

# **Statement of Corporate Governance Principles – Discount Group**

## **Introduction**

This document is intended to outline the Corporate Governance (hereinafter: "CG") principles, of the Discount Group. Application of these principles is intended to ensure that the Discount Group effectively manages its risks, together with maximizing the value for the benefit of its shareholders and protecting the interests of its customers.

The CG principles reflect the views of the Discount Group, in matters relating to group values, decision-making processes, risk management, and appropriate and proper control and supervision processes. These principles are based on the fundamental separation of functions between the Board of directors, which is responsible for determining the strategy and policies of a banking corporation and to oversee management's actions, and the corporation's management, which is responsible for daily operations and performance of the policies determined by the Board.

The CG principles set forth herein are based on the principles detailed in (i) the Basel II instructions, relating to the strengthening of corporate governance in banking corporations, and (ii) the recommendations of the "Goshen Committee" concerning the Corporate Governance Code in Israel. These principles are in addition to rules and regulations that apply pursuant to legal and regulatory requirements, including the Companies Law and the Proper Conduct of Banking Businesses regulations.

The principles outlined in this document are based on a more detailed CG Code, which was approved by the Board of Directors of the Israel discount Bank (hereinafter: the "**Bank**" and the "**Board**" accordingly). The Bank is constantly striving to update and adopt procedures which reflect the principles outlined in this document.

## **1. The responsibility of the Board of Directors towards the Bank**

- 1.1. The Board holds the highest level of responsibility for the activities and financial strength of the corporation..
- 1.2. Board decisions are based on the intent and purpose to maximize profit, while at the same time taking into account, inter-alia, the interests of its employees, customers, creditors and the general public.
- 1.3. The Board as an organ and each of its members has a duty of care and a fiduciary duty towards the corporation.

## **2. Independence and Qualification of the Board**

- 2.1 Board members shall be appointed by the General Meeting of Shareholders, and shall have qualifications appropriate for their position as board members, and the ability to exercise judgment that is independent from management views or external inappropriate interests.
- 2.2 At least a third of the Board members shall be either independent or external directors, in accordance with applicable legal and regulatory requirements.

- 2.3 Officers may not serve as directors of the corporation in which they serve as office holders, with the exception of the Chief Executive Officer, who in special circumstances, may be appointed as a director.
- 2.4 A director shall declare in writing prior to his/her appointment, and at any time of re-appointment, that he/she has the qualifications and can devote the time required for the purpose of performing his/her service as a director, and that neither his/her occupation nor personal status could give rise to any permanent conflict of interests between him/her and the corporation.
- 2.5 The Board of Directors will possess proper collective knowledge regarding the types of material activities in which the corporation is engaged.
- 2.6 Appointed Board members will possess the knowledge, experience or expertise, in one or more of the following areas: banking, finance, economic or business activity, law, management, or accounting.
- 2.7 The directors shall have access to information and documentation required for the performance of their duties as directors. From time to time training will be provided to the directors in order to update the Board members' knowledge and familiarity about issues relevant to the corporation's business. A director is also entitled to request professional advice, as required, for the performance of his/her duties.

### **3. Board Meetings and Proceedings**

- 3.1 Directors are expected to attend Board meetings, and to devote sufficient time to prepare for such Board meetings. Board meetings shall be conducted in a direct and open manner.
- 3.2 The Board is entitled to invite for Board meetings employees and managers, external consultants and internal and external auditors, as necessary, to promote both effective and meaningful discussion.

### **4. Board Committees**

- 4.1 The Board has various specialized committees, including: Audit Committee, Risk Management Committee, Balance Sheet Committee, Human Resources Committee, Social Responsibility Committee, and Credit Committee. Decisions on substantive issues, including such issues as set forth in applicable rules and regulations, are determined by the Board.
- 4.2 The Chairperson of the "Audit Committee" and a majority of its members shall be external directors.

### **5. Separation of Powers between the Board and Management**

- 5.1 The Board is responsible for determining the strategy and policy and for controlling and monitoring the activities of management, which is responsible for the daily management of the corporation in accordance with the policies determined by the Board.

5.2 The Board will avoid intervening in the ongoing operations of the corporation. The Chairperson of the Board will not function as a Chief Executive Officer or under a similar capacity in the corporation, and shall refrain from intervening in the ongoing management of the corporation.

## **6. Board Functions**

### **Strategy and Policy**

6.1 The Board is responsible for determining the strategic objectives and policies, in accordance with appropriate risks limitations, regulatory demands and the ability of the corporation to manage said risks.

### **Controlling Management Actions**

6.2 The Board of Directors is responsible for controlling the performance of the Chief Executive Officer and Senior Management and their compliance with the Board's policy.

6.3 The Board is responsible to determine the Chief Executive Officer's authorities, and is authorized to appoint and dismiss the Chief Executive Officer and to determine on an ad hoc basis, the appropriate method for such appointment.

### **Ethical Standards Determination**

6.4 The Board is responsible for setting high standards of conduct, which are aimed to promote professional conduct and integrity, and to implement such standards throughout the Group.

6.5 The Discount Group acts in accordance with a Code of Ethics , which reflects the values of the Group, and sets appropriate standards of conduct and management with respect to the Group's customers, vendors, competitors, authorities, shareholders and the general community.

6.6 The Board and Management are responsible for protecting the interests of employees who report any illegal, inappropriate, unethical or immoral activities, from any disciplinary proceedings against them or other negative implications due to such reporting.

### **Handling Conflicts of Interest**

6.7 The Board shall determine a policy and rules regarding conflicts of interest, which are intended to protect the corporation from inappropriate influence of those who are not acting in the best interests of the corporation.

6.8 The Board shall adopt procedures pertaining to transaction involving a controlling shareholder and/or office holder, or in which the Board has an interest. These procedures shall also apply to transactions between interested parties of the parent company and/or any of its subsidiaries.

### **Risk Management**

6.9 The Board is responsible for determining the Group policy with respect to exposure to various risks (including credit risks, market risks, operational risks, liquidity risks, legal risks, etc.).

- 6.10 The Board and the corporation's management shall be familiar with the operational structure and business areas of the corporation, including activities under foreign jurisdiction or by means of complex legal and/or operational structures where transparency may be impaired.
- 6.11 New business activity, as well as activity within complex legal and/or operational or financial structures, will be approved after evaluation of the associated risks and the ability of the corporation to manage said risks.

### **Group Control**

- 6.12 The Board is responsible for determining the overall strategy and policy for the Group and the CG structure, including an effective supervision over the Group activities, pursuant to applicable law and regulations.
- 6.13 The Board is responsible for monitoring and controlling the risks associated with the business operation of entities under its control, to set frameworks for such risks and to ensure the existence of proper control and supervision methods, all, without derogating from the obligations of the Board of Directors and the management of each subsidiary.
- 6.14 The parent company shall appoint members of its subsidiaries' boards of directors, and will adopt guidelines which will ensure information reporting between the parent company and its subsidiaries, for the purpose of Group risk management.
- 6.15 The Board shall determine policies and guidelines pertaining to material transactions of its subsidiaries and to transactions having an influence over the parent company, which shall require the consent of and/or notice to the parent company.

### **Human Resources**

- 6.16 The Board is responsible for determining a policy designed to ensure that senior officers shall have the appropriate professional skills for their jobs, the creation of an administrative provisions, and proper supervision by the corporation's Management of the employees.

### **Self Assessment**

- 6.17 The Board will evaluate annually its performance and the performance of the corporation's management.

## **7. CEO and Management**

- 7.1 The CEO is responsible for the management of the daily operations of the corporation, in accordance with the policies established by the Board and its instructions, and shall execute and promote the achievement of objectives as approved by the Board.
- 7.2 The CEO is granted with all of the managerial and operative authority required, beyond those granted to any other organ of the company pursuant to applicable laws and regulations or the company's articles of association.

7.3 The CEO is responsible for submitting to the Board ongoing reports on various matters, at such times and in such scope as shall be determined by the Board, and for presenting for the approval of the Board, any significant new activity that is being considered by the corporation and with respect to which no guidelines or instructions have been set.

7.4 Significant management decisions will be made by a suitable and appropriate forum, and in any event, by more than one person.

## **8. Effective Use of Audit and Control Functions**

8.1 The Board and Management will make effective use of the internal audit function, the external auditors and internal control functions, and shall take measures intended to strengthen the status of these functions.

8.2 Appropriate measures shall be taken to ensure that the audit and control functions shall have direct channels of reporting to the Board.

## **9 Compensation Policy**

9.1 The Group's compensation policy will be based on broad organizational considerations aimed at increasing the long-term value of the corporation, and will avoid providing incentives for the taking of inappropriate and disproportionate risks.

9.2 The compensation policy will ensure that the compensation policy will be adjusted to reflect changes in business performance of the corporation, and will include incentives reflecting the corporation's objectives concerning the maintenance of appropriate levels of risk management and compliance with regulatory demands and internal procedures.

## **10 Transparency**

The Discount Group is managed with a high degree of transparency, with full disclosure being provided by accurate and timely reports made available by it to the general public and the relevant authorities.

## **11. Social and Environmental Responsibility**

11.1 The Discount Group operates under commitment to social responsibility, according to which the Bank and the Group operate as an integral part of the community and which supports community involvement and commitment, both as an organization and individually.

11.2 The bank publishes a social and environmental report, based on international standards, which aims to inform the public of its social, community and environmental activities.

11.3 The Bank promotes the implementation of environmental considerations within its business strategy and credit policy.

## 12. Corporate governance

- 12.1 The Discount Group will operate by Group standards of CG, subject to the provisions of any applicable law.
- 12.2 The CG principles detailed herein will be examined by the Board on an annual basis, in order to ensure their pertinence to the business of the corporation and to the regulatory business environment in which it operates. The Board may modify, adapt and correct, the principles outlined in this document from time to time.

**This statement has been translated from the original text in the Hebrew language. In the event of any conflict or inconsistency between the English version and the Hebrew version then the Hebrew version will take precedence and will prevail.**