Corporate Governance Code at Discount Group

Introduction

This document presents the corporate governance rules which guide the activity of Discount Group. These rules aim to regulate Discount Group's conduct, inter alia, in order to ensure that the Group will manage its risks in a proper and effective manner, maximize its profits in favor of its shareholders and strive to preserve the interests of its customers.

The corporate governance rules set forth in this document reflect Discount Group's view of the Group's values, of its decision making processes, of risk management and of proper and adequate control and supervision processes. The corporate governance rules are based on the principle of segregation of duties between the board of directors, whose role it is to decide the strategy and policy for the banking corporation and to oversee the management's activity, and the management, which is responsible for the day-to-day management pursuant to the policy prescribed by the board of directors.

The corporate governance rules set forth in this Code reflect the corporate governance rules which Discount Bank follows, including by virtue of the legal and regulatory provisions governing the Group.

In this document, "**Banking Corporation**" – the Bank and/or the Group and/or any of the Group corporations, as the case may be.

1. The board of directors is accountable to the Banking Corporation

1.1 The board of directors is ultimately accountable for the activity and financial strength of the Banking Corporation.

1.2 The board of directors will make its decisions bearing in mind that it is the purpose of the Banking Corporation to strive, pursuant to business considerations, to maximize its profits, and that such considerations may take into account, inter alia, the interests of its employees, its debtors, its customers, its shareholders and the public.

1.3 The board of directors, as a body and as each of its individuals, has a fiduciary duty to the Corporation, and must act in good faith, while taking reasonable precautions, in the interests of the Corporation.

1.3.1 **Fiduciary duty and ethical conduct**

A director will avoid any action that would create a conflict of interests between his duties in the Banking Corporation and any other duty or personal interest of his, and will avoid any action which could compete with the Banking Corporation's business and utilizing business transactions of the Banking Corporation to attain benefit for himself or for another.

1.3.2 **Duty of care**

A director has a duty of care to the Corporation, as set forth in Sections 35 and 36 of the Torts Ordinance [New Version], and will act at the level of skill a reasonable director would act at in the same position and in the same circumstances.

2. Independence and qualification of the board of directors

2.1 **The members of the board of directors will be appointed by the general meeting of the shareholders, and will possess the appropriate qualifications for their position, an understanding of their role in the corporate governance scheme and an ability to exercise proper discretion, independent of management views or of inappropriate external interests.**

2.1.1 A person will not serve as a director if another position he serves in, his business or his regular occupations, or his personal position, create a permanent conflict of interests between him and the Banking Corporation, or if concern exists that such permanent conflict of interests could arise between him and the Banking Corporation.

2.1.2 The permanent residence of at least two thirds of the members of the board of directors will be in Israel.

2.1.3 The majority of the board of directors will be independent directors or external directors, as prescribed by legal and regulatory provisions.

2.1.4 Officers will not serve as directors in a Corporation in which they are officers, with the exception of the Chief Executive Officer, who may be appointed as a director under special circumstances.

2.1.5 When appointing a director to the Banking Corporation, the composition of the board of directors will be varied in terms of the candidate's gender, in addition to the need for diversity in knowledge and experience, as dictated by the needs of the Banking Corporation.

2.2 **The directors will have sufficient ability, knowledge and expertise to allow them to efficiently supervise the Banking Corporation's conduct.**

2.2.1 A director will possess knowledge, experience or expertise in one or more of the following fields: banking, finance, economic or business activity, law, administration or accounting.

2.2.2 At least one fifth of all directors will possess accounting and financial expertise.

2.2.3 At least one third of all directors will possess proven banking experience.

2.2.4 At least one half of all directors will possess a professional qualification.

2.2.5 Being a director who possesses accounting and financial expertise or professional qualifications or being an external director, as these are construed in the law, does not in itself derogate from the responsibility of the director or of the remaining directors.

2.2.6 A person will not serve as a director if his other occupations do not leave him sufficient time to fulfill his duties in that capacity. Every director will state in writing, prior to his appointment, and upon his reappointment, that he possesses the qualifications and the time required to properly fulfill his duties.

2.3 **The board of directors will have adequate collective knowledge about each of the material types of activity conducted by the Banking Corporation.**

2.3.1 A director has the right to examine the Corporation's documents and its records and to receive copies thereof, and to conduct an examination, insofar as this is required to fulfill his duties as a director, subject to the limitations prescribed by law.

2.3.2 A director must take reasonable measures to obtain information regarding the business feasibility of an action presented to him for approval or of an action carried out by him by virtue of his position, or any other information of importance with regard to such actions.

2.3.3 In fulfilling its duties, the board of directors may rely, inter alia, on the employees of the Banking Corporation and on its managers, external advisors and audit functions – internal and external, after querying and investigating these functions as part of the work of the board of directors.

2.3.4 In fulfilling his duties, a director may, in special cases, obtain professional advice at the Corporation's expense, provided that the expense is approved by the board of directors or by the court.

2.3.5 Directors will be given, from time to time, the option to update their knowledge of and familiarity with the Banking Corporation's business, as required for the fulfilment of their duties.

2.3.6 The board of directors implements instruction and training programs for the directors on professional topics required for the fulfilment of their duties as directors of the Banking Corporation.

3. Conduct of the board of directors and its meetings

3.1 The composition of the board of directors and its committees will ensure that its activity will be efficient and will promote practical discussion.

3.2 The members of the board of directors must participate in its meetings, and must dedicate the appropriate amount of time to prepare for the meetings and to study the topics on the agenda. The discussions of the board of directors will be conducted in a practical and open manner.

3.3 The board of directors may summon to its meetings the Banking Corporation's employees and its managers, external advisors, and internal and external audit functions, insofar as this is necessary to promote an efficient, practical discussion.

4. Committees of the board of directors

4.1 The board of directors may appoint board of directors' committees that focus on different topics. Decisions on material topics, including topics set forth in legal and regulatory provisions, are made by the board of directors.

4.2 The board of directors has appointed an audit committee, a compensation committee and a risk management committee.

4.3 The composition of the compensation committee and the audit committee is in compliance with the legal requirements, according to which the chairperson of the committee and the majority of its members are external directors.

4.4 Every committee which is entitled to exercise an authority of the board of directors has at least one external director who has been appointed pursuant to the Companies Law.

5. Separation of powers between the board of directors and the management

5.1 The role of the board of directors is to outline the strategy and policy of the Banking Corporation and to supervise and control its conduct, while the role of the management is to manage the Banking Corporation according to the strategy and policy approved by the board of directors.

5.2 The board of directors will avoid intervening in the day-to-day management of the Banking Corporation, apart from exceptional cases where the board of directors decides to assume any of the Chief Executive Officer's authorities, subject to the provisions of the Companies Law and the Proper Conduct of Banking Business Directives.

5.3 The chairperson of the board of directors will not serve as the Chief Executive Officer or as any other officer of the Banking Corporation in which he serves as chairperson, and will not engage in the day-to-day management of that Corporation.

5.4 Members of the Banking Corporation's management will be appointed by the Chief Executive Officer, subject to the approval of the board of directors.

5.5 The chairperson of the board of directors and any other member of the board of directors will avoid giving instructions to officers who answer to the Chief Executive Officer, and will not approach employees of the Banking Corporation with business ventures, with matters related to customers or with regard to certain investments of the Banking Corporation.

Duties of the board of directors

6. Strategy and policy

6.1 **The board of directors is responsible for setting the strategic goals of the Banking Corporation, its policy and the principle lines of its activity, after determining the risk appetite and taking into consideration regulatory provisions and the ability of the Corporation to manage the risk.**

6.1.1 The board of directors is responsible for setting the Banking Corporation's policy, approving its action plans, including the multi-year plan, setting principles for the financing of these plans and prioritizing them, and monitoring their implementation.

6.1.2 The board of directors is responsible for setting the Banking Corporation's policy, inter alia, on the following topics:

6.1.2.1. Credit.

6.1.2.2. Risk management.

6.1.2.3. ALM – Asset and Liability Management, including implementation and realization of fixed investments.

6.1.2.4. Organizational structure.

6.1.2.5. Employee compensation, including compensation policy, exemption, indemnification and insurance for officers.

6.1.2.6. Compliance.

6.1.2.7. IT and technological means.

6.1.2.8. Ethics.

6.1.2.9. Human resource management.

6.1.2.10. Prohibition of money laundering.

Appointment of Chief Executive Officer and supervision and control of the management

6.2 The board of directors is authorized to appoint and dismiss the Chief Executive Officer, and to determine a suitable manner to appoint him.

6.3 The board of directors is responsible for supervising the actions of the Chief Executive Officer and of the management, and the consistency thereof with the policy approved by the board of directors.

6.3.1 The board of directors will supervise the management's activity by presenting questions, examining current matters and requiring explanations.

6.3.2 The board of directors will define the duties and authorities of the Chief Executive Officer, and will assign to him the duty of reporting his actions to the board of directors on an ongoing basis.

6.4 At least once a year, the board of directors will hold a discussion to assess the performance of the Chief Executive Officer and the functioning of the management[1].

7. Ethics

7.1 **The board of directors is responsible for setting high standards of conduct, aimed at promoting professional conduct and integrity, and assimilating these throughout the organization.**

7.2 Discount Group follows an ethical code which is designed to reflect the values of the Group, and to set proper standards of conduct and fair, transparent conduct vis-à-vis customers, suppliers, competitors, authorities, shareholders and the community. The Bank acts to assimilate these values among its employees as an integral part of its organizational structure.

7.3 The board of directors and the management are responsible for protecting employees who report illegal or unethical acts, or acts that could cause moral harm, from direct or indirect disciplinary proceedings or from other adverse implications for them.

8. Conflicts of interests

8.1 **The board of directors is responsible for setting a policy and making rules for dealing with conflicts of interests, in order to protect the Banking Corporation from inappropriate or illegal acts or from the effects of persons not acting in the interests of the Banking Corporation.**

8.1.1 The board of directors will act to ensure that the management implements rules for identifying potential conflicts of interests, and that it sets procedures and rules of action that prohibit or adequately limit activities, contacts or situations which have inherent in them conflicts of interests, or which grant preferential treatment to related parties, which could reduce the quality of the corporate governance.

8.1.2 A controlling shareholder, a director or another officer of the Corporation, who is aware of having a personal interest in an existing or proposed transaction of the Corporation, will disclose to the Corporation without

[1] Section 20(a) of Proper Conduct of Banking Business Directive 301.

delay the nature of his personal interest, including any material fact or document.

8.1.3 The board of directors has approved the policy documents, within the context of which limits have been prescribed that are aimed at ensuring that business activities which could evoke conflicts of interests will be carried out with sufficient lack of inter-dependency, inter alia, by creating separation mechanisms between the activities (such as by setting up "Chinese walls" between the relevant activities).

8.2 The board of directors has approved procedures and criteria for approving transactions in which a controlling shareholder and/or an officer are involved, or in which the same have a personal interest, such that a concern exists of a conflict of interests. These rules will also apply to a transaction between a controlling shareholder and/or an officer in the parent company and the subsidiaries.

9. Risk management

9.1 The board of directors is responsible for setting a Group policy on the exposure to different risks (credit risks, market risks, operational and technological risks, liquidity risks, legal risks, etc.) for the Banking Corporation, including for its subsidiaries and its representations in Israel and overseas, setting the permitted exposure for the different operating segments, and discussing and approving the organizational preparedness for managing and controlling the enterprise exposure to a variety of risks.

9.2 The Bank has appointed a Chief Risk Officer (CRO), whose role it is to supervise risk management at Discount Group, pursuant to the risk policy and risk appetite approved by the board of directors.

9.3 **The board of directors and the management will be familiar with the activities and operational structure of the Banking Corporation, including where the Banking Corporation operates in offshore jurisdictions or through complex structures with reduced transparency.**

9.3.1 The board of directors has set a policy that prohibits activity in instruments, situations or places where transparency is reduced – such as where the Banking Corporation operates in offshore jurisdictions or through complex instruments (such as special purpose vehicles – SPVs), which hinder the ability of the board of directors to supervise the activity.

9.3.2 The board of directors must examine the properness of the need for activity involving non-transparent structures and instruments, whether this is done for the Banking Corporation or for its customers, and must ensure that activities of this type are carried out after the management has set a policy for the identification and management of all risks entailed in such structures and activities.

9.4 The board of directors is responsible for approving a material new activity, including new products (a new derivative financial instrument which is significantly different from the existing instruments of the Corporation, the creation of a new type of exposure, market making, etc.), in accordance with the new product procedure approved by the board of directors, after having studied the risks entailed in the activity and the Banking Corporation's ability to carry it out and to manage the risk.

10. Group supervision

10.1 **The board of directors is responsible for setting a strategy and a general policy for the Group as well as a Group corporate governance structure, which will contribute in the best possible manner to the existence of an effective chain of supervision over the activity of the Group, subject to legal provisions.**

10.2 The board of directors is responsible for supervising the risks entailed in the activity carried out by corporations that are controlled by the Banking Corporation, to prescribe frameworks for the scope of these risks, and to ensure the existence of adequate control and supervision mechanisms, all without derogating from the duties of the board of directors and the management of each subsidiary.

10.3 In deciding the authorities and responsibility of the board of directors, the board of directors must specifically address a situation where the Corporation is a part of a cluster of companies, some of which are incorporated overseas.

10.4 The board of directors has approved a procedure designed to regulate the Bank's work vis-à-vis the Discount Group subsidiaries, and to set guidelines that will ensure that the subsidiaries provide the information required to maintain, at the Group level, current monitoring, supervision and control of the Group's business and of the risks entailed therein.

10.5 The board of directors has approved principles for a Group compensation policy, which regulate its involvement in deciding the compensation terms for the officers and employees of its subsidiaries; these principles have been brought up for discussion at the board of directors of the subsidiaries.

10.6 The board of directors is responsible for approving material changes in the holdings structure and material investments in controlled corporations whose activity is material in relation to that of the Bank[2].

10.7 As part of the supervision and control of the activity of subsidiaries, the Bank has appointed directors in them.

10.8 Within the context of the procedure for working with the subsidiaries, rules and procedures have been prescribed for handling material transactions of the subsidiaries, as well as transactions with implications for the parent company, that require the approval of the parent company and/or to be reported to it.

[2] Sections 6(y) and 6(z) of Proper Conduct of Banking Business Directive 301.

11. Organizational structure and responsibilities

11.1 **The board of directors is responsible for setting and enforcing clear areas of activity and responsibility in the Banking Corporation, while maintaining segregation of duties between the board of directors and the management.**

11.2 The board of directors will set the organizational structure of the Banking Corporation and the Group to reflect the principles of this Code, and will check that the organizational structure correlates with its business strategy, and with its ability to supervise the risks at the Group level[3].

11.3 The board of directors will instruct the management to set a clear hierarchy of the accountability of those who answer to it and of their accountability among themselves, while taking into consideration that the Chief Executive Officer and the management are accountable to the board of directors for the functioning of the Banking Corporation.

12. Human resource management

12.1 **The board of directors will set a policy aimed at ensuring adequate supervision of the employees by the management, an adequate level of professionalism of the officers, and proper succession planning.**

The policy will address, inter alia, the following:

12.1.1 Officers of the Banking Corporation will avoid engaging in sectors and occupations in which they are not qualified to engage.

12.1.2 Awareness will be developed in the management and in the employees, of the duty to act pursuant to the law and to the corporate governance rules governing the Banking Corporation.

12.1.3 The management does and will maintain an effective system of internal controls over the activity of employees, including key employees, even if there is a concern that they might leave due to their being strictly supervised.

13. Assessment

Once a period, for its own internal purposes, the board of directors will conduct a self-assessment process, which will examine the effectiveness of the board of directors' work and its efficacy.

14. Duties of the Chief Executive Officer and the management

14.1 The Chief Executive Officer is responsible for the day-to-day management of the Banking Corporation, as part of the policy set by the board of directors and pursuant to its guidelines and his duty to advance the goals approved by the board of directors in the best possible manner.

[3] Sections 6(b) of Proper Conduct of Banking Business Directive 301.

14.2 The Chief Executive Officer will be assigned all management and execution authorities that have not been assigned to another organ of the Corporation by law, regulation or code, and he will be supervised by the board of directors.

14.3 The Chief Executive Officer will inform the chairperson of the board of directors of any extraordinary matter that is material.

14.4 The Chief Executive Officer is responsible for submitting to the board of directors regular reports on topics, at dates and at scopes as decided by the board of directors, and to bring to the board of directors' approval, inter alia, any new material activity that the Banking Corporation intends to carry out, and for which no rules and guidelines have been set.

14.5 Material management decisions will be made by a suitable, adequate forum and in every case by more than one person.

15. Audit and control functions

15.1 The board of directors and the management will make efficient use of the work done by the internal audit function and by the external auditors, and will take steps to strengthen the status of these functions.

15.2 In this framework, they will take steps to ensure that the supervision and control functions will have direct reporting channels to the board of directors. According to the procedures of the Bank, once a year the audit committee holds a meeting which is attended by the supervision and control functions, without the presence of officers who are not committee members.

15.3 In the discussion on the work of the audit and control functions, the board of directors will assure itself of the independence, objectivity and effectiveness of the work of these functions, will verify their fitness to carry out their duties and will ensure that adequate resources are allocated for their work[4].

15.4 **The internal auditor**

15.4.1 At the suggestion of the audit committee, the board of directors has appointed an internal auditor who will examine, inter alia, whether the actions of the Banking Corporation are appropriate, in terms of legality and proper business conduct.

15.4.2 The internal auditor will report directly to the board of directors, inter alia, through the audit committee.

15.4.3 The chairperson of the board of directors will be the organizational supervisor of the internal auditor.

15.4.4 The board of directors will decide the internal auditor's salary and will discuss his promotion, at the recommendation of the audit committee.

[4] Sections 11 of Proper Conduct of Banking Business Directive 301.

15.4.5 The appointment of the internal auditor will not be terminated without his consent, nor will he be suspended, other than in accordance with the terms set therefore by law.

15.5 **The external auditor**

15.5.1 To the extent possible, the board of directors will act to ensure that the external auditor meets the legal requirements and accepted professional requirements.

15.5.2 The board of directors will use the external auditor as a supplementary information channel, in addition to the information it receives from the management.

15.5.3 The board of directors will invite the external auditor to every meeting of the board of directors in which the financial statements are discussed.

16. Compensation policy

16.1 **The board of directors will set for the Banking Corporation, including for its subsidiaries and foreign representations, a Group compensation policy that will be based on broad enterprise considerations and on considerations aimed at increasing the long-term value of the Banking Corporation, and will avoid incentives that would lead to the taking of disproportionate risks.**

16.2 The board of directors has approved an officers' compensation policy, including the employment terms of the Chief Executive Officer and the principles of the employment terms of the senior executive rank of the Banking Corporation's employees, and their retirement terms. The compensation policy serves as the basis for a Group compensation policy for officers of the subsidiaries, which has been approved by the board of directors.

16.3 The compensation policy is based on broad enterprise considerations, such as: total salary costs, desired salary differentials between the different ranks, etc.

16.4 The compensation terms have been designed to match the compensation to the Banking Corporation's business position and to changes therein. The variable compensation is based on meeting predetermined business goals, and is contingent on fulfilling threshold conditions.

16.5 The compensation policy includes components that reflect the general goals of the Banking Corporation in the areas of risk management and compliance with laws, with regulatory provisions and with the Banking Corporation's procedures.

17. Transparency

17.1 The Banking Corporation will be managed with transparency, while providing full, accurate and timely disclosure in reports submitted to the public and to the authorities.

17.2 The board of directors is responsible for supervising the preparation of the financial statements and for their approval.

18. Social and environmental responsibility

18.1 Discount Group follows a management view which advocates social commitment, perceives the Bank and the Group as an integral part of society, and supports involvement in the community and commitment thereto, as an organization and as individuals. In this framework, the Banking Corporation works to advance weak populations and encourages its employees to participate in activities for the benefit of the community.

18.2 The Bank publishes a social report which is based on international standards and aims to inform the public about the Bank's social, community and environmental activities.

18.3 In addition, the Banking Corporation operates on the basis of environmental considerations and strives to assimilate these considerations, as part of the business strategy. The credit policy approved by the Bank includes specific reference to environmental risks, and limits have been set on the grant of credit to bodies that operate in a sector with a potential for exposure to environmental risks.

19. Corporate governance

19.1 The corporate governance rules that the Group companies will follow will meet the Group standards set, subject to legal provisions.

19.2 The principles set forth in this document will be reviewed by the board of directors once every three years, to ensure their suitability for the Corporation's business and for the business and regulatory environment in which it operates. The board of directors may, at any time, amend, adapt and update the corporate governance rules set forth in this document, including the statement of principles made public.