures on Management Approach (DMAs)

<b>Disclosure on Management Approach EC</b>	DMA EC	Aspects	Economic performance	56-58	Fully
			Market presence	73-75	Fully
			Indirect economic impacts	56-57	Fully
<b>Disclosure on Management Approach EN</b>	DMA EN	Aspects	Materials	193-194	Fully
			Energy	195	Fully
			Water	196	Fully
			Biodiversity	Not relevant	
			Emissions, effluents and waste	196-198	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
<b>Disclosure on Management Approach LA</b>	DMA LA	Aspects	Products and services	193-194	Fully
			Compliance	46-47, 202	Fully
			Transport	200	Fully
			Overall	191-192	Fully
			Employment	111, 113	Fully
			Labor/management relations	111	Fully
			Occupational health and safety	156	Fully
			Training and education	111-112	Fully
			Diversity and equal opportunity	111-112	Fully
			Equal remuneration for women and men	120-121	Fully
<b>Disclosure on Management Approach HR</b>	DMA HR	Aspects	Investment and procurement practices	108	Fully
			Non-discrimination	111-112	Fully
			Freedom of association and collective bargaining	113	Fully
			Child labor	111-112	Fully
			Prevention of forced and compulsory labor	146-147	Fully
			Security practices	148	Fully
			Indigenous rights	Not relevant	
			Assessment	Not relevant	
<b>Disclosure on Management Approach SO</b>	DMA SO	Aspects	Remediation	48-49	Fully
			Local communities	161	Fully
			Corruption	50	Fully
			Public policy	52	Fully
			Anti-competitive behavior	50-51	Fully
			Compliance	45-46	Fully
<b>Disclosure on Management Approach PR</b>	DMA PR	Aspects	Customer health and safety	156	Fully
			Product and service labeling	66, 99-100	Fully
			Marketing communications	53, 99-100	Fully
			Customer privacy	66, 106	Fully
			Compliance	99-100	Fully

## Summary

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
<b>PART III: Performance Indicators</b>					
<b>Economic performance</b>					
<b>Economic performance</b>	EC1	N/R	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	60, 163	Fully
	EC2	7	Financial implications and other risks and opportunities for the organization's activities due to climate change.	199, 201-205	Fully
	EC3	N/R	Coverage of the organization's defined benefit plan obligations.	122, 132-133	Fully
	EC4	N/R	Significant financial assistance received from government.	57, 64, 122	Fully
	EC5	1	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	122-123	Fully
<b>Market presence</b>	EC6	N/R	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	108	Fully
	EC7	6	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Not relevant	
	EC8	N/R	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	163, 168-169	Fully
<b>Indirect economic impacts</b>	EC9	N/R	Understanding and describing significant indirect economic impacts, including the extent of impacts.	56-57, 95-96, 112, 130, 174-175	Fully
<b>Environmental performance</b>					
<b>Materials</b>	EN1	8	Materials used by weight or volume.	193-194	Fully
	EN2	8,9	Percentage of materials used that are recycled input materials.	193-194	Fully
	EN3	8	Direct energy consumption by primary energy source.	195-196	Fully
<b>Energy</b>	EN4	8	Indirect energy consumption by primary source.	195-196	Fully
	EN5	8,9	Energy saved due to conservation and efficiency improvements.	195-196, 199	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
<b>Water</b>	EN6	8,9	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	195-196, 199, 201-205	Fully
	EN7	8,9	Initiatives to reduce indirect energy consumption and reductions achieved.	195-196, 198-200	Fully
	EN8	8	Total water withdrawal by source.	196	Fully
	EN9	8	Water sources significantly affected by withdrawal of water.	196	Fully
	EN10	8,9	Percentage and total volume of water recycled and reused.	196	Fully
<b>Biodiversity</b>	EN11	8	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not relevant	
	EN12	8	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not relevant	
	EN13	8	Habitats protected or restored.	Not relevant	
	EN14	8	Strategies, current actions, and future plans for managing impacts on biodiversity.	Not relevant	
	EN15	8	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not relevant	
<b>Emissions, effluents and waste</b>	EN16	8	Total direct and indirect greenhouse gas emissions by weight.	198-200	Fully
	EN17	8	Other relevant indirect greenhouse gas emissions by weight.	198-200	Fully
	EN18	7,8,9	Initiatives to reduce greenhouse gas emissions and reductions achieved.	195-196, 199	Fully
	EN19	8	Emissions of ozone-depleting substances by weight.	198-200	Fully
	EN20	8	NOx, SOx, and other significant air emissions by type and weight.	Not relevant	
	EN21	8	Total water discharge by quality and destination.	Not relevant	
	EN22	8	Total weight of waste by type and disposal method.	196-197	Fully
	EN23	8	Total number and volume of significant spills.	Not relevant	

## Summary

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	EN24	8	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not relevant	
	EN25	8	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Not relevant	
<b>Products and services</b>	EN26	7	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	73-75, 196-198, 199	Fully
	EN27	8	Percentage of products sold and their packaging materials that are reclaimed by category.	Not relevant	
<b>Compliance</b>	EN28	8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	51	Fully
<b>Transport</b>	EN29	8	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	193-194, 199-200	Fully
<b>Overall</b>	EN30	7,8,9	Total environmental protection expenditures and investments by type.	199	Fully
<b>Social: Labor Practices and Decent Work</b>					
<b>Employment</b>	LA1	N/R	Total workforce by employment type	143-146	Fully
	LA2	6	Total number and rate of new employee hires and employee turnover by age group	158-159	Fully
	LA3	N/R	Benefits provided to full-time employees that are not provided to temporary or part-time employees	118, 120	Fully
	LA15	1,3	Return to work and retention rates after parental leave	142	Fully
<b>Labor/management relations</b>	LA4	1,3	Percentage of employees covered by collective bargaining agreements.	114	Fully
	LA5	3	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	114	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
<b>Occupational health and safety</b>	LA6	1	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	157	Fully
	LA7	1	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	140-142, 158-159	Fully
	LA8	1	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	155-156, 158	Fully
	LA9	1	Health and safety topics covered in formal agreements with trade unions.	157	Fully
<b>Training and education</b>	LA10	N/R	Average hours of training per year per employee by gender, and by employee category.	146-147	Partially
	LA11	N/R	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	155	Fully
	LA12	N/R	Percentage of employees receiving regular performance and career development reviews, by gender.	151-152	Fully
<b>Diversity and equal opportunity</b>	LA13	1,6	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	26, 135-136	Fully
<b>Equal remuneration for women and men</b>	LA14	1,6	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	122-123	Fully
<b>Social: Human Rights</b>					
<b>Investment and procurement practices</b>	HR1	1,2,3,4,5,6	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns	Not applicable	
	HR2	1,2,3,4,5,6	Percentage of significant suppliers	109	Partially



## Summary

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	HR3	1,2,3,4,5,6	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations	147	Fully
<b>Non-discrimination</b>	HR4	1,2,6	Total number of incidents of discrimination and corrective actions taken.	112-113	Fully
<b>Freedom of association and collective bargaining</b>	HR5	1,2,3	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	114-115	Fully
<b>Child labor</b>	HR6	1,2,5	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	112	Fully
<b>Prevention of forced and compulsory labor</b>	HR7	1,2,4	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	147-148	Fully
<b>Security practices</b>	HR8	1,2	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	148, 158-159	Fully
<b>Indigenous rights</b>	HR9	1,2	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not relevant	
<b>Assessment</b>	HR10	1,2	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Not relevant	
<b>Remediation</b>	HR11	1,2,6	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	112-113, 158-159	Fully
<b>Social: Society</b>					
<b>Local communities</b>	SO1	N/R	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	161, 165-169	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	SO9	N/R	Operations with significant potential or actual negative impacts on local communities.	201-204	Fully
	FS13	N/R	Access points in low-populated or economically disadvantaged areas by type.	66-67	Fully
	FS14	N/R	Initiatives to improve access to financial services for disadvantaged people.	95-96, 97-99	Fully
	SO10	N/R	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	201-204	Fully
<b>Corruption</b>	SO2	10	Percentage and total number of business units analyzed for risks related to corruption.	42-44, 47-48	Fully
	SO3	10	Percentage of employees trained in organization's anti-corruption policies and procedures.	49	Fully
	SO4	10	Actions taken in response to incidents of corruption.	49	Fully
<b>Public policy</b>	SO5	1-10	Public policy positions and participation in public policy development and lobbying.	52	Fully
	SO6	10	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	52	Fully
<b>Anti-competitive behavior</b>	SO7	N/R	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	51	Fully
<b>Compliance</b>	SO8	N/R	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	51	Fully
<b>Social: Product Responsibility</b>					
<b>Customer health and safety</b>	PR1	1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	156	Fully
	PR2	1	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle	Not relevant	
<b>Product and service labeling</b>	PR3	8	Type of product and service information required by procedures	99-100	Fully
	PR4	8	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	47, 51, 53, 100	Fully

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Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	PR5	N/R	Practices related to customer satisfaction	72, 101-106	Fully
	FS15	N/R	Policies for the fair design and sale of financial products and services.	53, 66, 68, 70, 95-97, 101	Fully
	FS16	N/R	Initiatives to enhance financial literacy by type of beneficiary.	95-97	Fully
<b>Marketing communications</b>	PR6	N/R	Programs for adherence to laws	46, 54	Fully
	PR7	N/R	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	54	Fully
<b>Customer privacy</b>	PR8	1	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	106-107	Fully
<b>Compliance</b>	PR9	N/R	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	51	Fully
<b>Product and Service Impact</b>					
	FS1	N/R	Policies with specific environmental and social components applied to business lines.	191, 201-204	Fully
	FS2	N/R	Procedures for assessing and screening environmental and social risks in business lines.	28-29, 32, 44	Fully
<b>Product portfolio</b>	FS3	N/R	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	201-204	Partially
	FS4	N/R	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	201-204	Fully
	FS5	N/R	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	95-97	Fully
	FS6	N/R	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	66-67	Fully

Issue	Profile Disclosure	GC Principal	Description	Page	Level of reporting / Reason for omission
	FS7	N/R	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	68, 79-82	Fully
	FS8	N/R	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	201-204	Fully
<b>Audit</b>	FS9	N/R	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	201-204	Fully
	FS10	N/R	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	Not relevant	
<b>Active ownership</b>	FS11	N/R	Percentage of assets subject to positive and negative environmental or social screening.	Not relevant	
	FS12	N/R	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	Not relevant	



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