



CORPORATE RESPONSIBILITY REPORT

2017



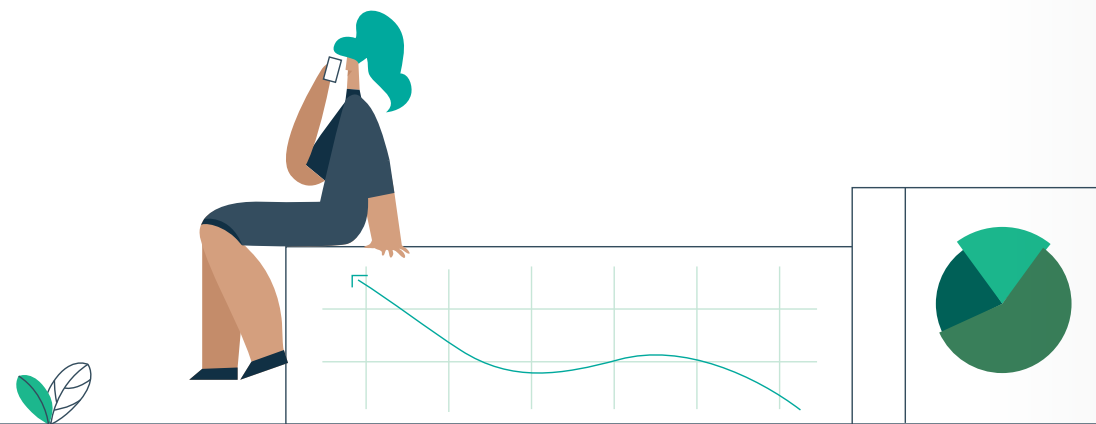
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01 ABOUT THE REPORT

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GREETINGS FROM THE CHAIRMAN AND THE PRESIDENT & CEO



We are honored to present the Corporate Social Responsibility Report ("CSR") of Discount Bank for 2017. The publication of the CSR Report reflects Discount Bank's deep commitment to the subject of social and environmental responsibility, including in matters of corporate governance.

The Vision of the Bank was formed and approved in 2017: "We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking." Within the framework of assimilating the Vision, the Bank adjusts to the changing world and creates innovative banking models providing customers with an advanced service tailored to their needs. In the meantime, the Bank has invested in a number of innovative initiatives in the fintech and innovation field.

This is the seventh CSR Report published by Discount Bank. In our 2015 Report, we have included for the first time the principal subsidiaries in Israel: Mercantile Discount Bank and ICC. The disclosure regarding the said subsidiary companies has been enlarged and intensified in this report, reflecting their acclaimed activity in the social responsibility field. Within the framework of this process, in this report we have begun the process of gradually integrating the subsidiary IDB Bank, a process that will continue also in the next reports. In addition, we decided this year to strengthen the CSR management at the Bank and the Group in a gradual, multi-year process, within the framework of which, the policy and goals of some material topics were examined and validated. Over the coming two years, we will continue with this process until all the topics defined as having high materiality have been covered. At the same time, the report itself has been upgraded - both in its preparation and in its design.

Within the framework of the Group's activity towards the creation of joint value for the customers, Discount Bank acts to develop and offer banking products for the advancement of designated populations, such as households ("the family" program), small and minute businesses, freelancers, women being victims of violence and students, while promoting access to and knowledge in the financial education field. MDB focuses on creating value for the non-Jewish customer population and for the Jewish ultra-orthodox (Haredi) customer population. Furthermore, during the recent decade, MDB, jointly with the relevant government factors, developed expertise in extending credit to small and medium businesses by means of governmental funds for the support of businesses.

We believe that the nurturing of the human capital is a central factor in the promotion and success of the Bank. Therefore, also in the current year we made considerable efforts in the development and enrichment of our employees and among other things, we have worked



together with the employee representative committee to grant tenure to dozens of employees with disabilities. We have positioned the value of volunteering as a leading organizational value, and we encourage our employees to volunteer and contribute to the community.

Discount Bank has a long-standing tradition, which began with the founding generation, whereby the Bank is involved and active in Israeli society and its communal life. 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 is acting and will continue to act in order to integrate environmental considerations as part of its business strategy and credit policy.

The Discount Group works determinedly and continually to strengthen aspects of corporate governance and the group management, supports the integration of risk management processes and aspects of fairness and decency within the ongoing endeavors. In 2010, the Bank joined the United Nations Global Compact initiative. This report constitutes also an annual update of this initiative in respect of 2017. In this respect we reiterate the Bank's commitment to the Global Compact initiative and to its ten principles. Publication of the CSR Report was made alongside additional reporting frameworks: to the Maala Organization, to the VIGEO EIRIS research body and to the greenhouse gas emission reporting and recording center of the Israel Ministry of Environmental Protection. This reporting structure reflects the Bank's and the Group's commitment for transparency and for broadening its activity in social responsibility areas.

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

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

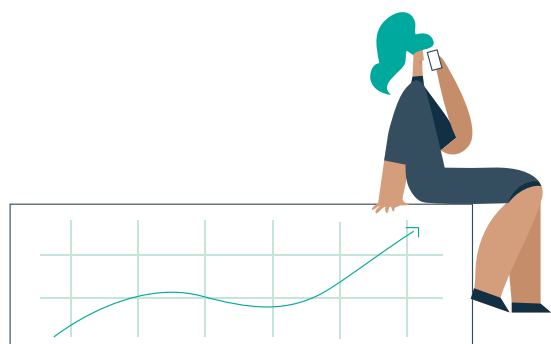
December 23, 2018

Shaul Kobrinsky
Chairman of the
Board of Directors

Lilach Asher-Topilsky
President & CEO

DISCOUNT'S SEVENTH CORPORATE SOCIAL RESPONSIBILITY REPORT¹

THE PUBLICATION OF THE CSR REPORT FORMS AN EXPRESSION OF THE BANK'S COMMITMENT FOR SOCIAL RESPONSIBILITY ISSUES AND FOR THEIR IMPORTANCE AS PART OF THE DISCOUNT GROUP ORGANIZATIONAL CULTURE. WE AT DISCOUNT BELIEVE THAT THIS REPORT WILL SERVE THE VARIETY OF CATEGORIES OF OUR STAKEHOLDERS AND WILL FACILITATE THE PROMOTION OF DIALOGUE, INTENSIFYING THE RELATIONSHIP AND HEIGHTENING COOPERATION.



¹ 102-45, 102-48, 102-49, 102-54.



On the background of developments regarding the issue of corporate responsibility reporting, and in view of the importance that the Supervisor of Banks attributes to the activity of banking corporations in this respect, the banking corporations heading the banking groups, in accordance with the Reporting to the Public Directives, are required since 2012 to publish reports concerning corporate responsibility for a period of up to two years.

The Bank was the first banking corporation to issue a CSR Report in Israel in 2005 (for the years 2003-2004). The second CSR Report was published in 2009 (for the years 2007-2008). The Bank's Third CSR Report (for the years 2012-2013) was published in 2014. The Bank's fourth CSR Report (for the year 2014) was published at the beginning of 2016. The Bank's fifth CSR Report (for the year 2015) was published at the end of 2016. The Bank's sixth CSR Report (for the year 2016) was published in November 2017. The publication of the Seventh CSR Report forms an expression of the Bank's commitment for social responsibility issues and for their importance as part of its organizational culture. It is the Bank's intention to continue to publish a CSR Report every year.

The report has been prepared on the basis of the GRI Standards, of the GRI organization, in accordance with the Comprehensive option and reviews the Bank's processes in Israel.

In this report, we are continuing and expanding the process of including the principal subsidiaries in Israel - Mercantile Discount Bank ("MDB") and

ICC. The reports of these subsidiaries are at the "Core" reporting level, and as regards many topics, they are very near to the "Comprehensive" reporting level. In addition, in this report, we have begun the process of gradually integrating the subsidiary IDB Bank, a process that will continue also in the next reports. The differences in the regulatory, social and economic environment in which the companies in Israel operate, compared to the environment in which the New York subsidiary operates, requires the exercise of considerable care in the inclusion of information about IDB Bank. Moreover, IDB Bank is in the midst of assimilating a complex and challenging strategic plan, which requires substantial management resources. In view of these considerations, the inclusion of IDB Bank in the CSR Report will be done gradually over a number of years.

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

It is noted that the sections describing policy or work procedures at Discount Bank apply also to MDB and to ICC, unless otherwise stated. On the other hand, in light of the difference in the environment in which IDB Bank operates, wherever the description relates to it - this will be stated specifically.

The CSR Report is not just a reporting framework, but a platform for ongoing dialogue between the corporation and its stakeholders and in the process of

writing this report, the Bank strives to describe with maximum transparency its activities in relation to topics that are material to its stakeholders. The Report addresses, in the relevant contexts, the activities of the different divisions of the Bank, including the senior levels of 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. The calculation methods that are used have been noted in the places where the relevant data are presented. The report does not contain any data that are in contradiction with the data presented in previous CSR reports published by the Bank. In cases where previously published data had been changed or corrected, this fact was distinctly noted.

The CSR 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.

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

the relationship and heightening cooperation.

Compilation of the data and its validation was made with the assistance of many functions at the Bank and at the principal subsidiaries. The final draft of the Report was passed for perusal and approval by members of the Bank's Management.

Social Responsibility Director

➤ The Bank has a social responsibility director 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 social responsibility awareness of Bank employees as well as of stakeholders, and to formulate plans of action to achieve the goals designated for this area.

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

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

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

The Board of Directors of IDB Bank has appointed a Community Development Act (CRA) Officer. The CRA Officer is responsible for administering IDB Bank's CRA program and for ensuring the Bank meets the procedural requirements of the CRA.

Distribution of the Report

➤ The CSR Report in Hebrew may be viewed on the Bank's website² and in English on the Bank's Investor Relations page³, on the website of the GRI⁴ and on the GC website⁵. In addition, Bank employees may view the Report also on the employees' portal.

In certain cases the report includes reference to details presented in the Bank's 2017 Annual Report and 2018 quarterly reports. These are available for perusal at the Bank's website - see above) (translation into English of these reports is to be found in the Investor Relations page, see above). Furthermore, the reports are available for perusal (in Hebrew) also at the "Magna" website of the Israel Securities Authority⁶ and at the "Maya" website of the Tel Aviv Stock Exchange Ltd⁷.

² www.discountbank.co.il

³ www.discountbank.co.il/IR

⁴ <http://database.globalreporting.org/companies/view/1806>

⁵ <http://www.unglobalcompact.org/participant/12568-Israel-Discount-Bank-Ltd>

⁶ <https://www.magna.isa.gov.il/details.aspx?reference=2014-01-017514&file=2&id=01160>

⁷ http://maya.tase.co.il/bursa/report.asp?report_cd=885621

In certain cases, the report refers to the reports of MDB and of ICC. These reports in Hebrew are available on the website of MDB⁸ and on the website of ICC⁹ (in English - annual reports only).

DIALOGUE WITH STAKEHOLDERS¹⁰

➤ 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, and we at Discount Bank believe that this report will serve all our stakeholder groups, and will facilitate the promotion of dialogue, intensifying the relationship and heightening cooperation.

A "stakeholder" is anyone that Discount Bank influences or is influenced by: customers, employees, 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).

Discount Bank promotes and encourages an open discourse with all groups of its stakeholders, arising from the

understanding that in this way the Bank may reach a better understanding of the needs and wishes of each group. This dialogue allows the Bank to enrich and improve the existing partnership with each group, to listen to and understand the different perspectives existing in the field, and to adapt the products and services offered by the Bank in a way that would respond in an optimal manner to these needs.

The dialogue platforms are numerous and varied, and include inter alia, "round table" meetings, surveys, conferences and discussions in accordance with the character of each group.

The dialogue with each group and the issues that arose from this discourse are detailed later in the report, under the various stakeholders.

THE PROCESS OF IDENTIFICATION OF MATERIAL TOPICS¹¹

➤ Within the framework of the preparations for the 2017 Corporate Social Responsibility Report (this Report), and in accordance with the requirements of the GRI Standard according to which this Report is being written, the Bank had conducted a process validating and updating the material topics, which defines the corporate responsibility topics to be reported by the Bank and at what

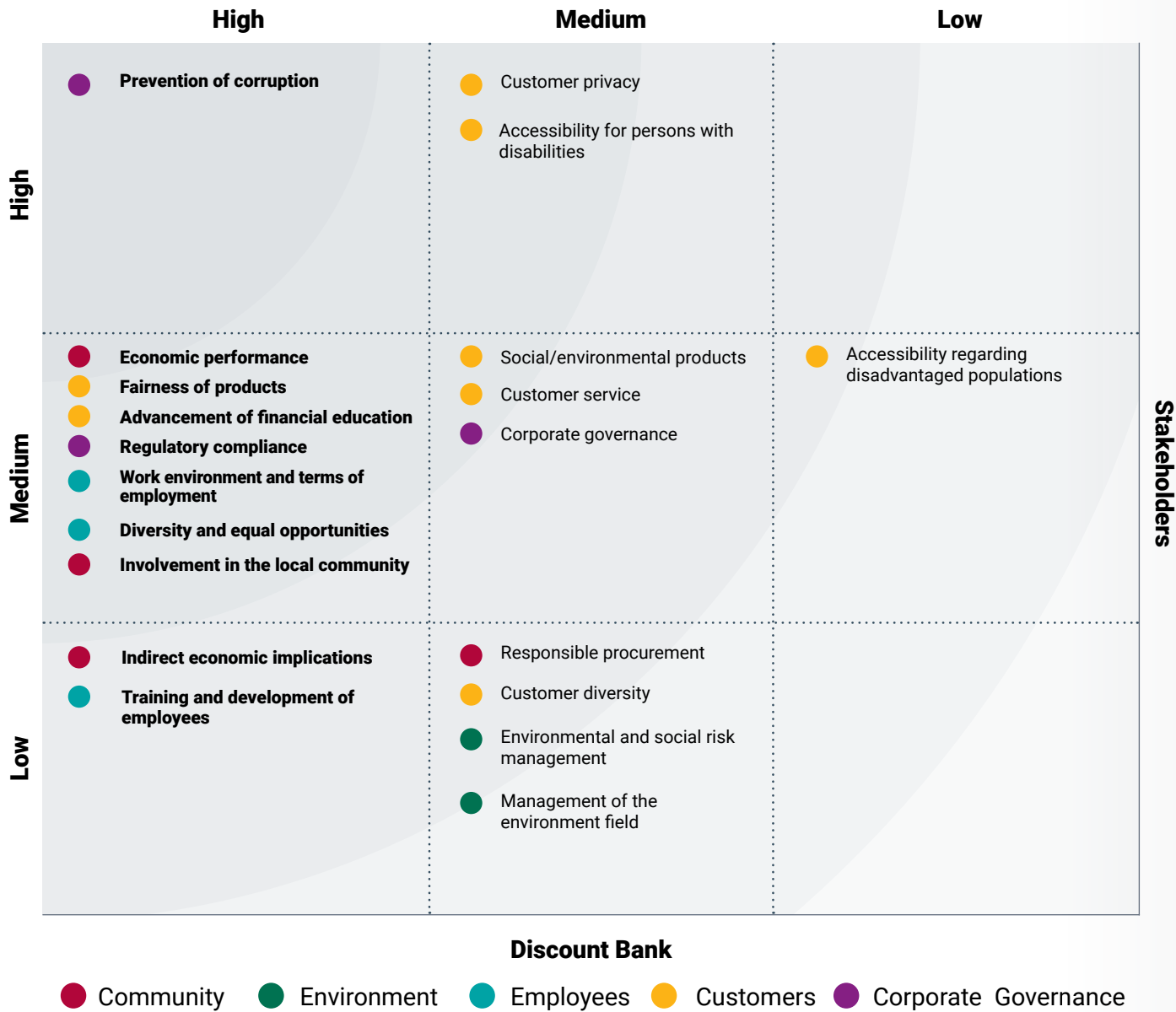
⁸ <http://www.mercantile.co.il/MB/private/about-mercantile/financial-reports/annual-reports>

⁹ <http://www.cal-online.co.il/he-il/Cal/CalServices/about/pages/financialReports>

¹⁰ GRI 102-40, 102-42, 102-43, 102-44

¹¹ 102-46

> THE MATERIAL TOPICS MATRIX



scope and order of importance.

The process of validation of the materiality matrix and identification of the list of topics having a material impact regarding the stakeholders in the Bank for the year 2017, included a comprehensive analysis of the material topics existing at the leading banks in Israel and in the global networks of stakeholders (GRI, SASB), which had been prepared for the Bank by the sustainability

and corporate responsibility group at BDO Consulting. The said analysis rated the material topics with respect to the stakeholders according to a high, medium or low level of importance.

At the same time, the Bank has conducted a rating of the material topics with respect to the Bank.

The process included also the focusing of

> MATERIAL TOPICS – REPORTING BOUNDARIES¹²

A material topic in the Report	The GRI topic	Limit of the impact
Prevention of corruption	Anti-corruption	Within the organization
Economic performance	Economic performance	Within the organization
Fairness of products	Marketing and Labeling	Within and outside the organization
Advancement of Financial Education	Marketing and Labeling	Within and outside the organization
Regulatory Compliance	Socio Economic Compliance	Within the organization
Work environment and conditions of employment	Employment	Within the organization
	Occupational Health and Safety	Within the organization
	Labor/Management Relations	Within the organization
Diversity and equal opportunities	Non Discrimination	Within the organization
	Diversity and Equal Opportunities	Within the organization
Involvement in the local community	Local Communities	Within and outside the organization
Indirect economic impacts	Indirect Economic Impacts	Within and outside the organization
Training and development of employees	Training and Education	Within the organization

the topics. In this framework, overlapping topics belonging to the same content world had been merged, with the intention that focusing would enable the Bank to manage and advance in a more efficient manner the corporate responsibility topics, and enable readers of the Report to obtain a clearer image regarding the central topics on the agendas of the Bank and of its stakeholders.

The combination of the stakeholders' interests and those of the Bank enabled the creation of the materiality matrix, in which a list of 20 topics had been formed.

Of the 20 corporate responsibility topics, 10 topics had been identified as material requiring report. These topics are topics rated at a high importance level with respect to the Bank. In addition, the Report also includes information regarding topics not defined as material, due to the wish of the Bank to promote a high level of transparency and the need to report data required by different initiatives and frameworks of which the Bank is a member.

Presented hereunder are the material changes made to the material topics matrix of the Bank:

1. Five new topics have been added to the materiality matrix of the Bank: "accessibility regarding handicapped persons"; "customerservice"; "customer diversity"; "corporate governance"; "accessibility regarding disadvantaged populations".

It is noted that these topics had also been reported by the Bank in earlier reports, though they had not been defined as material reporting topics.

2. A merger of topics dealing with the same issue was made in several cases:

→ "Work environment and employment terms" includes also the topics of "employee welfare", "work environment complaints mechanism", "Management-employee relations" and "employee union".

→ "Responsible procurement" includes

12 102-47.

also topics of "evaluation of the supplier's work environment", "evaluation of the supplier's influence over human rights" and "environmental evaluation of the suppliers".

→ **"Diversification and equality of opportunities"** includes also topics of "gender equality" and "prevention of discrimination".

→ **"Management of the environment field"** includes the topics of "energy consumption and higher efficiency", "emission of greenhouse gases and air pollutants", "environmental investments" and "consumption of materials".

3. The topics concerning "business continuity", "asset management and screening" and "sewage and waste" were found to be immaterial to the operations of the Bank and therefore no longer appear in the matrix.

REPORTING TO THE GLOBAL COMPACT

→ The Bank joined the United Nations Global Compact initiative in September 2010 and since then submits an annual progress report regarding the Bank's social and environmental activities. This report, as well as previous CSR reports, constitutes an annual progress report in respect of the years 2017, 2016, 2015, 2014 and 2013, respectively. An Appendix to this report includes an index comprising a cross-reference table between reportable items in accordance with the Global Compact initiative and their reference in this report.

DISCOUNT BANK AND THE UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

→ 193 member states of the United Nations adopted in September 2015 the new agenda for the sustainable development towards the year 2030, by means of determination of the global goals for sustainable development - **the Sustainable Development Goals (SDGs)**.

The development goals include 17 goals and 169 targets, covering a wide range of sustainability issues, which have been adopted with the aim of replacing the Millennium Development Goals, the validity of which expired at the end of 2015.

The State of Israel is an active member of all relevant platforms for the implementation of the goals, being represented by officers from the Ministry of Environmental Protection and the Ministry of Foreign Affairs. Realization of these goals requires the cooperation of all sectors in the country - governmental, business and civilian. As inferred from the definitions of the United Nations, a considerable part of the implementation of the goals is based on the business-private sector.

An analysis of the corporate social responsibility aspect activity of Discount Bank, as compared with the United Nations goals, found 5 goals being most relevant to the operations of the Bank. The efforts made by the Bank in promoting these goals are widely described in the relevant parts of this Report.



GOAL NO. 8 DECENT WORK AND ECONOMIC GROWTH

Meaning of the goal for Discount Bank:

As part of its business activity, the Bank contributes to the growth of the economy and the society in Israel.

The Bank aspires to be the best bank for its customers, enabling economic growth and financial stability over a long period of time, by providing adapted, professional and fair banking services.

The Bank diligently maintains its employees' dignity, proper labor relations and employee rights, in accordance with the law and labor agreements.

The activity at the Bank:

Promotion of small and minute businesses - one of the strategic focus points of the Bank is the small and minute businesses segment. The Bank assists these businesses in various ways, among which, promoting convenient solutions for management of business (such as - iCount) and development of a designated and adapted service for freelancers;

"Family program" - a program enhancing the financial power of customers having family ties who hold different accounts with the Bank, by focusing on the needs of the customer and his family, turning them into a single financial group enjoying a variety of singular services and benefits, in accordance with the combined data of the participants in the program;

Financial education - the Bank approaches its customers and the public at large making the financial language accessible to all age ranges, inter alia, by increasing the awareness and importance

of long-term savings, sensible financial conduct, investment channels in the pension savings field and more.

MDB focuses on the creation of value for the non-Jewish customer population and for the ultra-orthodox (Haredi) customer population.



GOAL NO. 10 REDUCING INEQUALITY

Meaning of the goal for Discount Bank:

The Bank views with importance the diversification in employment, while offering employment opportunities to populations in the community which are under-represented in the labor market.

The activity at the Bank:

Prevention of discrimination - the Bank opposes discrimination of any kind whatsoever, and applies this principle when hiring employees, promoting them and determining their employment terms;

Employment of populations which are under-represented in the labor market

- Employment of handicapped persons, persons of Ethiopian origin and ultra-orthodox (Haredi) women, employment of persons with special needs and employment in the summer months of youth having vision deficiencies;

Promotion of peripheral areas

- establishment of a telephone call center at Nesher. ICC operates a service and marketing center in Ashdod;

Employment of persons belonging to minority population groups

- MDB is one of the largest employers of persons belonging to minority population groups;

"Sprint Discount" - cooperation with the

The following goals are presented in accordance with their relevancy to the Bank's activities.

"Sprint for the Future" Association, which develops and operates programs for the advancement of youth at risk in peripheral areas, with a view of reducing social gaps and increasing social mobility by means of education and knowledge;

Granting donations and sponsorships - the Bank focuses the human and financial resources on activities in aid of children and youth at risk and distress situations, conducted mainly in the education and knowledge fields. This is based on the concept that these fields comprise the generator for personal and social success of the said target populations.

GOAL NO. 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Meaning of the goal for Discount Bank:

Within the framework of its strategic plan, the Bank aims at implementing technological means which will intensify customer experience, and aspires to lead the personal and humane service experience, based on listening to and understanding the customers' needs, while creating innovative and clear solutions.

The activity at the Bank:

"Fintech and innovation" - The Bank creates innovative banking models intended to provide customers with advanced services adapted to their needs. In doing so the Bank invests in several innovative initiatives in the fintech and innovation fields, such as iCount, PayBox, and "Didi" the digital representative;

Promotion of environmental credit - extending credit to the solar energy field;

Sponsorships in the environment field.

The following goals are presented in accordance with their relevancy to the Bank's activities.



GOAL NO. 4 QUALITY EDUCATION

Meaning of the goal for Discount Bank:

The Bank sees the education field as a generator of personal and social success of the individual. Respectively, the Bank acts to promote quality education and learning opportunities.

The activity at the Bank:

"Sprint Discount" program - the flagship program of the Bank for the advancement of education and knowledge in geographical and social peripheral areas;

"Herzlillienblum Museum" - a private banking museum intended to increase knowledge in economics and financial education fields;

Assistance to students - the Bank and MDB offer students a variety of finance solutions designed to respond to their special needs. MDB operates a unique program for the promotion of higher education in the minority population groups.



GOAL NO. 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Meaning of the goal for Discount Bank:

The Bank holds the funds and financial assets of its customers. In such operations, the most basic condition for conducting business is the confidence that the customers show towards the Bank.

Accordingly, Discount Bank diligently maintains the rules of ethics and conducts its business in a legal and fair manner, strictly abiding by the provisions of the law and regulations in

its operations, and acts to fight bribery and corruption.

The activity at the Bank:

Code of Ethics - based upon the Bank's vision and values and comprises a compass for the employees, directing them towards proper, ethical and appropriate conduct; The principal subsidiaries have a code of ethics of their own;

Corporate governance code - application of the 'best practice' policy with respect to corporate governance, which is based upon the provisions of the law and regulations applying to the Bank in this field; The principal subsidiaries have also adopted a corporate governance code;

Avoiding conflict of interests within the Board of Directors - in addition to abiding by proper conduct of banking business directives, the corporate governance code of the Discount Group states that the Board of Directors shall determine a policy and rules for the treatment of conflict of interests designed to protect the Bank from improper or illegal operations;

"Whistle blower" mechanism - a "hot line" has been established at the Internal Audit Division for the handling of anonymous calls in respect of suspicion of fraud and embezzlement, improper accounting treatment, non-compliance with the provisions of the law or material deviations from the Bank's procedures. Furthermore, a circular in this matter has been published to the employees, in which it is clarified that the Bank's Management shall not allow any action taken against employees who bona fide had submitted complaints. A similar mechanism operates at the principal subsidiaries.

ASSURANCE EXAMINATION

➤ The report has successfully undergone the GRI Materiality Disclosure Service.

The Bank's CSR Report has undergone an assurance examination by an outside, objective body - The Center for Quality Assurance of CSR Reporting that operates within the framework of the CSR Institute at the College of Law and Business - which determined that Discount Bank meets the GRI requirements for the In Accordance - Comprehensive reporting. The Report presents fairly Discount Bank's activities for the given period. Furthermore, the Report is balanced and properly presents Discount Bank's activities in the various material topics, in financial sector activity in Israel and for the Bank itself.

QUALITY ASSURANCE STATEMENT:

DISCOUNT BANK - 2017 CORPORATE SOCIAL RESPONSIBILITY REPORT

INTRODUCTION

➤ **The Corporate Social Responsibility Institute** is an independent public body that works to promote the concept of Corporate Social Responsibility. The Institute operates within the framework of the **College of Law and Business**, which is a private college (recognized by the Council for Higher Education) for the study of law and business administration.

The Institute's work includes, inter alia, the convening of professional meetings, the writing of reports, research and market surveys, the "conversion" into Hebrew of applied methodologies from the rest of the world, etc. In April 2018, Discount Bank requested that the Institute instigate a quality assurance process with respect to its 2017 corporate social responsibility report.

It is hereby declared that the Institute receives a payment to cover the time it invests in this process. Furthermore, it should be noted that neither the Institute nor Mr. Liad Ortar (who performed the work) has any consultative business relationship with Discount Bank and that the quality assurance process was conducted independently and without bias. During the course of the quality assurance process a draft of the report was examined, comments were made and the above quality assurance statement was drafted.

WORK APPROACH

The quality assurance process for the corporate social responsibility reports is a process the object of which, first and foremost, is to improve the quality of the reporting products by means of providing professional feedback. As part of the process, it is examined whether the report adequately complies with three central principles:

- 1. Inclusiveness** – relating fully to the topics covered in the reporting process itself and the how these are reported, as well as the inclusion of a wide range of stakeholders' in the reporting.
- 2. Materiality** – relating to the topics that are material to the Company's operations.

- 3. Responsiveness** – reporting regarding topics raised by the stakeholders.

FINDINGS

This is the seventh report that Discount Bank has published and joins the trend of sustainability reporting adopted by the whole of the Israeli banking sector, with this being in conformity with the requirements of the Supervisor of Banks. The report adopts the latest reporting guidelines of the GRI and the SRS, while complying with the broad reporting framework known as "Comprehensive". I hereby declare that the Discount Group has indeed complied with the scope of disclosure and reporting at the requested level and has demonstrated that it is in compliance with the three principles presented above.

This report, the seventh of its kind, continues to show a trend of noteworthy professional development. The linkage to the United Nations' sustainability goals (the SDGs) undertaken by the Bank this year is also worth noting. This is a laudable measure that is in line with a trend of adoption by corporations throughout the world. I would like to emphasize that this linkage is, as stated, important and positive, but in the course of the assimilation process it is expected that the Bank will learn to identify not only the mega goals but also the specific secondary objectives and even the appropriate performance indices and will include such specific reporting in its future reports.

Furthermore, I would like to note favorably the two following aspects that find expression in the report: the first is the change in the report's design and the second is in the area of the banking services for freelancers. With regard to

the design aspect, it is clear that there has been a significant change for the better since the previous report for to 2016. The report is now more readable and is easier to understand for readers. With regard to the service aspect, Discount Bank is taking a major step in making its services accessible to freelancers. With the expected changes in the labor market, it would appear that more and more people are making their living as freelancers from home or from shared workspaces. This change also requires adaptation on the part of the providers of banking services and there can be no doubt that this measure by Discount Bank is a step in the right direction.

REMARKS REGARDING THE REPORT:

→ Timing of the report's publication

– This report is being published toward the end of 2018 and in fact represents the Bank's performance in the period a year and more earlier. This was also the case regarding the previous report which was published in November 2017. It is a well-known and recognized fact that the banks' financial reporting process is a tight and meticulous process, supervised by the responsible regulator, and the target date for publication is the end of the first quarter of the year following the year being reported. Despite all the difficulties and organizational challenges involved in doing so, the target date for publishing the sustainability report should be as close as possible to the publication of the financial statements. The ideal situation would obviously be to publish the two reports simultaneously, thereby providing the interested parties and the stakeholders with a complete picture of the organization's performance.

→ **Dialogue with stakeholders** – This approach, under the GRI's guidelines, is aimed at opening up the organization to receiving feedback concerning its operations from the public and from the social organizations that are also involved in financial and banking issues. A review of external methodologies, such as those of the GRI or the SASB, important as this may be, is no substitute for direct interaction with local stakeholder. This dimension of dialogue is missing from the report.

→ **Consistency in the presentation of goals** – Some of the report's chapters present clear goals, while others do not. The setting of goals and the ability to track their realization in the coming reports constitutes an important factor in gaining an understanding regarding the operational aims of the organization on social and environmental issues. It is therefore recommended that – to the greatest extent possible – measurable goals be presented in each of the chapters and, of course, that suitable attention be paid to these in the next report.

Congratulations on your good work,

**The Corporate
Social Responsibility Institute**

Liad Ortar

Manager of the Corporate Social Responsibility Institute
The College of Law and Business

02 GROUP PROFILE AND FINANCIAL DATA

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NIS 8,374
MILLION

The total economic
value produced by
the Group

188

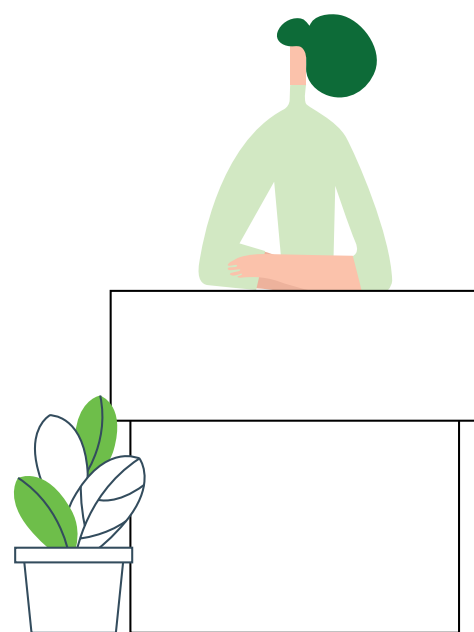
Branches in Israel

PLATINUM
PLUS

Discount Bank and
ICC were rated by the
Maala rating with the
highest rating

GROUP PROFILE & FINANCIAL DATA

THE ECONOMIC VALUE PRODUCED BY THE DISCOUNT GROUP RESULTS FROM ITS BEING A LARGE ECONOMIC ENTITY, ONE OF THE FIVE MAJOR BANKING GROUPS IN ISRAEL, WHICH PROVIDES ITS CUSTOMERS COMPREHENSIVE BANKING SERVICES IN ALL AREAS OF FINANCIAL ACTIVITY



DISCOUNT BANK GENERAL OVERVIEW

➤ Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Israel 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 Recanati under the name of "Eretz Yisrael 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 and in the fullness of time were transferred to 23 Yehuda Halevi Street, the site on which the Discount Tower is situated today, in which most of the Head Office units of the Bank are located.

During the years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres. As from December 3, 2013, the Bank turned into a bank having no core controlling interest and is subject to the instructions applying to banking corporation having no core controlling interest, in accordance with the Banking Act (Legislation amendments), 2012.

Domestic Operations

➤ Discount Bank grants its customers comprehensive banking services in all areas of financial activity, through 111¹³ branches in Israel, direct banking and digital

¹³ The number of branches updated as of December 31, 2017.

banking.

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 77¹⁴ branches.

For details regarding the distribution of activity according to geographical regions, see p.245 in the 2017 annual report.

The activities in Israel include additional areas, including:

➔ **Credit cards** - The Bank controls "Israel Credit Cards Ltd." (hereinafter: "ICC") and "Diners Club Israel Ltd." (hereinafter: "Diners", a company wholly owned and controlled by ICC), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use;

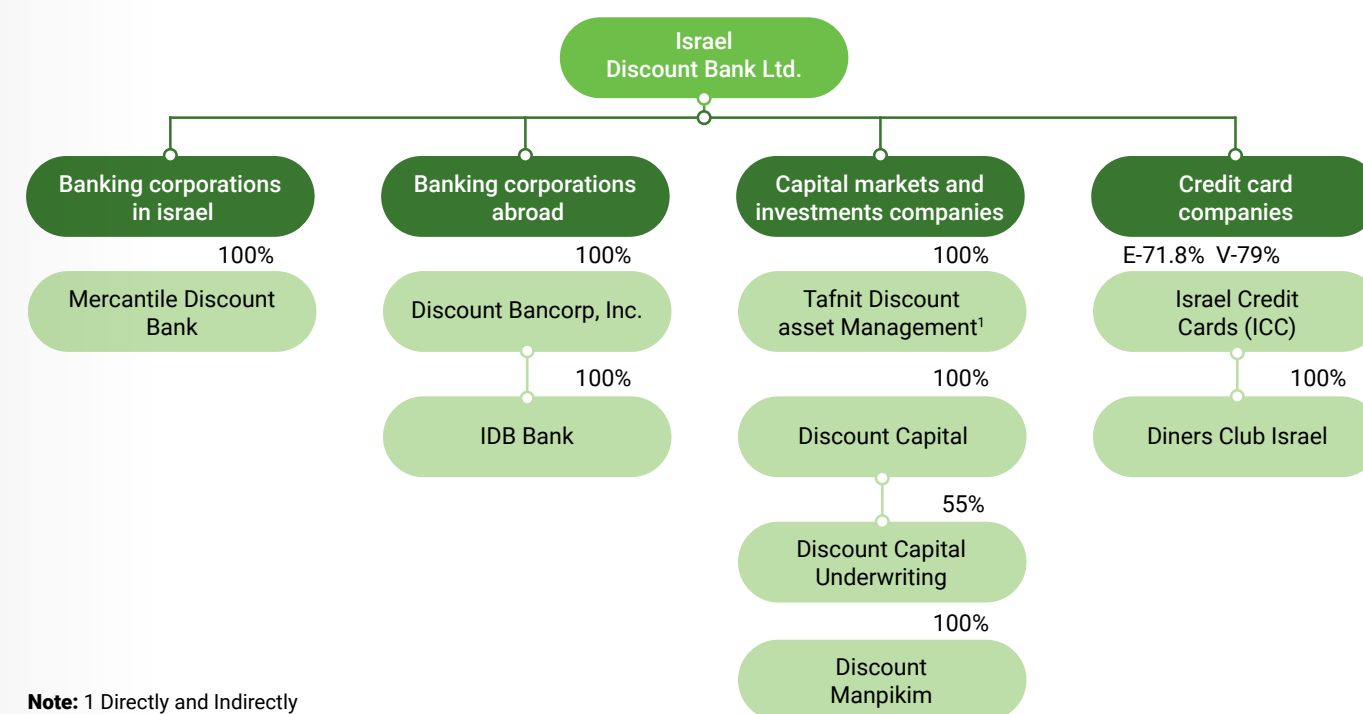
➔ **Securities portfolio management** - the subsidiary, Tafnit Discount Asset Management Ltd. (hereinafter: "Tafnit") which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;

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

International activity

➤ The international activity of the Discount Group is conducted by a

➤ DISCOUNT GROUP STRUCTURE



Note: 1 Directly and Indirectly

¹⁴ The number of branches updated as of December 31, 2017

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

GOALS AND BUSINESS STRATEGY

The updated strategic plan

➤ The Bank is engaged in realizing the vision of the Bank in accordance with its multiannual strategic plan that was approved in 2014 and updated in 2016 in accordance with market developments (as extensively discussed in the 2016 financial report pp. 18-20).

With the refreshing of the strategy, the projects map was also updated so that at the end of 2017 the Group is managing 25 strategic projects. The "change administration" established in 2014, continues to lead the coordination of the change programs, to assist in their implementation, to monitor and control their progress and to report to Management and the Board of Directors.

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

The updated strategic plan is based on

a leading goal: **leading in the Bank's customer satisfaction by means of customer adapted banking**, and comprises three principal layers:

1. Growth and efficiency

This layer represents a continuation of the original strategic plan from 2014, which includes the following tiers:

- A. Efficiency and stringent management of expenses, including:
 - Reducing the size of the Discount Group's workforce;
 - Merging branches and extensions, as well as making efficiencies in the Bank's head office space;
 - Making savings in procurement costs and other expenses.
- B. Customer focused growth:
 - Growth in the retail segment, with emphasis on private and small business customers, at the Bank and at the subsidiaries, MDB and ICC;
 - Nurturing the connection with the Bank's customers by means of upgrading suitable and useful value offers across the spectrum of distribution channels, while implementing technological improvements and enhancing the customer experience;
 - Transferring operational activities from the branches to the back-office - "the Banking Service Center", as well as assimilation of faster and more simple work processes at the branches.
- C. Assimilating a change supporting organizational culture;
- D. Focus and reducing non-core-business activities.

2. Transformation in traditional banking

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

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

3. Development of Innovative Banking Models

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

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

The strategic plans are based on assumptions regarding developments

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

Dialogue with the investors

➤ 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.

Within the framework of the dialogue with investors, the Bank conducts two-way communication with investors in securities - from the Bank outward, and from stakeholders inward.

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 reflecting of opinion and analysis of the relevant stakeholders and providing Management and the Chairman of the Board (and alongside the decision making process on relevant matters, also before the Board of Directors) with feedback on the results of the Bank and its activities, as well as the integration of such contents in the decision making process at the Bank.

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

Principal operations and central events during 2017

> 2017 was the third year of operation in implementing the strategic plan announced by the Discount Group in August 2014.

The Discount Group continued to

grow in 2017, mainly in the field of credit granted to target populations, as defined in the strategic plan. The management of the capital of the Group is strict. The Group's financial base is robust and has become even stronger. As of December 31, 2017, the ratio of common equity tier I capital amounts to 10.0% and the liquidity coverage ratio amounts to 126.7% (on the basis of an observation average). This is the capital infrastructure that allows the Group to continue growing.

The implementation of efficiency measures continued in 2017, including the "Lean" processes, basing the activity of the banking service center, reducing the floor space being used by the Bank, including the merger of branches and the continuing vacating and sale of buildings (used by branches and the head office), as well as additional measures leading to direct savings in Bank expenses.

Issue of Subordinated Debt Notes (Series L). On January 9, 2017, the Bank completed the issue of subordinated debt notes in a total amount of NIS 784 million, which include a mechanism for the absorption of capital losses, being capital instruments classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital. The said issue contributed approx. 0.5% to the overall capital ratio.

Formation of the "Discount Spirit". A widespread move for the formation of the vision, values and ethical code. For additional details, see the Chapter "The Discount Spirit" below.

Fintech and Innovation. The Bank adjusts itself to the changing world and

is active in creating innovative banking models, that would provide customers with advanced service modified to their needs. Within this framework, the Bank entered in 2017 into cooperation agreement with the fintech company iCount and acquired the "PayBox" operations in Israel. The cooperation with iCount comprises the first business-technological application in the banking sector in Israel, applying an open banking concept for an interface with third party suppliers, which is applied by way of the Application Programming Interface ("API") platform, which is of the most advanced in the world, enabling a secured connection on the basis of a global standard.

Furthermore, as part of the actions for the promotion of innovation, the Bank initiated, developed and introduced in 2017 "Didi - the digital assistant in the Discount application", which enables customers to perform transactions, access information and get insights regarding the activity in their account, by means of a request in simple language, either in writing or orally. The service is based on advanced analytic capabilities and artificial intelligence, and is the first of its kind in the banking sector. See expanded discussion in the Chapter "Customers" below.

Additional Issues. Both the Bank and ICC have reviewed the possible implications of changes in the financial system, following the conclusions and recommendations of the Committee for the Increase of Competitiveness in Banking and Financial Services in Israel ("the Strum Committee"; see the 2017 Annual Report (pp. 371-374). For details in respect of agreements between ICC and certain banks on the one hand, and

between the Bank and factors in the credit card market on the other hand, see the Financial Statements as of September 30, 2018 (pp.200-201);

The Bank adjusts itself to the changing world and is active in creating innovative banking models, that would provide customers with advanced service modified to their needs. Within this framework, the Bank entered in 2017 into cooperation agreement with the fintech company "iCount" and acquired of the "PayBox" operations in Israel

The Bank has continued to devote and invest considerable managerial efforts and attention to the preparations and upgrading of the infrastructure required to deal with cyber risks and cross-border risks, all this alongside the continued integration and assimilation of the risk management, compliance and conduct culture.



MERCANTILE DISCOUNT BANK

GENERAL OVERVIEW



Mercantile Discount Bank will celebrate 100 years of operation in 2018.

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

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

Soon after its incorporation on December 7, 1971, MDB acquired all the assets and liabilities of the Barclays Bank branches in Israel (by that time some 40 Barclays Bank branches had been in operation in the State of Israel).

On February 28, 1993, following the

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

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

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

This comprehensive framework of operation enables MDB to provide to its customers the full range of banking and financial solutions and grant them professional service of the highest level, through diverse communication lines for all banking products prevailing in the market, adapted to the specific needs of the customers. The said services are provided to customers of MDB through a countrywide network of branches, numbering 77 branches.

The strategic plan of Mercantile Discount Bank

> The Board of Directors of MDB approved in 2015 a strategic plan for the years 2016-2020. The plan contains two main lines of action: the one - expansion of retail operations (households and small businesses), within the framework of which, MDB is intended to focus on specific sections of the population, in respect of which this bank has many years of experience in the granting of banking services matching their unique needs. The other - streamlining operations by means of strict management of operating expenses and improvement in income structure.

2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic retail plan, prepared by Management of MDB with the assistance of external consultants. The plan is intended to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services, as regard to both households and small businesses; segmentation and adjustment of customer value

offer and a step up in online channels.

Major projects implementation.

Execution of the said strategic plan involves the implementation of structural changes and changes in work processes, which are integrated at MDB within the framework of projects, including:

- A change in the organizational structure of the Retail Division and adjusting it to operating in accordance with targeted segments;
- Performing segmentation of customers;
- Greater efficiency of branch distribution;
- Encouraging customers to increase the use of online services.

Principal activities and events at Mercantile Discount Bank in 2017

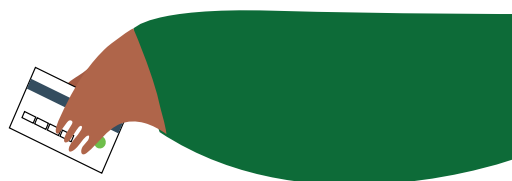
> The year 2017 was the third work year for the implementation of the strategic plan of MDB. The carrying out of the strategic plan involves the implementation of structural changes as well as changes in work procedures implemented at MDB within the framework of projects, including:

"Expanding the activity of the back office unit" - within the framework of which certain operational activities are transferred from the branches to back office operational centers, with the aim of increasing the resources of the branches available for customer service and for the continuing development of the Bank's activity;

Improvement of the computer infrastructure - including the infrastructure relating to the development of operations in the

retail segment, such as: expansion of the channels used for providing banking services, improvement of the technological infrastructure allowing transaction not requiring the physical signature by the customer, the upgrading and increase in the number of automatic teller machines at the branches and the development of advanced digital applications enabling bank customers to obtain available information and transact banking operations through mobile means of communication;

Reorganization at the Commercial Banking Division - A reorganization was implemented on January 1, 2017, at the Commercial Banking Division (in its former name: the "Corporate-



commercial Division"), within the framework of which the operations of the corporate wing of the Division was merged into two commercial wings;

Organizational change in the Retail Division - Management of MDB approved in the last quarter of 2016 organizational changes in the Retail Division, which include:

- An organizational change at the marketing wing, derived from the implementation of the new strategic plan, whereby referents have been appointed for the marketing of banking products and services for designated populations which are adapted to their special needs;
- Expanding the operations of the credit and control wing, including the appointment of referents for the operational risk and compliance risk management fields.

The assimilation of these organizational changes was implemented in the course of 2017;

Risk management - continuing the upgrading of compliance activity at the Bank, including appointment of compliance officers;

The Code of Ethics - A process of structured integration of the Code for all bank employees was conducted in 2017, in continuation of the introduction of the new Code in 2016;

Continuation of the efficiency process - nine additional employees retired towards the end of 2017, within the framework of the 2016 retirement plan.

ISRAEL CREDIT CARDS LTD. ("ICC")

GENERAL OVERVIEW



ICC was incorporated in 1979 as a private company under the Companies Act. The company is engaged in credit card operations and in the development of payment solutions and financial products. ICC is considered an "auxiliary corporation" under the Banking Act (Licensing), 1981. Discount Bank holds 71.8% of the equity rights and 79.0% of the voting rights in ICC. The First International Bank of Israel Ltd. holds the rest of the rights in ICC. The company offices are located in Givataim.

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

The income of ICC is composed mostly of commission fees on the operation of credit cards and on the providing of payment solutions, as well as from credit financing income paid by its customers: credit card holders and trading houses. ICC has several subsidiary companies and one affiliate, through which it provides to customers a part of its services. Such services were provided in 2017 through Diners Club Israel Ltd. (franchise holder of the global Diners Club chain, which is engaged in the issue, marketing and operation of "Diners" credit cards, valid in Israel and abroad), C. A. L (financing) Ltd. (operates as the

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

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

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

The strategic plan of ICC

➤ On May 23, 2017, the Board of Directors of the company approved the strategic plan for the

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

Principal operations and events at ICC in 2017

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

In the immediate future, the separation from the banks of the ownership of

credit card companies would not apply to ICC but only to its competitors (Isracard and LeumiCard). Only at the end of four years would the issue of separating the ownership of ICC be re-examined. This and more, if until now the large banks (Hapoalim, Leumi and Discount) issued to their customers' credit cards of the credit card companies owned by them (Isracard, LeumiCard and ICC), competition between the companies is now expected to develop. Concurrently, the banks would be required to move a part of the issue of new credit cards to customers to another credit card company, at least one, with which they had no previous business.

From the view point of ICC, although there would be a reduction in the issue of credit cards to customers of the owner banks, ICC would now have the opportunity to compete in the issue of new credit cards to customers of Hapoalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

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

ICC signed in 2017 new agreements that would enable it to continue in its growth trend and establish its competitive position in the credit card market. Included in the above is the signing of a document of principles with Shufersal Company and the signing of an agreement with GAMA and with Alipay.

For additional details, see Discount Bank's 2017 Annual Report (pp. 371-374).

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the present rate of 0.7% to a rate of 0.5%, this in five stages during the coming years. In addition, an outline was determined with respect to the reduction of the cross-commission regarding immediate charge transactions. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see Discount Bank's 2017 annual report (p. 294).

For details regarding the draft exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expected to expire on December 31, 2018), published by the Antitrust Commissioner, see Discount Bank's 2017 annual report (p. 294).

Agreement for issuance operating services with Bank Hapoalim. ICC and Bank Hapoalim B.M. signed on January 30, 2018, a letter of agreement for cooperation in preparing the preliminary work towards the signing of a binding agreement for the granting of credit card operating services by ICC to Bank Hapoalim. The parties aim at reaching the signing of a detailed arrangement. The issuance agreement, if at all signed, requires the approval by the Supervisor of Banks.

Agreement for operating services with Bank Leumi. On March 13, 2018, ICC, Diners and Bank Leumi Le Israel B.M. (hereinafter: "Leumi") signed a memorandum of understanding, which includes the basic terms for the engagement of the parties in an agreement for the issue of bank debit cards to customers of Leumi. The memorandum states that the parties shall act towards the signing of a detailed joint issue agreement ("the detailed agreement"). The memorandum states that the parties would jointly issue debit cards to Leumi customers and that ICC would operate the issue of such cards. For additional details, see the 2017 annual report of Discount Bank (p. 296). A joint issuing agreement was signed on August 12, 2018.

ICC signed new agreements that would enable it to continue in its growth trend and establish its competitive position in the credit card market. Included in the above is the signing of a document of principles with Shufersal Company and the signing of an agreement with GAMA and with Alipay.

An agreement in principle with Shufersal Company. ICC and Diners (together - "the company") and Shufersal Company Ltd. (hereinafter: "Shufersal") signed on November 2, 2017, a letter of principles for the issuance and operation of off-banking credit cards to Shufersal customers ("the Credit Club" and "the Cards", respectively). To the best knowledge of ICC, the Credit Club numbers approximately 0.5 million customers. The Credit Club was launched on January 18, 2018 (date of termination of the previous agreement between

Shufersal and Leumi Card Ltd., under which credit cards had been issued to customers of Shufersal). The agreement shall take effect from the date of signing thereof and until December 31, 2027; such period may be extended for additional periods of two years each. For additional details, see the 2017 annual report of Discount Bank (p. 297).

An Aggregator agreement with GAMA Company. On July 6, 2017, ICC signed an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), whereby GAMA acts as an "Aggregator" with a view of enabling credit card transactions through the use of the services of GAMA and of the company. The signing of this agreement is in line with the provisions of the Increase in Competition and Reduction of Centralization in the Banking Market in

Israel Act, which includes instructions the aim of which is to increase competition in clearing operations. Management of ICC estimates that the agreement would improve value offer to the small and middle market trading houses.

Cooperation with Alipay Company. On September 19, 2017, ICC and Alipay.com Co. Ltd. (hereinafter: "Alipay"), a member of the Alibaba group situated in China, signed an agreement whereby Alipay shall provide to ICC processing and securing payments services in respect of transactions cleared by ICC in Israel. The payment services of Alipay is the leading means of payment among customers in China, and this engagement is designed to provide the best response for the clearing of this means of payment by Chinese tourists visiting Israel, which in recent years shows a continuous and consistent growth trend.

IDB BANK

GENERAL OVERVIEW

IDB BANK Israel Discount Bank of New York also known by its registered service mark, "IDB Bank", is a full service commercial bank licensed by the State of New York and a member of the Federal Deposit Insurance Corporation (FDIC). IDB Bank's liquidity and capital ratios are strong and it is ranked by Crain's New York Business as one of the largest commercial banks in the New York area.

IDB Bank is a wholly owned subsidiary of Israel Discount Bank Limited, (IDB Ltd.).

IDB Ltd. began its operations in New York City in 1949, when it established a representative office. At that time there were only a few employees and limited contact with the public. In 1962, IDB Ltd. became one of the first foreign banks to open a branch in New York when the New York State banking law was changed to allow foreign banks to operate branches in the city. In 1967, Israel Discount Bank Ltd. acquired the Hias Immigrant Bank and changed the name to IDB Trust Company, an FDIC-insured institution. Ultimately, in 1980, the branch's assets were transferred to the renamed, wholly-owned IDB Ltd. subsidiary, Israel Discount Bank of New York ("IDBNY"). IDBNY also took over a major portion of the western hemisphere banking operations of its Tel-Aviv parent. Subsequently, the Bank took on more contemporary nomenclature with the registered service mark "IDB Bank." In March 2000, IDB Bank became a wholly-owned subsidiary of Discount Bancorp, Inc., a

Delaware holding company it formed to hold its shares.

IDB Bank provides domestic and international, personal and commercial banking services to its U.S. and foreign clientele through its main office in Manhattan, branches in Staten Island, Brooklyn, and Short Hills, NJ, in addition to branches in Beverly Hills and Downtown Los Angeles, California; and Aventura, Florida. IDB Bank also maintains an International Banking Facility at its main office; and representative offices in Chile, Israel, Mexico, Peru and Uruguay. IDB Capital Corp. is the Bank's broker-dealer, and a wholly owned subsidiary of IDB Bank.

IDB Bank specializes in U.S. Private Banking, International Private Banking, Middle Market Lending, Asset Based Lending, Commercial Real Estate Lending, Trademark Financing, Factoring, Trade and Finance (Import, Export and Standby Letters of Credit, Documentary Collections, Bankers' Acceptances).

IDB Bank's broad range of banking services include Personal and Business accounts, Cash Management, Checking Accounts, Money Market Savings Accounts, U.S. Dollar and Foreign Currency Time Deposits, Credit Cards, ATM/Debit Cards (for personal accounts), Safe Deposit Boxes (New York main office only), Online Banking, Money Transfers, Lockbox Facilities, Safekeeping and Custody of Securities, Money Orders and Direct Deposit of Social Security and other recurring payments.

Through its broker-dealer subsidiary, IDB Capital Corp, IDB Bank is able to



offer investment products such as U.S. Government and Agency Securities, Corporate Stocks & Bonds, Offshore and Domestic Mutual Funds and Capital Market Instruments. Furthermore, IDB Capital Corp can customize a bond portfolio to the customer's specifications (subject to availability and prevailing rates), starting with an investment of US\$500,000.

The strategic plan of IDB Bank

> In December 2017, the Board of Directors of IDB Bank approved a five-year strategic plan for the years 2018-2022. The plan is based upon growth while intensifying the old established personal relationship of IDB Bank with its customers, in selected sectors in which the bank has expertise and many years of experience, as well as leveraging the position of IDB Bank as the largest Israeli owned bank in the United States.

MEMBERSHIP OF ORGANIZATIONS AND EXTERNAL INITIATIVES

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

Maala



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

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

The Bank, ICC and MDB are members of Maala. The Bank is a member of the leadership group of Maala. The Bank submits a yearly report to Maala, as part of its participation in the Maala rating. ICC participated this year for the second time in the Maala rating.

Association of Banks in Israel



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

UN Global Compact



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

The Global Compact is a strategic policy initiative by corporations which have committed to accept, support and apply within the framework of their area of influence, a set of basic values regarding human rights, standards for work and environment conditions and fight in corruption. As part of its participation in this initiative, the Bank has declared its support of the ten universal principles of this initiative and its commitment to turn the Global Compact and its principles into a part of the Bank's strategy, organizational culture and daily operations. The Bank submits to the Global Compact initiative a yearly progress report. The CSR report since 2013 comprises a progress report for the relevant years.

The Israeli Marketing Union (formerly: the Advertisers Union)



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

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

Reporting to investors through "Viego Eiris" and FTSE4Good



An external review of all published reports of the Bank to its investors in a condensed format, and its future action for their improvement in matters of corporate responsibility. Viego Eiris and FTSE4Good are forming the evaluation of the corporate responsibility

performance of the Bank, for responsible investors around the world.

"FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Israel Discount Bank has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products."

Reporting to the Ministry of Environmental Protection regarding emission of greenhouse gases



A comprehensive annual report, voluntarily prepared at present, and which reviews emission of greenhouse gases by the Bank and measures taken to reduce them. The report for 2017 was submitted in June 2018.

SOCIAL RESPONSIBILITY RATINGS

> "Maala" rating for 2017 - In June 2018, "Maala" published its rating for 2017. The Bank has been rated in the Platinum Plus category (awarded to companies with an absolute score of over 90). The rating is based on criteria detailed in a number of central areas of corporate

responsibility: Labor relations, health and balancing; responsibility in purchases; quality of the environment and sustainability; ethical aspects of business processes; diversification and containment; contribution to the community; social involvement of employees; corporate governance; corporate responsibility management and reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

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

BDI rating - the best companies to work for - Since 2005, the business information and credit risk management company BdiCoface, performs an annual rating of "the best companies to work for". The rating examines what is important for employees, what are their expectations from the work place and what are the most desirable places to work for. The methodology includes quantitative parameters (human resources characteristics in an organization and the level of investments therein) as well as qualitative parameters (employee surveys and student surveys). In 2017, the Bank was awarded the 17th place in the rating and ICC was awarded the 26th place.

BDI Code - A business leadership index rating approximately 500 companies in the market. In 2017, the Bank was awarded the 19th place in the rating. In 2017, MDB was positioned in the 130th place in the rating and ICC in the 105th place.

IDB Bank - Currently, IDB Bank's overall Community Reinvestment Act ("CRA")

ratings are as follows:

- "Outstanding" by the Federal Deposit Insurance Corporation ("FDIC") - CRA Performance Evaluation performed as of June 6, 2017, and the report was issued on August 31, 2017.
- "Outstanding" by the New York State Department of Financial Services ("NYSDFS") - CRA Performance Evaluation was performed as of December 31, 2016, and the report was issued on April 5, 2018.

The above ratings are the same as the prior 2014 FDIC and 2013 NYSDFS CRA examination ratings.

COMMENDATIONS AND PRIZES

Discount Bank

→ The computer excellence competition for 2017 - In 2017, the Bank won eleven awards in the 2017 IT Awards Competition, for technological projects implemented during the year. This was in addition to winning the "Champion of Champions" title for the second consecutive year. In the reasons for the winning, the referees stated that "in the passing year the Bank introduced a series of infrastructure and applicative projects, the aim of which was to provide greater service and business values to customers of the Bank, as part of the digital journey that the Bank is undergoing".

A leading bank in the 2017 digital field - In 2017, for the second consecutive year, the Bank won the Best Digital Banks competition conducted by the Global Finance Magazine.

The CIO for the year - Mr. Levy Halevy, the person then serving as Executive Vice President of Technologies and Operations at the Bank, won in 2017 the title of CIO (Chief Information Officer) for the year awarded by People and Computers Magazine. This title is awarded to only one information technology officer in respect of exceptional performance. The reasons for the winning stated, inter alia, that Mr. Halevy "sets a model for the perfect execution of digital transformation; taking business responsibility for digital activity, technology and operations; leading to successful cooperation between President & CEO and Executive Vice President; leading digital innovation and comprising a source of pride for the organization; has built a model for the combination of innovation and technology in one organizational framework; has created digital leadership in the banking sector, held in great esteem by customers and employees of the Bank; an innovator, revolutionist, promoter of computerization at the Bank, leader and champion".

Superbrand in Israel - Discount Bank was named in 2017 as a superbrand in Israel for the fifth consecutive year. The aim of the International Superbrands Organization is to identify and name in each country the brands that have demonstrated brand and marketing excellence in the local market. The Organization is active in some seventy countries around the world. Since 2009, the Organization is also active in Israel.

ICC

→ Product of the year for 2017 - Also in this year ICC won the innovation award within the framework of the product of the year - winning in the category of added value services for businesses in respect of online credit service.

Innovate 2017 - Within the framework of the Innovate Competition of the Innovation in Marketing Forum, in cooperation with the College of Management Academic Studies and the International Advertising Association (IAA), ICC won also in this year the great and prestigious award - the innovative marketing move of the year, with respect to the introduction of the service for the restoration of the secret code.

Superbrand in Israel - ICC was also nominated in 2017 as a "Superbrand" in Israel, for the eighth year in a row.

Excellence in computers - ICC won this year six awards for excellence in computers for 2017, within the framework of the competition of the "People and Computers" Group, 2017 IT Awards.

Ms. Irena Fortnik, VP Technologies and Operations at ICC, has been chosen as the excelling CIO in the "role model" category for 2017, within the framework of the said competition, and there for was granted the appreciation and excellence token.

The 2017 Service Convention - Within the framework of the service and customer experience convention of the Israeli Management Institute, ICC won this year the second place in the service competition, in the "digital service and social networks" category.

CONTRIBUTING TO THE 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. The Bank contribute to the development of the economy, due to it being a leading bank in the market, which constantly provides a variety of financial and investment solutions to business entities and to various sectors of customers.

The economic value produced by the Discount Group results from its being a large economic entity, one of the five major banking groups in Israel. The Bank's operations and its business results create value for its shareholders. The Group pays

taxes to the authorities as prescribed by law, employs a large staff and thus contributes to the livelihood of many families. The Group purchases services and products in a substantial volume, most of which in the local market.

The economic value created by the Discount Group

➤ Hereinafter are presented central data regarding the added value created by the Discount Group and regarding the economic values of the Group.

Discount Bank, MDB and ICC do not receive

➤ THE ECONOMIC VALUE CREATED BY THE DISCOUNT GROUP

		2017	2016	2015	2014
		in NIS million			
Economic values	The total economic value produced by the Group ¹	8,374	⁴ 7,996	⁴ 7,276	⁴ 7,366
	Total economic value distributed by the Group to its stakeholders ²	6,482	⁴ 6,555	⁴ 6,291	⁴ 6,680
	Total retained economic value ³	1,892	1,441	985	686
	Provision for taxes on income from ordinary operations	747	⁴ 741	⁴ 566	⁴ 266
Employees	Number of Group employees	9,374	9,401	9,710	10,190
	Salaries and related expenses	⁷ 3,204	⁷ 3,169	⁷ 3,393	⁷ 3,458
Customers	Number of branches in Israel ⁵	188	200	211	218
	Credit to the public ,net	150,868	148,562	129,268	122,172
	Of which: housing loans	28,893	25,764	21,808	20,398
	Credit to small and minute businesses	⁸ 30,825	⁸ 29,124	⁸ 27,207	⁹ -
Suppliers and community	Payment to suppliers	1,467	1,264	1,086	931
	Purchase in Israel	95.3%	95.9%	97.7%	97.7%
	Contributions and investments in the community ⁶	16.2	17.1	16.3	16.4

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.
- 4 Reclassified - see Note 1 C 7 to the financial statements as of December 31, 2017 (p. 129).
- 5 The number includes the Discount Bank branches as well as those of MDB.
- 6 The volume of monetary donations and donations of an equal monetary value.
- 7 Reclassified - see Note 1 E 3 to the condensed financial statements as of September 30, 2018 (p. 95).
- 8 Reclassified - see Note 12 B to the condensed financial statements as of September 30, 2018 (p. 147).
- 9 Measurement of the small and minute businesses segment, in accordance with the directive regarding regulatory operating segments, first begun in the 2015 annual report. See Note 1 C 5 (8) to the financial statements as of December 31, 2015 (p.167).

government support. Financial data of MDB and of ICC are presented in their annual reports for 2017, available on their respective Internet websites. Financial data of the Discount Group is presented in the 2017 annual report of Discount Bank, which is available on the Bank's website.

Data regarding the activity of the Discount Group by operating segments are presented in the 2017 Annual Report (pp. 231-251). Data regarding the activity of the Discount Group by geographical areas are presented in the 2017 Annual Report (p. 245). Data regarding the distribution of the overall credit risk of the Discount Group according to economic sectors are presented in the 2017 Annual Report (pp. 62-65).

INDIRECT ECONOMIC IMPACTS

➤ The Discount Group is acting towards promoting various benefits in favor 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 "Customers" below) and the establishment and operation of the Hertzeli Ilanblum Private Museum (see chapter "Discount for the Community" below).

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

below). MDB is one of the largest employers in the Arab sector.

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



The total economic value produced by the Group in 2017

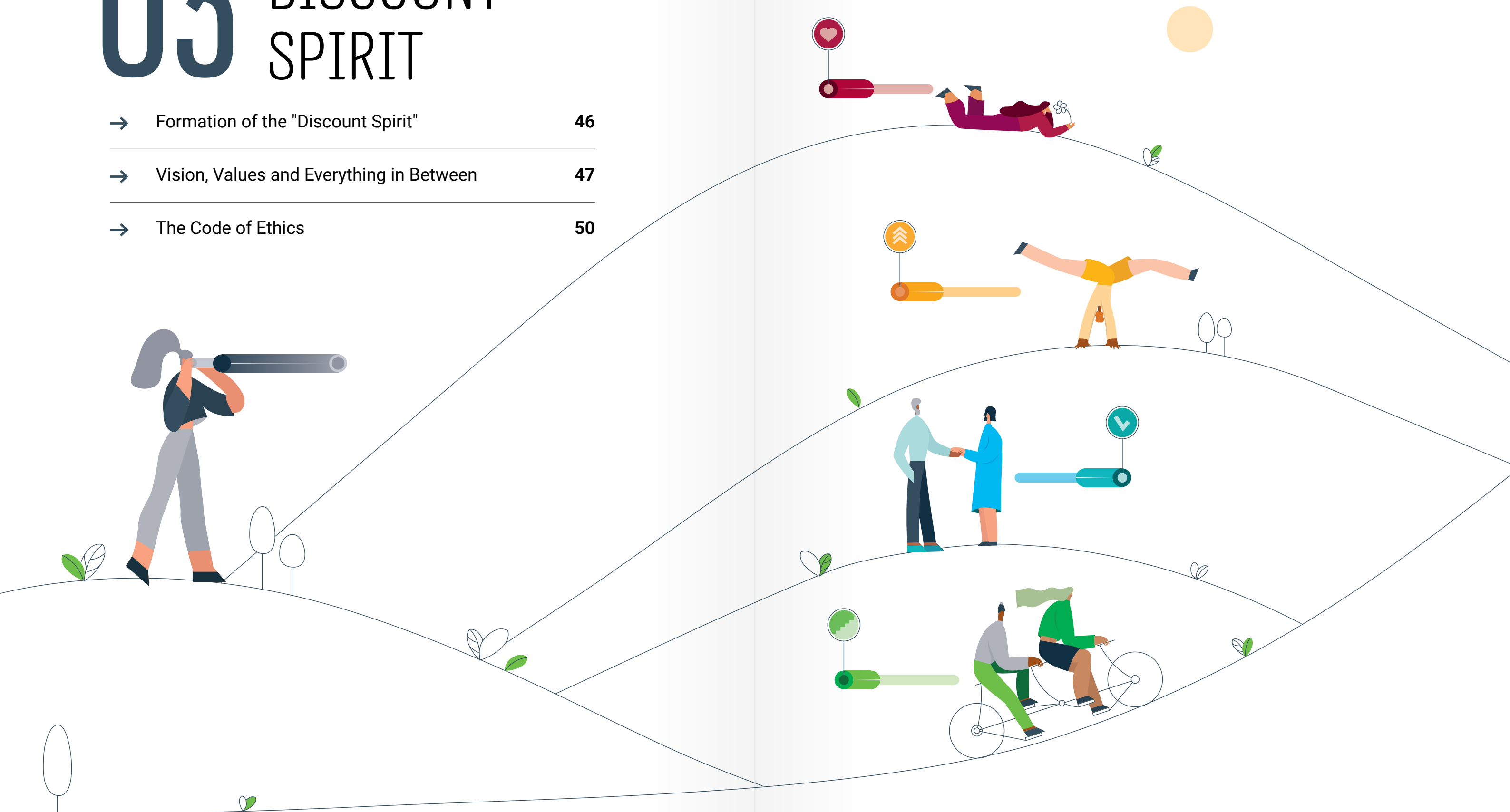


Total provision for taxes in 2017

An additional indirect impact worth mentioning is the Bank's investment in its flag ship project in the field of contribution to the community - "Sprint Discount". The project focuses on the advancement of youth at risk in peripheral areas with a view of reducing social gaps and increasing social economic leadership by means of education and knowledge.

03 DISCOUNT SPIRIT

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DISCOUNT SPIRIT

THE DISCOUNT SPIRIT INCORPORATES THE VISION, VALUES, RULES OF CONDUCT AND THE CODE OF ETHICS, WHICH GUIDE THE OPERATIONS OF DISCOUNT BANK ON ITS WAY TO BECOME THE BEST BANK FOR ITS CUSTOMERS.



THE VISION

WE SHALL ENDEAVOR TO BECOME THE BEST BANK FOR ITS CUSTOMERS, PERMITTING OVER A PERIOD OF TIME, GROWTH AND FINANCIAL SOLIDITY BY MEANS OF ADAPTED, PROFESSIONAL AND FAIR BANKING.

FORMATION OF THE "DISCOUNT SPIRIT"



In the beginning of 2017, with the passing of two and a half years since the beginning of the implementation of the strategic plan, which outlines the activity in all the core fields of operation and supporting fields of Discount Bank's operations, the need was found for outlining the organization's spirit, creation of a change supporting organizational culture, that would support the success of the organization in reaching its business goals, as a complementary process to the Bank's strategy. At the end of 2016, the Bank's Management decided to begin a process for the formation of the "Discount Spirit". The process was made of three tiers:

Formation of a vision;
Formation of values and conduct rules;
Formation of code of ethics.

The vision, values and the code of ethics replaced the previous vision, values and code of ethics. The vision of the Bank was formed and approved in the first quarter of 2017. All members of the Bank's senior forum participated in this process.

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

In the first quarter of 2018, the Bank has completed the move for the formation of the Bank's values, principles of conduct and the code of ethics. Values of the Bank: commitment to customers, leading change,

making it happen, and succeeding together. Some 400 managers had participated in the move for the formation of the "Discount spirit", and who are committed to lead the integration process in all units of the Bank. The process of integration will continue also in 2018.

The plan for the integration of the vision into the Bank includes four main lines of action:

Management - determining policies and taking value directed decisions, providing personal example, monitoring and control;


Managers - Responsible for the integration in the field, in the branches and in the Head Office units;

Core processes and strategic projects - tuning all processes and projects in order to reflect the new values;

Internal communication - creation of an activity for the delivery of messages encouraging integration all over the Bank, mainly by means of two communication platforms: "FaceBank" the organizational portal and "Morning Magazine" issue, which includes different articles from all units of the Bank.

Integration of the values and the code of ethics began in the beginning of 2018.

VISION, VALUES AND EVERYTHING IN BETWEEN

 We at Discount believe that It is up to us to make our customers choose us anew every day. We understand

that, in order for this to happen, we need to create added value and shape the experience our customers get at every point of contact with the Bank.

We are eager to provide service and committed to do so at the highest professional standards, from a sincere and true desire to work in our customers' best interests.

It is important to us that we create value over time for all our stakeholders. We treat our customers, colleagues, partners and suppliers is how we would have them treat us: with fairness and integrity, consideration and respect.

As a financial organization, we are committed to work diligently in order to be deserving of the public's trust. Beyond compliance with all laws and binding procedures, all our deeds and actions are conducted transparently and fairly so as to fulfill the Bank's commitment to create and encourage economic and social growth.

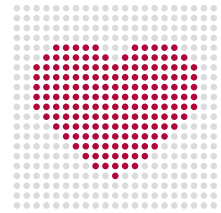
It is important to us to feel proud of our workplace and to this end we encourage a challenging, supportive and pleasant work environment. We believe in the people who work with us and invest in strengthening them.

All of us together, the Bank's Management, the managers and the staff, are committed to continuing and promote the Bank's momentum of change, and the continued future growth and success of the Discount Group is the goal we constantly see before us.

We at Discount are committed to the customer, leading change, making it happen and succeeding together.

→ OUR VALUES

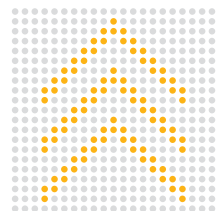
Committed to the customer



- We guarantee a professional and speedy response
- We customize innovative solutions
- We provide a convenient, available and transparent service
- We confer an exceptional service experience

We are aware of our customers' changing needs and think from their perspective in order to provide them with a professional and speedy response with explicit added value. We endeavor on tailoring innovative solutions to the customer's needs and provide them an exceptional service experience, with emphasis on availability, simplicity, convenience and transparency.

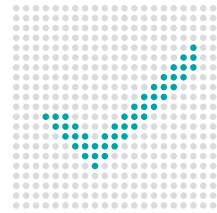
Leading change



- We see change as an opportunity
- We are curious and daring
- We are open to new ideas

We identify change as a growth opportunity and display a constant curiosity for learning and self-development. We dare to go beyond our comfort zone, to break out of known boundaries and to adopt new ideas. We display flexibility and act speedily and diligently in order to adapt our operations to the changing world.

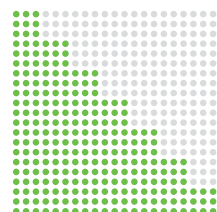
Making it happen



- We are innovative and determined
- We take overall responsibility
- We stand by our commitments

We work with enthusiasm and determination to achieve added value and results to the highest standards. We take responsibility for our work from A to Z and display diligence, initiative and resourcefulness in order to achieve our objectives. We stand by our commitments and strive to surpass expectations.

Succeeding together



- We cooperate and share knowledge
- We establish a trust relationship
- We are considerate and respectful

We cooperate, share knowledge, consult and think together, thereby creating a multiplier effect. We establish a trust relationship and relate to each and every person eye to eye, with consideration and with respect in order to create a work environment that is supportive, positive and challenging, with an atmosphere that encourages personal and professional development.

VISION AND VALUES AT THE PRINCIPAL SUBSIDIARIES

The values of Mercantile Discount Bank

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

Human

Responsibility, fairness and integrity - for us these constitute an asset. We act taking always personal and organizational responsibility for our actions. We share joint universal values, which we strictly nurture daily in our work, principally: fairness and decency, integrity and compliance with the law.

Organizational

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

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

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

Inter-personal

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

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

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

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

The ICC vision

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

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

The values of ICC

Partnership -

Always acting out of commitment and out of mutual responsibility.

Integrity -

Acting fairly, reliably and in accordance with ethical principles.

Excellence -

Be ready to face any challenge and overcome it.

Innovation -

Always be one step ahead of others.

Positiveness -

Employ a positive approach, and believe in the ability to succeed.

Flexibility -

Acting in accordance with changing situations.

IDB Bank - Our Vision

- It's not what we offer; it's how we offer it. With us, **it's personal.**

We dedicate ourselves to providing quality service, personalized attention and innovative products that further the success of our clients. We merge time-honored tradition with cutting-edge technology to create a secure, productive environment where long-term, multigeneration relationships can grow.

THE CODE OF ETHICS

➤ At the beginning of 2018 a new Code of Ethics was approved at Discount Bank. The new Code of Ethics was drawn up as part of the process of forming the "Discount Spirit", which is the organization's ethical and behavioral basis in building the desired organizational culture within the organization. The Code of Ethics relates to moral and ethical behavior, dealing primarily with values of fairness, honesty, respect and transparency in its ongoing conduct vis-à-vis various categories of stakeholders, the principal of which are: employees, customers, the business environment and the community.

The Code of Ethics was drawn up in a process that included examining the codes of ethics of other financial bodies in Israel and abroad, examining the Bank's existing Code of Ethics, an in-depth examination of the standards that have been developed in this field, and which emphasizes social and environmental responsibility, preventing bribery and corruption and protecting the complaining worker on ethics issues, the existing regulation and the requirements of social bodies.

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

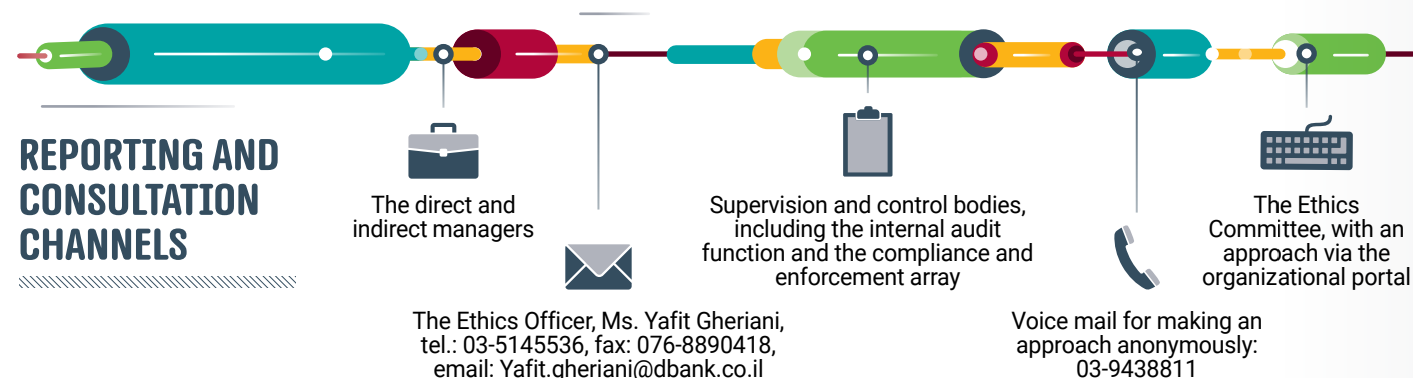
its methodical deployment was drawn up so as to ensure that the Code would be deployed effectively within the organization.

The executive in charge of ethics at the Bank is Ms. Yafit Gariani, member of Management and - Executive Vice President, Head of the Human Resources and Properties Division. Operating together with her is the Ethics Committee, whose responsibility is to form a policy in the matter of ethics, monitor the absorption processes and deal with dilemmas and ethical issues. Representatives of the Bank's units officiate in the Committee.

The absorption processes integrate courseware, the designated Intranet site, which contains a collection of dilemmas and extended information regarding organizational ethics, integration of ethical dilemmas with professional and managerial qualification processes as well as examining and updating the core organizational processes in the fields of human resources, customer experience, supplier management, etc., all in the spirit of the Code.

The reporting mechanisms are an anonymous telephone line and forms addressed to the Ethics Committee also for consulting purposes. No approaches were made in 2017.

The Code of Ethics is available for perusal on the Bank's website¹⁵.



15 <https://www.discountbank.co.il/DB/private/discount-group/about/discount-spirit>

THE CODE OF ETHICS OF THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ Towards the end of 2016, MDB introduced a new ethical code serving as a compass in the organizational and business culture paths, as well as in the relationship of the bank with the different stakeholders (customers, suppliers, employees, etc.). The ethical code reflects the leading values of MDB, and includes three layers: human, organizational and the inter-personal.

The officer in charge of ethics at MDB is a member of Management, Ms. Ronnie Lars - VP Head of Human Resources and Administration Division.

The code of ethics was integrated in 2017 in five routes, as follows:

Introduction - the code was distributed in January 2017, to all Bank employees together with a letter from the Bank's President & CEO.

Guidance - instruction sessions were held for all managers of the Bank, who in turn instructed their subordinates, with the assistance of a designated training layout. The code of ethics was integrated into instruction sessions for new employees.

Structures and processes - the Bank's values have been integrated into the annual evaluation of the employees. An Ethics Committee has been established headed by the officer in charge of ethics at the Bank and the manner of approach to the Committee has been regularized.

Communication - the code of ethics was published on a designated website in the Bank's employees portal, by which it is possible to approach the Ethics Committee and view its publications. A summary of the code was published on the Internet website of Mercantile Discount Bank. The establishment of

the Ethics Committee and the manner of approach thereto has been publicized by a circular to employees. Recommendations of the Committee regarding cases submitted to it are published in the designated website.

Control - control has been performed over completion of instruction sessions for employees with the collection of feedback and managers' dilemmas.

ICC

➤ The officer in charge of Ethics at ICC is Mr. Barak Nardi, a member of Management - Deputy CEO and Head of the Strategy and Resources Division. The Code of Ethics of ICC was approved in 2014.

New employees engaged by the company are required to undergo learning for the understanding of the rules and of how to act when facing dilemmas in the organization, and have to sign that they had read and understood the principles of the ethical code. Furthermore, once in every two years all company employees must pass a compulsory learning in the matter by way of interactive learning. Compulsory comprehensive meetings were held in 2017 on the subject of ethics and integrity, for all managers in the organization.

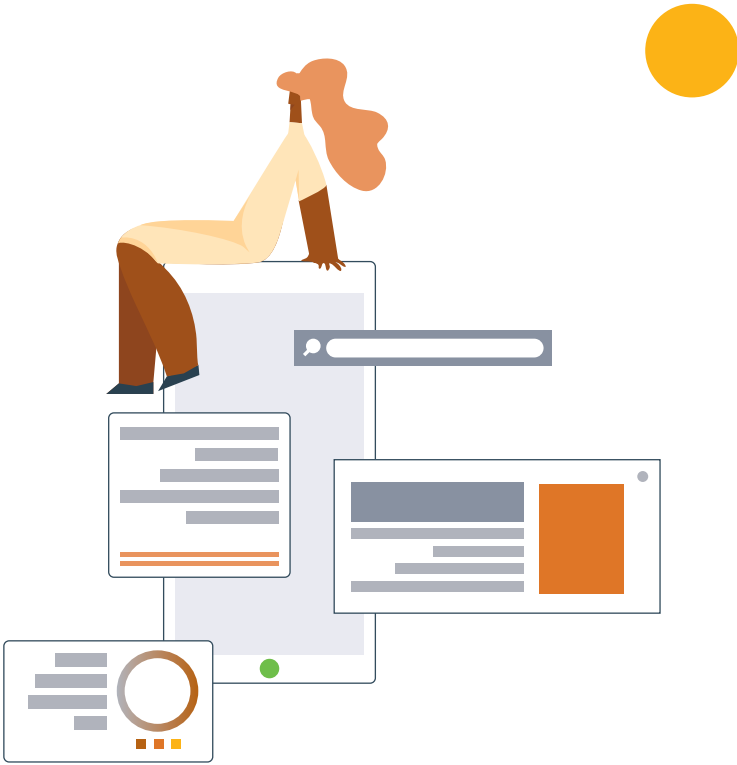
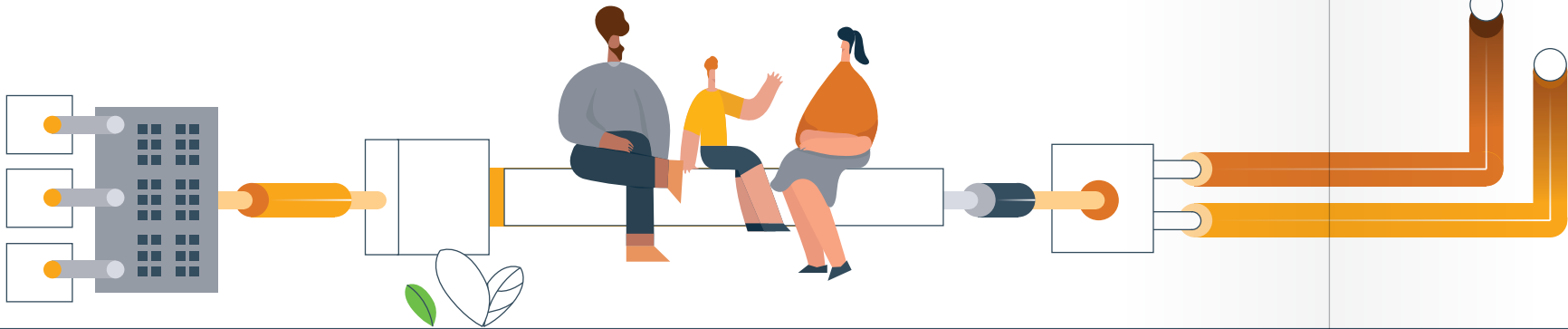
The Code of Ethics of ICC is available to the employees on the organizational portal of the company and is available to the general public on the Internet website of the Company.

IDB Bank

➤ IDB Bank's Code of Conduct is reviewed and approved annually by the Executive & Risk Committee of the Board of Directors and is subsequently ratified by the Board of Directors. It was last approved in March 2018. All employees and directors annually acknowledge that they have read and understood the principles and standards contained in the Code of Conduct. Every new employee is given a copy of the Code of Conduct. The Code of Conduct is administered by the Office of General Counsel in partnership with Human Resources. The Code of Conduct is available on the Bank's intranet for all employees to access.

04 THE CUSTOMERS

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432 THOUSAND
Active subscribers to the online services

50 THOUSAND
Customer surveys

80%
Customers satisfied with the last service extended to them by the units

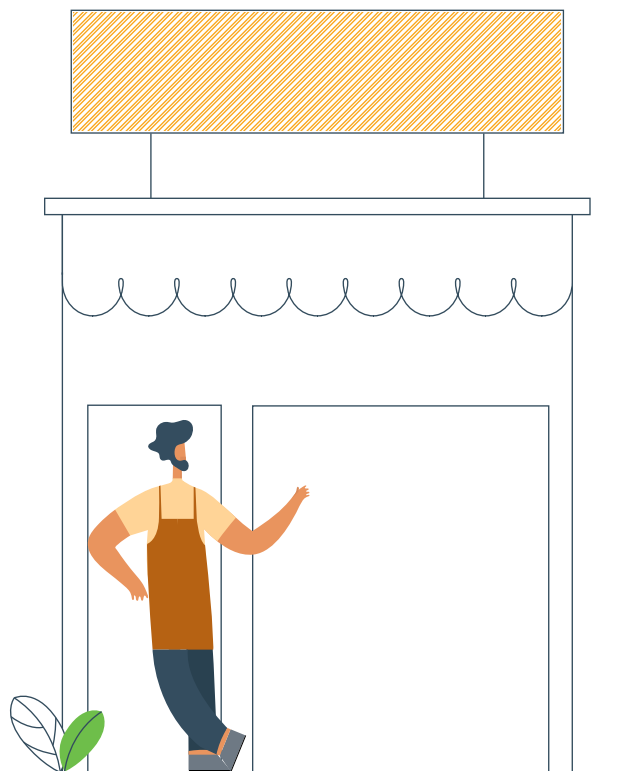
13%
Reduction in the number of justified approaches made by customers compared with the previous year

NIS 30,825 MILLION
The volume of credit extended to small businesses



THE CUSTOMERS

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 AND STRIVES TO CREATE VALUE FOR ITS CUSTOMERS



POLICY

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

In view of the vision, 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 and strives to create value for its customers in the various banking fields of operation.

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

In 2017 Discount Bank introduced a

new service for freelancers, which includes a personally adapted benefit plan and innovative digital services. Furthermore, the Bank continued to operate the "family program", a unique program designed for existing and new customers, with existing family connections. The "family program" also turns the existing family unit into a financial group, enjoying a variety of exclusive services and benefits.

In addition, Discount Bank continues to work toward promoting fairness and decency in service - values that constitute an integral part of the ongoing business activity - inter alia, by promoting transparency and by providing full disclosure to customers, including the information that has to be provided to customers regarding the banking products and services offered to them.

As part of the strategic plan of the Discount Group, the retail segment (households and small businesses) has been defined as a segment under focus and serves as an engine for the long-term growth and profitability, with a focus on strengthening relations with existing customers and improvement of the service. The Bank continued in 2017 to implement the strategic plan and several moves were made in order to reach the multi-annual targets:

- The move was completed for the removal of the operational activity from the branches, with the aim of freeing time to be used for improvement of service and sales to customers and for changing the operating perspective;
- The communication channels of customers with the bankers by mail,

communicating with the banker via mobile application, interacting with Didi - The Discount application's digital assistant and by telephone "call back" service, were expanded and improved with the aim of improving availability of bankers at the branches;

- Installment began of a new CRM system at the Bank branches, which allows centralized documentation and management of customer approaches through all communication channels;
- A command and control center was established at the Banking Division intended to regulate the workload at the branches at all communication channels: frontal, telephonic and digital;
- The telephone center was expanded and improved by means of the establishment of a northern extension at Nesher, with the aim of increasing availability of the telephone service, while turning the TeleBank into a backup center, which supports the branch service at times of heavy workload, and provides service to customers who were not served at the branch.

Service concept

→ In 2017, the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products. Conduct of the service is based on the following principles:

- **Focus on the customer** - specialization according to segments (customer arenas) instead

of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;

- **One stop shop** - A comprehensive service to the customer at one service point;
- **Team service** - Provides a response for a more comprehensive service at one address at the branch;
- **Multi-channel** - Enables 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;
- **Service initiative** - Forecasting customer needs and adaptation of product and services;
- **The integration of standards for handling customer approaches** and the continued reduction in complaints;
- **Easy and convenient communication with the Bank's customers** through emails to the banker.

A system supporting a customer focused marketing 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.

A wide disposition of branches - serving a wide variety of customers

- The Bank offers its customers comprehensive banking services

through a network of 111¹⁶ branches in Israel. 77¹⁷ branches of MDB join the above network. This network of branches enables the widespread offering of banking services country wide.

The Bank offers services to different customer segments: households, small and minute business customers, private banking customers, large business and the medium business customers. (For details regarding the definition of the segments, see the 2017 annual report p. 231; for details regarding the activity breakdown by business segments, see the 2017 annual report pp. 234-244; for details regarding the activity breakdown by geographical areas, see the 2017 annual report p. 245).

Among other things, MDB specializes in providing services to small and minute businesses, and in providing services to the Arab and to the Haredi customer population (for additional details, see pp.39-40 and 314-315 in the 2017 Annual Report of this Bank).

ICC issues credit cards to customers (credit card holders), who use them for payments for products and services purchased at different trading houses, and also operates "VISA", "MasterCard" and "Diners" brand name credit cards. The two principal lines of operation in which the company operates are the issuance of credit cards and the clearing of credit card transactions (for further details, see p.41 of the 2017 annual report of the company).

¹⁶ As of December 31, 2017.

¹⁷ As of December 31, 2017.

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

The scaling down of the branch layout

- Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank and the Group, among other things, in view of the reduction of the labor force. An extensive project was put into operation in the last quarter of 2014, which continued in 2015-2017, within the framework of which, examinations are being performed, intended to ensure the efficient and effective utilization of the real estate assets. The lines of action being examined are the reduction in the number of branches, reduction in the floor area of branches, merger of branches, improvement in terms of rental agreements or the exchange of rented locations, etc.

Since approval of the strategic plan, 22 Head Office and branch properties have been closed (of which 11 in 2017), merger of 27 branches and extensions have been made (of which 11 in 2017), 3 investment centers, 2 branches and 2 Head Office units have been moved (of which 4 in 2017), the floor area of 6 branches has been reduced and the

terms of lease agreements regarding 3 properties have been improved. In view of the stated above, downward trend is evident in the amount of real estate space used by the Bank (see the 2017 Annual Report, p. 319).

The following branches and extensions were shut down in 2017: the Top-Dan Branch, the Barzilai Extension in Ashkelon, the Neot Rachel Branch in Holon, the Rison LeTzion extension, Neveh Shaanan Branch in Haifa, the Kiriya-Yam Branch, the Givat Shmuel extension, the Shenkin Branch in Tel Aviv, the Romema Branch in Jerusalem, the Nahariya Hospital extension in Nahariya and the Rambam extension in Haifa.

In the beginning of 2017, the Bank had conducted a pilot for the discontinuation of teller services at two branches, following which, teller services have been discontinued until the end of the year at seven additional branches. Within the framework of the preparations for the pilot, clear guidelines had been prepared intended to ensure measures which would reduce, to the extent possible, the inconvenience caused by the discontinuation of the service. Included in the above, the branches in which teller services had been discontinued would have on duty, for a period of three months, a banker who would instruct customers having difficulty in using the online services and also would enable customers to reach nearby branches where teller services are available.

MDB continues its operations and disposition in accordance with the outlined strategy.

SUITS YOU BETTER – QUALITY OF SERVICE

“Discount suits you better” is a concept that aligns with the Bank’s commitment to its customers and promises professionalism and excellence at every interface. The Bank offers customers, who expect a reachable, accessible and convenient service, multi-focus and multi-channel banking that provides optimal solutions over a variety of service channels, with the aim of bring about an improvement

in the personal and digital services coverage that the Bank renders to its customers. Discount is thus able to provide a personal touch, a more efficient and high-quality service over a variety of channels, while maintaining the family character of the Bank.

➤ Discount Bank’s service concept places the customer front and center and sets itself a goal of service excellence. The Bank aspires to create for its customers a personal service experience, causing them to continue and choose it as their bank.

In order to create a lead in the Bank's

Class	Survey	Population	Description
Current surveys	Branches	After making contact with the Bank, private and business customers and those customers receiving investment advice at the branches	A daily survey on a permanent basis, approaching customers who have had a direct service event
	Branches	With no communication with the branch for over thirty days	Daily review on a permanent basis, referring to customers who had no communication with the branch for over thirty days
	TeleBank	TeleBank customers	A daily survey on a permanent basis, approaching customers who have had a direct service event
	Investment centers	Customers of investment centers	A daily survey on a permanent basis, approaching customers who have had a direct service event
Designated surveys	Satisfaction	Private banking customers	A designated survey
	Satisfaction	Customers of the TeleBank mortgage center	A designated survey approaching customers interested in a mortgage loan
	Satisfaction	Business center customers	A designated survey
	Satisfaction	Browsing on the Bank's application	A designated survey
	Satisfaction	Browsing on the Bank's Internet website	A designated survey
	Customer experience - interfaces	Customers of the five largest banks	A designated survey
	A “Marketest” survey - customer experience - post contact	Customers of the five largest banks who have experienced contact with the Bank	A designated survey
	A “Marketest” survey - customer experience	Business customers of all banks	A designated survey

customer satisfaction by means of customer adapted banking, the Bank is focusing on a number of principal topics:

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

The Bank is performing a series of current and designated surveys in order to evaluate the satisfaction of customers. These are made by telephone calls and by SMS. The surveys are directed at customers of the Bank, and in certain cases, for comparison purposes, also at customers of competitor banks. The surveys measure both short-term satisfaction indices (such as satisfaction from a particular service) as well as long-term satisfaction indices (such as hypothetical market share and recommendation index).

The surveys include also measurement of different indices breaking down satisfaction into different components: the provider of service, the branch, the Bank in general, service channel, the product, the marketing offer.

In order to further improve the Bank’s service, Discount is acting on a number of levels:

Quality of service index - 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. The surveys present different parameters regarding the various aspects of the service, which may be considered as indices reflecting customer experience, such as: professionalism, personal attention, availability, initiative and customer recommendation regarding the unit and the Bank. The measurement data are conveyed on a current basis to managers of the business units at the branches, the investment centers and at TeleBank, and comprise an infrastructure for drawing of conclusions and analyzing the strengths and weakness of providing the service. In situations where immediate involvement is required, the unit manager contacts the customer in order to provide a personal response.

Measurement is performed all through the year with the aim of obtaining findings reflecting the operations of the branch, on a current basis and in real time, which provides for an immediate response to customers, as required.

In 2017, the service experience of the customer was measured at a variety of channels, at the branch, at the TeleBank and at the investment centers. The measurement relied mainly on the satisfaction index of customers from the most recent service received at the unit (80%). In addition, branches were measured as to the treatment of approaches regarding service continuity, which comprised 20% of the index computations.

Approx. 50,000 surveys of customers (telephone and SMS) were performed during this year

> 2017 SERVICE QUALITY INDEX DATA:

Service continuity rating ¹	Satisfaction from the service experience
90.77	78.17

Note:

¹ Service continuity - measurement of conformity with the SLA determined for concluding the treatment of an approach made by a customer and conveyed to the branch by the TeleBank service.

Internal services survey - Discount believes that improvement in the level of internal service would contribute to higher satisfaction of the bankers, and to providing tools and infrastructure for improving customer service. The survey was distributed during November 2017, for the fourth time at the Bank, in a cross-organization format. The results of the survey serve as a base line for a continuous process of measurement and improvement. The survey measured 475 different services provided by the different divisions to customers of the Bank and of the subsidiary companies. The percentage of responders reached 91.2%.

The following measures have been adopted within the framework of feedback and improvement procedures: The findings and results had been presented to all heads of divisions and departments at designated meetings; Each service manager received a detailed report of the findings and an

analysis of the results; Improvement targets have been defined for each head of department at a KPI level; Units requesting assistance in structuring their improvement plans and establishing a dialogue with users of the service, have been provided with professional assistance. In addition, a convention has been held in honor of outstanding service managers and managers of outstanding units with the participation of the President & CEO as well as members of Management.

In addition, a date for the next survey was fixed for the last quarter of 2018.

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 team; Meetings of the Head of the Banking Division with outstanding managers and with managers who failed to reach service targets.

Dialogue with customers

> In order to maintain a continuing dialogue with customers and to understand their needs and wishes, Discount Bank operates several communication lines:

Official Facebook page of Discount Bank. The Bank opened its official Facebook page at the end of 2010. At the end of 2017, there were approx. 76,240 followers of the Bank's Facebook page (end of 2016 - 71,240 followers). The Bank's Facebook page serves as a platform for the current distribution and publication of marketing activities in various segments and areas, and in addition serves as a platform for chats with surfers and for customer service. Accordingly, public and private approaches are being received from surfers, which are being fully treated in a short period of time.

Twitter account - Discount Invest.

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

conventions regarding capital market issues, reference to articles in the economic press, etc.).

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

Social networks at ICC. ICC has a Facebook web page with over 156,000 followers, who currently follow the marketing activity of the company published on this page, the varied services offered by the company to customers and more. The page includes a "customer service" link through which are received customer approaches, questions and comments, and immediate answers are given to customers (either privately or publicly, depending on the contents of the notice).

The Diners Company, a fully owned



MARKETEST INDEX

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

The Bank was rated in 2017 in the first place (a rise from the fourth place) with respect to customer satisfaction regarding the connection with the Bank interfaces, stemming mainly from improvement in the satisfaction regarding the digital channels headed by the mobile application.

subsidiary of ICC, also has a Facebook page with over 39,000 followers, in which it presents current updates of its marketing operations, benefits to customers, etc.

In order to maintain a continuous dialogue with the customers and understanding of their needs and wishes, the Bank operates several communication channels in the social network. As of the end of 2017, the Bank's Facebook page has approx. 76,240 followers

Diners Company is active on the Instagram social network and has over 7,000 followers. On the Instagram webpage, followers are exposed to campaigns, benefits and current updates accompanied by inspiring photos and video clips.

Maintaining customer satisfaction

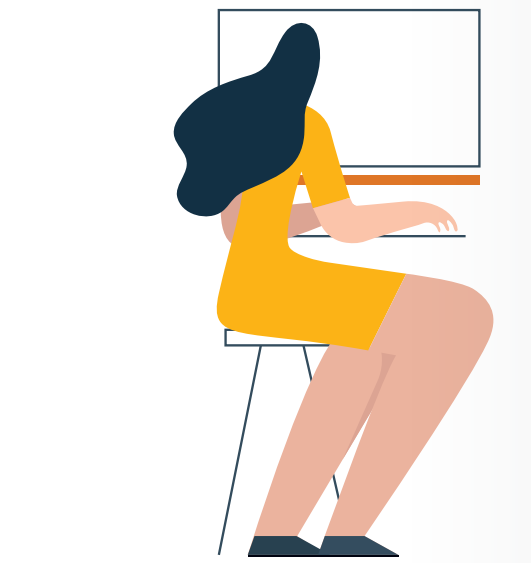
➤ The Bank acts on several levels with respect to the maintenance of customer satisfaction:

➔ **Management in accordance with survey findings** - Survey data with a low mark of the satisfaction index, are (subject to the consent of the customer) referred to the Branch Manager for further treatment. The Branch Manager is responsible to refer back to the customer trying to understand the reasons for the dissatisfaction of the customer, and to the extent possible try and improve satisfaction by solving the

problems raised by the customer;

➔ **Service targets** - Branches are allotted annual targets of satisfaction indices. The extent of compliance with the annual target serves as a basis for remuneration of the branches;

➔ **Comparative analysis and implementation** - The surveys are analyzed for the identification of weaknesses in customer satisfaction from the Bank either absolutely or relatively in comparison to competitor banks. Also analyzed are trends of satisfaction among different populations in order to identify changes in indices. The findings and insights are passed on to the service group in order to perform an in depth examination and/or a change of policy, as required. The findings and insights are delivered also to the various business factors in charge of customer relations policies.



QUALITY OF SERVICE AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ The above stated in relation to Discount Bank, regarding the improvements made to service, including evaluation of customer satisfaction, preservation of customer satisfaction and the integration of service values in the organizational culture, applies also to MDB.

The quality of service is measured by the Net Promoter Score (NPS). The data is being delivered regularly and comprises an infrastructure for the drawing of conclusions. MDB conducts on a regular basis, a telephonic survey testing customer satisfaction (following contact with the bank). The findings of such surveys (analysis and management), comprise an annual target for the customer satisfaction indices.

ICC

➤ The service department of ICC has the vision and values of providing excellent service. In addition, daily instruction sessions are being held and workshops for representatives are being held from time to time on the subject of providing excellent service. In addition, ICC strictly conducts daily customer satisfaction surveys, both private customers and trading houses, by which it examines the general satisfaction of the service, satisfaction of the quality of work of the representative, and measurement by means of the Net Promoter Score (NPS; International recommender index). The marking by the NPS is a part of the targets of the Key Performance Indicator (KPI) of the service department. In addition, the company analyses recurring and onetime events in order to improve the quality of service and customer satisfaction.

ICC conducts a number of surveys, in accordance with the class of customer, in which it examines the level of customer satisfaction from the company, service, professionalism of the representative, and presents recommendation of the company parameter, and the

possibility of free comment.

In order to test and evaluate private customer satisfaction, the company conducts satisfaction surveys immediately upon conclusion of a conversation and approach to the service center, as well as a club survey conducted following the issuance of the card.

In order to evaluate satisfaction of trading houses, the company conducts a **"survey following contact"**, which comprises the central tool for testing the quality of service at the center. The survey tests on an ongoing basis the service experience of the customer soon after the time of interaction - a telephone call to the center. The survey presents to the managers the strong points, which should be maintained, and the aspects that have to be improved regarding the interaction of the center with the customers.

3.43

The average grading of the private customer satisfaction survey results for 2017, at the end of the service call. (on a scale from 1 to 4, with 4 noting "excellent")

8.3

as regards satisfaction

8.4

as regards assessment of professionalism

The average gradings of trading houses survey for 2017

Measurement is being conducted through a designated surveys system named "My Attentive", which allows the measurement of each question in the surveys and provides an image of the situation per employee over a period of time as well as according to the measured parameter.

In cases where the answers given to the survey are rated as being below expectation, or where they include a verbal comment that needs to be addressed,

Continue on next page →

→ Continued from previous page

the feedback is examined with reference to the feedback provider and is being treated accordingly.

IDB Bank

➤ IDB Bank has adopted a Complaint Policy ("the policy") that provides a mechanism whereby all complaints from customers or non-customers (collectively "complainant") are given prompt, courteous, and fair attention regarding any aspect of the bank's products or services. The Policy delivers a consistent and constructive approach to investigating and responding to complaints. Tracking and logging complaint information provides the bank an opportunity to identify potential compliance issues and opportunities to strengthen and enhance the bank's products, services, and/or customer relations. It is an essential tool in identifying weaknesses in staff training or with a particular product or service, and differentiating between a one-time occurrence or recurring problem. Complaints may indicate a failure in bank processes that if not notified by a complainant could have resulted in violation of a law, regulation, or bank policy. The Policy, and information obtained from its adherence, will also help to:

- recognize early warning signs;
- identify complainant confusion or potential issues with a product or service;
- address customer concerns;
- highlight potential violations of laws and/or regulations;
- validate and strengthen controls and identify trends;
- protect the Bank's reputation;
- provide a competitive advantage, e.g., quality of service;
- assist in third party service provider monitoring.

In 2017, the bank received a total of 20 complaints: 3 were related to online banking and 2 were related to branch errors with no other trends identified.

Customer inquiries

➤ The Bank attributes great importance to listening to its customers and to encouraging customers to inquire about any matter or problem. The natural and immediate address is the business official who services the customer, in a branch or in other business units. Nonetheless, there are cases in which another address is needed.

The Public Complaints Commissioner at the Bank coordinates the handling of complaints and approaches made by customers in different banking issues, including mortgages, interest charges, treatment and service.

Among the duties of the Commissioner are: maintaining an interface for the treatment of complaints and approaches with the various units at the Bank, the Supervisor of Banks, the Israeli Police and various outside factors; conducting examinations of various banking matters and the formation of findings for the business functions, the branches, collection functions and for the legal advisory group; assistance, guidance and follow-up of Bank employees in the formation of solutions for customer problems; assistance in the drawing of conclusions and in organizational study.

In September 2014, the Supervisor of Banks published a Proper Conduct of Banking Business Directive in the matter of the treatment of complaints made by the public, the entry into effect of which was on April 1, 2015. According to the position of the Supervisor, the Commissioner represents the customer vis-à-vis the bank and he has to act, handle complaints and initiate the

drawing of conclusions in accordance with the standards set by the Supervisor of Banks. The Commissioner has to act in accordance with the standards of fairness vis-à-vis the customer and reach a fair decision in the customer's complaint. In accordance with the Directive, the Bank has to adopt a policy as regards the treatment of complaints and publish on the Internet website and in the branches a service treaty for the handling of complaints. Customers should first refer their complaint to the Commissioner.

Complaints submitted to the Bank of Israel would be passed to the Commissioner for attention. The Commissioner, in replying to the complaining customer, must clarify that the customer has the right to file with the Bank of Israel an objection to such reply.

The response time of the Commissioner to complaining customers will stand at 45 days and in exceptional cases, the Commissioner may inform the customer of a 15 day delay in replying. A complaining customer who has not received a reply within 45 days may refer the complaint directly to the Bank of Israel. In practice, the average complaint response time was 16 days in 2017, compared to 18 days in 2016.

The Commissioner has the authority to compensate customers. He has to report once in every six months to the Bank's Management and once a year to the Bank's Board of Directors regarding the treatment of complaints. The Management and the Board of Directors have to discuss these reports soon after submission thereof.

Material deficiencies revealed as a

result of attending to complaints and data regarding complaints received and dealt with have to be reported by the Commissioner to the Supervisor of Banks once in every six months.

The Management and the Audit Committee of the Board of Directors received a report regarding the deficiencies, the material findings and the cross-organization deficiencies. An annual report by the Commissioner is presented to the President & CEO, to relevant members of Management and to the Audit Committee of the Board. The Commissioner reports to Management twice a year and once a year to the Audit Committee of the Board.

The Commissioner is required also to publish to the public once in each year, on the Bank's Internet website, a concise description of the Bank's policy in the matter of treatment of complaints, the process of treatment of a complaint and data regarding complaints received and dealt with.

The Bank is required to publish on the Internet website and in the Branches the service treaty adopted by the Bank.

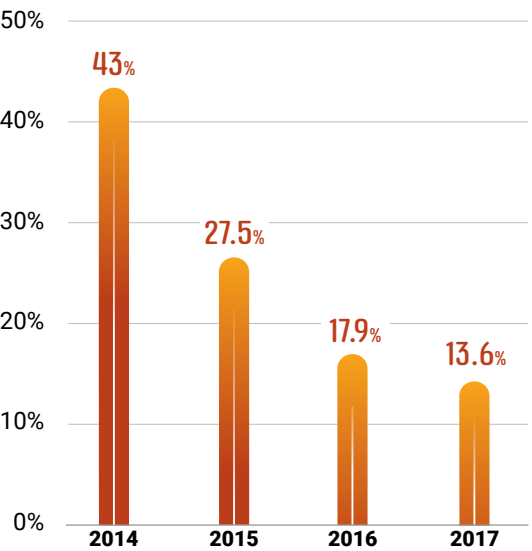
The service treaty is available to the public on the Bank's website as from March 2015, after its approval by the Board of Directors.

Preparations for improving service and reducing complaints

➤ In recent years, the Public Complaints Commissioner unit in cooperation with the Banking Division, initiated various measures to improve service and reduce the number of complaints, including:

- Analyzing 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;
- Deepening the process of drawing conclusions in staff meetings at the branches;
- Improved mapping and reporting of frequent failures or system failures;
- Determination of an annual target for the rate of justified complaints.

> RATE OF JUSTIFIED COMPLAINTS AT DISCOUNT BANK



Complaints regarding disturbance to the vicinity

> Three complaints were received by the Bank in 2017 with respect to disturbance to the vicinity. One complaint was in respect of a noisy air-conditioning unit of a branch, installed near to the bedrooms of the apartment of the complainer. The Bank changed the position of the air-conditioning unit, so as not to disturb the occupants of the building in which the branch is located. The second complaint concerned the noise made by the ATM machine when in operation. The Bank attended to the ATM machine to eliminate the noise made by it when in use. The third complaint concerned the dirt in the entrance lobby to the branch caused by passersby. The Bank took strict measures as to the cleanliness of the lobby, and no further complaints have been received in the matter.

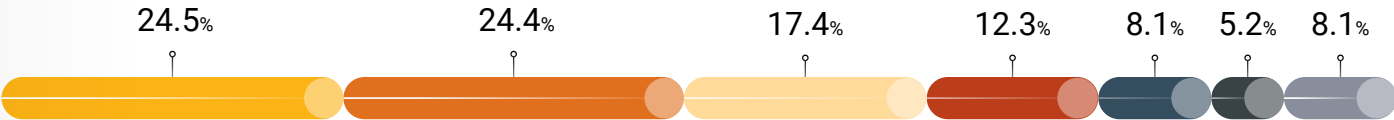
Mercantile Discount Bank - One complaint was received in 2016, regarding disturbance to the vicinity - caused at night by noisy air conditioning appliances at a certain branch. The complaint has been handled by the construction department.

> COMPLAINTS AND ENQUIRIES DATA AT DISCOUNT BANK

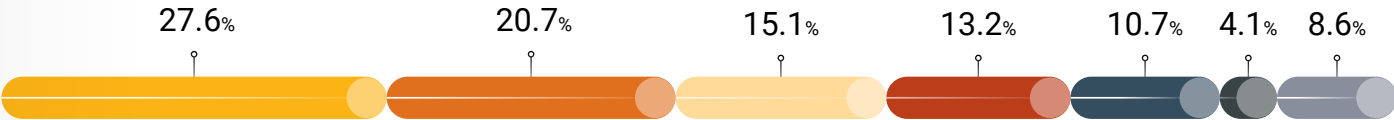
	2017	2016	2015	2014
Complaints and enquiries received	3,029	2,651	2,666	3,793
Complaints and enquiries dealt with	3,047	2,577	2,713	3,378
Completion of dealing with complaints	2,034	1,483	1,859	2,136
Completion of dealing with enquiries, requests and clarifications	1,013	1,074	854	1,602
Percentage of justified complaints	13.6%	17.9%	27.5%	43.0%

> DISTRIBUTION OF THE SUBJECTS OF MAIN COMPLAINTS AT DISCOUNT BANK

In 2017



In 2016



- Means of payment - transactions in cash, in checks, by means of the online services and credit cards
- The quality of service - attentiveness and service, call center and the opening and closure of branches
- Current accounts - the opening and closing of accounts, transactions not in accordance with signature rights or with no authorization
- Credit
- Additional operations - inheritance, foreclosure, debt collection and execution of orders
- Securities, deposits and savings deposits
- Other

Customer complaints to the Bank of Israel

> The Bank of Israel report in the matter of review of approaches made by the public in 2017, was published on August 7, 2018. The year 2017 is the second year in which the banking industry in Israel, including credit card companies, acted in accordance with the new principles introduced by the Bank of Israel in the matter of approaches by the public.

The public approaches unit of the Supervisor of Banks acted as an appellate instance, control and supervision over responses provided by the public complaints officers of the banks. No rating for banking corporations was awarded in this year also, with respect to public approaches,

in view of the change in the work format as stated above.

In 2017, the public complaints unit of the Supervisor of Banks handled 6,941 complaints, requests for information and different requests for ex gratia assistance.

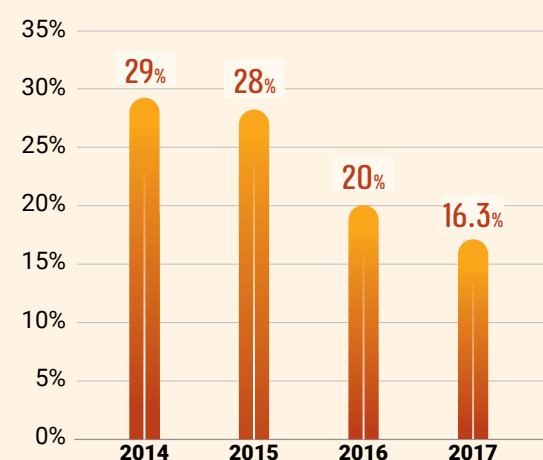
Of 818 public complaints decided by the public complaints unit, about 12.3% (101 complaints) had been found justified, and the banks or credit cards companies involved were instructed as to the rectification of the deficiency.

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 17.5% in 2017, compared with 3.5%

PREPARING FOR SERVICE IMPROVEMENT AND REDUCTION IN COMPLAINTS AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Customer complaints at MDB

> RATE OF JUSTIFIED COMPLAINTS AT MDB



Note:

Out of the data of complaints presented for 2017 3% of the justified complaints relate to services provided by and under the responsibility of Discount Bank.

Customer complaints at ICC

> ICC assigns great importance to attendance to its customers and to encouraging them to refer to the company regarding any matter or problem. The natural and immediate address is the customer service unit of the company or the business factor dealing with the customer. Notwithstanding, cases arise, which require an additional address.

The Commissioner of Public Complaints at ICC

coordinates the handling of complaints in writing made by private and business customers of the company, which has one or more of the following characteristics:

- Customer complaints addressed to the General Manager of ICC or to the public approaches unit;
- Customer complaints passed on to the unit by ICC's spokesman office;
- Customer complaints, which had not been attended to by the relevant factors at ICC, or which, in the opinion of the customer, had not been satisfactorily handled;
- Complex complaints or complaints having a cross-organization impact which are passed on to the unit by internal factors in the company;
- Customer complaints received through external entities, such as: the Bank of Israel, consumer organizations and public complaints units of the banks.

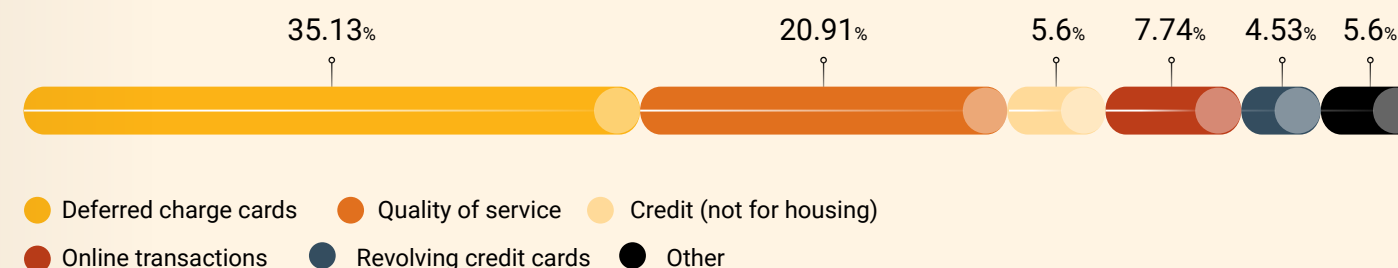
In addition, the Commissioner instructs senior officers of the customer service of the company, in case of complaints referred to him, as to the manner in which complaints may be settled with the customers.

For details regarding Proper Conduct of Banking Business Directive in the matter of public complaints, see above. In accordance with this Directive, ICC has formed a policy for the treatment of complaints made by public, as well as a service charter for the Commissioner of Public Complaints, which is available on the Internet website of the company and at its customer service offices.

In accordance with the said policy, the Commissioner has the duty to report once every six months to the Management of the company and once a year to its Board of Directors, with

> DISTRIBUTION OF MAIN COMPLAINTS AT ICC

In 2017



respect to the treatment of complaints, this in accordance with the format determined in the policy. Management and the Board of Directors discuss these reports soon after receipt thereof.

In 2017 ICC and Diners handled 929 complaints and approaches. 943 complaints and approaches were received in that period.

to all complaints against ICC in respect of which the Supervisor has stated his position, reached 5% in 2017, compared with 4% in 2016. The total average ratio as above, in the whole industry was 12.3% in 2017.

In certain cases, ICC compensates customers even though their complaint has been found unjustified. 7 cases were recorded in 2017 in which ICC and Diners acted beyond the letter of the law (out of 21 complaints not found to be justified, which were referred to the company - 33.3%) paying free willingly compensation in the amount of NIS 4,200. 8 cases were recorded in 2016 in which ICC and Diners acted beyond the letter of the law (out of 30 complaints not found to be justified, which were referred to the company - 26.6%) paying a compensation in the amount of NIS 1,500.

CUSTOMER COMPLAINTS TO THE BANK OF ISRAEL AT THE MAIN SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

> The total number of complaints received by the Bank of Israel in relation to MDB was 53 approaches, of which, a position was formed in 25 complaints, 3 complaints were found to be justified. In the case of 4 complaints that were not found to be justified, MDB went beyond the letter of the law to the benefit of the complainant without making any monetary reimbursement.

ICC

> The ratio of complaints against ICC, which the Supervisor of Bank has found justified,



in 2016. This average percentage in the entire banking system amounted to approx. 12.3% in 2017, compared with 11% in 2016.

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 2017, some 40 cases of unjustified complaints were received (out of 134 unjustified complaints - approx. 30%) in which ex gratia compensation was given, in a total amount of approx. NIS 80 thousand.

For 2017, the target for complaints found to be justified was set at 17% of all the complaints received by both the Bank and by the Bank of Israel. The Bank met its target in relation to the total complaints received and the rate of complaints found to be justified stood at 13.6%. In relation to complaints received by the Bank of Israel, the rate of complaints found to be justified stood at 17.5%.

INNOVATION

The Bank adapts itself to the changing world and acts to create innovative banking models, which will provide its customers with a sophisticated service suited to their needs.


➤ Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken

in this field may be noted the establishment of the Digital and Data Division and the establishment of a "Fintech and innovation" unit. The new Digital Division leads solutions concept in three principal content spheres - direct channels, the CRM and customer concept and current account. The Division is responsible for an in-depth understanding of customer needs and expectations, and for the initiation and development of solutions there for.

The "Fintech and innovation" unit acts for the creation of cooperation with Fintech companies and the integration thereof in value offers to customers, as part of the banking work environment and of the systems of the Bank.

➔ ADVANCED INITIATIVES IN THE FIELD OF FINTECH

PayBox

 **A payments application allowing the easy transfer of funds. It is possible also to transfer funds directly to a contact person, or alternatively send a payment request and collectively collect funds.**

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

establishing a closed group for this purpose.

In accordance with the agreement signed, the Bank would acquire from the company an exclusive license to operate the application and the website in Israel. The technological changes required for its operation by the Bank have been incorporated in the product and a permit was recently received from the Bank of Israel to acquire the activity of PayBox Israel.

At present, the Bank operates this service independently in respect of individuals having a bank account at any of the banks in Israel.

iCount

 **The first technological-business application in the banking sector in Israel, which implements an open banking concept into an interface with third parties using an Application Programming Interface (API) platform of the most advanced in the world, and which enables a secured link based on a global standard.**


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

In accordance with the signed agreement, Discount Bank lets its business customers securely connect their business account with the iCount accounting system, giving them the opportunity to benefit from

advanced business management tools, such as: displaying the balance and current movements on iCount, smart management of expenditure and cash flows with iCount, integrating banking information in the accounting reports with iCount and more.

The collaboration is suitable for the small business customers handled by the Banking Division and supports the Bank's growth targets in this business segment.

"DIDI" - a digital representative in the application

 **DIDI, which constitutes a breakthrough and is the leading BOT in the Israeli banking system, allows customers to conduct transactions, gives them access to information and provides insights into account activity by means of written or spoken requests made using simple language. The service is based on advanced analytical and artificial intelligence capabilities and is the first of its kind in the banking sector.**

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

a smart financial conduct. A pilot project introducing "DIDI" started at the end of September 2017, gradually exposing "DIDI" to all customers until the end of December 2017.

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

→ DIRECT CHANNELS

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience.

At the end of 2017, the Bank had approx. 432 thousand active subscribers of the online services.

At the end of 2017, MDB had approx. 236 thousand active subscribers of the online services.

The services and products added to the operation in the year 2017, are:

"Toucher account", the Discount Bank digital account

Private customers active on the digital service, may join the Toucher account and enjoy an advanced multi-channel digital service experience.

Toucher customers enjoy, inter alia, exemption from current account management fees and from credit card fees, the possibility of communicating with the banker by e-mail and through the mobile application, ordering

a credit card through the digital service, obtain consulting services by telephone through the countrywide investment center, as well as longer operating hours.

The transfer to the Toucher account is made by means of the mobile application and of the operations website, and a new customer interested in joining this service within the framework of opening an account on-line, may do so already at the opening of the account on the website.

Discount BOT

A digital help allowing all surfers being customers of any bank to conduct a conversation with a digital representative (a robot) on a designated Facebook page, on Facebook Messenger - "Discount BOT".

"Discount BOT" is based on advanced technology enabling digital communication with surfers by means of chat correspondence. The BOT identifies and deciphers the contents of the approach - made by free writing - and accordingly provides an automatic reply, on the basis of the data base, with respect to a range of subject that will grow wider.

The credit card sphere

In the credit card sphere, options have been introduced that make it easier and more efficient to obtain a new credit card or to recover one's PIN: an option has been added to activate a new credit card - also through the app, as well as recover a card's PIN and to immediately display this on the screen through the website or the app for

private individuals.

Communication between the Bank and its customers

The means of communication between the Bank and its customers were expanded and improved, including correspondence with the banker service, an additional tool by which Bank customers may communicate with the banker and correspond with him by means of the application, receive information and conduct operations without having to stand in line.

The world of transfers on the Internet website and on the mobile application

Sending and transferring cash to a contact. Sending an amount of up to NIS 2,000 per day to a payee from a contact list on the mobile device - by means of the app. The contact will be sent an SMS with a one-time code which he can use to make a cash withdrawal from a Discount ATM or to transfer the amount to his bank account by inputting details on the designated page on the marketing website.

On Apple devices, this transfer can also be made using SIRI, Apple's digital assistant.

Future transfer - Possibility of a one-time transfer at a future date (up to 6 months ahead) - via the website.

Cyclic transfer (standing order) - setting up a cyclic transfer to specific payee and in a fixed amount, the first payment date of which can be up to six months ahead.

Capital market

At the end of December, the Bank began the gradual rollout to its customers of a new, advanced capital market zone on its website for private individuals. The new capital market zone provides a simplified trading and transaction execution experience, and access to information and analysis tools that are presented to the customer in a convenient and intuitive manner. At the beginning of 2018, all the Bank's customers will gradually get access to the new capital market zone.

Obtaining information about accounts

Tools have been added that assist the customer in quickly obtaining information about his accounts, through the use of new technologies:

"My Account" widget - the widget displays account information conveniently and quickly without needing to input ID details, similarly to the "Quick Look" service on the app: current account balance, last three transactions, upcoming credit card charges and value of securities portfolio.

3DTouch - on supported iPhone devices, a long press on the app icon displays a menu for locating branches, making transfers, depositing checks and making cardless cash withdrawals. Pressing on one of the topics will take the customer to the relevant screen in the app after completing the ID process.

FaceID identification - updating the app to operate on the new iPhoneX device, thereby letting the customer enter the Discount app through the recognition of facial features.

Technological accessibility for the adult population

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

The Bank invests considerable efforts in the planning and design of the interfaces and the digital processes, while especially emphasizing the simplicity of the processes, their intuitiveness and the language in which they are presented, for the sake of ease of use and correct and safe use, inter alia, by the elderly population

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

In 2017, the Bank introduced "DIDI" - the digital representative on the Bank's application, which, inter alia,

provides a response also for the needs of the elder population. "DIDI", based on advanced AI capabilities, allows for easy orientation regarding the digital services, carrying out of operations and obtaining response to a variety of questions regarding the conduct of the account, by means of a simple free text request (either written or oral) made directly from the entry screen. The Bank considers, that accessibility to the various digital services by means of "DIDI" removes a central block existing at the present time with respect to the use of digital services by a part of the said population. All this, alongside the continued communication - by contents and clips - describing new products and services available online, at the branches and in the different media.

In addition, in each branch where teller services are being discontinued, the Bank places a banker whose duty is to assist customers in obtaining service by means of the automatic machines, with special attention to the adult customer population, and to instruct them in the use of the mobile application and of the operations website, in order to facilitate customer in performing their operations through these channels.

Customers over eighty years of age are entitled to preference in line for service. This is brought to the attention of the public by relevant signs and by video clips on LCD screens at the branches, the Bank endeavors to integrate by the end of 2018 the preference in line also into the line management system.

INNOVATION IS ICC

➤ In 2017, ICC continued to establish, promote and modify its assets and products to the challenges of the digital revolution, including development of new initiatives and their integration in to the wide array of the digital assets, such as the digital wallet Cal4U, the business application Cal4Biz and more. The contribution made by the integration of products and services leads to a significant increase in the use made by customers of the online channels. Among the central services, may be mentioned:

- ➔ **An online immediate loan process** that can be completed within 3 minutes;
- ➔ **Blocking a lost or stolen card** or replacing a defective card directly via the application;
- ➔ **Voice search** via the Cal4U wallet application;
- ➔ **Online secret code viewing** on digital assets;
- ➔ **The direct accessibility to the chat service** from the website or from the application;
- ➔ **Application of the "Mobile First" concept**, while making the websites of the company accessible in a responsive version adapted to the size of the screen of the user;
- ➔ **"Vocal visual" answering service** used as a supporting tool in conversations with the service centers;
- ➔ **Integration of designated tools supporting the customer** in the digital assets, including a Google search in the company's websites;
- ➔ **An innovative payment through the Cal4U application** for the purchase of digital vouchers.

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

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

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



FINANCIAL EDUCATION

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, the low interest in the market which challenges the returns on the different investment channels, as well as to the growth in credit to households.

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

The Bank approaches its customers and the public at large making the

financial language accessible to the full range of ages and initiates many activities in the matter:

- ➔ Customer conventions at the branches on matters of sensible financial conduct, family economics and the capital market;
- ➔ Lectures to organizations/corporations at their request;
- ➔ Financial education workshops for families and children aged 6-12, 13-17 at the Herzlillianblum private Museum;
- ➔ Designated study programs for high school students at the Herzlillianblum private Museum;
- ➔ Lectures on pension planning for adults;
- ➔ Lectures at academic institutions on financial matters intended for juveniles.

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

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

Focused activity is conducted from

time to time in a certain area, such as the financial education week in the Haifa and Northern Region, and sometimes a simultaneous activity is being conducted in several regions nationwide. The activity of the Bank in the financial education field is conducted at no charge and is open both to Bank customers and to those who are not customers of the Bank.

Since 2012, date of starting this activity, and until the end of 2017, all of the Bank's branches participated in it, in over 570 different events.

Financial education forum

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

A financial education month, in participation with the Bank of Israel and all banks, was held in 2017, directed at ninth grade middle school students. The activity was conducted in participation with the national parents association, the Ministry of Education and other factors, which wrote the curriculum in a manner suitable for young persons.

The activity was held in two rounds. The first and larger of the two was held

in November 2017, while the other one was held in February 2018.

700 study classes of 170 schools participated in this activity. Each class was present at two meetings presenting basic contents regarding financial conduct, sensible consumer behavior, savings and banking. The activity included a play set for the second meeting in the form of decoding a safe deposit box code. **Discount Bank took part in 70 classes and 140 meetings. Over thirty Bank officers from all divisions of the Bank took part in the activity, after being trained by the financial education unit.**

As known to the Bank, the Supervisor of Banks intends to hold in 2018, a week/month of financial awareness activities directed at the elderly population. The focus of such sessions would be the use of digital instruments.

The involvement of the Regulator in the field of financial education, driven by a real desire to strengthen the know-how of the public at large as regards financial matters, increases the activity of the banks in this important area and stimulates its expansion. It is the intention of Discount Bank to continue and increase this activity, expanding it in 2018 to new focused sectors, such as freelancers, young persons and the elderly, trying to provide them with an appropriate and focused solution for the different stages in the lives of its customers.

The Bank conducts also intra-organizational activity for the enrichment of Bank employees and their family members, by means of a capital market workshop of eight

> LECTURES AND WORKSHOPS

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

Enrichment lectures

Budget management

Correct financial conduct in an economically challenging period

Economics between the business and the family
Know about money

An experiential lecture, presenting an image of the individual's financial conduct and the way to improve it.

- "It'll be OK" - regarding our economic management culture
- The breaking of myths - "all inclusive vacation"
- Overdraft, loans and credit, management of the monthly budget - eradicate the deficit
- Duality and money, children and money, retirement age and money
- A lecture to freelancers on the subject of conduct
- Lecture to young persons in junior high and high schools

Capital market

The Israeli economy vis-à-vis global recovery and the low interest rate

A lecture describing in a light experiential manner events taking place in capital markets in Israel and abroad and preparations to be made for a year in advance, including the economic challenges which face investors in the capital market at the present time.

Psycho-finance

You and your financial matters

The relation between making economic decisions and investments in the stock exchange, and the personal psychological characteristics.

Real estate investments, risk or chance

An analysis of the residential real estate market as an alternative investment, latest trends in this sector by geographic distribution, when to investments in real estate and who should.

Workshops

Capital market workshop

Micro and macro, their relation to private investments and savings

3 meetings, 2 subjects per meeting

Meeting 1 - Macroeconomics + Bonds

Meeting 2 - Mutual funds + ETN's

Meeting 3 - Shares + Psycho-finance

The workshop provides participants with basic tools for understanding the financial world and becoming familiar with basic concepts of the capital market.

"Mixed" workshop

- Family economics
- Pension
- Capital market

Seniors field - financial education

- Israeli economy
- Psycho-finance
- Analytical reading of the financial press

meetings, which takes place at the Bank's meeting rooms and at the Discount College. Some 25 persons participated in each such activity, and over twenty such workshops had been held since the beginning of this activity in 2012.

In addition, the financial education unit is intensively acting to locate new lecture contents regarding financial matters, in the spirit of the times, for the enrichment of participants in financial knowledge.

Internet media

> Development of a designated Internet website - the Bank presents on its principal website, under the heading of "Family and financial education" wide contents dealing with financial education, this as part of the Bank's coverage for the family, modified to the various stages in life, and presenting life events. This begins with contents for juveniles of primary school age, continuing with middle and high school age; contents regarding issues relating to servicemen; pre-enlistment, soldiers on active service

and pre-demobilization; contents relating to students; budget planning, saving in expenses, enjoyment of benefits, in between jobs; contents relating to the family: we and money, pre-nuptial, pre-childbirth, divorce; contents relating to housing and mortgage issues; contents relating to current economic management: preparing for holidays and vacation, a monthly family budget, how to eliminate a bank overdraft, loans, deposits and savings; contents relating to retirement: pension savings, preparation for imminent retirement; as well as a dictionary of capital market terms including many terms.

Printed media - Professional literature

> The Bank leads the subject of development of designated booklets providing knowledge enrichment to customers: a booklet for elementary age, hints booklet and capital market booklet. It is the Bank's intension to continue and develop activity in all fields - frontal, digital and printed - while continuing the cooperation with leading factors in this area.



FINANCIAL EDUCATION AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

➤ MDB and ICC, as is Discount Bank, view the absorption of financial education as an important layer of their activity in aid of the community, and accordingly, employees volunteer, within the framework of the project "A Different Lesson" to impart basic banking and budget management terms to school children, through the cooperation with the "A Different Lesson" Association and with other organizations engaged in financial education (for additional details, see in the Chapter "Discount for the community" in this report).

Additional measures by the companies for the field's advancement:

A financial education workshop initiated by the Supervisor of Banks. MDB participates in a Forum initiated by the Supervisor of Banks for the advancement of financial education. Within the framework of the financial awareness month, bank employees held in November 2017 instruction sessions of two meetings for ninth grade pupils at some thirty schools. The workshops were conducted by bank employees using educational material produced centrally and in participation of all members of the banking sector in Israel.

A financial education workshop held at a female victims of violence shelter. Within the framework of a further initiative of the Supervisor of Banks with the cooperation of the banks, and in an attempt to assist women who had left their homes and live now in shelters for female victims of violence, a senior

female manager at MDB conducted a financial education workshop at a female victims of violence shelter in the Arab sector.

Additional activity. Employees of MDB conduct from time to time financial education workshops for youth groups of different frameworks, including within the framework of "A Different Lesson", and Ethiopian expatriates within the framework of the "Rakia" project in the Tebeka Association.

"Cal Lada'at" on YouTube. ICC introduced in 2014 the channel "Cal Lada'at" on YouTube. A set of eleven video strips providing information on a variety of financial concepts, in a clear, common and in simple language. For example: interest and prime interest rate, loans, revolving credit, off-banking credit facility, banking credit facility, safe purchase on the Internet, immediate debit card, off-banking credit, CPI linkage. These video strips had reached hundreds of thousands of views.



SERVICES AND PRODUCTS FOR THE ADVANCEMENT OF POPULATIONS

➤ Alongside the diverse financial services provided by the Bank to all classes of customers, the Bank develops designated services for specific populations, such as small businesses, minority populations, students, etc.

The Bank is aware of the changing needs of its customers and acts to provide a professional response having added value. Discount Bank, as one of the large financial corporations, has a considerable impact on the economy; therefore, it is active in advancing the different populations while diligently adapting solutions to their unique needs.

Discount, the Bank for the family

➤ Discount is the first bank in Israel to market a unique and innovative program, at no cost, that grants special benefits to customers who are family members - **"the Family Program"**.

The Bank offers its customers a unique program, which is designed for existing and new customers who are related to one another. The idea is to connect several customers who are related to one another having different accounts, to the "Family Program" in the Bank's systems, and thus provide financial strength to the family cell. The program allows the utilization of the family's power and grants family members benefits having

financial values in accordance with the benefit program chosen by them.

The Bank offers its customers a unique program which connects a number of customers with different accounts, who have a family connection, thereby giving the family unit financial strength

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

The principal products of the family program are:

- ➔ **Exemption from commission on money transfers** in Israeli currency between accounts of the family members participating in the program.
- ➔ **"Family plus"** - offsetting interest on overdrawn accounts against the accounts of the other family members. The program allows the customer to enjoy the setting off of interest charged on their overdraft so long as one or more family members participating in this benefit has at that time a credit balance on their current account, in accordance with the principles of the program.
- ➔ **"2go key" card** - a rechargeable card in the name of the child provides parent security and control over expenses, as from the age of fourteen. An exemption from card fees to customers participating in the family program.

- **Saving for higher education** - a monthly saving for fifteen years with a gift from Discount Bank of deposits for one full year.
- **Family loan** - All-purpose loans at preferential terms to members of the family program.
- **Family deposit** - A shekel deposit at preferential terms to members of the program.
- **Business Family** - The program grants benefits to customers managing at Discount Bank their business account, private account and accounts of family members.

Promotion of small and minute businesses

→ Within the framework of the strategic plan, the small and minute businesses segment has been defined as one of the focus segments, on which the Group would focus, as a central growth engine. In the activity in 2017 emphasis was placed on the automatization of credit processes in the small business segment, among customers having a debt of less than NIS 1 million. In addition, the focusing on the segment continued, with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.

The services granted to these customers include:

Service to small and medium businesses. The Bank's customers which are small and middle market businesses 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.

Small business funds. Since 2012, Discount Bank is operating from its own resources credit models for the financing of funds for small businesses. The fund is designed for Bank customers with an income turnover of up to NIS 15 million. Different classes of funds exist in accordance with customer needs (business development/ investment in machinery and equipment). The balance of credit in the funds as of December 31, 2017 - NIS 195 million (December 31, 2016 - NIS 135 million).

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

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

"Business +" 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, directly from their place of business.

Freelancer service

→ Discount Bank introduced in 2017 a new service for freelancers, which includes a personally adapted benefit plan and innovative digital services. Introduction of the service was accompanied by a wide marketing campaign which emphasized the absurdity of the "current plus" system.

The Bank decided this year to attend to a segment of the market, which hitherto had not received a proper banking attention - the freelancers, a segment showing a significant growth trend in recent years. More and more people choose to set up a business of their own, due either to choice or constraints, and become freelancers who provide services to organizations and private customers, and who do not employ others.

This change in the employment model is a global trend. In the United States, the freelancer market segment grew by 26% in the years 2006-2013, comprising at present about one third of the U.S. workforce. Estimates indicate that by the year 2020, the freelancer segment would comprise 40% of the U.S. workforce.

Approximately 300 thousand freelancers conduct business in Israel, comprising 7.6% of the total workforce in the market. A study made by the Deloitte Research Company found that the number of freelancers in the local labor market grew by 33% in the years 2009-2014. Despite

the growth in this labor market segment with its particular needs, there exists in Israel no organization that incorporates and provides support to freelancers.

With a view of identifying the target population, the Bank had conducted a study focused on the targeted population, its needs and difficulties prevalent in this field. The idea behind the plan being offered by the Bank to freelancers provides response to the principal requirement of the group - lack of economic certainty. Freelancers, as different from wage earning employees, experience extreme fluctuations in their monthly cash flows due to fluctuations in the scope of their work, and also due to the payment system of "current plus" prevailing in the Israeli market.

Furthermore, many freelancers run their business using the family bank account, thus the different income and expense items make income control difficult. Additional identified points of difficulty were the lack of a business plan adapted to the characteristics of the work, difficulties in dealing with the authorities, worry about social benefits and the marketing of the business.

The small and minute businesses segment is considered as one of the segments on which the Group plans to focus. The outstanding balance of credit extended to small businesses amounted to NIS 30,825 million at the end of 2017

In order to face these challenges, Discount Bank has established a unique term package for freelancers, which has

solutions and tracks adapted to their needs. Thus, for example, the package offers a bridging loan, "current plus on our account", in an amount of up to NIS 30 thousand at an attractive interest rate, granted against future cash inflows, in order to allow the customer to conduct an ordinary manner of life with no debts while awaiting payment for his work.

In addition, the Bank offers a credit facility of up to twice the average income recorded in the previous six months, pension savings, assistance with formation and marketing of a business plan, as well as additional benefits, such as a loan to cover expenses of organizing the new business, exemption from different commissions, and more.

Doco-realty Campaign - this is how you buy Falafel on "current plus 60" terms. Within the framework of the said move, the Bank introduced a marketing campaign in which were produced video clips of the doco-realty style, which reflected the particular difficulty of persons that have to live on income receivable on the "current plus" basis. The video clips show an actor, himself a freelancer in non-staged scenes, trying to buy different goods and services on the "current plus" basis. The authentic reactions of the suppliers have been documented in the campaign, demonstrating the economic absurdity that freelancers face on a daily basis. The campaign has been accompanied by contents which included reports and tips for freelancers.

The Bank has been successful in creating awareness to the singular offer, and the campaign led to the opening of hundreds of freelancer accounts with Discount.

"Banking Availability" Covenant

➤ In recent years it has become more widely understood that the population in shelters for female victims of violence, who have mostly been forced to flee their homes without any support and resources, lacks the means to survive and look after their finances. This situation intensifies the feeling of isolation and fear felt by these women at the moment of their being cut off from their previous life and, not least of all, damages their ability to cope with difficulties and to begin a new chapter. Due to these difficulties and due to their having insufficient financial guidance, the women's dependence on their abusive husband/partner could continue or even intensify, sometimes even leading to their returning home - even though this is not what they want.

In view of this and as part of the Banking Supervision Department's desire to promote the economic independence of women, it was decided to support female victims of violence staying in shelters and half way homes. To this end, the "Banking Availability" Covenant was drawn up in January 2016 with the aim of assisting female victims of violence to embark on a new and independent economic path. Partnering in this initiative are: the Association of Banks in Israel, the banks and credit card companies in Israel, the Banking Supervision Department, the shelters for female victims of violence, and social organizations. Since the covenant's inception, 540 female victims of abuse have to date received assistance from the banking corporations.

Every banking corporation has a designated coordinator, who is assigned to each woman who enters the shelter. At Discount Bank, the manager of mortgage public inquiries has been appointed the

coordinator. The Bank has strengthened its personal connection with the shelters that look after female victims of violence and assist the women by suggesting relevant financial advice in accordance with the special circumstances of each individual case. Within the framework of these activities, the Bank cooperates with the social workers at the shelters in providing whatever support is needed to the women staying in the shelter.

When the Bank is contacted by the shelter, the coordinator - in cooperation with the Debt Monitoring Unit, with the branch management and with the other relevant units - examines the case with the aim of assisting and preventing any deterioration in the woman's situation. Together they go over the account printouts, check whether there are standing orders or direct debits that - owing to the woman being in the shelter - are superfluous, examine whether there are outstanding loans and whether assistance can be provided by easing the repayment schedule, and so forth.

Along with this, the "Banking Availability" Covenant calls for the banks to provide financial education at the shelters through the "Banks Adopt a Shelter" program.

Accordingly, the Bank has adopted two shelters. It should be noted that the Bank's employees, the manager of the Toucher (digital) branch and his team and the manager of the Beit Hakerem branch and her team have been volunteering at these shelters even before the covenant was drawn up. As part of the adoption, the volunteers further the financial knowledge of the women and staff working at the shelter through periodic financial training sessions and provide personal assistance on an

individual basis to every woman staying in the shelter. In addition, the Bank assists women planning to leave the shelter irrespective of whether they are customers of the Bank.

On July 2, 2018, the annual gathering of the covenant's partners was held at the "Herzelilinblum" private museum. The event was attended by the Supervisor of Banks, the CEO of the Association of Banks in Israel, the National Supervisor for Family Violence at the Labor and Welfare Ministry, the female CEOs of Discount Bank, Bank Leumi and First International Bank, and many other guests

More suitable for students

➤ With the aim of making higher education accessible to all youngsters, the Discount Group is offering a variety of loan models that are intended to answer the special needs of students. Thus, for instance, with respect to a loan of the "Degree with peace of mind" class at Discount Bank, the repayment period is up to eight years, and the repayments of the principal of the loan may be deferred for three years, while enjoying especially low repayments during the studies period. A loan for the splitting of tuition fees is granted against the presentation of a payment voucher (also to the parents of the student). The payment voucher may be split into up to ten payments without interest and linkage (the first payment made in cash).

The overall repayment period for loans to students studying abroad for higher degrees, is seven years, and the repayment of the principal amount of the loan may be differed for up to twenty-four months. In addition, loans to students for any purpose are available

at attractive interest rates.

In recent years MDB also introduced special credit products to the student population, which are especially tailored to their needs and abilities, with a special focus on peripheral areas, in the Arab sector and in the Haredi sector:

Tuition fee loans granted at the branches - students may finance tuition fees by a long-term loan, with a grace period of up to four years during studies and beginning the long-term repayment of the principal amount one year after completion of studies.

Financial tranquility for the student - cooperation with the academic institutions by means of a tuition fees fund, while in most cases the institution pays the interest on the loan while the student repays only the principal amount.

Encouraging higher education in the Haredi sector - within the framework of cooperation between the bank, the Haredi Professional Advancement Fund and the Council for Higher Education, students receive a subsistence loan during their study period and upon graduation receive a scholarship of 40% to 70% of the loan (depending on the subject studied), the remaining balance of the loan being

repaid over a long period.

Promoting accessibility

➤ In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank and serves as an address for any approach in the matter. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications in accordance with the new regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service.

For the purpose of the project, the Bank engaged an association specializing in the matter of access to handicapped persons, in which authorized professionals operate, who accompany the Bank, providing guidance and advice on the modifications required for easy access.

Within the framework of the project, a comprehensive survey of all the Bank's properties had been performed for the mapping of gaps and the definition of modifications to be carried out in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to a public place being an existing building), 2011. Furthermore, the Bank had mapped all services which require modification of accessibility to services in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to service), 2013, and

accessibility modifications have been made at Bank properties in accordance with a multiyear work plan.

In addition, accessibility modifications have been made at the marketing Internet website and in the operations website, and in addition, training sessions are held to employees on the accessibility subject.

The above stated relates also to MDB and to ICC.

Information regarding accessibility at branches

Information is presented on the websites of the Bank and of MDB with respect to branches and services accessible to handicapped persons (including parking for the disabled, accessibility to the branch, toilets for the disabled, ATM machines modified for persons having mobility or sight difficulties, service stations and aid instruments for persons with hearing impairment).

IDB Bank. IDB Bank complies with applicable provisions of the American with Disability Act (ADA). The ADA requires that disabled persons be afforded the same access to public accommodations and given the same employment opportunities as nondisabled persons. The ADA is made up of five titles; the two that apply to banks are Title I, Employment, and Title III, Public Accommodations and Services Operated by Private Entities. Specifically, ADA prohibits discrimination against persons with disabilities in the areas of employment practices, access to physical facilities, and goods and services offered to the public.

SERVICES AND PRODUCTS FOR THE ADVANCEMENT OF POPULATIONS AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ **MDB specializes, inter alia, in providing services to small and medium businesses and in providing services to the Arab and ultra-orthodox Jewish populations.**

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

Within the framework of this segment, MDB provides to private customers, typified by household activity, a variety of banking services and financial products, including services regarding credit, housing loans and the capital market. These services are provided to customers of this segment through a layout of MDB branches, which at the end of 2017 numbered 77 branches countrywide and by means of the TeleBank, the mobile application and the Internet website.

MDB operates 11 branches at the heart of the Haredi sector and 36 branches in settlements with an absolute majority of the non-Jewish population.

Continue on next page →

➤ STUDENT LOANS IN THE YEARS 2014-2017 in NIS millions

	2017	2016	2015	2014
Discount Bank	156	195	214	274
MDB	450	455	351	241

→ Continued from previous page

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

Most of the customers of MDB belonging to the household segment of this bank, receive banking services by means of MDB branches, of which 36 branches located in places having an absolute majority of the Arab population in the Acre Region and the Nazareth Region, as well as additional branches in others places in Israel, including: Rahat, in east Jerusalem, Wadi Nisnas in Haifa, Jaffa and more.

The outstanding balance of loans extended by MDB within the framework of the small businesses Fund, amounted at the end of 2017 to NIS 480 million.

Service to the Haredi customer population

➤ MDB operates 11 branches at the heart of the Haredi sector. The branches are located countrywide, mostly in the Jerusalem, Bnei Braq and Ashdod areas as well as in additional areas populated by the Haredi community. The bank specializes in the development of products and the granting of designated services to the Haredi customer population. The bank has a special unit handling associations and organizations belonging to the Haredi sector, which handles hundreds of such institutions. In addition, the bank operates its branches at business hours that are convenient to this population.

The small business segment

➤ The small business segment at the MDB is one of the outstanding segments of MDB and accordingly is a central target in its business development. MDB provides varied banking services and financial products to small business customers (individuals and companies). Around one half of the customers of MDB who belong to this segment live in areas where the population has an absolute "non-Jewish" majority and receive banking services by means of branches of this bank, 36 of which belonging organizationally to the Acre and Nazareth regions and additional branches in other regions and areas around the country.

Governmental funds for the support of business.

During the past decade, MDB has developed, in cooperation with relevant government agencies, expertise in the granting of credit to small and middle market businesses through governmental funds for the support of business.

Small Business Fund. The Ministry of Finance informed the Bank on January 17, 2016, of its decision to accept the offer of MDB (and its institutional partner), as one of the winners in the tender. The maximum volume of credit, which the bank (jointly with the institutional body) would be able to grant customers within the framework of this tender, amounts to NIS 650 million. The balance of loans within the framework of the Fund which MDB granted its customers (jointly with the institutional body), amounted as of December 31, 2017 to NIS 480 million (2016 - NIS 190 million).

The Corporate Banking Segment

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

having comprehensive view to their varied businesses.

A fund for the renewal and purchase of production facilities. MDB has a designated fund, established in 2015 in conjunction with the Manufacturers' Association, for the granting of long-term credit to Association members who wish to renew and purchase equipment and manufacturing facilities, and in this way upgrade the industry and increase production ability and competition. The outstanding balance of the loans granted by this fund amounted at December 31, 2017, to NIS 29 million.

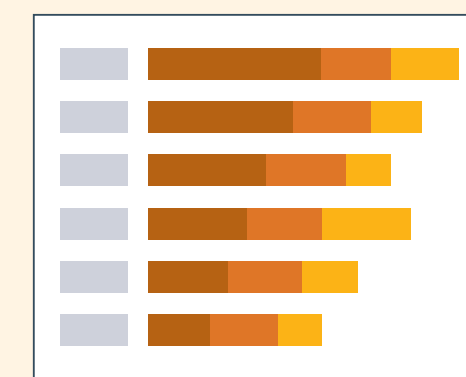
ICC

➤ **Service to minute businesses** - ICC provides clearing services to minute trading houses through Aggregators. When a trading house leaves its particulars on ICC's businesses website, it receives a message that its application has been forwarded to an aggregator, which will contact it regarding the clearing terms. The aggregators with which ICC collaborates specialize in providing a solution to the needs of minute trading houses through the use of advanced digital technologies that enable the minute trading house to work with an application and with the aid of a card-reader that connects with either a smartphone or a tablet.

IDB Bank

➤ **Credit to local communities** - Under the Community Reinvestment Act (CRA), IDB Bank is required to help meet the credit needs of the local communities in which they are located. IDB Bank's CRA activities (i.e., community development lending, qualified investments, grants, and community development services) are evaluated approximately every three years by federal and state regulators to assess the Bank's record in helping to meet the credit needs of the entire communities it serves, including low-to moderate-income neighborhoods, consistent

with safe and sound operations. Information regarding IDB Bank's CRA activities is available to the public through the CRA Public File maintained at each of IDB Bank's seven branch locations. Additionally, the FDIC and NYSDFS make IDB Bank's CRA Performance Evaluation available to the public through their respective website.



FAIRNESS IN PRODUCTS

Proper disclosure - information regarding products and services

➤ Banking corporations are required by law to abide by proper disclosure requirements in everything relating to the information which is to be provided to customers regarding the banking product or service including the Banking Act (Customer Service), 1981, the Banking Rules (Customer Service)(Proper Disclosure and the Delivery of Documents), 1992, and the Banking Rules (Customer Service) (Advertisements directed at Minors), 1995. The central principle of this legislation is the duty of proper disclosure (transparency) towards the customer and the preservation of his right to receive advice and service from the bank.

The Bank strictly adheres by the instructions applying to it in this respect and maintains strict control procedures.

At the base of the above subject are found fairness and decency values comprising an integral part of the current business activity, interwoven with the day-to-day operations of the Bank and comprise a guideline for the operations of Bank employees. The above stated requires development and maintenance of an organizational culture, which positions the customer and the business fairness and reliability at the heart of the decision making processes conducted both by the authorized organs of the Group, and by the three lines of defense, and in particular the risk taking units.

In view of the above and as part of the overall risk management concept, and in particular, the compliance and regulation risks, the Bank acts in order to impart and integrate proper and fair business principles and values into the banking operations of the Group as a whole, including the formation and characterization of products being offered by the Bank to customers, in accordance with requirements changing from time to time, proper disclosure to customers with respect to the different products, including the risk components inherent therein, and the adaptation of the solutions offered by the professionals of the Bank to the needs of customers and changing market requirements.

Compliance with the provision of the law and regulation is enforced on a regular basis by means of various control and supervision systems - the Chief Compliance Officer, compliance officers and trustees and the Internal Audit.

In accordance with Proper Conduct of Banking Business Directives, the Chief Compliance Officer is responsible for assisting the Management and the Board of Directors, to maintain the responsibility of compliance with the provisions of the law and regulations, and the management of compliance risk at the Bank in an effective manner. In this respect, the Chief Compliance Officer verifies that the compliance risk to which the Bank is exposed, including conduct risk (see the 2016 annual report, p.101) are being properly managed by the relevant units, and are presented to the Board of Directors in the form of a holistic point of view, and this by outlining a policy and

methodologies for compliance risk evaluation, the treatment thereof and forming proper reporting mechanisms.

The Chief Compliance Officer participates in the planning of the compliance risk strategy, including determination of the risk appetite; is involved in major organizational changes planned by the Bank; and, inter alia, is actively involved in the preparations towards the introduction of new operations and products by the Bank. Moreover, the Chief Compliance Officer monitors the rectification of material deficiencies and failures in matters of compliance.

The Chief Compliance Officer submits to the Bank's Management and the Board of Directors quarterly and/or annual reports on matters of compliance, which include a summary of his activity during the reported period.

In accordance with the provisions of Proper Conduct of Banking Business, the Chief Compliance Officer has the duty of assisting the Managements of the Bank and the Group in the effective management of risks stemming from violation of compliance instructions. The Compliance Officer is also actively involved in the preparations towards the introduction of new products and operations at the Bank. Furthermore, the Compliance Officer monitors the rectification of material deficiencies that had been identified with respect to compliance issues. Quarterly reports that include a summary of his activities are submitted by the Chief Compliance Officer to the Bank's President & CEO and to the CEO's of the subsidiaries in which he acts as a Compliance Officer.

In accordance with guidelines of the Supervisor of Banks, prior to the launch of new products/operations, the Bank performs an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group mutatis mutandis.

The above stated relates also to MDB and ICC.

While launching new operations/ products of the Bank, as well as the marketing and advertising operations of the Bank, messages delivered to Bank customers are examined by control factors who verify, inter alia, that the messages are not misleading customers and are being delivered in a proper and fair manner.

Structured infrastructure exist at the Bank, which assist employees in providing service in accordance with Bank values, a service being of value also to customers. Thus, for instance, the systems of the Bank assist the fair and transparent conduct, while providing proper disclosure of all data and information relevant to the execution of a transaction; also existing is an administrative infrastructure which regulate proper criteria and manner

of conduct; regulation supporting information sessions are being conducted regarding the consumer credit field, which establish fairness and decency values; frontal guidance sessions are held as regards a variety of compliance matters with the assistance of distance learning and updates, which help in the absorption of different issues. The guidance sessions are designed for all Bank employees and managers, and a part of which are designed to agree with the special work environment concerning designated products and employee populations. The infrastructure is being validated and updated from time to time in accordance with the regulatory environment and the business activity of the Bank. These assist also the control side of compliance enforcement of the provisions of the law and regulations and in the imparting of the compliance culture at the organization.

In order to promote fairness and proper disclosure at the Bank, the Bank acts on a number of levels:

Promoting transparency - The Bank acts, inter alia, for the establishment of the said values in the core documents and the basic documents of the Bank, and conducts current operations to integrate them in the field. Among other things, the Bank emphasizes transparency as well as adequate and proper disclosure provided to the Bank's customers, including the information and adaptation which have to be provided to customers with respect to banking products or services granted or offered to them.

Launching activities and advertising new products - An additional layer in which the values of fairness and decency

are being reflected is the introduction process of new operations/products of the Bank, as well as the marketing and advertising operations of the Bank. Messages delivered to Bank customers (including potential customers) are examined by control factors who verify, inter alia, that the messages are not misleading customers and are being delivered in a proper and fair manner.

Proper disclosure in publications - the Bank strictly applies several basic principles in the advertising and marketing of its products:

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

Social correctness - The Bank publications are 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 published Code of Ethics was received in 2017.

In 2017 no significant fines and/or monetary sanctions were imposed on the Bank.

Services in different languages

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

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

FAIRNESS IN PRODUCTS AT THE PRINCIPAL SUBSIDIARIES

ICC

➤ ICC is also a signatory of the advertising ethical code, and no complaints were received in 2017 regarding violations thereof. MDB has not signed the said Code of Ethics.

IDB Bank

➤ IDB Bank adheres to all applicable federal and state laws, such as Truth in Savings Act (Regulation DD), Truth in Lending Act (Regulation Z) and Acts dealing with Unfair, Abusive or Deceptive Practices, requirements pertaining to proper and timely disclosure of terms and conditions relating to its deposit and lending product and services.

SERVICES IN DIFFERENT LANGUAGES

MDB

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

ICC

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

CUSTOMER PRIVACY AND INFORMATION SECURITY

The importance of maintaining and protecting reliability, strength, availability and survival of information technology is ever growing in view of the enormous technological development in recent years and its implications on the Bank, in view of the cyber threats, which are growing in severity and frequency, and in view of the significant growth of the use of information technology products compared with humanly provided products. Therefore, the Bank views the protection and safety of information as a central goal and invests large resources in order to protect the information in its possession.

➤ The Bank stringently adopts an array of actions and measures for retaining customer data in data bases, in order to protect them from impairment in durability and exposure to a change to the data. This activity is carried out in accordance with the provisions of the law and the regulatory agencies.

The Bank insists on maintaining banking confidentiality and on protecting the privacy of the customer and the information in his account, and does everything it can to identify malfunctions and prevent their repetition.

The Bank insists on maintaining banking confidentiality and on protecting

the privacy of the customer and the information in his account, and does everything it can to identify malfunctions and prevent their repetition.

4 cases were identified in 2017: Three cases involving employees who had produced information and conducted transactions in accounts of family members without authority to operate these accounts, and one case involving a female employee who had produced information regarding an account of a customer in order to disclose his marital status.

No complaints were received in ICC in 2017. One complaint was received in MDB in 2017, concerning banking confidentiality, which had been found justified.

No complaints were received in IDB Bank in 2017 concerning breaches of customer privacy and losses of customer data.

➔ DATA PROTECTION RISKS AND CYBER PROTECTION

The principal potential damage involved in the impairment of data protection includes impairment of privacy and confidentiality of information regarding the Bank, its customers and employees, financial damage, realization of cyber threats, distortion of data stored in the Bank's systems, impairment of the availability and survival of systems and information, impairment of the business of the Bank and its reputation.

Data protection and cyber defense at the Bank are regulated and directed in accordance with various regulatory provisions, including the Privacy Protection Act and Regulations, the

Computers Act, Proper Conduct of Banking Business Directives, and particularly Directives Nos. 357 and 361, on the basis of which a cyber defense and data protection strategy and policy have been drawn up, as approved by the Bank's Management and Board of Directors.

Except for the protection of the computer system, the defensive actions are directed to provide a response to significant business processes of the Bank. In this way, a defense layer focused on a comprehensive-business viewpoint risk would be stabilized.

As a general rule, threats in the cyberspace are threats that may cause a shutdown of systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud.

In recent period, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication.

Set out in these documents are the basic principles for cyber defense management, corporate governance and the duties of the various lines of defense, including the coordination and control needed in order to establish an effective defense; the approach to cyber defense and strategy, the establishment of a framework for the management of cyber risks and data protection, and the core risk management processes, including risk identification and assessment, the controls and the reporting processes.

In 2017, no one or more cybernetic incidents occurred that materially affected the products or services offered

by the Bank or by the Group, their relation with customers or the competitive conditions.

Structure and processes

➤ **First line of defense.** A data and cyber protection manager serves at the Bank, who is directly subject to the Head of the Technologies and Operations Division. For details regarding the duties of the data protection and cyber defense group, see above.

In 2017, no one or more cybernetic incidents occurred that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

Attainment of the data and cyber protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of incidents.

Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and IT risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.

A cyber unit, which operates under similar principles, is defined at the main Group companies.

Second line of defense. The Operational Risks Department, at the Risk Management Wing, which is accountable to the Chief Risk Officer, is in charge of drawing up a methodology for identifying and assessing the cyber risks, for their monitoring, for the tracking of the process for their mitigation, and for delivering reports regarding such risks to the Risk Managers Committee, to the Bank's Management and to the Board of Directors. This, in addition to partnering the first line of defense in instilling the cyber risks management culture within the units of the Bank and the Group.

At the Risk Management Wing, within the Operational Risks Department, the Cyber Risks Management Unit operates, whose responsibility is to comprise the second line of defense for managing the Bank's cyber risks. The Unit acts to ensure that the cyber exposures and risks are closely and consistently managed by all the risk foci managers, including following up on alerts suspected as cyber events.

The subsidiaries have established an organizational structure that supports their cyber risk management, in a similar spirit, mutatis mutandis. The aforesaid organizational structure enables the comprehensive and efficient group management of cyber risks at the Group.

Protection of the Bank's sites

➤ In accordance with the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated into the Bank's systems. Protection of the marketing sites and of the Bank's operations is continuous.

The Bank operates a data protection

center that operates continuously throughout the year (24 hours per day 365 days per year) the object of which is identifying risks breaches, exposures and vulnerabilities in the data protection system, and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). Furthermore, in the framework of the internal audit, a department in the field of IT operates, which performs current audits of such subjects. The Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/communication/and services providing information regarding attacks and hostile addresses. Infrastructure systems are monitored and reported to the data protection center.

As part of risk management, the Bank investigates various incidents, gains insights and draws conclusions. Such insights, together with data and cyber protection surveys enable the Bank to map gaps that should be rectified and determine preferences in the treatment thereof, which are integrated in the work plan.

Data protection and cyber defense activities are being implemented in accordance with the strategic plan, as approved by the Bank's Management and Board of Directors.

Systems and projects under development and maintenance are being closely assisted by professional mentors.

In accordance with the risk outline and

with Proper Conduct of Banking Business Directive No. 357 and 361, risk surveys and Penetration tests are performed at required frequencies, following which, reduction measures and required reports are implemented.

Access to information and the levels of authorization are controlled by designated teams and systems, the administration processes and management tools undergoing significant improvement and reorganization.

The Bank conducts current operations for increasing awareness and improvement of the organizational culture from the aspect of data protection, which among other things include training, publication of policy documents, manifests and marketing tools. The Bank has established in procedures most of its operations and processes, and the data protection unit at the Bank is involved in the approval of all the Bank's procedures in order to ensure the early identification of operations causing data protection risks and cyber defense.

Mitigating the exposure to cyber risk through purchasing insurance. See the document "Disclosure according to the third pillar of Basel and additional information regarding risks", published together with the 2017 Annual Report (pp. 77-78).

Aspects of physical safety, to the extent that they might be connected to data protection, are managed and implemented by the Bank's security officer, in conjunction with the data protection manager.

The above described processes are applied also with respect to MDB.

CUSTOMER PRIVACY AT ICC – TECHNOLOGICAL PREPARATIONS IN THE CREDIT CARDS FIELD

➤ As part of its attempts to reduce the phenomenon of improper use of stolen or counterfeit credit cards, the international Visa organization the MasterCard Worldwide organization and the international Diners Club organization (hereinafter: "the Organizations") are taking various steps to improve the security level of the credit cards that bear their brands and to comply with the EMV standard.

This standard is a collection of specifications developed by the Organizations with the aim of providing a uniform and secure format for payment transactions using chip charge cards, which have special features making it harder for such cards to be used by unauthorized parties and/or for them to be counterfeited (hereinafter: "Smart Cards"), when used in conjunction with ATM's or POS terminals that support the standard.

The specifications relate to both Contact and Contactless card transactions, and are based on identifying the cardholder through the input of a secret code (PIN) and dynamic protections, using digital signature authentication and by combining the physical component, the chip, with the card reader, communications and the payment application.

In addition, the Organizations have prescribed provisions to create economic incentives for the replacement of the existing, old terminals, which do not comply with the aforesaid standard, by means of a Liability Shift mechanism.

The said instructions state that in case of forgery/

Continue on next page →

→ Continued from previous page

misusage of a card:

1. Where a smart card was cleared by a trading house which had not installed a smart clearing device, the clearing agent shall bear the costs.

2. Where a card which is not a smart card, was cleared by a trading house that had installed a smart clearing device, the issuer shall bear the costs.

In accordance with Proper Conduct of Banking Business directives, the preparations have to be completed by January, 2019.

In accordance with instructions of the international organizations, ICC has prepared for the transformation to the use of "smart cards". In the issuance field, ICC issues at present on a current basis, VISA, MasterCard and Diners smart cards. These preparations include adjusting of the systems operated by the company and the definition of the smart card profile as regards producers of the cards.

In addition, ICC has begun preparations for the issue of VISA and MasterCard smart cards having "contactless" capabilities. These preparations are expected to be completed in the first quarter of 2019.

In the clearing field, ICC is preparing for infrastructure in accordance with the EMV standard, which includes adjusting the systems of the company to receive, process and transmit files and messages in the new formats, as defined by Automatic Bank Services (ABS) in the "EMV credit" system, as well as making the relevant changes to the interface between the three credit card companies.

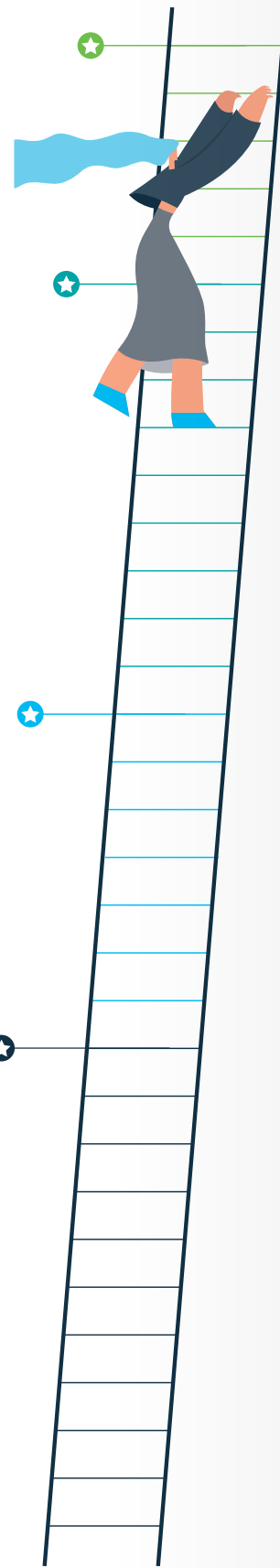
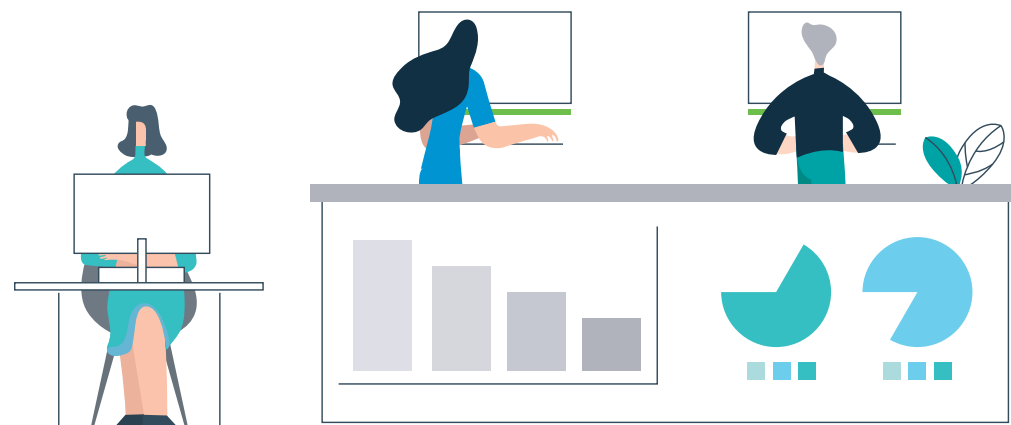
ICC has completed the preparations for the transition to the use of smart cards in accordance with the directives of the international organizations.

For details regarding the approach by MasterCard Worldwide to ICC with respect to the preparations for the implementation of different operational requirements, see Discount Bank's 2017 Annual Report (p. 358).



05 THE EMPLOYEES

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9,374
employees at
Discount Group

5,502
employees at
Discount Bank

45.1
Average age of
Discount Bank's
employees

16.5
average years of
seniority at Discount
Bank

59.4%
of Discount Bank's
employees have
academic education

12.4%
of Discount Bank
and its principal
subsidiaries employees
are of underrepresented
populations

49%
rate of women
in management
positions

THE EMPLOYEES

THE BANK ADOPTED A POLICY OF DIRECTED MANAGEMENT OF PERSONNEL, BASED ON THE UNDERSTANDING THAT HUMAN CAPITAL IS A CENTRAL FACTOR IN THE BANK'S PROGRESS AND SUCCESS. THEREFORE, THE BANK WORKS TO DEVELOP THE HUMAN RESOURCE FROM A LONG-TERM PERSPECTIVE, BY MEANS OF AND LAYING A FOUNDATION FOR OUTSTANDING, FORERUNNING LEADERSHIP, EXPRESSED AS A BASIS FOR THE ORGANIZATION'S EMPOWERMENT AND GROWTH.

NURTURING OF DISCOUNT BANK'S HUMAN CAPITAL

➤ It is important to us to take pride in our workplace and we therefore promote a challenging, supportive and pleasant work environment. We believe in the people that we work with and invest in making them stronger. ("the Discount Spirit").

Discount Bank adopted a policy of directed management of personnel, based on the understanding that human capital is a central factor in the Bank's progress and success. Therefore, the Bank works to develop the human resource from a long-term perspective, by means of and laying a foundation for outstanding, forerunning leadership, expressed as a basis for the organization's empowerment and growth. Concurrently, the Bank places emphasis on promoting the realization of the professional and personal aspirations of its employees, by providing them with a range of career-development opportunities.

Discount Bank operates many systems that support the development and nurturing of the human resource, including sophisticated evaluation and feedback mechanisms. The management training and development systems assisting, inter alia, employees in coping with the professional and managerial challenges they face. In addition, Discount Bank attaches considerable importance to the welfare of its employees and takes measures to promote this, through varied enrichment opportunities during free time



NURTURING THE HUMAN CAPITAL AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

➤ As is the case for Discount Bank, MDB promotes a people-orientated management policy and acts to nurture its human capital, through the operation of numerous management systems for human resources development. Among its main activities for nurturing the human capital in 2017 were:

Expanding the operation of the back office unit. Within the framework of the plan for business focusing and efficiency, MDB continued in 2017 to implement the strategy that changes the operating concept at the branches and head office operating units of the bank. As part of this plan, additional operating activities that had been conducted at the bank branches in the past were moved in 2017 and centralized at designated back office units.

Implementation of the plan is accompanied by changes in work procedures at the branches and at the back office operating units, and entails investment of inputs required to instill the concepts and new work methods (as well as the need to maintain duplicated work procedures at the first stages of the moving of different parts of operation).

Efficiency measures. As part of the efficiency measures, MDB has taken further steps in the process of reducing its labor force. The reduction in the labor force has been defined as one of the central goals of the multi-annual strategic plan. Within the framework of the multi-annual efficiency plan, in 2017 some 9 employees opted for early retirement.

Attendance clock. During 2017, an attendance system was deployed at the Bank's head office

and at its network of branches.

Deployment of the Code of Ethics. During 2017 the new Code of Ethics was deployed among the bank's employees.

ICC

➤ Management of ICC views the human capital as a strategic key in achieving the success of the organization, and accordingly, invest in employee training and development, in their personal and professional progress, in compensating them for qualitative performance, their welfare, their attachment to the business core aims, and in an open dialogue with the employees with the aim of creating frankness and fairness.

As part of the above, ICC operates on a number of central levels, including:

- ➔ **Labor relations** - the formation of a new collective labor agreement for the years 2016-2018, which follows the agreements of 2011 and 2015;
- ➔ **Development, training and the mobilization of employees**, as part of their personal and professional development and their career management;
- ➔ **The creation of a leading and strong leadership** - development of the executive echelon through rich and varied development programs;
- ➔ **Diversity and equal opportunities** - diverse employment and focusing on employment of handicapped persons;
- ➔ **Investment in diverse activities for the welfare of employees and their families, such as:** company vacations, presents for the holidays and for personal events, a present and gathering for children of employees starting first grade or enlisting to the IDF, operation of a workout room, dining room, etc.

DISCOUNT BANK'S EMPLOYEES

EMPLOYEES OF THE BANK AND THE PRINCIPAL SUBSIDIARIES IN ISRAEL, IN NUMBERS

DISCOUNT BANK'S EMPLOYEES BY GENDER

as of December 31, 2017



BREAKDOWN OF DISCOUNT BANK'S EMPLOYEES BY EMPLOYMENT CATEGORIES



Notes:

- The data do not include employees on unpaid leave or on maternity leave.
- Tenured employees – the employment terms of such employees are regulated in the Labor Charter, special collective agreements and various employment arrangements.
- Temporary employees – the employment terms of such employees are mainly regulated in several special collective agreements in which said employees' employment terms and the period of their employment are set forth.
- Personal contracts – employees whose employment terms are anchored in personal contracts with the Bank and for whom the provisions of the Labor Charter and the collective agreements, which apply to employees with the status of "tenured" employees, do not apply

For additional details regarding the Bank's employment data according to the various categories and the changes that took place therein, see the 2017 Annual Report (pp. 325-326).



EMPLOYEES OF THE BANK AND THE PRINCIPAL SUBSIDIARIES

in 2017



in 2016



in 2015



● Discount Bank ● MDB ● ICC ● IDB Bank

Note:

- The data do not include employees on unpaid leave or on maternity leave and contract employees..
- The data for MDB does not include employees of manpower and outsourcing companies.



ACADEMIC EDUCATION

	Discount Bank		MDB	
	2017	2016	2017	2016
The percentage of academics within the total number of employees	59.4%	57.5%	53.2%	52.2%
The percentage of academics within the total number of managers	84.2%	82.5%	60.0%	56.1%
The percentage of academics within the total number of clerical staff	52.8%	50.8%	50.2%	50.3%
The percentage of academics within the total number of female employees	56.4%	54.3%	52.4%	51.7%
The percentage of academics within the total number of male employees	64.2%	62.5%	54.4%	52.7%

Note: The data does not include employees of software houses.



AVERAGE AGE AND AVERAGE SENIORITY OF THE EMPLOYEES

	Discount Bank	MDB	ICC
Average age	45.1	43.9	36
Average seniority	16.5	16.5	9

Note: In 2017, the Employee Calculation Methodology was updated, which the Bank updated retroactively also for the year 2016.

and through providing support in times of crisis for its employees and the members of their families.

The Bank insist on protecting the dignity of employees, of proper labor relations and on protecting employee rights, in accordance with the law and labor agreements. The Human Resources and Properties Division is responsible, through the Division's staff and through the Human Resources Units distributed throughout the Bank's various divisions, for dealing with employees, which guides the employee from his hiring until termination, including from the aspects of: salary, welfare, occupational development, employee development, guidance and professional training etc.

EMPLOYEE HIRING

➤ Each year Discount Bank hires hundreds of new employees continuously 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, and in the process thereof, the Bank stresses compatibility between the needs of the candidate, his wishes and values, and those of the Bank, using an organizational approach that champions employee growth within the system and providing diverse employment opportunities over time.

The placement of employees in the Bank solely on a professional basis, while considering the candidate's skills and his suitability for the position, and without involving irrelevant considerations such as the race, gender, religion, nationality, age or disability of candidates.

The Bank views the transfer of employees between positions as an opportunity for professional development and enrichment of its employees, and encourages such transfers. For this purpose, inter alia, the Bank publishes on the employees' website, notice of vacant positions inviting employees to submit their candidature.

In 2017, 92% of the executive positions, were manned by Bank employees. Likewise, 44% of the professional positions (which do not comprise of teller positions, service teams or telephonic banking, and which are not managerial positions) were manned by Bank employees.

During that year, 55% of the executive positions and 62% of positions in general, were manned by company employees.

The Bank employs a small number of teenagers, according to age and conditions permitted by legislation, during their summer vacation, within the framework of projects to the benefit of the community (see in Chapter Discount for the community, "Employment of visually impaired teenagers"). The Bank does not employ children in any way or form, either directly or through manpower agencies.

LABOR RELATIONS

➤ 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.

Rights of association - The tenured employees of the Bank are organized within the framework of the national Employees' Representative Committee. The Representative Committee is divided internally in such a way that employees at the clerical level come under the purview of the Clerks' Committee and authorized signatories and managers are organized under the Managers' Representative Committee. Most of the issues are agreed and signed between the Bank's management and the Employees' Representative Committee and the Federation of Labor. A Retirees' Committee also exists, under which retirees of the Bank are organized.

Tenured employees at the Bank, who are organized within the national representative committee, are entitled to vote for or be elected, and comprise 73.6% of all the Bank's employees.

Majority of employees under a collective labor agreement¹⁸ - As of December 31, 2017, the Bank engaged 5,502 employees. This figure includes all of the Bank's employees, as well as workers providing services to the Bank by way of different outside factors. Of the above, 5,043 are tenured employees and temporary employees, engaged under collective agreements and constituting 91.7% of total employees. By reducing the number of workers employed by external factors, the number of employees stands at 5,138 and the number of those covered by the collective agreements reaches 98.2%.

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 of almost triple 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.

Organizational changes - Item 4 of the collective agreement dated April 2, 2000, in the matter of the definition of the Bank's units, stated that the Bank's Management shall forward its proposals regarding the definition of units and management duties, and a joint discussion will be held during fifteen days from date of forwarding the proposals to the managers' representative committee. At the conclusion of the discussions, if the parties have not reached an agreement, the matter will be forwarded to the Bank's President & CEO, whose decision will be final. The period was shortened from 15 days to 7 days by the collective agreement dated November 30, 2016.

Work on the day of rest - In accordance with the Work and Rest Hours Act, engaging an employee for work on the weekly day of rest is forbidden, unless permitted by a permit issued in terms of the Act. Security and guard employees of the Bank are employed on the weekly

days of rest in accordance with a general permit issued by the Minister of Labor, regarding guard work on the weekly day of rest. Moreover, the Bank and a number of companies providing services to the Bank obtained a special permit from the Ministry of Labor, Welfare and Social Services for the employment of computer and data protection operators and standby staff, for each weekly day of rest. The validity of said permit is being extended from time to time, as stated therein.

Collective labor agreements - Two agreements were signed during 2017:

- An agreement dated September 17, 2017 in the matter of mileage and the definition of organizational units at the Bank;
- An agreement dated November 26, 2017 in the matter of supplementary payment for mobility to employees of the Bank performing the duty of sales trainer.

Labor dispute - Histadrut HAMAOF informed the Bank in 2017, of the declaration of a labor dispute by the Managers Representative Committee at the Bank. The labor dispute was terminated



¹⁹ In this report, the calculation method was changed, the calculation is done as an average of the average payroll differences at the various grades. In previous years, the calculation was done as the difference for the entire employee population. The data for 2016 has been recalculated in accordance with the new method.

by the collective labor agreement signed in September 2017, by the Bank and the employee representative committee. For additional details, see 2017 Annual Report (p. 326).

For additional details regarding labor relations at the Bank, see the 2017 Annual Report (pp.326-327).

The starting wages

→ The Bank insists on the payment of wages in excess of the minimum wage to all of its employees. Accordingly, the starting wage given to most of the new temporary employees, at the end of 2017, was NIS 29.9 NIS to NIS 34 per hour. As of December 2017, the minimum wage in Israel was approx. NIS 28.5.

It is noted, that in accordance with a special collective agreement of June 2011, in the matter of employment of tellers by the Bank, the starting wage for these employees and for TeleBank employees shall not be less than the minimum wage plus 5%. It should also be noted that, at the starting salary level, there is no gap between the salaries of men and women in the same positions.

Wage differences between female and male employees

→ A comparison of the wages of all men to the wages of all women at Discount Bank shows that the average salary of female managers in 2017 was 7.1% lower, on average, than the wage of male managers, compared with 9.5% in 2016. The average wage of female clerks is 8.4% lower than the average wage paid to male clerks, compared with 11.8% in 2016¹⁹.

LABOR RELATIONS AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

→ Labor relations between Management and the employees of MDB, except for those having a personal employment agreement, are principally based on a basic labor agreement, "labor statute", and complementary collective agreements. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M.. Besides these agreements, specific agreements are being made from time to time, between Management and the employee representative committee, with respect to specific issues. The terms of employment of members of Management of MDB are regularized by personal engagement agreements.

The collective labor agreements existing at MDB are subject to Section 5 of the labor agreement of May 17, 1968, namely, the validity of the agreement shall be automatically extended for two additional years, unless one of the parties to the agreement informs of his intention to make changes thereto.

A special collective labor agreement was signed on April 28, 2015, between Mercantile Discount Bank, the Federation of Labor and the representative committee of the employees (for the years 2015 to 2018). This agreement comprises an update of the previous wage agreement, adopting agreements determined in an agreement signed at the beginning of 2015, between Bank Leumi and its employees. The rate of workers employed under collective labor agreements in MDB amounts to 92.2%.

Tenured employees of MDB are organized within the framework of a national representative committee. The ratio of the organized employees,

who are entitled to be elected or to elect the committee's members, is 80.9%.

In December 2016, MDB and the representative committee of the bank's employees signed an agreement (following a special collective labor agreement signed between Bank Leumi and its employees), whereby the commitment of the bank for the payment of "seniority awards" to its employees has been settled in return for a one-time lump sum payment. Following the signing of the agreement for the payment of the said amount, MDB, as from December 31, 2016, no longer carries on its books provisions for the payment of "seniority awards".

At the beginning of December 2018, the Management of MDB and the national representative committee of employees of this bank signed a wage agreement for the years 2019-2025. The agreement states, inter alia, that as from January 1, 2019, any wage agreements and updates of terms of employment entered into by Bank Leumi as from that date, shall no longer apply to MDB.

Revision of the bank's liability to provide certain post-retirement benefits - in accordance with the Labor Charter, employees of MDB are entitled to certain post-retirement benefits, such as gifts for the holidays, benefits regarding ledger fees at the bank, etc.

Organizational changes - The special collective labor agreement of 2002 states that where Management takes a decision to merge branches or wings, the decision shall be brought to the attention of the employees representative committee together with the presentation of the relevant data, and an intensive discussion is to be held with the committee with respect to the implications of the decision upon the employees involved. Management of MDB may act upon the merger decision only after fourteen days have

Continue on next page →

→ Continued from previous page

passed since the date of notifying the committee regarding the decision.

ICC

➤ Labor relations at ICC are based upon partnership and trust between Management of the company, the national committee and the employees. A new collective labor agreement was signed in 2016 for the years 2016-2018, which follows the agreements of the years 2011 and 2015.

The first collective labor agreement at ICC was signed on December 21, 2011, which regulates all labor relations in the organization. The agreement incorporates all employees of ICC, excluding department managers, vice presidents and approximately 40 employees engaged under personal agreements. The organizational aspects of the agreement deal, inter alia, with the mobility of the staff, with termination of employment, permanent employment and the status of the employee representative committee. Moreover, the agreement deals with all aspects of employment terms, payroll related benefits, as well as the process of the annual updating of wages.

On June 26, 2016, a special collective labor agreement was signed between ICC, the New General Federation of Labor and the national representative committee of ICC employees. This agreement amends and continues previous agreements dated December 21, 2011 and March 23, 2015. The agreement shall remain in effect until December 31, 2018, and until this date the parties are committed to maintain industrial peace with respect to the matters and terms regulated by the agreement.

Among other things determined in the agreement, singular and higher wage increments

to employees earning low wages. In addition, changes have been made to the arrangements that had been in practice prior to the signing of the agreement in the matter of "jubilee awards". For additional details see 2017 Annual Report (pp. 327).

A collective labor agreement was signed on January 17, 2017, by ICC and the national representative committee of ICC employees, which regularizes past claims of employees regarding the inclusion of an incentive component in payments to which they are entitled (vacation, sickness and holiday payments).

Organizational changes - The collective labor agreement of 2011 states that the company is entitled to introduce organizational and/or technological and/or operational and/or structural changes, such as the merger of units, integration with other centers, the closing down of units in accordance with changing work requirements, etc. Material changes that have a material impact upon the employees would be brought to the attention of the employee representative committee no later than fifty days preceding the planned implementation date of such change. In the case where no agreement has been reached regarding material changes that have a material impact upon employees of the company, then each of the parties retains his rights without prejudice.

Work on the day of rest – duty personnel from the IT layout, Risk Management, as well as credit representatives, work on the rest days specified in the Hours of Work and Rest Law, 1951. Work in these days requires a special permit, which is held by the company and extended once a year.

IDB Bank

➤ The employees are not members of a labor union.

→ THE STARTING WAGES AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

➤ The starting wage per hour payable to most temporary new employees in 2017 was NIS 32.12 per hour. The basic wage of a new employee amounted to NIS 5,300. It is noted that at this primary wage level, and for similar positions, there is no difference between male and female employees.

ICC

➤ The company meticulously pays a fair wage, which is in excess of the minimum wage. The beginning basic wage payable to employees starting work as from January 2018, is NIS 5,500 in respect of a full-time position. Most employees are also entitled to incentive payments in addition to the

basic wage. The beginning wage payable by the company is higher by 3.8% than the mandatory minimum wage.

→ WAGE DIFFERENCES BETWEEN FEMALE AND MALE EMPLOYEES AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

➤ A comparison shows that no gap exists between the average salary of female managers and the average salary of male managers. The average salary of female clerks is lower by 18.6% than the salary paid to male clerks (compared to 28.7% in 2016).

ICC

➤ A comparison of men's wages and women's wages shows a gap of approx. 20%.



DIVERSITY AND EQUAL OPPORTUNITY

➤ Discount Bank believes that every employee is entitled to fair and equitable treatment, free of discrimination based on race, age, gender, color, sexual orientation, ethnic background, physical disabilities, religion or political affiliation, encourages diversity and inclusion of the other and takes pains to provide a fair and respectful work environment. In order to create a tolerant organizational culture and one that is accepting of the other, Discount Bank acts to advance segments of society that are underrepresented in the labor market, including through recruitment of employees from the Arab society, from the ultra-orthodox (Haredi) society, from Israel's geographical periphery, as well as employees with disabilities.

22% Increase in the number of employees at the TeleBank center in Nesher

45% of the employees at the center come from the Arab society

The Bank's actions to further the realization of its policy:

➔ Engaging employees with special needs and integrating them in positions at the Bank in accordance with their abilities and in accordance with the Bank's needs. Discount Bank took this action prior to legislation on this topic going into effect and is prepared to comply with the new requirements on the subject.

➔ Employment of persons coming from underrepresented populations and their integration in positions at the Bank in accordance with the Bank's needs;

➔ Cooperating with bodies that specialize in employee recruitment and placement in order to advance and integrate employees from these segments of the population in an adapted work environment.

➔ In the employee selection and recruitment processes, which are performed using selection and engagement systems customary in the market, emphasis is placed on finding a congruence between the needs, wishes and values of the candidate and those of the Bank.

Engagement of employees from the Arabic society

➤ As part of the Bank's aspiration to promote the employment of populations that are under-represented in the labor market, the Bank has started to cooperate with the initiative "Collective impact" - which aims at encouraging the employment of persons belonging to the Arab sector and their progress. As part of this move, the Bank has defined two centers on which the initiative would focus: the online banking center at Nesher and the Technologies Division.

Employment of persons from the ultra-orthodox (Haredi) society

➤ A distinctive team of ultra-orthodox female employee is engaged by the online banking unit ("TeleBank") at Discount Bank. The team was formed in 2013, and is engaged in responding to phone calls regarding diverse banking matters made by all Bank customers. Most of the candidates have no prior employment background or

experience. They are being trained by the Bank in banking matters and integrate into employment at the call center as temporary employees, with a status similar to that of the other employees of the center.

This act included the cooperation of a Rabbi, who instructed the Bank as regards preparing offices and special work environment suitable for the need of women from the Haredi society as well as providing transportation from and to their place of residence. A female employee was appointed as head of the team. At the present time, the team is composed of 13 employees. It should be noted, that during the years a number of female employees from among the team had been advanced to more senior positions within the framework of TeleBank.

Employment in peripheral areas

➤ As part of the encouragement of employment in peripheral areas, the Bank has established during 2016 in Nesher a Call Center. The operations of the TeleBank call center in Nesher, within the framework of which are employed persons belonging to different sectors of the population, Jews, Arab, Muslims, Druze and Christians, were significantly enlarged in 2017. The Nesher extension serves today as the central extension of TeleBank numbering 120 employees, of which 45% belong to the Arabic society. This employee population is progressing in the development routes of TeleBank creating diversity in the work teams and in the managerial echelon. The integration of cultures at the extension creates a colorful and special atmosphere, within the framework of which employees celebrate together the different Holidays, are being exposed to different cultures and tastes at get together events, personal celebrations such as: weddings, childbirth, and

unfortunately also in mourning events.

The unique contribution to employment in peripheral areas made by the TeleBank center stems from the fact that it involves the training of employees for up-to-date banking positions, while supplementing knowledge gaps, where required. This, in contrast to the prevalent approach in peripheral areas, of creating employment opportunities in the traditional industries. In the last quarter of 2017, the Bank started the outsourcing of a part of its telephonic banking activity where the scope of their operation in peripheral areas is among the considerations for choosing the companies participating in the project. In December 2017, a center in Dimona operated by Tikshuv has currently started operations.

Employment of retirees

➤ TeleBank employs retirees of the Bank wishing to return to work, finding in it an additional rationale to their daily routine. These retirees have integrated within the framework of the different centers and provide service to customers of the Bank. The Bank profits from the knowledge and experience which the retirees bring with them, while the retirees enjoy the young and varied work environment.

Multicultural environment

➤ As seen from the above description, TeleBank operates in a multi-sector environment, crossing age, community and religion. As a result, the Telebank Management applies measures creating acceptance perception within all sectors. This is expressed in unique training, adaptation of goals and assignments in accordance with strengths and abilities, designated ceremonies, noting the Holidays of all religions (Jewish, Christian, Muslim and Druze).

Employment of handicapped employees

➤ Employment of handicapped persons had been considered a central issue of importance in the Bank's activity in aid of the community in Israel, even before the Expansion Order regarding employment of handicapped persons entered into effect. As part of its policy in the matter of employee recruitment, and the shaping of the Bank's organizational culture as being tolerant and as one that accepts the other, the Bank promotes acceptance of handicapped employees and their integration in positions at the Bank in accordance with their capabilities and the Bank's needs.

In accordance with the provisions of the Expansion Order regarding employment of handicapped persons, and with a view of integrating handicapped persons in the workplace in a proper and responsible manner, employers are required to appoint an officer responsible for the employment of handicapped persons. In light of this guideline, the Bank appointed in January 2014, an officer responsible for the employment of handicapped persons.

In accordance with the collective labor agreement signed in November 2016 by the Bank and by the representative committee of the employees, 48 temporary handicapped employees, who had already been employed by the Bank for several years, were converted into the status of permanent employees of the Bank, thus promoting and securing their employment position, as is the case with all permanent employees.

During 2017, the Bank escorted these employees in order to secure their successful integration in the different units, and granting them proper and equal work terms as granted to all employees.

Furthermore, the Bank has joined, in 2017, entities engaged in the recruitment and appointment of employees with disabilities, such as "Call Yachol", the rehabilitation group of the Ministry of Defense and the "Esek Shaveh" initiative, which guide business sector organizations in promoting employment of person with disabilities.

Summarized employment data regarding the underrepresented populations

➤ The Bank's policy does not require Bank employees to provide details regarding their affiliation to particular population groups, such as those mentioned below. Accordingly, the data presented below constitutes an estimate based on the sources stated below.

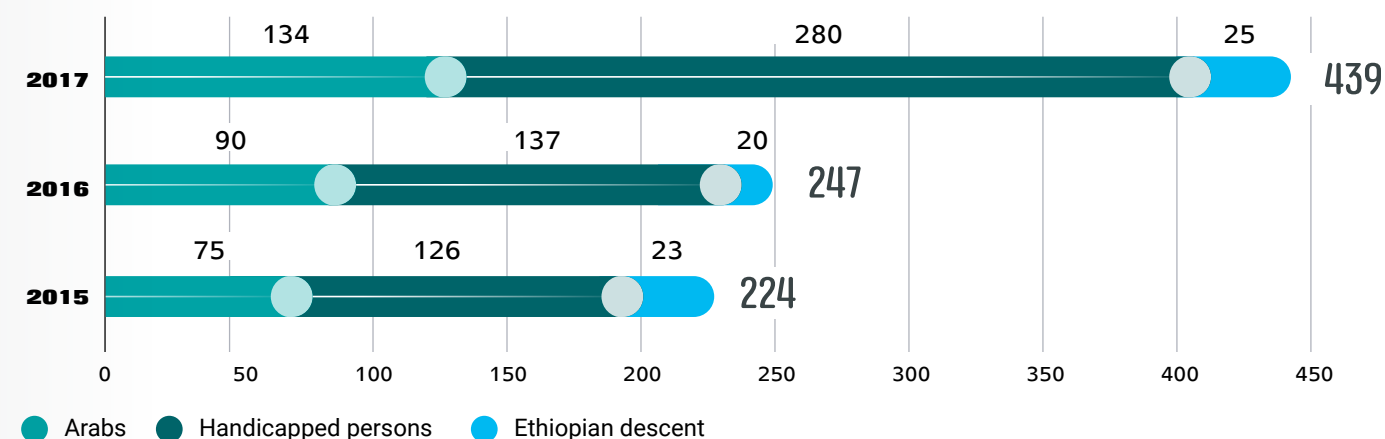
→ **Arabs** - employees are not required to state their nationality in their personal details submitted to the Bank, and therefore the Bank has no details regarding employees of Arab nationality. The estimate stated in the Table is based on the number of employees electing to take their vacations on Moslem, Christian and Druze holidays.

→ **Ultra-orthodox Jews ("Haredi")** - there is no clear definition of the term "Haredi". Many Bank employees maintain the Jewish tradition to one degree or another and a number of them would definitely define themselves as "Haredi". However, as stated, employees are not required to state whether they maintain the Jewish tradition or whether they are "Haredi", therefore the Bank and MDB have no data in this respect.

→ **Handicapped persons** - the estimate stated below is based on the following sources: employees engaged as part of a special effort to employ handicapped persons (in this exceptional case, the

➤ EMPLOYMENT OF UNDERREPRESENTED POPULATIONS

Discount Bank



Notes:

1. Handicapped persons - the data is not in accordance with the Expansion Order.
2. The estimate of persons with disabilities exclude staff employed on a part-time basis due to prolonged illnesses.
3. The data as of December 31, 2015 has been restated.
4. In 2017, an effort was made to improve the counting of employees in the various categories. It was not practicable to make the aforesaid improvement in the 2016 data, retroactively, and accordingly it should be emphasized that Discount Bank's data for 2017 is not comparable to the 2016 data, and it should not be concluded that the difference in the data reflects a net recruitment in 2017.
5. For details regarding employment of older adults (50+), see employee annexes in the "Epilogue" Chapter.

Bank keeps specific records of such employees). In addition, a review has been made of employees reporting withholding tax exemption due to having disabilities and reviewing the number of employees reporting the holding of a disabled certificate. The said estimate does not include absent employees due to lengthy illness and employees engaged on part-time basis due to lengthy illness. This evaluation does not comprise measurement in accordance with the Expansion Order.

→ **Ethiopian descent** - as stated, the Bank and its subsidiaries do not require employees to note their country of origin as part of the particulars submitted by them. The reported estimate is based on the number of employees who had elected to voluntarily state their country of origin.

Complaints regarding discrimination of employees

➤ The Bank's and MDB's Managements have placed emphasis on preventing discrimination, and this principle is applied upon engaging employees, advancing them and determining their wage terms. With respect to the issue of retirement on grounds of age, the Bank, MDB and ICC act in accordance with the law.

Discount Bank - None of the actions filed in 2017 with the Labor Court raised a claim of discrimination. In one action filed in 2013, against Discount Bank, a final and conclusive verdict was given in 2017 (following an appeal), rejecting the claim of discrimination due to handicap raised by the Plaintiff.

Mercantile Discount Bank - A legal proceeding opened in 2017, regarding

DIVERSITY AND EQUAL OPPORTUNITY AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

Engagement of employees from the Arabic society: MDB is one of the major employers in the Arabic society. Most of the managers and staff of the bank at 36 branches located in northern Israel and in other parts of the country (such as: Rahat, East Jerusalem, Haifa, Kafr Qasim and more) are of Arabic society. In addition, members of the Arabic society are employed in various positions at the bank's head office.

EMPLOYMENT OF UNDERREPRESENTED POPULATIONS MDB data for 2017

441

Arabic
population

12

Handicapped
persons

Employment of handicapped employees: MDB engages handicapped employees and is preparing for the implementation of regulations in this respect. For this purpose, the bank has appointed an officer responsible for the employment of handicapped persons.

The bank held meetings with several bodies engaged in recruitment and placement of handicapped employees. In addition, the bank has recently joined the "Esek Shaveh" initiative, which

assists organizations of the business sector in the promotion of employment of handicapped persons.

Employment of persons from the ultra-orthodox (Haredi) society: MDB has a number of branches in Haredi populated areas, and many of the male and female staff at these branches belongs to the Haredi sector. Female and male staff of the Haredi sector are also employed at the bank's head office.

ICC

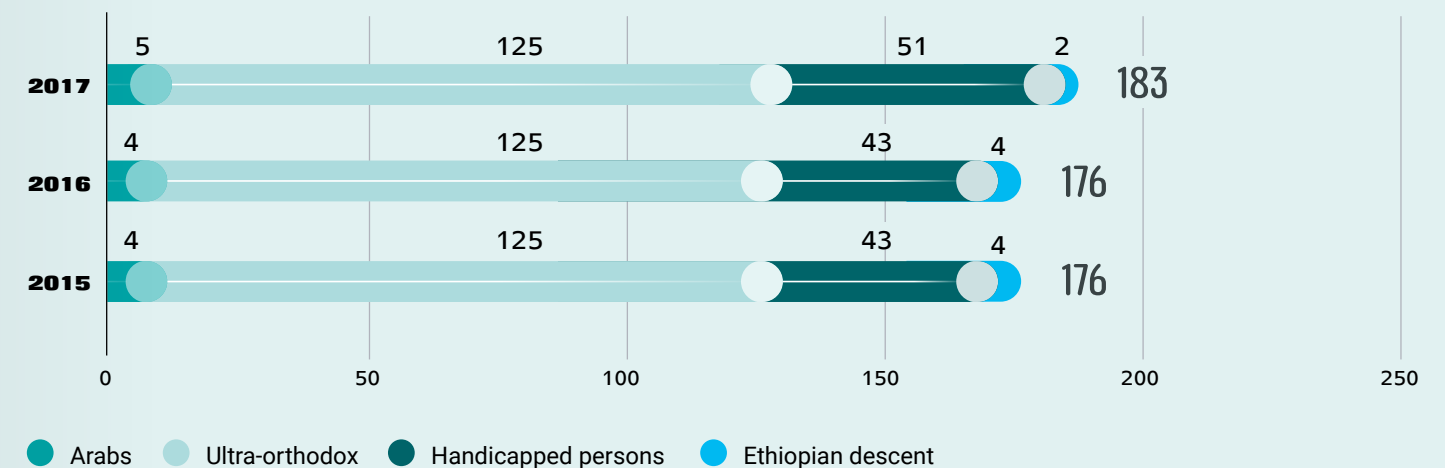
ICC view with importance the diversified employment of employees, including employment and social containment, while providing employment opportunities to sections of population that are under-represented in the employment market, a key for the self-realization of the people and for business success.

Engagement of employees from the different segments: In this framework, ICC operates a service and sales center in Upper-Modi'in, serving as an integral part of the service department, adapted to the needs of female employees of the ultra-orthodox (Haredi) society, residing in the area. At the same time, ICC maintains constant relations with associations that engaged in integrating different populations into the workplace, including "Kav Mashve" Association encouraging employment of academics from the Arabic society, and "Tech Career" Association engaged in integrating workers of Ethiopian origin in technological positions.

Engagement of employees from peripheral areas: ICC encourages employment in peripheral areas. In this framework, a sales and service center was opened in Ashdod, which serves as an employment hub for residents in the area, and helps in the development of the economy in the southern part of the country.

Its activity was expanded in 2017 to various areas, and at the end of 2017 the Center numbered 157

EMPLOYMENT OF UNDERREPRESENTED POPULATIONS ICC



Notes:

1. The data is not in accordance with the Expansion Order.
2. For details regarding employment of older adults (50+), see employee annexes in the "Epilogue" Chapter.
3. The estimated number of "Haredi" employees at ICC is based, mainly, on the number of persons employed at the service and sales center in Modi'in.

employees (132 employees at the end of 2016).

Employment of handicapped employees: As part of the preparations made in respect of the Extension Order for encouragement and increasing employment of handicapped persons, the officer in charge of human resources has been appointed in the company as officer responsible for the employment of handicapped persons and by means of recruitment and classification, training and apprenticeship processes adapted to their need and capabilities, ICC succeeded in integrating handicapped employees in a variety of positions in the different sections of the company.

IDB Bank

Equal employment opportunity - as discussed in IDB Bank's Code of Conduct, the Bank provides equal opportunities to all applicants and employees without regard to race, color, religion, sex, sexual orientation, national

origin, age, disability, genetic status, citizenship status, marital status, military or veteran status or any other legally protected category in accordance with applicable federal state and local law.

Anti-harassment/anti-discrimination/anti-retaliation policy - IDB Bank is committed to providing a professional and productive work environment free of discrimination, harassment and retaliation. The Bank will not tolerate discrimination or harassment, including sexual harassment, by any employee, vendor, customer, or visitor or retaliation for reporting or participating in an investigation regarding discrimination or harassment. This policy applies while on bank business, at Bank-sponsored events, or when interacting with Bank employees off-premises and/or not during normal Bank business hours. The Bank will take disciplinary action, up to and including termination, against anyone found in violation of this policy.

a claim received in 2016, in which a discrimination claim was raised regarding refusal to engage an employee on grounds of physical disability, was concluded in a compromise.

ICC - No actions claiming discrimination were filed against the company in 2017.

INVESTING MORE IN EMPLOYEES

→ HUMAN RESOURCES PLANNING AND DEVELOPMENT

➤ Development of human resources at the Bank derived from the strategic focuses from the focuses of the annual work plans and from the Bank's organizational culture. Thus reinforcing the Bank's ability to address successfully its business and organizational challenges. Accordingly, the development of the human resources in 2017, focused on the following issues:

Manager development

➤ During 2017, emphasis was placed on building, nurturing and strengthening the whole managerial echelon of the Bank, through the development of managerial leadership supporting the strategy:

Management reserve:

Selective training for the first managerial position, which includes behavioral training for the grasping of a grade adapted managerial roll. Some 32 candidates from eight divisions of the Bank qualified in 2017 for managerial positions;

Formation of a reserve for key positions: securing business continuity and

compliance with the requirements of Proper Conduct of Banking Business Directives by means of management and reduction of risk in key positions. A list of key personnel was formed and approved in 2017, and a start was made in delineating the actions required to mitigate the risks in relation to those identified as such.

Development of acting managers

➤ The Bank is aiming at the development of its managers by means of designated and enriching development programs, including:

Leadership program for senior managers -

A leadership program was introduced in 2017, for increasing senior managers' capabilities and cross-system impact. Fifteen managers of the grade reporting to Management participate in the program;

"An executive training room" -

Practical-applicative training, subject focused, for the strengthening of the different managerial capabilities and qualifications of managers at the Bank. Some 195 managers participated in 2017 in the "executive training room";

"The drive of management" -

assimilation of a management approach that enhances employee effectiveness through creating a connection and enabling conditions. In 2017, a pilot was conducted at 4 wings, in the framework of which a picture of the factors influencing connection and enabling conditions at the wing was drawn up, and work was performed with the wing's manager and the management team to construct and implement an improvement plan;

Development of organic teams -

Development of five organic teams in a number of units was conducted in 2017;

Development program for team leaders - Training of 31 team leaders was conducted in 2017;

Managers' website - Strengthening management professionalism by means of current publishing of articles/tools/TED video clips in the matter of management.

Personal programs

➤ The personal development programs are conducted in a number of ways:

Assisting and advising managers

entering a new position and/or advising and on the job managerial training. During 2017, some 37 managers were assisted.

Conducting development processes at organic level -

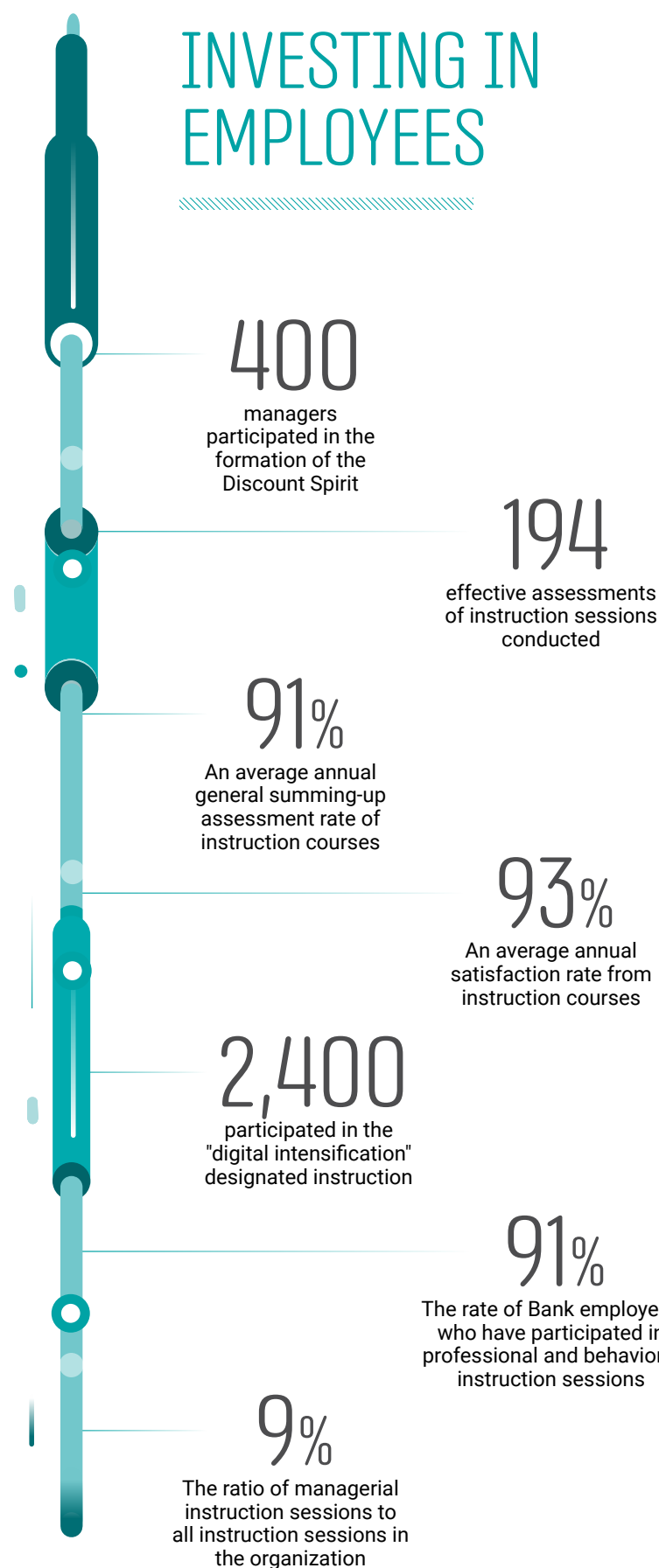
providing assistance for managers and units, in view of changes made to units, conducting organizational diagnosis processes and providing consultation support accordingly. In 2017, assistance was provided to seven branches undergoing merger as well as conducting an organizational diagnosis regarding an additional branch.

Professional training

➤ As in each year, professional training for the post intended for new employees was conducted also in 2017. Also provided was instructional response to needs noted at different populations, with the aim of improving and preserving their professionalism.

During this year, a comprehensive response was provided for professional needs by means of training that dealt with the qualification of employees for core banking positions, as well as ongoing on-the-job training. The main guidance focal points were: enhancing

INVESTING IN EMPLOYEES



the professionalism of officeholders in the credit field, financial consulting, massive training in direct banking and in basic banking - training for bank tellers and service teams. In addition, extensive digitalization instruction took place during 2017, with the aim of assimilating know-how and tools for raising awareness at the branches and at Telebank regarding the use of digitalization.

Interwoven

Within the framework of the strategic project "Interwoven" acting for intensifying the means of communication with Bank customers and the integration of the "connected +" system (CRM system) at the branches, the Bank formed during 2017, the integration and management of change concept in the "interwoven" project for the relevant populations at the Banking Division. In this framework a designated plan has been formed, which included the writing of a communication plan and messages for this move, tools have been provided to the managerial teams at the branches for the management of the change by means of workshops and On-the-job training (OJT) and training has been provided to the staff of the branches with the aim of technological acquaintance with the CRM system and exercising of the new work processes. Furthermore, each branch joining this move has been accompanied by OJT integration experts. All this covered by an extensive intra-organizational communication. This move is to be continued also during 2018.

Digital intensification

An innovative study move connecting an experiential and effective study with integration and business results among customers. The aim of this move is to provide employees with tools for locating information, an extensive knowledge of the

Bank's application and understanding of the added value to the customer provided by use of this service. The move included three stages: instruction, by means of a game - riddles and assignments, the solution of which is delivered by a designated application. The integration stage - by means of producing work accessories assisting the Bank staff in presenting to customers the added value and benefit produced by use of the online services. The measurement stage - examination of the effect of the instructional move on customer service surveys and on actual business results.

University for investment consultants

Under the heading "we choose to invest", the Bank is conducting a current enrichment program for investment consultants at the Bank, in the format of the Open University. Each consultant participates in courses of his choice, as part of the regularly updated enrichment syllabus in capital market issues, exposure is provided to expert lecturers and capital market trends and professional development tools are also made available.

Credit instruction strategy

The Bank activates a study program for the development and preservation of professional qualifications regarding credit, aimed at holders of different positions including managers, and which provides modern and relevant tools for the duty. The scope of the studies, learning methods and its content are defined as needed, and include event analyses, simulations, expert lectures, e-learning modules, and so forth.

Furthermore, in 2017, accessibility workshops continued for new employees who joined the Bank during the course of the year. Some 27 workshops were held at which a total of 344 employees and managers from all units of the Bank

received training. At these experiential workshops, employees providing service to customers experience the perspective of a customer with disabilities.

The scope of professional and managerial training

Data regarding the average annual training hours per employee for the years 2016-2017:

The increase in 2017 in the average number of instruction hours for managers stems

mostly from activity for the formation of the Discount Vision and Values

Nurturing excellence and providing feedback

In accordance with the Bank's strategy, which encourages performance culture and Cultivating excellence, several remuneration mechanisms have been determined at the Bank intended to appreciate and

Continue on page 120 →

THE SCOPE OF PROTESSIONAL AND MANAGERIAL TRAINING

	2017	2016	2015	2014
Frontal training days	29,536	26,335	26,130	26,029
Interactions of self-study ¹	37,016	39,914	37,200	27,080

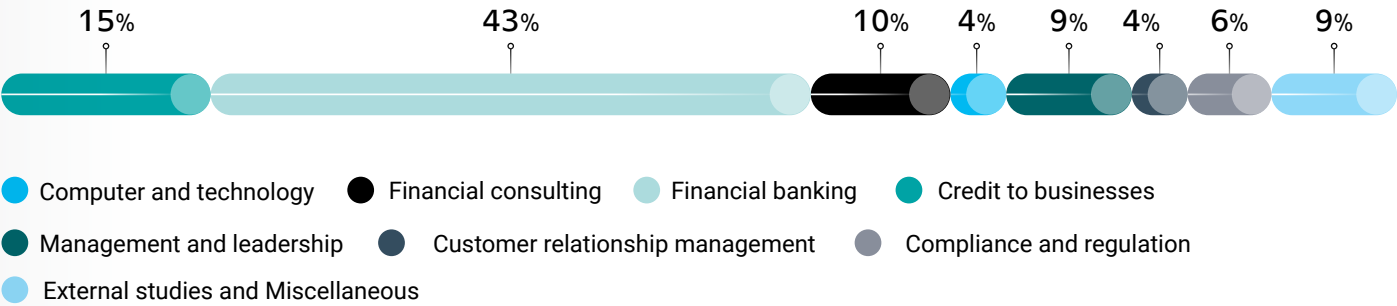
Note:
A significant part of the Interactions of self-study was dedicated to the regulation in different areas.

AVERAGE ANNUAL TRAINING HOURS PER EMPLOYEE

	2017	2016	2015	2014
Average training hours - clerk	40	35	35	32
Average training hours - manager	35	28	31	25
Average training hours - total	39	34	34	31

Notes:
1 The data is based upon the number of employees at end of year.

TRAINING DAYS AT DISCOUNT BANK



HUMAN RESOURCES PLANNING AND DEVELOPMENT IN PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ Management of MDB attaches importance to the development of the human capital in the spirit of the bank's values in accordance with the bank's strategy, and with the aim of continuing the growth and prosperity of the Bank. During 2017, the Bank promoted management and leadership training:

Management and leadership

Development of acting managers - During 2017, the training of 45 department managers at branches was completed, who had been appointed to their position as part of MDB's aspiration, participated in the course providing training for a first managerial position.

Personal development

Newly appointed managers are accompanied by a tutor manager as well as assisted by an organizational advisor. In 2017, some 4 new managers and 2 unit teams were assisted during a merger process.

Professional training

The learning supports the implementation of the bank's business strategy and comprise a necessary layer in the training of an employee for the correct performance of his duties and for improving his performance. Professional development and training in accordance with the procedures and policy, while maintaining an up-to-date knowledge and strict internal control, risk management and compliance, which are essential for the promotion of a uniform

standard of professional level in aid of providing full service to customers. During 2017, gaps in required knowledge were closed in the branches array, with the aim of creating a service that meets a unified professional standard, by means of training sessions, assistance and digital learning.

28

the average study hours per employee at MDB

Integration of the compliance culture

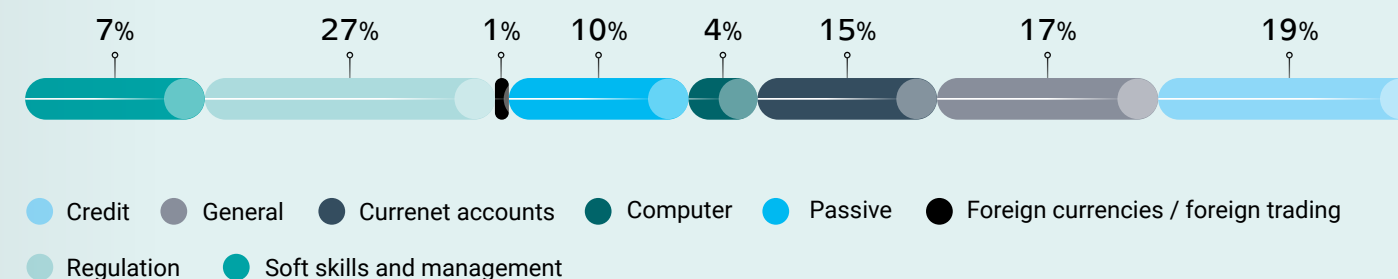
As part of the support of this process, a variety of frontal and digital learning activities have been conducted, and self-study layouts at the branches have been developed. Fifteen study sessions were held for branch managers, compliance trustees and bankers. In addition, a risk management learning course was held for some thirty participants, who are considered key factors in the field.

Approx. 70,400 organizational study hours were conducted in 2017, of which 15% being non-computer communication training²⁰.

- ➔ 99% of all employees participated in study sessions.
- ➔ 85% of employees participated in non-computer communication training on the various sites of the bank.
- ➔ 44% of the non-computer communication training activities were conducted at the branches and at the Regional Managements (excluding tutorial training).
- ➔ The number of frontal instruction hours amounted to 30,800. In addition, 13,266 interactions were made in self digital study.

²⁰ Does not include "on-the-job" (OTJ) training.

➤ TRAINING DAYS AT MDB



The average study hours per employee during 2017 amounted to 28.

ICC

➤ Management of ICC views the human capital as a strategic partner in achieving the goals of the organization, and therefore invests in the cultivation and development of workers and managers, in their personal and professional progress and in their attachment to the core business goals. ICC invests many resources in the financing and development of professional study courses, seminars and workshops for increasing professionalism of employees and maintaining their competence as a generator for organizational growth. Within this framework, ICC runs a managers' development program "Leading together", which provides tools and skills to managers helping them to lead their units to success.

The program deals with different subjects, such as: perception of duties and management routine, motivation of workers, personal and organizational development, management in an uncertainty environment, avoidance of wear and tear among employees and managers, etc. During 2017, 64 managers participated in the program (43 managers in 2016) and 7 departmental managers participated in a development program designed for departmental managers "synergy program".

Management of ICC believes in the development of the executive echelon and conducts a structured process of identification, locating and development

of managers with the aim of cultivating a strong, qualitative and leading executive echelon. Some 70% of the managers of ICC have grown within the company into managerial positions. Several programs are in operation in order to develop the executive echelon:

- ➔ ICC leads a development program for managers entering office as well as for managers already in office. The development programs deal with contents matters of ICC and are connected to the business focuses of the company. The programs are modified to the special administrative needs of each level;
- ➔ Managers meeting (expanded management forum) - once in every quarter meeting are held for the updating, formation and strengthening of the executive echelon;
- ➔ Executive training room - The program includes enrichment learning meeting regarding a variety of subjects, the aim of which is to continue and develop and cultivate managers and provide them with management tools and skills;
- ➔ Inspiration creating communication for managers - designated communication delivered on a monthly basis, dealing with the different world of management and include articles/lectures/ TED videos and more;

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> DATA REGARDING EMPLOYEE AND MANAGER TRAINING INPUTS AT ICC:

Type of training	Population	2017 (hours)	2016 (hours)
Entering the position	Managers	28	28
	Employees	8	8
	Representatives ¹	232	232
On the job training	Employees and managers	16.50	16.51

Note:
1 A "representative" is defined as one who provides telephonic service to customers (service representatives, service and sale representatives, trading house service representatives, etc.). Representatives receive intensive training for about one month, upon entering this position.

→ Development of managers entering office - Managers' training course: a course designed for managers entering their first managerial office in the organization. The training focuses on providing knowhow, perceptions and skills in different areas: perception of the role of a manager, impacting and creating performance, creating motivation, interface management, etc. During 2017, 26 managers participated in the course (in 2016 - 18 managers);

Personal development

Personal attention is provided by the organization to managers entering managerial positions, as well as in case of organizational changes, as part of the change management process.

Assistance - ICC operates an assistance and support program for managers upon entry into a first managerial position, which includes personal attention, an absorption kit and an orientation workshop that reviews all knowhow and professional factors supporting the appointee in his duties as managers. In addition, ICC operates assistance for managers as support for organizational changes - following the conduct of a diagnostic process, a designated development and training program is devised.

CAL College

An organizational training program for the

development and enrichment of the employee, allowing each employee to register and participate in a variety of professional courses and training programs suitable to his position and his personal and professional needs. The courses and training programs are advertised on the company's Internet portal and include: technological courses and training programs, proficiency workshops and meetings in matters of process management, knowhow in the credit field. Existing alongside this program is a training program regarding the organization as a whole, covering cross-organization matters, including business projects, regulation and employee duties. In view of the fact that the company focuses on credit, many training programs have been conducted in this matter: strengthening of knowhow and skills regarding the sale of credit within the general representative population.

IDB Bank

> All professional level employees are sponsored by the bank to complete their continuing education credits to uphold their professional licenses. In addition, there is online training that is required for Regulatory purposes and as best practice in the financial industry. Lastly, IDB Bank is releasing an online training system for professional development names Udemy, which will allow for training courses on fields of interest to occur as part of an employee personal development.

→ Continued from page 116

compensate outstanding employees, who had attained their business goals and awarded high appreciation marks by the annual performance evaluation measures. In this framework, the Bank conducts different competitions, at the branch and regional levels, and Vice Presidents award remuneration to outstanding employees at the different divisions, as well as special remuneration awarded annually by the President & CEO to a number of outstanding employees, at a festive ceremony held at the Bank. All this in addition to integration and employee motivation processes conducted on a current basis. In addition, in 2017, outstanding managers were selected to go on professional training at IDB Bank.

99% of employees received feedback regarding the performance in 2017

An emphasis on the determination of personal performance goals for all employees was placed in 2017, these being derived from the work plan of the Bank and its strategic focuses. In forming their evaluation, the evaluating managers have been guided to make a distinction between the strengths of the employee being evaluated and the subjects that have to be improved, in order to encourage personal and professional development.

Towards the performance of the evaluation process, the Bank has conducted training sessions regarding the process designed for new evaluation managers as well as refreshing knowledge sessions for

senior evaluation managers.

Feedback interviews - The feedback conversations comprise an annual process forming a most important management tool in guiding and motivating employees. The feedback interview is intended to survey an employee's performance and functioning during the past year, to retain and reinforce the strengths and achievements, to identify what needs improvement and to set goals for the upcoming year. At the same time, the feedback conversation is an opportunity for open dialogue with the employee.

The process during 2017 emphasized the integration of the Discount Spirit values. The requirement for the setting up of goals and the linking of goals from the level of senior Management to the employee level has been communicated and integrated in the process.

Following the conclusion of discussions, a process of drawing conclusions is made once a year, leading to steps for the improvement and updating of the process.

In the first quarter of 2018 the performance appraisal process was conducted in respect of performance in the year 2017. In the process, emphasis was placed on assimilating the "Discount Spirit" values. An evaluation was made in respect of 99% of employees.

Within the framework of the preparations for the process training sessions were held for approx. 30 assessing managers, who have not yet undergone this training.

→ ORGANIZATIONAL CULTURE AND DIALOGUE WITH EMPLOYEES

➤ In 2017, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service. The Bank acts to promote dialogue and openness with its employees.

Facebank

An organizational portal, in the format of news sites on the Internet. This allows updating on news and current updates at the Bank, and invites an open dialogue with senior Management on subjects that are the center of discussion in the organization. Since its establishment, the Facebank provided, among other things, a current updates of the employees regarding the new strategic plan, cross-organizational projects operated within the framework of which, and news regarding the marketing and services field. Facebank includes, among others, a designated site "Human resources for you", intended for the benefit of the individual employee. The site includes detailed information regarding employee rights, training and development programs, social responsibility, and more.

A portal managed by the Bank's Spokesperson, a fact that allows full synchronization between the external information layout and the intra-organizational information system.

The new FaceBank portal was introduced in the third quarter of 2017, and it enables advanced user experience to the employees and increases their involvement in leading change processes.

Organizational internal communication

The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment, with a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2017, including 'Senior Forum' - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

The marketing communications department works together with the Bank spokesperson in all matters relating to the organization's visual communications (signage in central assembly areas, screens, and posters), to reinforce the messages, with emphasis on the Bank's vision and its values.

10,000

entries by 1,200 managers at the Bank to "The Managers" website.

"The Managers" website

An internal website, which contains tools and content for managers for the integration of cross-organizational processes stemming from the Bank's strategic plan, as well as enrichment and development content. Approx. 10,000 entries by 1,200 managers at the Bank were recorded on the website during 2017.

NURTURING EXCELLENCE AND PROVIDING FEEDBACK IN PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ The annual feedback discussions serve as a platform for the evaluation of employees, their performance and commensurate remuneration with the aim of encouraging a culture of transparency and dialogue that fortifies the obligation of the employees towards the organization focused on results, and comprises a tool for the identification and nurturing of excellence.

In 2017 an evaluation was made in respect of 100% of employees. Feedback discussions were made in respect of 98% of the employees. As help for managers, a short video clip guide in preparation for the feedback conversations was produced. As in every year, a conclusion drawing session was held in order to improve the process.

ICC.

➤ ICC views excellence with importance and encourages its employees in this respect:

→ Ongoing performance measurement;

→ An annual and semi-annual employee evaluation process, which sets professional and personal development targets as well as measurement of performance in the past year (evaluation in respect of the previous year is performed at the beginning of each year. Mid-year discussions are held in the months of July/August);

→ The granting of an annual award based on the

annual employee evaluation;

→ The "Proactive" excellence program - esteem for outstanding workers of the different departments, and an annual esteem program for selected outstanding workers of the company, which includes a gift, public esteem and a luxury trip abroad for the "Proactive" team.

During 2017 two processes of evaluation and feedback were held as in each year. The annual evaluation and feedback process - this process is conducted at the beginning of the year and includes a forward looking evaluation and feedback focusing on both personal and organizational growth. The process assists in focusing the personal capabilities of each employee in a manner that would contribute to personal growth and for the realization of the company's strategy "Cal much more - entrepreneurship, innovation, leadership in responsibility".

Evaluation of employees was made in 2017 using a form reflecting the skills required from employees and managers for achievement of the strategy and business goals. Moreover, and as part of the support provided to managers, workshops were held providing tools for coping with the complexity of the process, and direction of employees towards the reinforcement of the capabilities required for the realization of the strategy. Semi-annual feedback conversation - this was held in July and intended to provide feedback regarding the progress made since the beginning of the year and give direction as to the continuation of growth and achievement of personal goals.

The annual evaluation and feedback process for 2017 included conversations and provided a summing-up evaluation for 100% of the company's employees taking part in the process (all employees participate in the process, excluding new employees).

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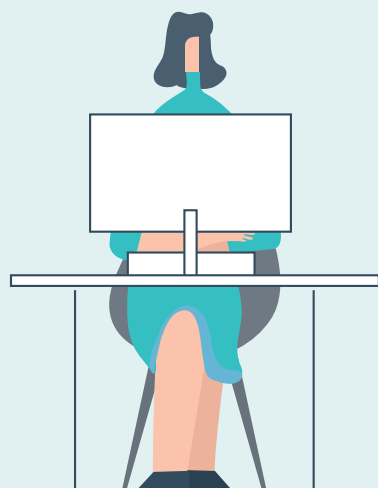
IDB Bank

➤ **Performance Evaluations** – Generally, annual performance of employees is evaluated by their department supervisor or manager at the end of each year. This evaluation incorporates factors, including, but not limited to, the quality and quantity of their work, attendance and punctuality, their cooperation with the members of the department, and their ability to achieve compliance with Bank rules, regulations, policies and procedures. The evaluation is discussed with the employee and any areas requiring improvement are brought to his attention.

The manager conducts a mid-year performance evaluation. The evaluation should include, but is not limited to, what's working well, what could be working better and how the employees are performing against their objectives.

All new employees are initially subject to a 90-day probation in order to evaluate their performance, during the probationary period.

Incentive Compensation Plans – IDB Bank implements Incentive Compensation Plans to reward employees for their performance. There are specific plans designed for each Line of Business as well as the administrative functions.

**Communication with the Senior Forum**

The Bank operates a designated channel for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis. In addition, special-purpose activities have taken place in order to strengthen joint voluntary activity for the benefit of the community.

In order to be attentive to the needs and challenges arising at the Bank, feedback processes and group discussions are held in the format of "Round tables" - "face to face" meetings of the President & CEO or of one of the management members with managers and employees, as well as monthly "Management in the field" trips, members of Management visit branches and field units accompanied by senior managers from their head office.

96%

of employees participating in the surveys have expressed high satisfaction from the service of the "Human resources for you" Center

The "Human resources for you" Center

Within the framework of a move for the upgrading of the service provided to Bank employees by the Human Resources and Properties Division, the

"Human resources for you" center was launched in order to serve as one clear address for all Bank employees with respect to any approach in the matter of human resources, and to provide a uniform and professional response to all approaches. The establishment of the Center allows also control over the response time to employee approaches. Approaches to the Center may be made through different routes: telephone, email or service envelopes, throughout the day.

During 2017 some 10,590 approaches were received, of which 1,850 approaches by telephone and 8,750 approaches by email. Approx. 79% of the approaches were with regard to attendance and payroll. Service surveys conducted by the Bank show that 96% of employees participating in the surveys have expressed high satisfaction from the service.

Position Survey

➤ In recent years, within the framework of the participation of the Bank in the BDI survey - "100 best places of employment", a survey is being conducted with participating Bank employee relating to their position on issues relevant to the Bank. The results of the survey are analyzed according to various sections based on divisions of office/field, age, gender and seniority. Multi-annual trends in the organization are also analyzed as well as trends in comparison to the benchmark of the financial system, in order to identify differences and concentrate efforts to reduce them, respectively.

The survey relating to the year 2017, was conducted in December 2017

ORGANIZATIONAL CULTURE AND DIALOGUE WITH EMPLOYEES IN THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

➤ MDB has an employee Intranet portal, which includes extensive information serving and enriching its employees. The bank is upgrading the intra-organizational communication in order to maintain an open and two-way communication with the employees, while strengthening their commitment and linkage to the strategy and the goals of the bank, as well as to the community and the environment.

In order to sense the mood, challenges and questions of employees, meetings at various levels, group discussions and round-table feedback processes, Management in the field trips and visits to branches are conducted, similarly to Discount Bank.

A new branch methodology was introduced at MDB in recent years, based on the desire to improve the business and marketing capabilities and upgrade the level of service at the branches, while adapting the workforce and bridging knowledge gaps.

ICC

➤ ICC invests in ongoing and open communication with its workers and managers, in increasing the sense of relationship between the workers and the organization, their acquaintance with the company's activities and strategy and the

Continue on next page →

→ Continued from previous page

strengthening of the bond between them, as part of the advancement of targets and the company's business growth. Communication includes a variety of means, including:

- Organization wide visual communication (on computer screens, screen savers and posters);
- The quarterly extended management forum;
- Campaign for the encouragement of excellence, the climax of which is the exposure of the "Proactive" team, which includes the chosen outstanding employees from all sections of the company, who gain wide exposure, appreciation from the CEO of the company and members of Management, as part of a toast to welcome the Holiday and more;
- Round table meetings of the different grades with the CEO;
- Campaign for the encouragement of internal mobility of employees and progress to an additional position in the organization.

The organizational Internet portal of ICC allows every employee to find all the information regarding the terms of employment, the collective labor agreement, employee benefits and welfare, rules of conduct, current updates, possibility of direct approach to the CEO, and more. The portal includes, inter alia, professional knowhow with respect to the company and its products, the Cal College program for professional enrichment and training, managers portal, open positions and the process of the online submission of candidacy, the employee representative committee website and hundreds of professional information sites.

A new strategy for ICC was adopted in 2017. In participation with senior executives, a plan was formed, that would support and assist in the implementation and integration of the strategy.

The plan includes the branding of the process, organizational dialogue, fortifying and provision of tools to departmental managers leading the implementation of the strategy, integration among managers, training and qualification of employees and managers, in order to fortify the knowledge and conduct required for the success of the strategy.

Integration of organizational ethics - ICC views with great importance the maintenance of organizational ethics. The code of ethics of ICC comprises a valued identity of the organization, according to which the employees are required to conduct themselves with responsibility and integrity and maintain proper rules of conduct, which serve as a basis for the current operations and the business success of the company.

ICC sees in its employees emissaries who have a direct influence on the position of the company as a company that considers integrity and fairness towards its employees, the customers and the community a guiding principle, and accordingly had defined a code of ethics that describes the way in which employees and managers of the company should deal with ethically sensitive situations, which they may confront in their daily work.

Meetings on the subject of "Ethics, decency and fairness" were held in 2017 at the managements of all wings at the Bank, with a view of deepening integration which started at 2016 and climbing an additional step in awareness and implementation of the subject.



and covered approx. 20% of all Bank employees.

The findings of the surveys and the perceptions arising there from are presented to the Human Resources and Properties Division and to the Bank's Management. The insights being formed following these findings, are used by the Division in forming the highlights of the work plans.

ICC.

In recent years ICC participates in the BDI survey "100 Best Companies to Work for". The results of the survey were analyzed according to different sections and an analysis was made of multi-annual trends within the organization and trends as compared with the benchmark of the financial sector in order to identify gaps and concentrate efforts for reducing them, respectively. No such survey was conducted in 2017. Approximately 37% of company employee participated in the survey conducted in 2016, resulting in ICC rising to the 26th place in the rating.

Every two to three years, ICC conducts an organizational employee survey. The most recent of these was conducted in 2016 with 93% of the employees participating therein.

The survey results are presented to the company's Management as well as to all manager, and are serving as a basis for preparing a comprehensive plan is devised for the gaps, both at organization and unit levels. The position survey serves as a supporting tool for managers of the different units in order to introduce improvements both at the personal management level and at the cross-unit matters level.

→ PROMOTING THE EMPLOYEES' WELFARE

Welfare services operated in the Bank

➤ Ever since its establishment, Discount Bank has been known as an organization having special sensitivity to the needs and welfare of its employees. Already 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 at the Bank serve as a connecting and supplementary link in addition to the community services. The very foundation of the Bank's supportive welfare area is to take a position that positions the Bank as one who sees itself as a partner to the difficulties of employees and wants to assist them as much as possible in dealing with them.

Treatment and prevention in two circles are integrated into the supportive welfare field, as follows: assisting the individual - the worker and his family and the development of welfare programs and to groups of employees having a joint interest.

Assisting the individual

➤ The Bank aspire to assist the individual in coping better with his/her problems and needs, so that he/she will be able to function properly both at home and at work, in good times and in bad. In this framework, the Bank offers a number of support channels:

- Advice and treatment in various contexts, personal, familial (children, spouses, parents), health, economic etc.
- Providing information on and referrals to services in the Bank and the community in order to make the most of rights and/or treatment, while forging ties with those officials, as needed;

- The writing of social reports, as a recommendation for the Bank's internal assistance funds;
- Advising the officers in charge in facing difficult situations and special events.

The referral to welfare services is generally done by the employee himself, or by referring parties, such as supervisor, Human resources manager in the unit, peers at work, etc. In 2017, the Welfare Department dealt with 821 inquiries.

Death of a family relative- The Bank attends to its employees in sensitive events in their lives, such as the death of a first degree family member, sending funeral wreath to the funeral, providing condolence set to the bereaved family and inserting an obituary notice on the Bank's internal website.

Managers' involvement in treatment process - The Bank and ICC encourage the involvement of the immediate superior in assisting an employee in crisis. The concept on which this approach is based is the providing of basic tools for involving the manager with crisis events in an employee's life, as part of the concept of proper management, with the professional support and guidance of the Welfare workers as an example, the accessibility on a monthly basis, to data regarding absence of employees from work due to medical reasons, as means of monitoring and promoting direct connection with the employee.

Treatment of group pressure situations - Involvement in a pressure situation, such as war, terror events, robbery or attempted robbery in the branch, sudden death of an employee, natural disaster, etc., is accompanied at times by group treatment, which provides 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. This intervention includes 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, coordination and cooperation of parties in the Bank and the community. In 2017, 17 events of group pressure situations were treated.

Welfare and leisure programs

→ As part of the aspiration for the cultivation of the human resources in the organization and the maintenance of the familial work environment characterizing the Bank, the Bank invests in the welfare of its employees, accompanies them at the significant crossroads in their life, notes personal events and looks after their welfare also outside working hours. In this framework, the Bank gives presents to employees on Holidays, birthday presents, wedding present, present on the birth of an offspring, noting 25 years of service with a prestigious present, a festive event in collaboration with the representative committee of the employees for children of employees starting school together with a present (school bag and contents), Bar/Bat Mitzva present and more. In addition, diverse activities for enrichment, leisure and bonding are offered to employees and their families.

Workshops and seminars - The Bank offers its employees different after work activities, workshops and lectures on various subject adapted to all Bank employees and their families, at a number of locations around the country. In 2017, there were 5,887 participants in these activities, compared with 5,824 participants in 2016 (the data does not include pre-retirement workshops (and participation in trips).

WELFARE ACTIVITY AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

→ Over its years of operation, MDB has been noted as a familial and warm place of work, inter alia, due to the support and sympathy granted to employees in sensitive and significant events in their lives. In addition to the wage terms and agreements, which include different related social benefits, the bank shows appreciation and grants remuneration to excelling employees. The annual promotion of employees includes a differential component that appreciates excellence and encourages it.

As regards the individual and the family, the bank invests in annual vacation, finances summers schools during vacations, finances higher education for employees and their children, notes personal events of the individual employee, such as birthdays and birth of children, organizes events and gifts at public holidays, grants beneficial commissions and interest rates on employee accounts and credit cards, and conducts enrichment and integration activities for the different bank units. Bank employees enjoy the service of a cafeteria and of subsidized meals.

The Employee Committee holds a family day every year in the amusement park, noting the children of the workers who are starting first grade and gives them gifts.

Treatment of group pressure situations

At exceptional events, such as outbreak of war, widespread fire, etc. - the bank assists and supports employees located in vulnerable areas by providing psychological support, hotel accommodation where required, and

accommodation at other employees of the bank.

ICC

→ All through the years, ICC maintains a familial and warm work environment, inter alia, due to the support and attention given to employees in significant and sensitive events in their lives. Beyond the wage terms, the company grants awards during the year, to excelling employees as well as an incentive program for employees gaining company excellence. In addition, the company provides diverse benefits and services designed for the welfare of employees and their families.

As regards the individual and his family, the ICC invests in annual vacations, in financing summer schools, in noting personal events of the individual employee, an event for employee children starting first grade, gifts for children of employees enlisting the IDF, gifts and gatherings on public holidays, rebates in credit card commissions and interest, enrichment activities for the different units and financial assistance in case of need.

Furthermore, employees enjoy subsidized dining services, cafeteria, and sale bazaars at reduced prices are held once a period. ICC also offers its employees a variety of enrichment activities and lectures on different topics.

Furthermore, in a similar fashion to Discount Bank, ICC accompanies its employees at sensitive moments in their lives and provides assistance on the death of a first-degree relative; it encourages managers to be involved in the treatment processes and in assisting an employee in distress.

IDB Bank

→ The Bank provides a robust Program for employee benefits, this includes health, dental, vision, life insurance options, as well as an Employee Assistance Program and various Disability program all as governed by ERISA and Federal, State and local laws.

Promoting health

➤ This area is the responsibility of the officer in charge of safety at the Bank, which includes environmental and employment monitoring tests as required by Regulations, including the performance of a preliminary survey. Performance control for employment medical examination is conducted in accordance with the duties prescribed by legislation relevant to employees according to the risks involved in their work, in coordination with the Bank's medical officer, heads of the relevant units and Human Resources. Complaints by employees regarding suspicion of electromagnetic radiation generated by the electrical network or regarding the air quality in their workplace etc., are submitted to the safety officer for examination using qualified outside experts, and are being treated by the Bank's relevant performance functions (construction and maintenance department, Human Resources, etc.). In addition, the Safety Officer initiates tests regarding electric network radiation and air quality issues arising from risk factors discovered by safety surveys performed at units of the Bank. 27 radiation and air quality tests were performed in 2017, compared with 16 tests performed at the Bank's units in 2016. Furthermore, the Bank diligently conducts periodic tests to check for the existence of radon gas, should the need for such testing arise.

27 radiation and air quality tests were performed in 2017 at the Bank's units

Medical tests - In 2017, 148 employees received blood insurance by donating blood, compared with 225 employees in 2016. 188 employees, retirees, and their spouses had medical survey tests performed in 2017, compared with 131 tests in 2016. In 2017, some 220 tests were performed on the Bank's athletes, compared with 184 in 2016.

The Employee Committee offers to all the Bank's employees and family members participation in medical and dental insurance arrangements under improved terms.

Sport activities - the Bank has 22 sports teams registered with the Workplace League representing the Bank in different sport competitions.

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.

Safety in the workplace

➤ 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 has an officer in charge of safety, who coordinates matters of safety and occupational health at the Bank. In each year, the Bank distributes a safety learning to all its employees, which includes information regarding safety hazards at the Bank branches and offices, and which, inter alia, encourages employees to identify

hazardous matters in their work environment and report them to the relevant factors.

A plan exists at the Bank for safety tests for the identification of hazards and in order to provide a safe work environment and to ensure the safety of customers and those visiting the Bank's facilities. Employee populations with unique features were identified, such as: storekeepers, maintenance personnel and so forth, and these received instructions regarding the unique risks relating to their duties.

Within the framework of maintaining employee safety in the workplace, the Bank has established a safety trustee layout at branches and locations of the Bank conducting the ongoing safety testing at their units has been completed. 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. Should any events relating to safety occur, these are examined and investigated so as to establish a continual process of improvement with regard to this topic.

Safety events are investigated and checked, including drawing conclusions. The Bank does not have a safety committee. Nevertheless, the manager of the properties and construction group conducts periodic discussions on safety issues.



PROMOTING HEALTH AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ MDB employees enjoy a social safety net which include a variety of insurances, including: life assurance for employees and spouse, health insurance, surgery insurance, personal accident insurance, dental care for employees and family members and loss of work ability insurance for employees.

The employee enjoy benefits and good management fees in the insurance and pension savings tracks.

MDB encourages sport activities in different fields. The bank has 11 sport teams of employees from all over the country, which are registered with the work places league. These teams represent the bank in the "Sportyada" sport games: Basketball, mini-football, tennis, table tennis, catchball, volleyball and chess.

MDB performs tests for the existence of radon gas, as required.

ICC

➤ The handling safety and hygiene in ICC is similar to that performed at Discount Bank. Two radiation and air quality tests were conducted in 2017 at all the company's premises, a number of tests identical to that of 2016. In addition, at least once a year, a survey of work conditions as well as surveys of radiation are performed.

ICC employees enjoy significant health benefits, which include periodic medical examinations,

Continue on next page →

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medical insurance, and psychological attention. Entitled to medical tests are all employees of age 35 and over with at least one year of service with the company. The company organizes twice a year blood donation by employees, and once a year offers employees flu vaccination.

In addition, ICC operates a workout gym and classes and invests in encouraging a rich sport activity in many spheres. ICC has four teams competing in the Workplaces League: target shooting, basketball, soccer and women's netball. The teams number fifty employees and managers.

SAFETY IN THE WORKPLACE AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

→ MDB has appointed a work safety officer as required under the Organization of Labor Inspection Act, 1954. During 2017, a safety policy was published and safety checks were conducted internally.

As part of his duties the safety officer performs examinations at the branches and provides guidance concerning deficiencies requiring rectification.

ICC

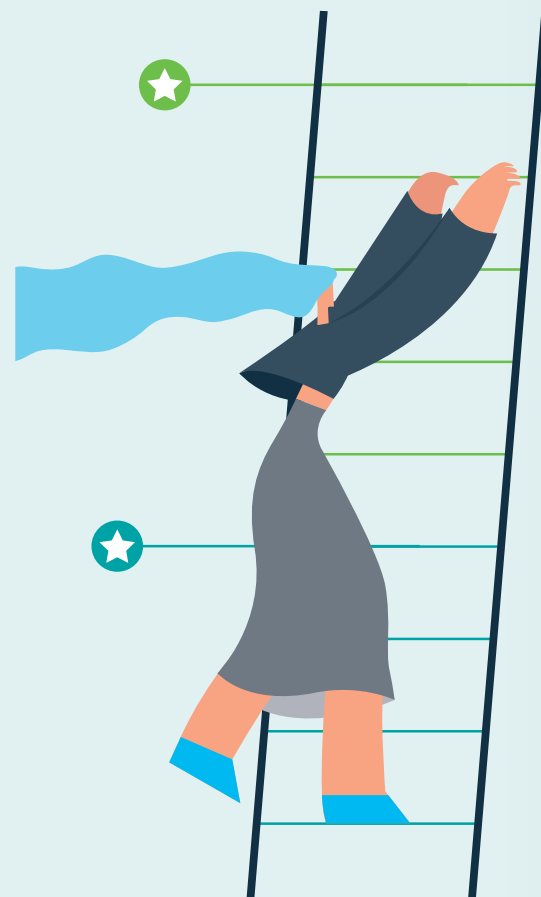
→ The manager of logistics and assets at ICC is responsible for the safety field. For this purpose, the company is being assisted by an independent external safety consultant for the current operation of the whole safety field. As part of the company's work plan, mandatory study material on the subject of safety and hygiene is distributed annually to all employees,

which includes, guidelines regarding the manner of conduct intended to minimize the number of accidents at the workplace.

The Company has a safety committee, which in accordance with Regulations meets at least eight times in each year, reviews the safety reports, uncovers deficiencies and monitors the treatment of safety deficiencies. The safety committee at ICC is composed of 3-4 managers, 7-8 employees and the external safety consultant.

IDB Bank

→ IDB Bank is compliant with all Federal and State, as well as local Laws and Regulations as it relates to safety in the workplace, this include annual fire drills, emergency evacuation procedures in accordance with the local requirements for all the Bank's work sites.



MAINTAINING EMPLOYEE RIGHTS

→ PREVENTING SEXUAL HARASSMENT

→ Sexual harassment and intrigues of a sexual nature damage a person's dignity, choices, privacy and equality of the sexes, and they violate the law and the Bank's policies and harm work relations. The Bank invests vast resources in preventing sexual harassment, in dealing with and putting an end to the phenomenon when it occurs, in accordance with the Prevention of Sexual Harassment Act, 1998, and the Regulations enacted under power thereof. The Bank has appointed an officer, who is responsible of investigating complaints and the submission of a summary and recommendation to the employer's representative - a duty performed by the Head of the Human Resources and Properties Division. It is noted that the Bank has appointed an additional officer in charge alongside the said "officer in charge", who would serve also as her stand-in, in case of inability to perform her duties, and has also appointed two regional female officials (with geographical responsibility for the northern region and the Jerusalem region).

In cases where sexual harassment had been found, the Bank acts in accordance with the punishment range in practice at the Bank regarding disciplinary events, which includes a warning, an oral reprimand, a written reprimand, suspension from work, non-promotion, nonpayment of salary supplements

(including bonuses) or even dismissal. Moreover, the imposition of specific sanctions, with the consent of the employees representative committee. The said sanctions, are sometimes accompanied by a change in position, everything in accordance with the severity of the case and subject to the law and existing labor agreements at the Bank.

Three cases of concern regarding sexual harassment were brought to the attention of the officer in charge in 2017. In none of the instances was it found that sexual harassment had occurred. The details are as follows:

→ In one instance, a sexual harassment complaint was filed by a female employee. The person accused filed a counter complaint. The findings of the investigation revealed that there had been a disrespectful work environment and explanatory action was taken at the unit by the female official in order to refresh the rules pertaining to the prevention of sexual harassment at the Bank and the rules of conduct pertaining to having a sexual-harassment-free environment;

→ In a second instance, an event that had been brought to the female official's attention was investigated. During the investigation of the event, the female employee refused to file a complaint. In any case, the findings of the inquiry that was conducted at that time did not reveal that sexual harassment had occurred;

→ In a third instance also, no complaint was filed, but an inquiry was conducted, and it was found that sexual harassment was not a factor.

Instruction in the matter of prevention of sexual harassment. The "prevention of sexual harassment and intrigues of a sexual nature in the Bank" procedures is given to every new employee beginning work in the Bank, hangs on notice boards in the various Bank units and is being displayed prominently on "FaceBank" - the intra-organizational communications site. Prevention of sexual harassment and of annoyance on sexual grounds procedures directive was published to all employees also through the procedure website of the Bank.

The Bank uses comprehensive learning material on the subject of prevention of sexual harassment, which are distributed to all Bank employees once in each period. New employees are required to study this material, being a compulsory study within the framework of the introductory courses of the Bank. In addition, once every period, the female officials on behalf of the Bank participate in further studies, training and refresher courses the last of which took place in 2017.

→ 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 the voluntary retirement of permanent employees, prior to reaching retirement age, at beneficial terms, as detailed below. The administrative flexibility in respect of the termination of engagement of Bank employees, who are not organized and are employed for a determined period of time (temporary employees) and/or employed under personal employment agreements, is much greater, 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. The termination of employment, for whatever reason, is effected only after the employee has been made aware of the circumstances and reasons for the termination of his employment, has been given the opportunity to voice their claims against the dismissal, and after the Bank has seriously considered each such case on its own merits.

The Bank's liabilities for the payment of severance compensation to employees at the rate of 100% upon termination of their employment, including at retirement age, as prescribed by the Severance Pay Act, is covered in full by deposits in severance pay funds and by insurance policies.

Preparation for retirement - Retirement from work comprises the closing of a chapter in life and the opening of a new chapter, which involves changes in the social, economic, psychological and health spheres. The Bank offers its employees and their spouses preparatory workshops for the imminent retirement. Within the framework of the workshops,

participants obtain information on different matters, such as: healthy way of life, physical and mental health, nutrition, relevant legal aspects, economic aspects, rights of retirees, wills and inheritance, etc. For those interested, personal counseling can be provided in addition to the seminars.

In 2017, 280 workers participated in retirement seminars, of whom 209 employees who have retired in 2017 within the framework of the early retirement plan, and 71 employees who are expected to retire in 2018 on ground of regular retirement. 110 workers participated in retirement workshops in 2016.

For additional details, see Note 23 I and J to the financial statements as of December 31, 2017 (p. 196). For details regarding employee rights in respect of severance pay, retirement benefits and pension payments, see Note 23 item A, in the 2017 annual report (pp. 183-185).

Early Retirement

➤ The Bank encourages early retirement of permanent employees, directed at an employee population having defined characteristics, for which a focused effort is made to encourage their early retirement at beneficial terms.

The retirement of permanent employees has the retiring employee's consent and is not imposed (dismissals), and it advances goals like reducing the average cost per employee position and rejuvenation of the workforce and larger efficiency.

A plan for the acceleration of efficiency was formed in 2016, the essence of which was the reduction in the work force of

the Discount Group by approximately one thousand additional employees until the year 2021, by both early retirement and regular retirement. (For additional details, see 2017 Annual Report, pp. 21-22).

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.

Some 23 employees retired in 2017, and 19 additional employees signed a retirement agreement and retired at the beginning of 2018. In addition to 342 employees who retired during the year 2016 within the framework of the plan (from the Bank and MDB).

In August 2018, an additional retirement plan was approved. For additional details, see the 2018 3rd quarter report (p. 16).

➤ DATA REGARDING EMPLOYEES RETIREMENT

		Number of retirement employees	Of which: the number of early retirement employees
Discount Bank ¹	2017	107	15
	2016	394	312
	2015	84	28
Mercantile Discount Bank	2017	37	10
	2016	54	32
	2015	23	13
ICC	2017	4	-
	2016	2	-
	2015	6	-

Note:

¹ The data relates to tenured employees only.

→ EMPLOYEE CLAIMS IN THE FIELD OF LABOR RELATIONS

Two actions against the Bank were served in 2017 at the Labor Court by Bank employees or former Bank employees. These actions refer to matters relating to labor laws, and inter alia, include motions for monetary relief in respect of standby payment, severance compensation, provisions for provident contribution supplements and other payments related to employment terms. One of the actions is pending at the Labor Court, while the other had been struck off.

In 2017, six actions served in the years 2013-2016 were concluded: two actions were concluded by verdicts given at the appellate level whereby the appeal by the Claimants had been dismissed; two actions were concluded by withdrawal with the consent of the parties; and two actions (one of which at the appellate level) were concluded in a compromise without the Bank admitting any of the claims raised by the Claimants.

Mercantile Discount Bank

Two actions were served in 2017. Both actions claiming unlawful dismissal. The hearing of both claims has not yet been concluded.

ICC

Two complaints were submitted in 2017. One of these complaints was submitted by an employee of an outside company providing catering services to the company. The Claimant argued that his candidateship for work at the premises of the company was rejected due to his medical condition (HIV carrier). The other complaint was submitted by a former

employee claiming bodily harm was caused to him while participating on behalf of the company in a sport tournament. One class action suit was filed in 2014, which has not yet been resolved. For additional details, see the 2017 annual report of ICC (pp. 160-161).

→ EMPLOYEE REMUNERATION

The principal salary components of tenured employees are the base salary which includes a seniority increment, representation and signature fees for each employee based on his seniority and position. The base salary constitutes the basis for salary increments and for the payment of split working hours' remuneration at the rate of 2.5% of the base salary (for each split working day to eligible employees), shift remuneration (only to eligible employees), overtime and the 13th month salary and long term service award. some of the payroll components of the employees is linked to the CPI. In cases where the change in the CPI is a negative figure, the employees' wages are not reduced and the drop in the CPI is setoff against the rise in the CPI in following months. Employees are also entitled to various additional benefits. In accordance with their employment status, 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 grading.

Payment of overtime to eligible employees is contingent on prior approval of his superior. Attendance reporting at the Bank is made by means of an attendance clock (excluding exceptions).

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, as is customary.

The Bank's liability for severance pay and provident fund contributions to its employees is according to the employee's base salary, global overtime contributions (according to grade), 1/12 of the employee's 13th month salary and other additional benefits. The employees are also entitled to certain benefits after their retirement, for employees defined as a "pensioner" of the Bank.

In accordance with the collective agreement from June 2011 that dealt with the topic of pensions, a provision of the full amount of severance pay at the rate of 8.33% was determined, including

the finality of the provision (pursuant to Section 14 of the Severance Pay Act and with this being in relation to temporary employees and to employees who have become tenured employees after having signed the agreement and to veteran employees who have elected this option voluntarily, from the date of their having elected to do so).

In accordance with the general collective labor agreement signed in February 2016 (an Expansion Order in respect of which was issued in May 2016), starting with July 2016, the share of the employee in provident contributions shall not be less than 5.75% and the share of the employer shall not be less than 6.25%. Respectively, since January 2017 the share of the employee have increased to not less than 6% and of the employer to not less than 6.5%. The share of the employer in provident contributions to an insurance fund/provident fund which is not a pension fund will include purchase of loss of work ability insurance for the employee, on condition that the rate of provident contributions in the employer's share shall not be lower than 5%. Furthermore, the minimum rate of the employer for severance contributions shall apply to the full amount of the insured employee wage, at the rate of at least 6%, in accordance with the agreements applying thereto, at the work place and no less than the average salary in the Israeli economy.

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.

For additional details regarding "remuneration", see "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the Bank's website.

Special remuneration to managerial personnel

> Part of the managerial personnel is entitled to global overtime payment.

A managerial rank employee who has been promoted is entitled to a 5% salary increase from the salary table (provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion). 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, 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.

Awards to employees and managers in 2017

> In accordance with the wage agreement dated November 30, 2016, a one-time differential award, was paid in March 2017 to tenured employees to whom the agreement applies, in an average amount of NIS 20,000 and to managers in an average amount of NIS 26,000. At the same time, a one-time award was also granted to temporary employees and to personal engagement agreement employees, based on the budget and model approved by the Bank's Management. For additional details, see 2016 Annual Report (p. 345).

In 2018, an award based on the return on equity was paid in respect of 2017. The award was distributed at the discretion of the manager in accordance with guidelines based on the annual evaluation process.

Following the enactment of the Remuneration Act, the Bank was required to make modifications to the previous engagement terms of the Chairman of the Board of Directors and the President & CEO. The new engagement terms state that the Chairman of the Board of Directors and the President & CEO are not entitled to an annual award. For additional

details, see the 2017 Annual Report (p. 291).

For details regarding awards to officers in 2017, see 2017 Annual Report (p. 195, article 7).

Officers and members of the management group

> **The principal assumptions used in the computation - Discount Bank.** The calculation in respect of the employees has been made after elimination of the data with respect to the group of senior officers. The cost does not include payroll tax, and the cost regarding the employees also does not include the long service award ("jubilee award"). The data are expressed in full-time positions for part-time employees. The data include overtime payments. The data do not

include awards payments for previous years but do include expected awards for the current year - an average payment of one salary per employee has been assumed. The main assumptions used in the computations regarding employees are: (1) it has been assumed that the average provision customary at the bank for vacation pay, jubilee vacation pay and pension expenses is expected in respect of the median employee; (2) expenses in respect of severance pay have been included based on current actual cost and not according to the provisions, this in view of the transition to actuarial computation. It should be noted that the 2016 data have been restated in order for them to be presented according to the assumptions made in calculating the 2017 data.

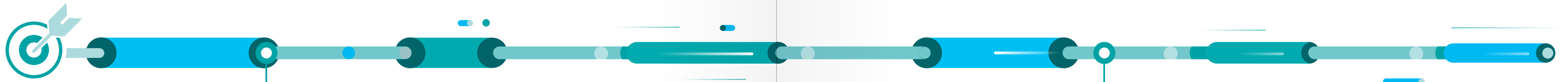
> OFFICERS AND MEMBERS OF THE MANAGEMENT GROUP

The difference between the average cost of remuneration of the senior officer group and the average cost and mean cost of remuneration of all employees

	2017		2016	
The senior officer group ¹	Difference compared with average cost ²	Difference compared with mean cost ²	Difference compared with average cost	Difference compared with mean cost
Discount Bank	by 8.01	by 9.20	by 7.38	by 8.37
MDB	by 4.59	by 6.17	by 5.14	by 5.18
ICC	by 5.88	by 8.14	by 4.57	by 7.18

Notes:

- Chairman of the Board, President & CEO, members of Management, Internal Auditor.
- The remainder of the employees and contract workers.



GOALS

DISCOUNT BANK

- 01 The translation of the multi-annual strategic plan into a human resources strategy, including specific planning of resources the definition of new engagements, identification of redundant engagements, changing the recruitment profile.
- 02 The adaptation of leadership and management concepts for the implementation of the strategic plan, to the continuation of the realization of the "Discount spirit" and to the management of the change in the digital environment.
- 03 Encouraging the concept of organizational learning and personal responsibility for development and qualification. Encouraging significant career retraining and development of digital skills.
- 04 Creating an open, clear and structured dialogue for the construction of personal goals for employees. Assistance in identifying opportunities for development and professional growth.
- 05 Creation of employment opportunities in peripheral areas, including training and apprenticeship enabling successful integration into the banking world.

GOALS

MERCANTILE DISCOUNT BANK

- 01 Continuation of effective management of the labor force and its cost: The central challenge for the years 2016-2018 is the strict and restraining management of the labor force and its cost, in a manner ensuring increased efficiency and restraining of payroll cost.
- 02 Assistance for the branches in the processes for the continuing upgrading of services to customers: Accompaniment of the procedures in continuation of the transfer of operations from the branches to expert centers, in order to allow a breakthrough both in the activities and in business development of the Bank, as well as, in continuation of this move, improvement and upgrading of service level at the branches. These actions have different human resources aspects, including the manning of branches with teams having comprehensive knowledge regarding the different field of operation and the bridging of knowledge gaps, where required, as well as the creation of an attentive and supporting attitude towards employees and managers expected to experience a change, etc.
- 03 Providing supportive tools to the bank's units. Development and enrichment of employees by means of training, mobility and personal development.
- 04 Efficiency and saving. As part of the manpower management at the Bank in 2018, the Human Resources Division continues to support efficiency and saving measures conducted at the Bank, from the aspect of human resources.

MAINTAINING EMPLOYEE RIGHTS AT THE PRINCIPAL SUBSIDIARIES

→ PREVENTING SEXUAL HARASSMENT AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ Each new employee beginning his service with MDB, undergoes a study course in the matter of prevention of sexual harassment, and is obliged to read and sign the company's articles in the matter. The principal items of the Act are posted on notice boards including names of officers handling complaints. Furthermore, the articles are published on the internal portal of the bank. Each complaint or clarification in this respect is being handled discreetly with complete attention in a swift and optimal manner, to the extent possible. Punitive sanctions are being applied in cases where sexual harassment was found. In addition, MDB has appointed a team of employees comprising "officers-in-charge" in terms of the Act, who are entrusted with the clarification of complaints and submit their conclusions and recommendations to the VP Human Resources, who acts as the representative of the employer for the purpose of taking decisions.

In 2017, information was received that raised concerns regarding sexual harassment in a particular unit. Investigation of the complaint through the questioning of employees did not reveal unequivocal findings. This notwithstanding, the need for greater attention to be given to this topic at the unit was relevant clarified and emphasized.

ICC

➤ The officer in charge of prevention of sexual harassment at ICC is responsible for clarifying complaints and submission of

conclusions and recommendations to the Head of the Strategy and Resources Division, who serves as the representative of the employer for the purpose of making decisions. Each new employee who starts work at ICC is obliged to undergo a course of study in the matter of prevention of sexual harassment and read and sign the company's articles in this matter. The principle items of the Act are posted on signboards, on which are also published the names of officers dealing with complaints. The company's set of rules is also published on the internal Internet portal of the company and once a year, an all organizational learning is performed, including a knowledge test.

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

One complaint was received in 2017 in the matter of sexual harassment: the employer received notice that an employee of a contracting company had been exposed to remarks having sexual connotation made by an instructor of an external company at an external location. Enquiries made with the persons in charged showed that no complaint had been filed and that the project had been concluded.

→ RETIREMENT AND DISMISSAL AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ The bank's liability for severance pay to its employees is covered by deposits with severance pay funds and by appropriate provisions.

Preparation for retirement - In 2017, 21 employees (excluding spouses) have participated in preparations for retirement workshops held by MDB, compared with 24 employees in 2016.

ICC

➤ The company's liability for the payment of severance pay to its employees, which is

based upon one month's salary for each year of service, as accepted, is fully covered by deposits with severance pay funds, by assurance policies and pension funds and by the provision recorded on the company's books. That part of the severance pay not covered by deposits with defined deposit plans, as stated above, is treated by the group as a defined benefit plan (within the meaning of the term in generally accepted accounting principles), according to which, a liability is recognized in respect of employee rights.

→ EMPLOYEE REMUNERATION AT THE PRINCIPAL SUBSIDIARIES

Payment in respect of public holidays and sabbatical days at MDB.

➤ MDB acts in a similar manner to Discount Bank. Furthermore, hourly workers at MDB are granted a day off at the expense of the bank on Purim and on the Ninth of Av. For additional details (in Hebrew) regarding remuneration at MDB see "Disclosure according to the third pillar of Basel and additional information regarding risks as of December 31, 2017" (pp. 102-110). This report is available for perusal on MDB's website.

Payment in respect of holidays and sabbatical days at ICC.

➤ The company operates in a reduced format on nine sabbatical days defined in the law as well as on Purim. Working on these days are only the employees permitted by a work permit issued by the Ministry of Economics, to work on the Sabbath (approximately 25 employees). Election Day is also a sabbatical day whenever general elections to the Knesset are held. The said sabbatical days are fully paid to all employees. Payment to monthly employees is made with no reservations. Payment to hourly employees is made only if they were scheduled to work on that day. Employees not of the Jewish faith, who are off from work on their religious holidays

are fully paid for these days if they had elected them as their sabbatical days.

For additional details regarding the remuneration plan for the CEO, employees and management of ICC, see ICC's 2017 Annual Report (pp.151-154) and "Additional Disclosure according to the third pillar of Basel" (in Hebrew) as of December 31, 2017 (pp. 50-56). The said reports are available for perusal on the company's website.

Payment in respect of public holidays and sabbatical days at IDB Bank.

➤ Most of the legal holidays observed in New York State and certain religious holidays observed in Israel are designated as holidays of IDB Bank when they fall on a working day. The Human Resources Department provides employees with a list of the designated holidays each year.

→ AWARDS TO EMPLOYEES AND MANAGERS IN 2017 IN THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

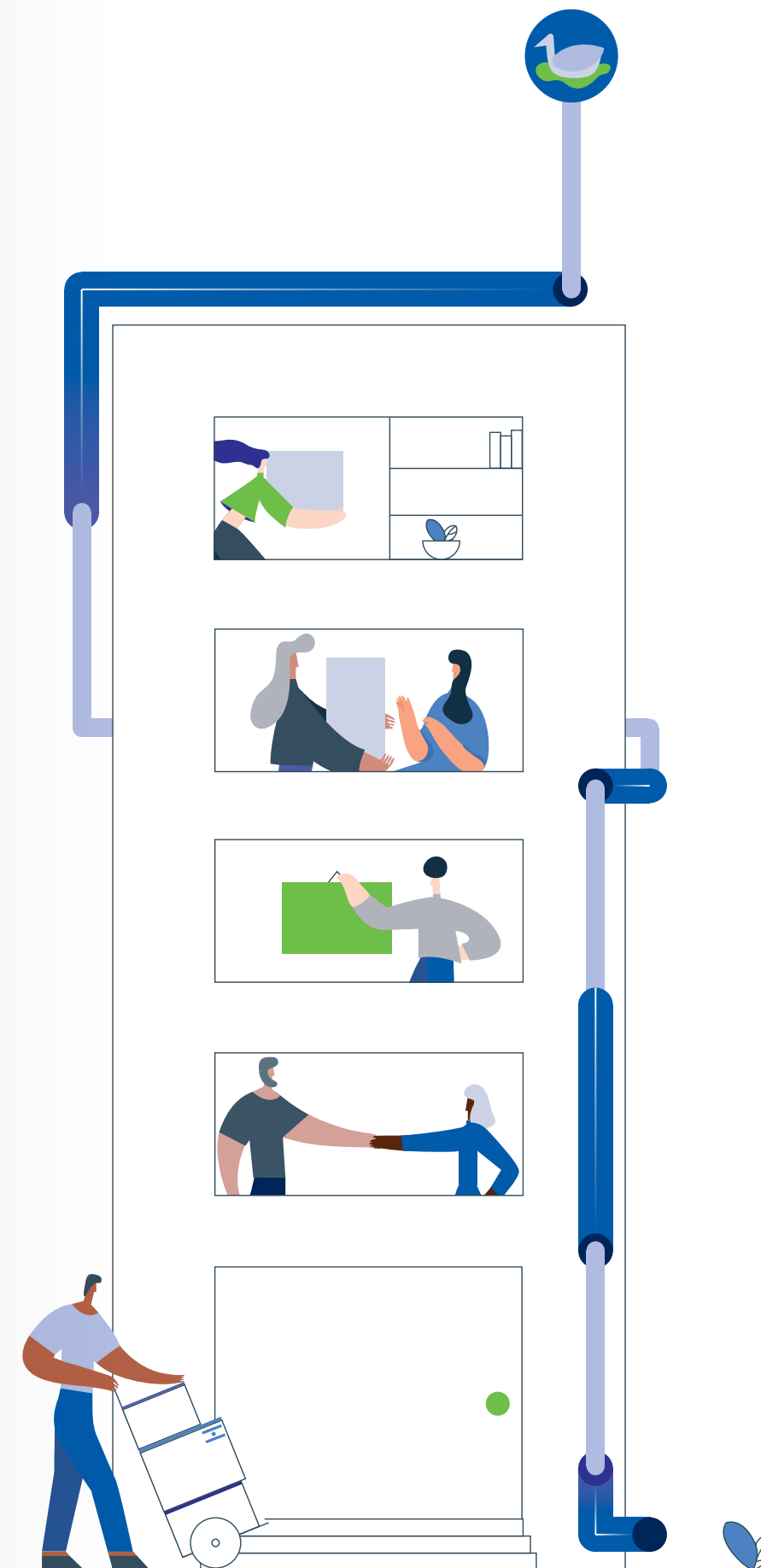
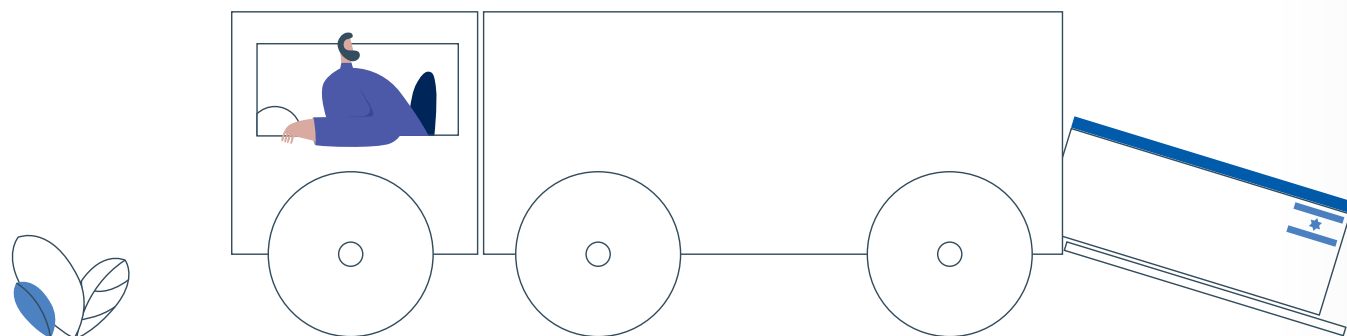
➤ The award in respect of the year 2017 equaled 1.3 times of the salary on an average. The award is payable in 2018, as follows: 0.45 of the bonus which comprise a fixed component - was paid in April 2018. The balance, being 0.83 of the salary, shall be divided differentially and will be paid at the conclusion of the annual evaluation process.

ICC

➤ ICC paid an annual award in respect of 2017 to managers and employees in accordance with the remuneration policy approved by the Board of Directors. An award in respect of the year 2017 has been paid to all employees and managers, including officers. For details regarding remuneration plans for the President & CEO, to company employees and managers, see ICC's 2017 annual report (pp. 151-152).

06 SUPPLIERS

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1.5 BILLION
NIS payments to
suppliers

95.3%
Domestic
purchases

SUPPLIERS

DISCOUNT BANK VIEWS WITH IMPORTANCE THE LONG-TERM CREATION OF VALUE FOR ALL ITS STAKEHOLDERS, AMONG WHOM ARE ALSO ITS SUPPLIERS, AND THEREFORE THE BANK TREATS THEM WITH INTEGRITY, FAIRNESS, CONCERN AND RESPECT



PROMOTION OF RESPONSIBLE PURCHASING

➤ Discount Bank is committed to conducting business fairly and to acting on the basis of professional and personal integrity. Discount Bank views with importance the long-term creation of value for all its stakeholders, among whom are also its suppliers, and therefore the Bank treats them with integrity, fairness, concern and respect.

The Bank strictly honors its agreements with suppliers and non-adverse utilization of its position towards them, endeavors to prevent damage to integrity, prohibits the granting of benefits and favors, promotes transparency and fair competition, maintains confidentiality and data protection and does everything possible to prevent corruption and improper conduct.

Discount Bank chooses suppliers on the basis of professional, objective and businesslike considerations, while striving for engagement with suppliers meeting the following requirements:

- ➔ Compliance with and maintenance of the provisions of the law;
- ➔ Strict observance of legal and fair employment conditions;
- ➔ Maintaining the quality of the environment;
- ➔ Having an ethical code and a commitment to its values;
- ➔ Maintaining the norms and standards

described in the Bank's Code of Ethics.

The pool of suppliers of Discount Bank includes different suppliers operating in various areas and having different volumes of operation, who provide the Bank with products and services on a current basis and in accordance with demand. The Bank maintains long standing relations with its suppliers and is committed to fairness, offering equal opportunity, transparency and a current dialogue with them.

Purchasing at Discount Bank is mostly performed in a centralized manner for all units of the Bank, by means of the central purchasing department, operating as part of the Planning, Strategy and Finance Division. The department is responsible for the formation of a purchasing specification for the internal customers, where required, locating suitable suppliers, screening them, obtaining offers, conduct of negotiations, engagement and current follow-up of relations with them.

The purchasing department is responsible for both technological purchases (hardware, software, projects and services) and general purchases (operating and logistical equipment and services, security and safety, gifts and sales promotion products, training). It is also responsible for purchases regarding construction and maintenance (renovation of buildings, systems installation and maintenance, furniture, etc.).

As part of the current operations of the department, a renewed examination of existing contracts is being made, as well as the challenging of the new requirements.

Refreshment of the internal purchasing procedures was made in 2017, which led to stricter control and supervision over purchasing expenditure as well as the computerized purchasing procedure.

The acquisition of manpower services, including manpower in the technological field, is the responsibility of the Human Resources and Properties Division. The acquisition of property or its rental is the responsibility of the construction and real estate department, being also a part of the Human Resources and Properties Division.

During the past year the Bank has mechanized the purchasing process from the stage of setting-up the request and until the stage of issuing the order to the winning supplier. Mechanization of the process has contributed to increased transparency of the whole process, including the commercial discourse with the suppliers. The making of the information accessible to the functions at the Bank who approve the issue of the order allows an insight to all the stages of the commercial negotiations, from the stage of the primary price offer and until the conclusion of the transaction, including an in-depth assessment of the alternatives.

The mechanization of this process completed the full transparency of the processes, maintaining the fairness characterizing the Bank in its conduct regarding the suppliers engaged by it.

Ethical conduct regarding suppliers

➤ The Bank approaches suppliers inviting them to submit price offers. The Bank chooses providers of services

under competitive processes, while strictly maintaining the confidentiality of the submitted offers, beginning with the identity of the offerors and ending with the contents of the offer, while aspiring to increase the trust of the offerors in the purchasing processes.

Already during the competitive process, the Bank agrees with its suppliers the terms of payment, in accordance with the date of delivery of the goods or services. The Bank strictly adheres to the agreed payment dates, in order to maintain proper business relations and cooperation with its suppliers. It is noted that the payment process is controlled and that it is being conducted in accordance with the commercial terms agreed upon when ordering the products and services.

The content of this section applies also to MDB and ICC.

Discount Bank is working on the computerization of the settlement process with suppliers and on creating transparency for the supplier regarding the process (invoice status) at any given time.



Fair employment and maintenance of rights of outsource workers

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

On June 19, 2012, the Intensification of Enforcement of Labor Laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The law imposes extensive liability on employers, as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved.

The Bank strictly observes the fair employment of persons working at its premises and the violation of rights of outsource workers is taken seriously. The engagement agreements with companies providing cleaning and security services comply with the provisions of the law. In the engagement agreements of the Bank with providers of services, the contractors are required to confirm, among other things, that they abide by the provisions of the Act for increasing enforcement of labor laws.

The Bank has appointed an officer responsible for this matter and has engaged the services of an independent accountant in respect of monthly sample tests to be performed according to the law. Where deficiencies are found, these are rectified by the suppliers and the Bank monitors the actual rectification thereof.

It should be noted, in particular, that upon changing service suppliers in these areas, a comprehensive examination is performed to ensure that contractor employees whose employment had been terminated, receive the full rights due to them in respect of their period of engagement with the Bank.

No complaints were filed with the Bank, MDB and ICC, by outsource workers in 2017.

Promotion of a responsible supply chain

➤ In 2015, Discount Bank, in conjunction with the Maala Organization, approached selected suppliers, of a medium size scope of operation, with an offer to join the activities of the Organization and increase their commitment for the raising of standards and their potency, and increase responsibility all along the supply chain, maintaining at the same time quality and excellence in the services/products being supplied. It should be noted that a number of suppliers responded to this initiative.

In 2016, the Bank increased the approach to additional suppliers, with a view of encouraging them to join this activity. Eight suppliers had been approached, of whom two joined the Maala rating.

At the beginning of 2018, the Bank approached fifty of its large suppliers offering them to join the activity.

Social purchasing

➤ To the extent possible, the Bank, MDB and ICC engage with factors employing handicapped persons or those with special needs. For example,

MDB and ICC purchase from social associations, such as AKIM, Beit Issie Shapiro and others, in Chanukah and Purim, personal packages of sweets, which are distributed by employees of MDB during their different activities in aid of the community. The total scope of this type of purchasing is not material.

ICC operates consistently over many years with "Hameshakem" Company, engaging it for work suitable for handicapped workers and those with special needs.

ABOUT 95.3% of the **purchases made by the Bank** are from suppliers operating and employing workers in Israel.

5-6% **the ratio of foreign purchases** in ICC of total purchases.

41% **of the Bank's operating and other expenses**, excluding payroll expenses, in each of the years 2016-2017. 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.

2,410 **suppliers** the Bank conducted business with in 2017, in a total amount of approx. NIS 1.5 billion.

No complaints regarding discrimination were raised in 2016-2017 on the part of suppliers. The content of this section applies also to MDB and ICC.

PROMOTION OF RESPONSIBLE PURCHASING AT THE PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ Purchases by MDB are made by four main groups: technological purchases - IT, marketing purchases, office premises and maintenance purchases and general purchases. The general purchases are generally made centrally for all units of the bank by means of the administration and payments department of the Human Resources and Administration Division. Most of the purchases are made jointly with the purchases of the parent company. The department is responsible for the formation of the purchase specifications as required by the internal customers, where applicable, identification of appropriate suppliers, their screening, obtaining offers, negotiating the purchase, engagement and follow-up of relations with them.

Acquisition of manpower services, including manpower in the technology field, is the responsibility of the Human Resources and Administration Division. The purchase or rental of office premises is the responsibility of the construction and property department of the Operations Group.

As a general rule, the bidding in purchase tenders in significant amounts is made by means of sealed envelopes dropped into a locked bidding box. The opening time of the bidding box is stated in

advance and is strictly controlled in the presence of at least two participants who are authorized signatories of the bank. Following the processing of the data, the material is submitted to the Purchases Committee, which is composed of three members of Management, a lawyer from the legal counsel department and the manager of the Administration and Payments Department. Where required, the relevant professional function is also invited to the discussions of the Committee.

ICC

➤ Purchases by the company are mostly made in a centralized manner (about 92%), by means of the purchasing department, operating within the framework of the Comptrollers Division. The central purchasing at ICC is responsible for technological purchases (hardware, software, projects and services), general purchases (operational and logistic equipment and services, printing, security and safety, gift and sales promotion products), purchases of property and its maintenance (renovation of buildings, installation of systems and maintenance thereof, furniture, etc.), the rental or purchase of office premises, engaging manpower and consulting services, including manpower in the technology field, credit cards purchase, purchase of sales promotion and marketing services, excluding advertising and media.

ICC conducted business in 2017 with 850 suppliers, in a total amount of NIS 360 million.

Also at ICC, the submission of offers for transactions in significant amounts is made by the "quasi-tender" process, into a locked box or by an electronic offer

box. The opening time of the envelopes is determined in advance and is made in the presence of at least three participants. The contents of the offers is documented in a protocol, and where these are complex and not easily documented in a protocol, the original offers are signed to maintain their authenticity.

IDB Bank

➤ IDB Bank currently operates a decentralized Procurement model whereby departments are responsible for making purchasing decisions for the acquisition of goods and services. Under this model, departments and their designated Vendor Relationship Managers (VRM's) are responsible for the entire Source to Pay (S2P) process of their respective area except for the Purchase Order (P.O) generation. The P.O generation process falls exclusively under the responsibility of the Procurement department who report to the Chief Financial Officer.

The "Large Purchase Committee" was formed in 2016 but became active in 2017. The Committee's primary goal is to support the Procurement process at the Bank by ensuring the Bank's funds are committed appropriately and are in line with the Bank's policies. The Large Purchase Committee meets on an ad hoc basis and is comprised of the Bank's Chief Financial Officer, Chief Operations & Information Officer, Chief Internal Audit, Head of International Private Banking, Bank's Controller, and Head of Procurement (Committee's Secretary).

Under the guidance of the CFO, the Procurement department is currently working with IDB Bank senior Management in centralizing the Procurement function at IDB Bank.



GOALS

- 01 Cooperation with suppliers who employ handicapped staff
- 02 Continuing strict integrity, fairness and transparency in relations with suppliers
- 03 Maintenance of a high service level (SLA) to internal customers
- 04 Replacement and refreshment of the active supplier pool at a scope of 5%
- 05 Completion of the mechanization of the purchasing procedures in order to purchase quality products and services at the most beneficial terms
- 06 Continuing search for possibilities and opportunities for higher efficiency and savings

07 DISCOUNT FOR THE COMMUNITY

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→ Discount volunteering in the community	164
→ Investment in the community	166
→ "Herzelilinblum"	170
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OVER NIS **16 M**
of investments in the
community

810
volunteering employees

APPROX. **120**
different volunteer sites

APPROX. **19,000**
different volunteer sites

OVER **8,500**
participants in the "Sprint"
programs in 2017

APPROX. **95%**
of graduates of the
"Sprint" program have
completed high school
studies with a full
matriculation certificate

GRANTING OF **211**
scholarships on behalf
of the Nissim Alagem
Foundation

DISCOUNT FOR THE COMMUNITY

DISCOUNT BANK HAS WORKED FOR THE COMMUNITY SINCE ITS FOUNDING, WITH A COMPREHENSIVE MANAGEMENT APPROACH WHEREBY ACTIVITY FOR THE COMMUNITY IS PART OF THE BUSINESS, SOCIAL AND CULTURAL COMMITMENT



Discount Bank has worked for the community since its founding, with a comprehensive management approach whereby activity for the community is part of the business, social and cultural commitment.

The Bank's policy is to **focus the human and financial resources on activities in aid of children and youth at risk and in distress situation, principally in the education and knowledge fields.** This, arising from the concept that these fields comprise the generator for personal and social success of the said target populations, and a tool for the creation of economic-social mobility.

As an expression of this concept, Discount Bank operates in the educational and knowledge fields, encourages its employees to volunteer in aid of the community, and endeavors

to tighten the bond with the community in the different projects.

The activity of the Bank in the community is expressed in four central channels:

- The flagship project "Discount Sprint for the Future";
- Volunteering in the community;
- Investment in the community;
- Private museum "Herzlilienblum".

The donations policy is a joint policy of Discount Bank, MDB and ICC in the framework of which General principles and a coordination mechanism have been determined, while maintaining the individual judgment of the subsidiary companies in accordance with the characteristics of their operations. This policy is being examined from time to time.

The community activities are conducted

by a designated unit at the Human Resources and Properties Division.

"DISCOUNT SPRINT FOR THE FUTURE"

DISCOUNT BANK'S FLAGSHIP PROJECT IN THE COMMUNITY



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, in favor of all sectors of society (Jews, Ultra-Orthodox, religious, secular, Arab, Druze and Bedouins) together with which it launched a program that became the Bank's flagship program "Discount Sprint for the Future". During these years the Bank was a significant partner in the growth in the scope of operations

DISCOUNT SPRINT FOR THE FUTURE

GENERAL DATA AS OF DECEMBER 2017



18

years of activity, of which
12 years in partnership
with the Bank



8,500

young persons
per year



100

schools around
the country



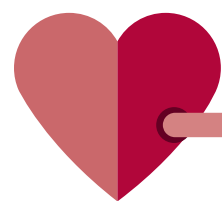
24,000

young persons have participated
in the programs of the Association
during its years of activity



600

students a year at
universities and colleges



and budgets of the Association, assists 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.

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, in favor of all sectors of society, together with which it launched a program that became the Bank's flagship program, "Discount Sprint for the Future"

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, and strives to integrate the youth into the academic and employment world. The Association operates five central programs, which promote and lead young persons at high schools and academic institutions to make the most of their learning ability and personal enrichment, and allow them to integrate in an optimal manner as independent adults into the social, economic and industrial life in the State of Israel:

"Sprint" Program focusing on supporting students having study difficulties helping them to graduate from high school with a matriculation certificate and continue with higher studies;

"Pre-Atidim" Program ("Sprint for excellence") leads students having academic potential to excellence in science studies, attaining a quality matriculation certificate that admits entry into prestigious faculties at universities (engineering and sciences);

"Sprint for Industry" Program designed to prevent youth in distress from dropping out of school, lead them to technological and professional studies and integrates them into industrial enterprises in their areas of residence. The Program had begun as a "start-up" financed by the Bank and developed into a nationwide extensive scope project. The Ministry of Education and the National Insurance Institute have recognized the importance and contribution of this program and have taken a strategic decision to participate in a joint enterprise with the Association (in which the Bank also participates) and to operate it at some thirty centers of operation in peripheral areas. Presently, the program has turned into a national program of the Ministry of Education and is active in eighty-five high schools in all segments of the community and all over the country;

"Sprint for the Academy" Program. Assists graduates of the programs of the Association to enter into the academic world. The students are awarded consultation and assistance in obtaining their first employment position. The Bank has established a scholarship foundation, through which it awards hundreds of scholarships each year;

"Sprint for engineers" Project leading youth at risk of all segments of society from peripheral social and geographic

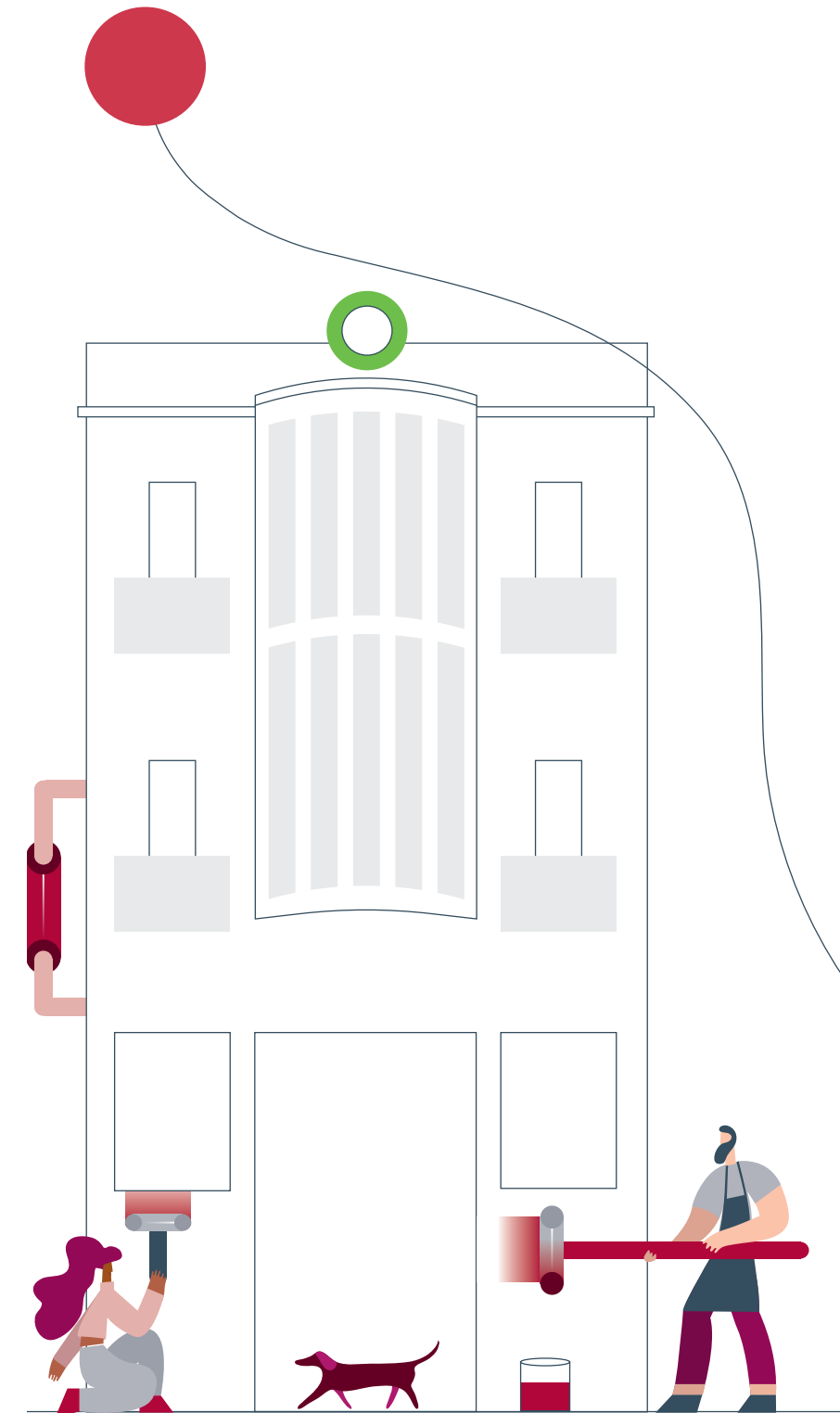
areas, towards advanced technological and diploma studies; in required fields in the employment market. The program offers studies for a practical engineering degree, providing comprehensive and wide coverage, integration in industry and assistance in obtaining work;

"Sprint for public technological service" program provides young persons engaged in National Service a wide cover of professional training and qualification in the computer and Internet fields, in the route of integrating cloud computing systems (Office 365). During their service, the youngsters will join educational institutions in the communication field. At the end of their service, the program will promote and encourage the participants to continue in their studies and employment in the communication field, and will help them in integrating into the work circle.

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 in this framework are partners, inter alia, in the design of the Association's workplans. Employees of the Bank take part in voluntary activity within the Association's programs, including in the adoption by Bank branches and Banks units of schools participating in the project and the accompanying and mentoring of students by senior officers of the Bank. Representatives of the Bank are members of the audit committee of the Association and the Bank's Accounting Division provides accounting and payment services for 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, 1,083 scholarships have been granted through it to students. This number includes both scholarships donated by the Bank, scholarships donated in the Arab sector and scholarships by different private donors, who wished that their donation would serve for scholarships granted through the Foundation. 211 scholarships were granted in 2017, an increase of 92% in relation to the preceding year when 110 scholarships were granted.

All programs of the Association are being accompanied by evaluation and internal control researches that are based upon data of the Ministry of Education, the Ministry for Economic Affairs and schools. A part of these 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. 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;

SOME 95%

of the **"Sprint" program graduates** completed their high school studies with a full matriculation certificate;

SOME 86%

of the **"Sprint for Excellence" graduates** completed their high school studies with marks of 85 and over in their science oriented matriculation certificate. 57% of whom reached high distinction with average marks of over 95.

"Sprint for Industry":

100% of the students have completed their studies (prevention of dropping out) with a professional diploma;

70% completed studies with a technological matriculation certificate;

35% of the graduates continue to practical engineering studies;

40% of the graduates join technological units of the armed forces;

25% of the graduates join the military or national service in meaningful duties.

SPRINT FOR THE FUTURE PROJECT IN THE ARAB SOCIETY

➤ In 2008, MDB, in cooperation with the "Sprint" Association, developed a unique program for the advancement of higher education in the Arab society. MDB, through this project, grants every year over seventy scholarships for academic studies to students. MDB views this contribution as an important layer in promoting education in the Arab society, as a significant step on the way for the prosperity and success of the younger generation - the future generation.

The scholarships are granted on the basis of socio-economic considerations and the level of academic achievements, strictly maintaining geographical spread, while providing response to all sectors and genders in the Arab society. In consideration for the scholarship, students volunteer in assisting the studies of children belonging to the areas in which they live. As a result of the work of such volunteers, 95%

of the pupils have improved their academic achievements.

In 2017, marking the tenth anniversary of the program, MDB increased its contribution granting 100 study scholarships. The cost of the program was NIS 730,000, compared with NIS 550 thousand in each of the previous years. The program has created a framework for giving and work for the community and the immediate surroundings, and achieves great success in the field and has become well known and sought after.

Within the framework of the program to date:

3.8 NIS million have been granted as student scholarships;

APPROX. 25.6 thousand volunteer hours in the community;

487 students from 45 locations participated in the program.



DISCOUNT VOLUNTEERING IN THE COMMUNITY

> The Bank sees the volunteering value as a leading organizational value, and encourages its employees to take part in the different voluntary activities, while stressing the long-term volunteering. Many units in the Bank have designated volunteer focuses that they have adopted, and they encourage their employees to volunteer in these focused areas. The voluntary activity is mainly conducted within a unit framework. The voluntary activity is diverse, providing assistance and support to a broad range of elements in the Israeli population: Children and teenagers, students, soldiers, disadvantaged population, the elderly, persons having special needs, the infirm, etc.

The volunteering activity continued during the year 2017, within the framework of which volunteering Bank employees contribute their time and warm-heartedness. The volunteering activity effort was centered on associations for youth in distress and risk situations, adult population, Holocaust survivors, children clubs, and assistance to different associations supporting these populations.

Promotion and encouragement of volunteer work at the Bank is conducted by the social responsibility unit, who initiate, accompanies and funds voluntary activities in cooperation with sixty volunteer coordinators, operating at the branches and units, in which an

organized unit volunteer work exists. The volunteer coordinators maintain current communication with the relevant functions at the centers where voluntary work is done, inter alia, in order to test the needs from a voluntary standpoint and form a response, with the Bank following and budgeting the activity and monitor its progress.

The voluntary activities of the employees are carried out during their free time. However, there are employees, primarily those in the Social Responsibility Unit, the staff of the Herzlilblum Museum and employees who conduct activities for the Sprint project (see above 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 finances the costs of the activity itself (such as the cost of purchasing materials used in the volunteering activity, purchase of gifts to residents of the volunteer center etc.).

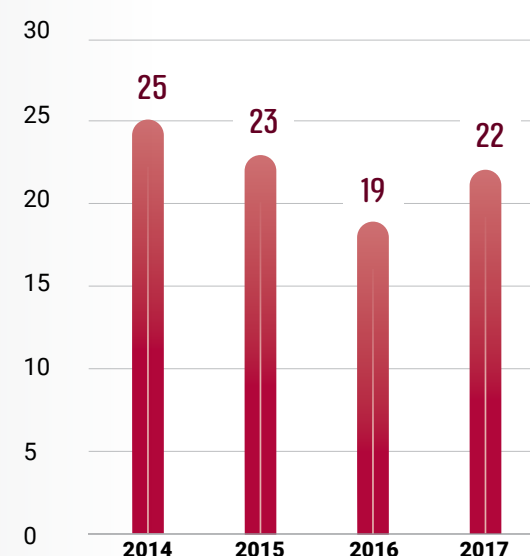
In 2017 approx. 810 Bank employees engaged in volunteer activities on a regular basis. These volunteers were active in 120 voluntary positions and 19 thousand hours were devoted to voluntary activities.

The Bank takes pride in the variety of activities and in the volunteering employees, providing them with a platform through publications on the internal organizational media, such as "facebank" and the "Morning magazine".

The volunteering activity is divided into a number of fields - children and youth, handicapped populations, health and other fields, in which the employees volunteer in a wide variety of associations. hereinafter are examples:

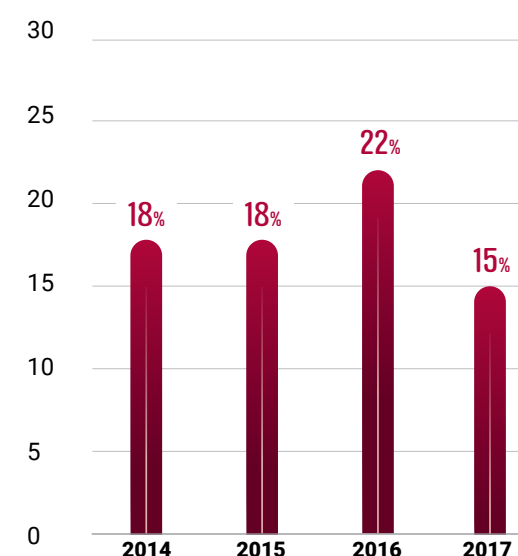
> EMPLOYEE VOLUNTEERING DATA

Average hours per employee



Note: the calculation is based on the total number of volunteer hours per year in relation to the total number of volunteer employees in that year.

Ratio of volunteering employees (to total employees of the Bank)



Note: In 2017, a process was carried out of improving the volunteers' data after retirement steps, and therefore a decline in the rate of volunteering in the Bank is reflected.



→ CHILDREN AND YOUTH

Institute for Advancement of Education in Jaffa

> The cooperation with this Institute continues, including volunteer work by Bank employees and a financial contribution by the Bank. The Institute provides a variety of education, welfare and enrichment programs to thousands of at-risk children, from families of a low socioeconomic background. Moreover, the Association assists many Holocaust survivors residing in southern Tel Aviv and in Jaffa. Units of the Bank adopt nearly all the clubs of the Association in Tel Aviv, Jaffa and Bat-Yam. In addition, a significant and widespread voluntary activity involving the packaging of food

parcels is conducted by employees of the Bank in the food center of the Association.

"A Different Lesson" Project

> A voluntary project in cooperation with the "A Different Lesson" Association, helping children at risk providing them with enriching and experience yielding different lessons. Within the framework of this project, members of the senior Forum lectured on subjects of banking and the realization of dreams to the children of the "Sokolov" school in Bat Yam (fifth graders). The project ended at the Bank's Visitor Center, where a tour was conducted for the children, who met a part of the Forum members (who came especially to greet them and wish them well on the termination of the project). Certificates and a present were granted at the end to all the children.



→ POPULATIONS HAVING SPECIAL NEEDS

Voluntary work at the "Niv" School for people with hearing disabilities in Tel Aviv

Employees of the Internal Audit Division adopt the children of the Niv School in Tel Aviv. Their work included parties for the children at holidays, a tour of the Mount Hermon sight, renovation of the library building and more.



→ THE HEALTH FIELD

Activity with "Simcha Layed" (joy for the child) Association

Voluntary work conducted at the RAMBAM Hospital in Haifa and the Shaare Zedek Hospital in Jerusalem. Employees of different units of the Bank entertained the patients and their families distributing refreshments at the various departments.

"Reuth" Medical Center

Voluntary work over many years. In addition to a yearly monetary donation for the purchase of medical equipment, the renovation of the residential unit for holocaust survivors in the place, etc., the staff of the Lowland Region maintains voluntary activities. Each employee contributes his personal talent and together they hold a happening several times a year intended to make a change from routine life for the patients.

INVESTMENT IN THE COMMUNITY

Donations and Sponsorships

The Bank's Management annually allots a donation budget, directed principally towards associations and organizations engaged in education and enrichment of children and youth. Among the donations extended by the Bank in 2017, may be noted the donations to the following associations: "Sprint", Association for the Advancement of Education in Jaffa, the Ramon Foundation, Zoharim Village, A Different Lesson, Krembo Wings, Tel Hashomer, Rabin and Soroka Hospitals, Yad Sarah, Reut Medical center, Ezra LeMarpeh, Loewenstein House, Alin Youth house, Hom Association, Latet, the Association for the Wellbeing of Israel's Soldiers ("Adopt a Combat Soldier"), and more.

The control over the use of the actual contributed funds and its effectiveness is performed taking into consideration the nature of the project and the amount of the contribution. A high level of involvement and control exists with respect to projects where the contribution is of a significant amount such as "Sprint". The level of involvement and control regarding projects enjoying small contributions, is low.

Additionally, the Bank contributes on a current basis, office and computer equipment no longer in use by units of the Bank, to associations requiring such equipment.

During 2017, the Bank granted sponsorship to entities and activities promoting goals in areas of community,

activities in aid of weak populations, health, sporting, cultural, artistic and educational, environmental protection, science, energy and business. These sponsorships enable the relevant organizations to raise funds for their operations, expose their operations to the general public and pay respect to the factors involved in their operations.

Various projects

Assistance to families in need

In line with the Bank's tradition, the Bank rallied also in 2017 to assist families in need towards the Passover holiday, the New Year Holiday, and assists in donations to finance food baskets to families in need. Among the Associations through which the donation had been distributed, may be mentioned Hom Association, Help and Remedy Association, Chabad Nataniyah, Latet, the "Israeli Spirit" Association and more.

The scope of investment by the Discount Group in the community totaled NIS 17 million in 2017

Social products bazaar

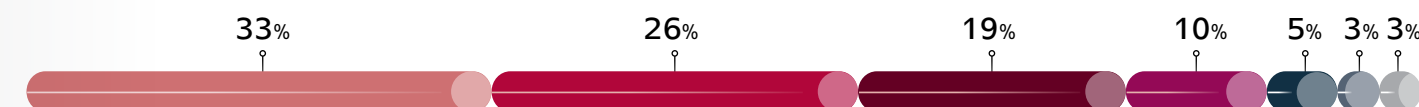
In 2017, towards the New Year, Hanukkah and Passover Holidays, the Bank held social products bazaars at two areas at the Bank, where Bank employees were able to buy different products made by persons with disabilities acting within the framework of various associations, such as: "Beit Miriam", "Ohel Sarah", "Hayim Association", "ALUT", "Kelim Sheloovim", and "Yeladudes". Income from sales are dedicated towards the continued activities of associations employing/assisting population with special needs.

"Discount Fund" at the "Ezra LeMarpeh" Organization

The Fund was established in August

VOLUME OF DISCOUNT'S GROUP INVESTMENT IN THE COMMUNITY

In 2017



In 2016



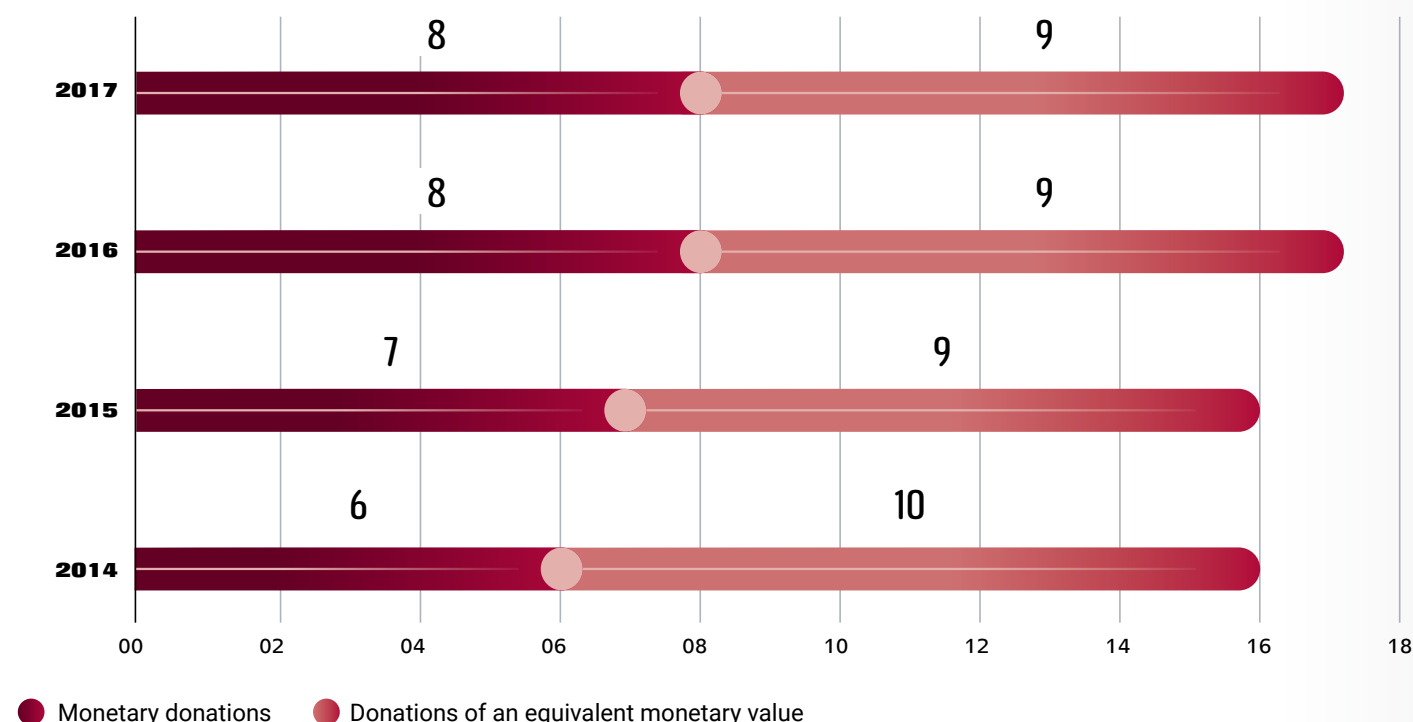
● Hertzlillienblum Museum
 ● Education and knowledge
 ● Indirect and miscellaneous expenses
● Other social targets
 ● Having special needs
 ● Health
 ● Adoption of IDF units

Notes:

- 1 Direct expenses in respect of a financial education project were included in 2017 for the first time under "Education and knowledge". The comparative data for 2016 was reclassified accordingly.
- 2 For additional details regarding the scope of investments in the community of the Discount Group, see the 2017 Annual Report, p.317.

> TOTAL INVESTMENT OF THE DISCOUNT GROUP IN THE COMMUNITY

In NIS millions



2007, and the activity continued uninterrupted in 2017. The objective of the fund is to provide financial assistance in cases of acute and exceptional medical conditions. 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. In cases where the Association approves the request, assistance is given from the Discount Fund in the association.

Ramon Foundation

The Bank is a copartner of the "Ramon Award" program, the mark of quality, excellence and leadership, in memory of Ilan and Asaf Ramon. The participation

of the Bank is expressed in financial support and voluntary activity. Within the framework of the program, young persons excelling in their studies and especially outstanding in their community volunteer work, are chosen as leaders of social change.

The aim of the program is to encourage excellence and leadership among youth in Israel, in the image of Ilan and Asaf Ramon, who represent a personal example in their personality, deeds and achievements. The elected youth undergo a several months' course increasing their proficiency and skills, during which they obtain tools for leadership as well as meet figures having influence over Israeli society. **Fifteen young persons were elected**

to participate in the project in 2017 (2016 - twelve young persons).

Woman2Woman program

For the third consecutive year, Discount Bank provides sponsorship for the Woman2Woman program, operated by veterans of the 8200 Intelligence Unit Forum. The program is designed to promote young women having a potential for excellence, by connecting them to impressive and influential women holding key positions in all areas and professions.

The Executive Vice President Human Resources and Properties at the Bank served and is serving as a mentor in this program, and the Bank is promoting additional cooperations, including participation in professional panels and conventions in order to create added value in the advancement of women's careers and taking professional decisions in different areas.

"Adopt a combat soldier" Project

Discount Bank takes part in the Friends of the IDF's "Adopt a Combat Soldier" Project, adopting "Squadron 916" of the Israel Navy, which is responsible for the security of Israel's southern coast, and the Regiment "Tiger" of the Artillery Corp. The Bank supports the said units with a monetary contribution as well as with volunteer work.

The annual contribution is NIS 100 thousand for each unit intended for financing activities for the welfare of the soldiers. In addition to a monetary contribution, the Bank incorporates volunteer activity. Furthermore, servicemen of the units participate in various events of the Bank.

The Bank's Management is in constant communication with the units commanders to examine the needs of the units and to coordinate joint activities.

Employment of visually impaired teenagers

A project with "Ofek Liladenu" (Our Children's horizon Project) Since the summer of 2005, in cooperation with "Ofek Liladenu" Association - a national organization of parents of blind or visually impaired children, the Bank employs visually impaired teenagers during the summer. Before they begin employment, the teenagers undergo banking and general training in Discount College. **19 teenagers were employed at the Bank in 2017** (in 2016, 21 teenagers were employed at the Bank).

Arts

> Discount's art collection contains some 2,200 original works and about 3,800 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 collection is managed by an advisory committee numbering four external experts (museum curators and such like) and two representatives of the Bank. The committee convenes several times a year discussing new acquisitions and the structure of the collection. The committee exists since 2004 and its members are appointed on a voluntary basis for a period of three years. In recent years the collection has been mapped and examined by the committee, which has drawn up

a list of gaps in the collection, with emphasis on acquiring works that will complete the collection and represent young artists.

Discount's art collection contains some 2,200 original works and about 3,800 lithographs of the best of Israeli artists. Some 1,650 visitors took part in 2017 in guided tours of the Discount Tower

In 2017, nine works by young artists were acquired, at a total cost of NIS 150 thousand. In 2016, four works by established artists, not previously represented in the collection, were acquired at a total cost of NIS 94 thousand.

The Bank's art collection is considered one of the quality collections of Israeli art and guided tours of the Bank's art collection are conducted. **66 tours were made during 2017, in which some 1,650 visitors have participated (55 tours were made during 2016, in which some 1,400 visitors have participated).**

The book regarding the collection was published in 2017 by Mr. Yona Fischer, an Israel Art Prize Laureate and member of the advisory committee to the Bank. The book is accompanied by a three year research work regarding the collection.

The Bank donated 132 prints in 2017 to the "Adopt a Combat Soldier" Association for soldiers clubs, for a female victims of violence shelter in Herzliyah, for the Bialik-Rogozin School and for the Geha Hospital, and an art space has been set up at the Bialik

Rogozin School, within the context of which the Bank has contributed prints and lithographs from its collection for the benefit of the children of immigrants and foreign workers who learn at the school. Furthermore cooperation with various museums continue. Within this framework the Bank lent works from its art collection.

In 2017, Discount Bank continued the project **"A stage for the Artist"** intended to support and provide exposure to artists and to encourage creativity and original art of all classes. **3 exhibitions were held in 2017 within the framework of the project.**



"HERZELILINBLUM" BANKING AND TEL AVIV NOSTALGIA PRIVATE MUSEUM

➤ The Herzelilinblum Museum, founded in 2009 by the Bank, 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, 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 activities conducted at the private Herzelilinblum Museum:

Tours and workshops - Tours and different workshops are being conducted at the Museum, led by a skilled team of guides, all of them employees of the Bank. Inter alia, economic tours for children and adults, workshops for middle and high school students on subjects of economics and civics, historical tours of the city of Tel Aviv, in-depth tours in the fields of preservation and architectural.

Since its opening in May 2009 and until the end of 2017, the Museum hosted 350 thousand visitors.

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 2017, some 152 events were held for corporations, business forums**

and organizations (similar to 2016).

Exhibitions at the Museum - Herzelilinblum presents a permanent exhibition and changing exhibitions on varied and different subjects relating to the characteristics of the house. Among the outstanding exhibitions held at the Museum in 2017, may be mentioned:

"Woman to her Sister" Exhibition, opened in March 2017. The exhibition presents the oeuvre of women artists from all segments of society, praises the values of sisterhood and friendship and the positive power that a group of women friends can and do create and reflects the image and diversity of the Israeli society.

Since the opening of "Herzelilinblum" Private Museum until the end of 2017, the Museum hosted 350 thousand visitors. During the academic year some 85 tours on an average were conducted in each quarter for school children of the seventh to twelfth grades

Works by important women artists from Discount Bank's collection form the core of the exhibition, complemented by works by a large number of other women artists, including the group of women leading the "Desert Embroidery" and "Lakiya Weavers" - a group of craftswomen from the Bedouin community, who have established a factory that helps preserve the long-standing legacy of embroidery and

weaving in the town of Lakiya in the Negev.

"A Journey Through Tel-Aviv's Streets - Story and More" Exhibition opened in June, 2017 and tells the story of Tel Aviv, in parallel with the story of Israel. The exhibition tells the stories behind the street names in Tel Aviv.

Cooperation with different entities

- 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. This, within the framework of the following unique study programs: the stock exchange - an educated investment; monetary policy in Israel; meetings with the social-economic world in Israel: the social-democratic approach as against the neo-liberal approach.

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 combined with innovative and interactive technological means, which encourage the students to take an active roll in decision making processes. **During the academic year, some 85 tours quarter on an average are being conducted for school children of seventh to twelfth grade.**

A joint marketing campaign was held in 2017 between the Museum and the

Tel Aviv Municipality, Independence House, the Shalom Tower Library and the Hagana Museum. A basis was laid for a joint operation by the institutions located in the Rothschild Blvd. - Lillienblum Str. - Herzl Str. Area.

As a result, in 2017 the Museum was open to the public for the first time also in the Israeli Independence Day, and special tours were conducted therein in accordance with the historical-Zionist spirit of the Day (over 2000 visitors participated in this event).

Within the framework of the productive cooperation, the Museum hosted a group of volunteers from the information centers of the Ministry of Tourism familiarizing them with the Museum and its various activities. In addition, the Museum hosted the periodic meeting of the board of directors of the "Tourist World City", the cultural affairs arm of the Tel Aviv Municipality.

In 2017, the Museum conducted additional cooperation with associations and organizations, such as: **Taasiyeda**, which trains high school students for integration in industry.

The joint project includes economic orientated tours of the Museum as well as a new program of three meetings dealing with the Israeli economy and industry and Nitzotzot Association which is engaged in promoting motivation and capabilities in various areas of knowledge among school children.

In 2017, the Museum hosted 13 tours of the Association, which included expansion of economic and banking knowledge of the students.



GOALS

DISCOUNT BANK

- 01 Increasing the contribution of the Bank to the community
- 02 Increasing the rate of volunteering of employees, on a personal and collective basis, by 20%
- 03 Creating a favorable and appreciative atmosphere regarding volunteering employees and units, thus increasing awareness of the importance of the volunteering value at the Bank

GOALS

ICC

- 01 Expanding the number of employees involved in social work initiatives at ICC, and increasing the total of voluntary work hours of company employees by at least 5%

MERCANTILE DISCOUNT BANK (MDB) – INVOLVEMENT IN AND CONTRIBUTION TO THE COMMUNITY

➤ The work for the community of MDB is an integral and significant part of its overall activity and organizational culture, and accordingly does a lot from the social aspect in aid of the community within which it operates. The activities in the community are diverse and include financial sponsorships and participation in community projects, as well as activities of employees in the community, and includes inter alia:

"Sprint Mercantile" project. For details, see above under "Sprint Discount".

"Computer for each child" project. For the past decade MDB has participated in this project (sponsored by the State of Israel) involving the contribution of computers, software and instruction for children of low means families. Over the years, the Association has distributed thousands of computers to children and in addition, software, instructions and study courses regarding the different software had been given. In the years in which MDB participates in the project, it donated approximately 1,250 computers.

"Yad Eliezer" project. MDB has joined the "Yad Eliezer" Association, engaged in providing assistance and support to thousands of families in need (single parent in particular) in the ultra-orthodox sector. The Association provides support in various fields including education, and in this activity the bank participates. Within the framework of the cooperation with the Association, the bank grants in each year some 160 scholarships to mentors of the ultra-

orthodox community, who in consideration for the scholarship assist in their studies school children of second to eight grades, who are orphans or belong to a single parent family.

Cooperation with the "A Different Lesson" Association. During 2017, employees of the bank conducted seven enrichment study courses at schools of the Arab and ultra-orthodox sectors, in which the pupils acquired basic practical concepts of banking subjects, with a focus on issues such as management of a responsible budget and the importance of savings.

Activity in aid of the community conducted by employees of MDB. As stated above, MDB who operates through 77 branches countrywide, uses its wide disposition for varied activity in aid of the community. Employees of the bank participate in voluntary work, including: the renovation and painting of buildings, institutions and homes serving the community, the collecting and packaging of foodstuff and the distribution thereof via associations supporting disadvantaged people, maintenance of community gardens, different workshops, collection of clothing and donating them through the country wide activity of associations, study assistance and financial guidance, participation in Holiday parties at welfare homes, old age homes and hospitals (as part of these activities, bank employees distribute gift parcels purchased within the framework of social purchasing), the collection of medication in cooperation with the "Friends for Health" Association, and more.

ICC – INVOLVEMENT IN AND CONTRIBUTION TO THE COMMUNITY

> The work of ICC in the community includes, alongside financial resources allocated to

different organizations and associations, also the allocation of human resources and accordingly, ICC strives towards activity that combines voluntary work by ICC employees. All this, while emphasizing the connection to the core business and the company's vision: realization of dreams, needs and wishes at any time and place.

In order to realize its goal, ICC did considerable work in aid of the community, inter alia:

"ICC is to wish and dream". The flagship program of social endeavors, which aligns with ICC's business vision, which emphasizes the realization of dreams and needs at any time and place, has continued, for the fifth consecutive year. Within the framework of the program, company employees volunteered for work at boarding houses of the Fair Chance for Children Association, with the aim of realizing the dreams and needs of children living in boarding houses with no family support, and together form the dream which the children wish that ICC employees would realize for them. Dreams have been realized over the years for thousands of children and youth from all over the country.

"ICC for a Fair Chance", the first of its kind social enterprise with the participation of ICC credit card holders together with various trading houses and the "Fair Chance for Children" Association. Within the framework of the enterprise, a discount is granted to the credit card holder in respect of any transaction made through an ICC credit card at trading houses participating in the program, and concurrently, a donation is made to the 'Fair Chance for Children' Association.

"A different lesson". For the past nine years, ICC participates in the project of the "A different lesson" Association active in promoting equality of opportunities in education. Employees and managers of the company are conducting lessons for school children of low socio-

economic background, mostly on matters of financial education. At the conclusion of the activity and towards the end of the academic year, the students are invited to the offices of ICC for an enriching and experiential visit.

"Synergy". Powerful leadership alongside contribution to the community. ICC participates in the "Synergy" program, which integrates senior managers of ICC in executive boards of social organizations on a purely voluntary basis. The connection between the parties takes into account the needs of the social organization and the qualifications of the volunteering manager. The program is conducted jointly with the Israel Joint.

"Round-Up". ICC participates in the activities of the "Round-Up" Association engaged in improving the Israeli society, and offering to ICC customers credit card holders the option of rounding-up to the nearest shekel the amount of a credit card transaction, and to contribute the rounded-off amount to chosen associations.

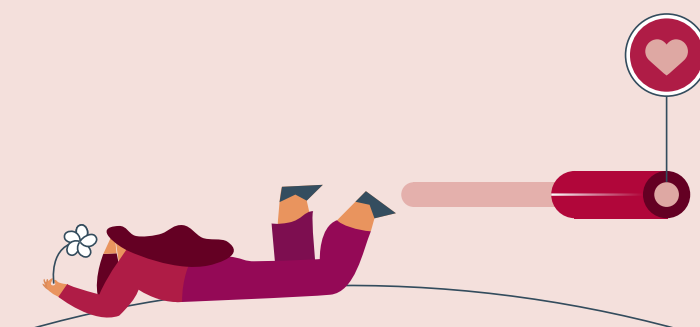
Company employees initiate for the community. The company is open to any employee wishing to offer ideas and leading social initiatives. The company assists such ideas conceptually, financially and in following the actual work. Of the various activities led by employees may be mentioned the distribution of gift parcels during the Holidays to children in hospitals and boarding houses, participation in Chanukah parties at senior citizens homes, and more.

The friendship line of Orly and Guy. A project operating within the framework of the TV morning program of "Orly and Guy" on Channel 10 TV (track 14) and provides response to persons entangled in bureaucratic red-tape or in economic distress. ICC provides assistance on a current basis to customers referring to the friendship line with the request for assistance in

matters relating to the activity of the company, including the spreading of repayment of debts to the company, the granting of rebates, etc. In the course of 2017 ICC helped tens of customers applying for assistance through the friendship line.

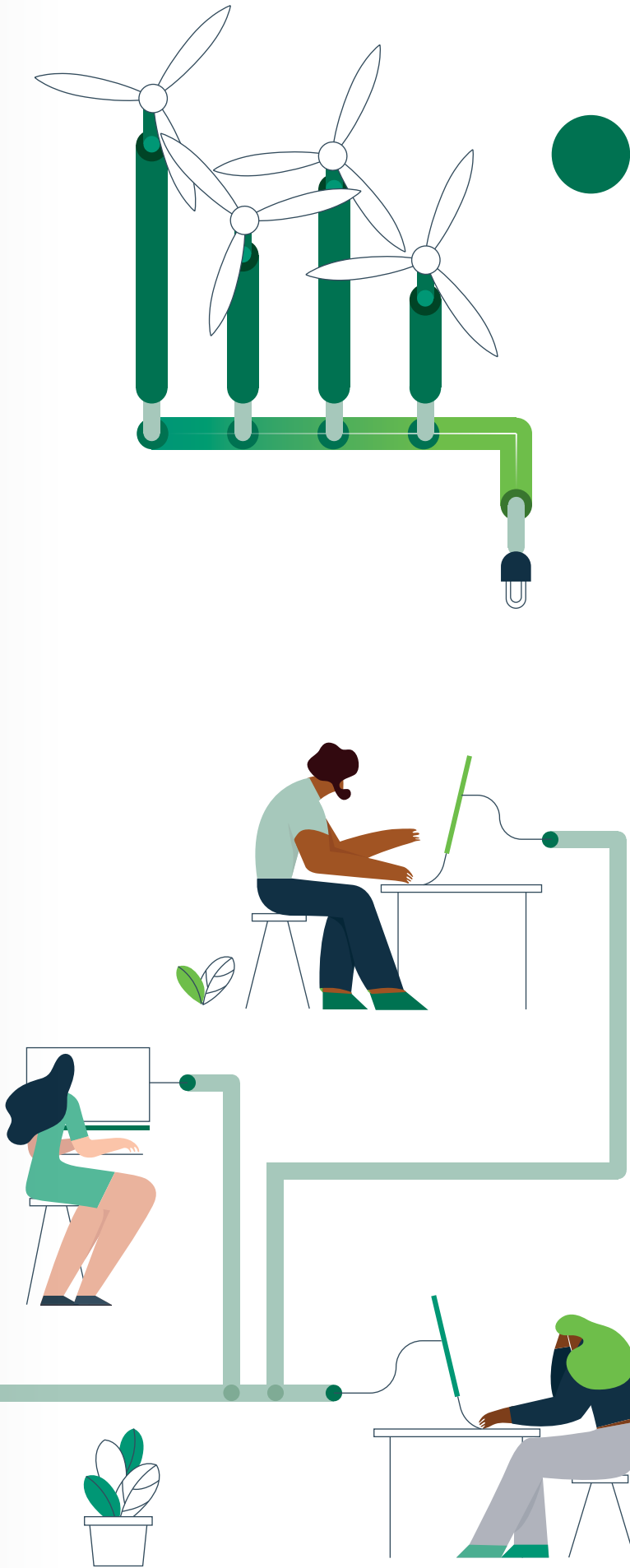
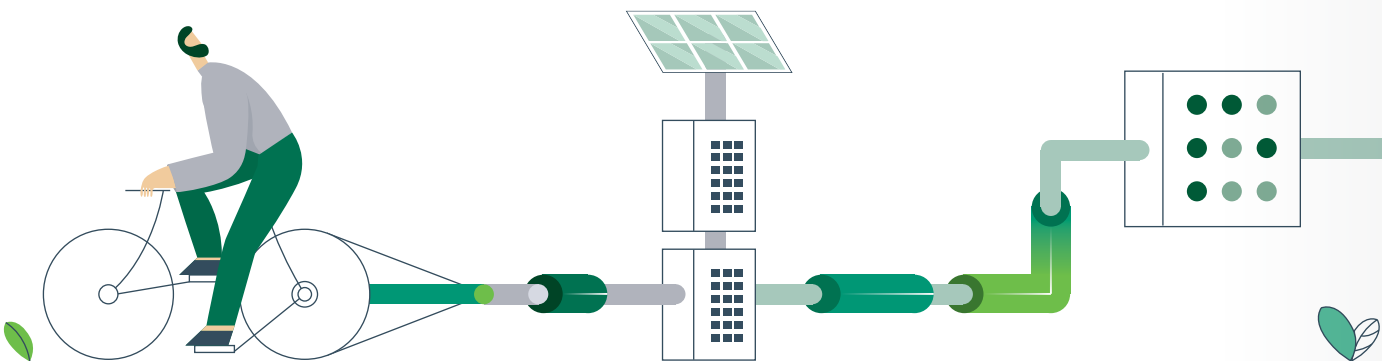
"ICC is to wish and dream", the flagship program of ICC, which emphasizes the realization of dreams and needs at any time and place, has continued for the fifth consecutive year. Dreams have been realized over the years for thousands of children and youth from all over the country

Supporting sport activities. ICC is active in the advancement of the sports culture in Israel generally, and in competitive sport in particular, and supports Israeli sportsmen in the course of their efforts to reach new records, playing fairly and in a sportive spirit. The company accompanied the Judoist Ms. Yarden Gerby on her way to the Olympic Games in Rio in 2016, and supported her from the training stage, through winning the medal and until her retirement from the sport.



08 GREEN DISCOUNT

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12% ↓
Energy consumption (GJ)

14% ↓
Electricity consumption (kW-h)

1.36% ↑
Fuel consumption (diesel and gasoline)

24.3% ↓
Paper consumption (tons)

21.5% ↓
Paper waste (tons)

15% ↓
Carbon footprint (in carbon dioxide equivalent tons)

APPROX. NIS 11 MILLION
investment in energetic efficiency projects

NIS 907 MILLION
credit exposure to projects involving solar energy

All data relate to the rate of change compared to 2016

GREEN DISCOUNT

THE BANK ENDEAVORS TO CREATE A POSITIVE IMPACT THROUGH ENVIRONMENTAL RISK MANAGEMENT IN ITS BUSINESS ACTIVITIES AND THROUGH SAVINGS AND EFFICIENCIES IN ITS OPERATIONAL ROUTINE

ULTIMATE OBJECTIVES

- The Bank is committed to the principle of sustainable development;
- The Bank is committed to preventing environmental damage and ongoing improvement in contribution to the environment;
- The Bank supports an entrepreneurial and proactive approach to reducing the harmful effects on the environment in the area of assets;
- The Bank continuously examines energy-saving alternatives, in the operation of electrical equipment and air conditioning.

POLICY

Discount Bank attributes importance and relevance to the subject of the environment, from the social and economic aspects. The Bank endeavors to create a positive impact through environmental risk management in its business activities and through savings and efficiencies in its operational routine. The Bank adopted a policy of **maintaining the proper balance between business activity and environmental protection** and it is committed to present an ongoing improvement in its environmental performances, without compromise regarding the quality of services provided to its customers.

As a corporation that provides financial services, the Bank's direct environmental effects result from its consumption of office materials, primarily electricity and paper. Accordingly, the Bank focuses its efforts on managing, measuring and monitoring and on making savings and efficiencies in these areas.

Environmental activity principles

- The Bank strives to comply with all environmental laws, regulations and governance and received no complaints in 2017 regarding its environmental conduct;
- The Bank allocates manpower and financial resources to examine and mitigate as much as possible its direct and indirect environmental impact;

- The Bank integrates environmental risk management within its business activity;
- The Bank is committed to identifying the environmental impacts in the construction and properties field. The Bank's Management appointed a senior officer, the manager of the construction and properties wing, which report directly to the Head of the Human Resources and Properties Division;
- The Bank strives to involve its employees and the community in its activities on behalf of the environment.

"GREEN 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 this, widening legislation on the subject and claims by those who had suffered damage which were admitted by courts around the world, a part of the companies engaged in these areas began taking into account environmental criteria in considering the feasibility of projects. Legislation in this field has widened also in Israel, though it is not yet wide-ranging compared to Europe and the U.S.

Banking corporations may be exposed to environmental risks in the various

aspects of their operation, and such risks may be included with other risks, such as: credit risk, market risk, operational risk, legal risk and liquidity risk.

The Bank's policy as regards environmental risks relating to credit is focused on the identification of the risks, evaluation thereof and reporting it to the decision makers, as well as conducting a continuous monitoring of borrowers having a high environmental risk potential.

The aim of this policy is to identify borrowers having a high risk potential, and making specific decisions with respect to cases where the risk is viewed as material (having a high probability of materialization and when in potential materialization the credit loss may be material).

In this framework, the Bank has defined an evaluation process with respect to the level of environmental risk and of the quality of risk management regarding business customers upon the granting of credit and upon performing the periodic evaluation of customer quality, with special reference to customers having a high environmental risk potential. The monitoring of the credit risk exposed to significant environmental risks is performed on an ongoing basis during the year.

For further details regarding the risk management at the Discount Group, see the 2017 Annual Report (pp. 56-100) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" for 2017.

Granting "green credit"

➤ As part of the overall process of environmental risk management, the Bank offers credit to "green" businesses, everything subject to adherence to the credit granting rules in effect at the Bank, including the examination of the repayment ability of the borrower.

"Green credit" - credit granted for:

- ➔ Financing the operations of a company producing green products contributing to the protection of the quality of the environment;
- ➔ Credit to a company that has a green production process protecting the quality of the environment;
- ➔ Credit granted for the establishment of a green operation, including the purchase of green equipment (machinery);
- ➔ Upgrading of production systems to those protecting the quality of the environment.

Financing in the solar energy field

A relevant field of operation, which has become relatively significant in the Bank, is credit extended for the installation of solar systems.

The sub-sector of photovoltaic installations (PV) is a part of the renewable energy field. This field is based on regulations under power of the electricity market Act, designed to regularize the establishment of electricity production installations using solar and wind energies. These systems have many advantages when it comes to promoting environmental quality and clean electricity generation through the use of renewable energy.

In addition, the Bank extends credit for

CSO (thermo solar) projects.

The Bank has a specific policy for the granting of credit to the solar energy systems field, both to business and private consumers. Among other matters the processes for granting credit, controls and specific collateral for this field are arranged within the framework of the policy.

The Bank's total credit exposure in respect of financing solar energy projects amounted as of December 31, 2017, to NIS 884 million, compared with NIS 736 million as of December 31, 2016.

PROMOTING GREEN BUILDING

Establishment of the Discount Campus

➤ In 2016, the Discount Group, through Discount Leasing, began to promote the Discount Campus project in Rishon Le'Tzion, in the framework of which, the Group acquired an area of 21 dunums in that city. The campus is intended to house in the future the Head Offices of Discount Bank, MDB and ICC, including computer installations. As such, this project constitutes the principal non-banking investment of the Group for the coming years.

Within the framework of the preparations for the construction of the project and the preliminary planning, great emphasis has been given to environmental effects and commitment to the sustainable

planning of the Campus, and inter alia, as part of the said preparations, the Bank engaged the services of an environment and green construction consulting office and the following actions are being performed: integration of green construction considerations in all stages of planning of the project, including by means of Integrated Development Planning (IDP) serving as a basis for choosing planning alternatives for green construction on the basis of tests for techno-economic feasibility; planning that qualifies the project in accordance with green construction standards; emphasizing a healthy work environment; optimal utilization of natural lighting and natural ventilation, while maximizing the thermal performance and convenience conditions of the different users of the Campus (work space, public areas, open areas and more); emphasizing the saving of energy and preservation of resources, and more. In addition, the accessible location of the Campus would encourage the use of different means of public transport.

Study of environmental effects in existing buildings

➤ The Bank studies the environmental effects also as regards existing buildings, as a basis for taking decisions in the field of construction and properties:

- ➔ The process of choosing and planning the head office and branch buildings integrates green criteria, both in engineering and in the choice of materials;
- ➔ Environmental control is conducted, which includes the measurement and monitoring of radiation in the Bank buildings;
- ➔ The Bank, has a building which complies with Standard 5281 of the Standards Institute for green construction, at 17, Yehuda Halevi Street in Tel Aviv.

GRANTING OF GREEN CREDIT BY THE PRINCIPAL SUBSIDIARIES

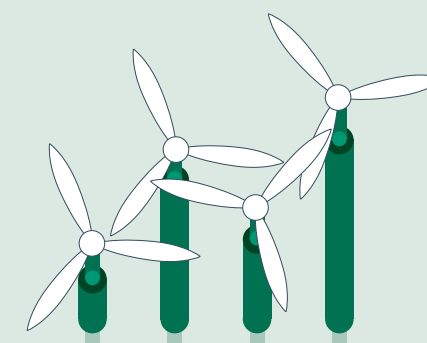
The principal subsidiaries are also engaged in promoting the grant of "green credit" and the development of environmental products promoting a cleaner environment.

Mercantile Discount Bank

➤ **Mercantile Discount Bank** provides from time to time, credit for the financing of solar systems, mainly to corporations specializing in joint ventures with Kibbutz settlements (where control is in the hands of the Kibbutz). The volume of credit to this type of activity amounted in 2017, to NIS 23 million, compared with NIS 22 million in 2016, a relatively insignificant amount in relation to the operations of the bank.

ICC

➤ **ICC** is setting up a collaboration with Enerpoint Ltd., one of the oldest and largest solar energy companies in Israel, for the financing of domestic solar energy systems. ICC and Enerpoint signed in May 2017, an agreement in principle for cooperation in providing loans for the installation of home solar energy systems, within the framework of this, ICC will provide loans to private customers installing the Enerpoint solar energy systems on their home rooftops.



RESPONSIBLE CONSUMPTION OF RESOURCES

Energetic efficiency

➤ As stated, Discount Bank's direct environmental effects are extremely limited and result mainly from office operations: the consumption of energy, water, paper, etc. Due to the nature of its environmental effects, the Bank has set the reduction of energy consumption as a main environmental goal.

In 2017, the Bank's total energy consumption²¹ amounted to 161,632 GJ, and the Bank managed to achieve a 12% saving in energetic consumption compared to the previous year.

Reducing electricity consumption - in 2017, Discount Bank managed to reduce total electricity consumption by approx. 14% compared to the previous year.

In 2017, Discount Bank was successful in reaching savings of 12% in the consumption of energy compared to the previous year

Among the measures taken to raise awareness regarding intelligent

consumption, and hence also to saving electricity, the Bank issues a monthly electricity consumption report. This report includes a comparative analysis and is distributed to all the branch and unit managers. With the aid of the report, electricity consumption data is brought to the attention of the managers, encouraging energy saving. In addition, a summary report is issued half-yearly and yearly to all the Bank's unit managers.

In 2017, additional measures were taken to reduce electricity consumption, including:

- ➔ Replacement of air conditioning systems with advanced VRF systems at 13 locations of the Bank;
- ➔ Energetic efficiency of lighting in 21 locations of the Bank through the installation of LED lamps;
- ➔ Allotment of approx. NIS 11 million for energetic efficiency measures at branches and head office premises.

In 2017, Discount Bank's fuel consumption rose slightly, at a rate of approx. 1.36%.

In order to reduce greenhouse gas emissions resulting from employees' transportation and at the same time make things easier for employees, the Bank operates two transportation facilities at the disposal of employees. During the day there is transportation service (at fixed hours) in the two main areas of activity, from the 160 Herzl

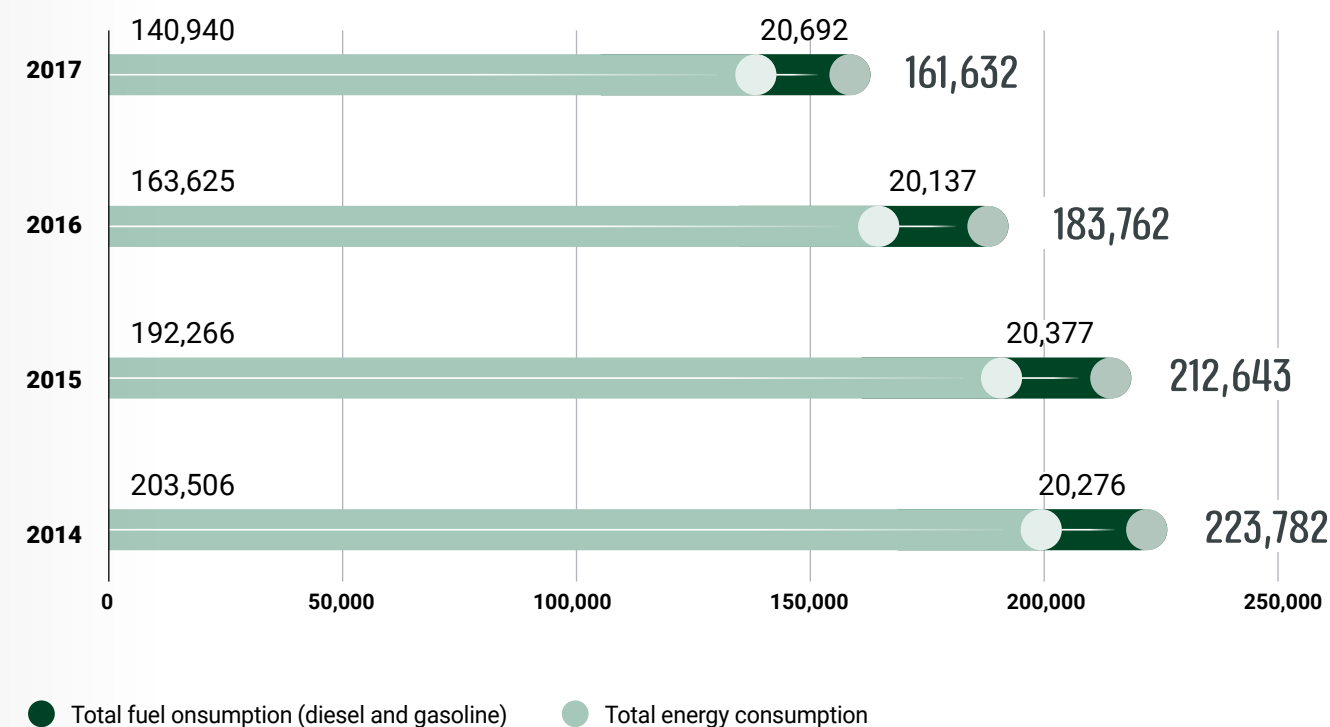
street offices in south Tel Aviv to the Discount Tower in the center of Tel Aviv and a transportation array from Jerusalem to the Discount College in Rishon Le'Zion. In addition, the Bank has installed shower cabins in one of the buildings on Yehuda Halevi Street, for the benefit of those employees who cycle to their office at the Discount Tower and 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.

The main data regarding Discount Bank's consumption of energy from various sources in the years 2014-2017 are presented below:

➤ BREAKDOWN OF DISCOUNT BANK'S CONSUMPTION OF ENERGY FROM VARIOUS SOURCES

in GJ¹, in the years 2014-2017

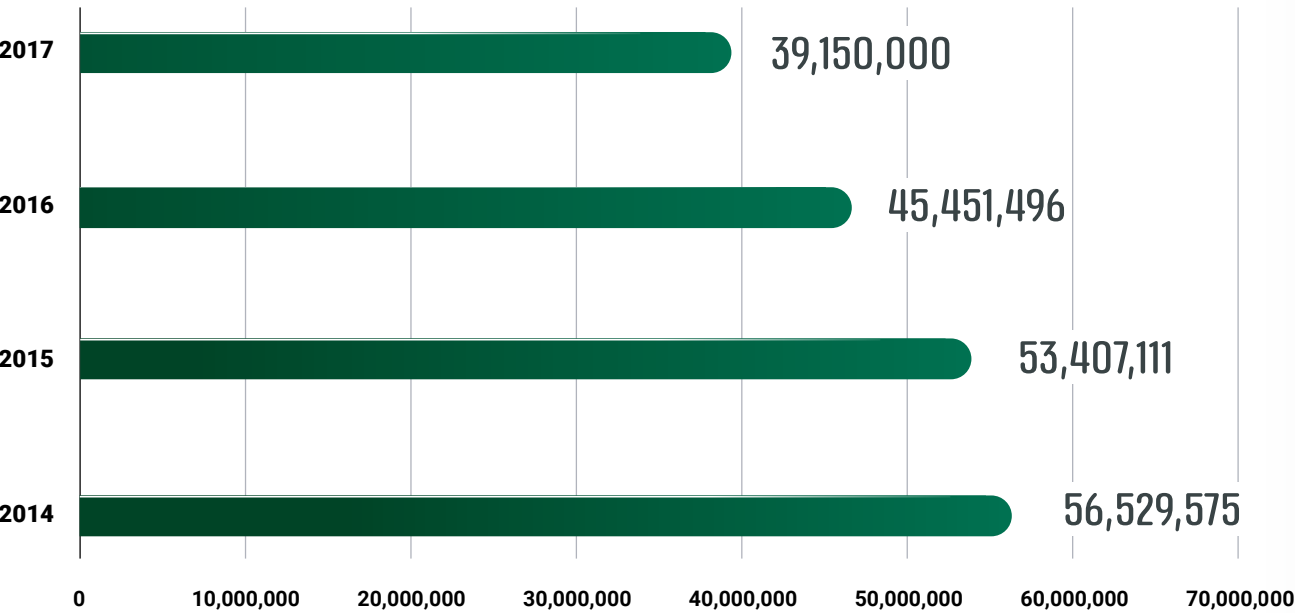


Note:
1 GJ - Energy measurement unit (Gigajoules).

²¹ Discount Bank's total energy consumption is the sum of its total electricity consumption added to the total of its fuel consumption.

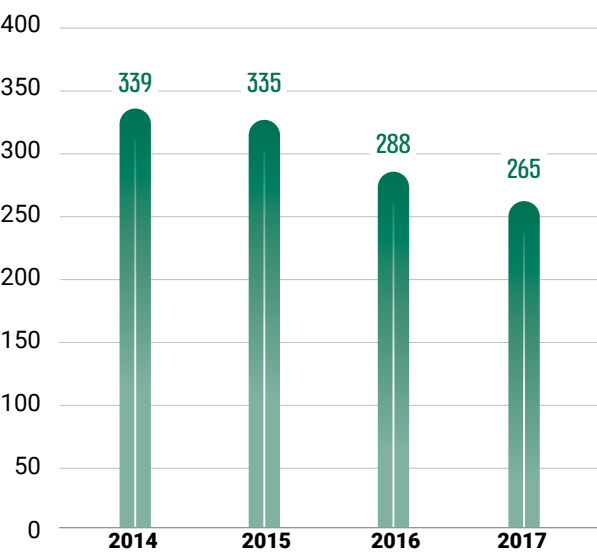
> DISCOUNT BANK'S ELECTRICITY CONSUMPTION

in kW-h, in the years 2014-2017



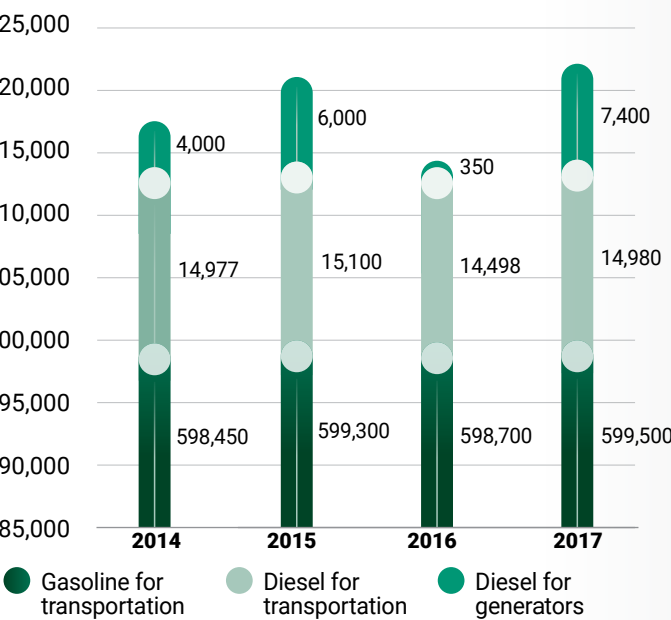
> DISCOUNT BANK'S ENERGETIC INTENSITY

total kW-h/sq.m



> DISCOUNT BANK'S FUEL CONSUMPTION

in liters for employee trips and generators



Note: Fuel consumption in the first quarter of 2014 was assessed on the basis of average monthly consumption.

> DATA REGARDING THE ESTIMATED SAVINGS RESULTING FROM THE PROVISION OF A SHUTTLE SERVICE FOR EMPLOYEES

Leaves from	Destination	Frequency		Average no. of passengers per circuit	Average no. of passengers per Month	Length of journey (in mins.)	Estimated savings in travel time (in hours)
		Days per week	Circuits				
Central Jerusalem	Discount College Rishon Lezion	4	2	6	192	60	192
Within Tel Aviv	Discount Tower, 160 Herzl St.	5	9	10	1,800	20	600
Total monthly savings							792
Total annual savings							29,504

> SAVINGS IN DISCOUNT BANK'S ARRAY OF SHUTTLE SERVICES



Note: For the purpose of the calculation, an estimate was made of the journey length, the fuel cost and the top-up coefficient taken from the Central Bureau of Statistics data.

PAPERLESS ACTIVITY

> One of the main goals of Discount Bank in the environmental sphere 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, **and with their aid, the Bank managed to reduce its consumption of paper by 24.3% in 2017.**

Digitalization of the archives

> During 2017, the Bank continued to convert and transform its branch documents into electronic source documents. In addition, the Bank took out all the material from its central archives, scanned it and it is now presented in the

customer's digital file (this has been carried out for 100% of the branches). This has also enabled the freeing up of space, which is now used for work stations. Furthermore, a reduction has been made in the quantity of paper reports issued and a transition to producing digital reports has taken place.

Computerized forms system

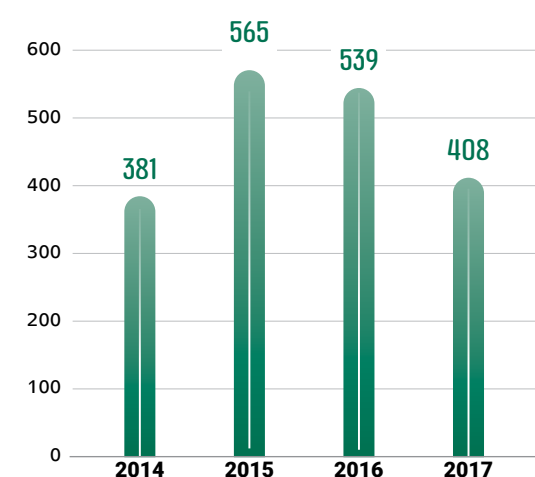
> Banking work uses a large number of forms. Until now, the forms were printed in advance, requiring extensive storage space, and the destruction of the inventory of forms whenever they were updated. The Bank switched to a computerized forms system, which enables each employee to print the updated form 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.

System for managing and distributing procedures and circulars

> The Bank has an internal communications network, the "intra-net", which is used in distributing circulars and procedures to the employees, thereby enabling the Bank's procedures to be readily accessed and retained for long periods, while making savings in the cost of printing and distributing circulars to employees.

> DISCOUNT BANK'S PAPER CONSUMPTION

in Tons



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. 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. Concurrently, the Bank has conducted the mapping of prevalent notices sent to customers, examining their regulatory requirement, and reduced the number and frequency of such notices.

Envelope savings

> Replacement of inter-office envelopes with multi-use envelopes. In addition, documents sent for scanning are delivered in expendable nylon envelopes as an alternative to paper envelopes.

Use of the "Fax to Mail" software

> Cancellation of the need to print fax notices, and keeping documents sent to the Bank as computer files.

RECYCLING AND USE OF RECYCLED MATERIALS

> The Bank promotes the recycling of materials by its employees. In 2017, some 720.5 tons of paper were sent for recycling, which constitutes 100% of the Bank's paper waste. In addition to paper, the Bank sends used lightbulbs, bottles, batteries and electronic waste for recycling. In 2017, some 7,200 lightbulbs, 63,000 drink bottles, 9,800 batteries and 92 tons of electronic waste were sent for recycling.

Some of the usage of ink (toner) cartridges is based on refurbished ink cartridges. **In 2017, Discount Bank**

consumed 3,725 refurbished ink cartridges, that constituted 38% of the total ink cartridges.

EMISSION OF GREENHOUSE GAS

> On its own initiative, the Bank has committed to a reduced greenhouse gas emissions target and is working accordingly to gradually reduce its carbon footprint, through energetic efficiencies at its branches and head office. In each year, the Human Resources and Properties Division monitors the progress in this area by collecting performance data in the various areas and formation of a report reflecting such data. In addition, in each year the Bank voluntarily reports emissions created by it to the reporting and recording center of the Israel Ministry of Environmental Protection.

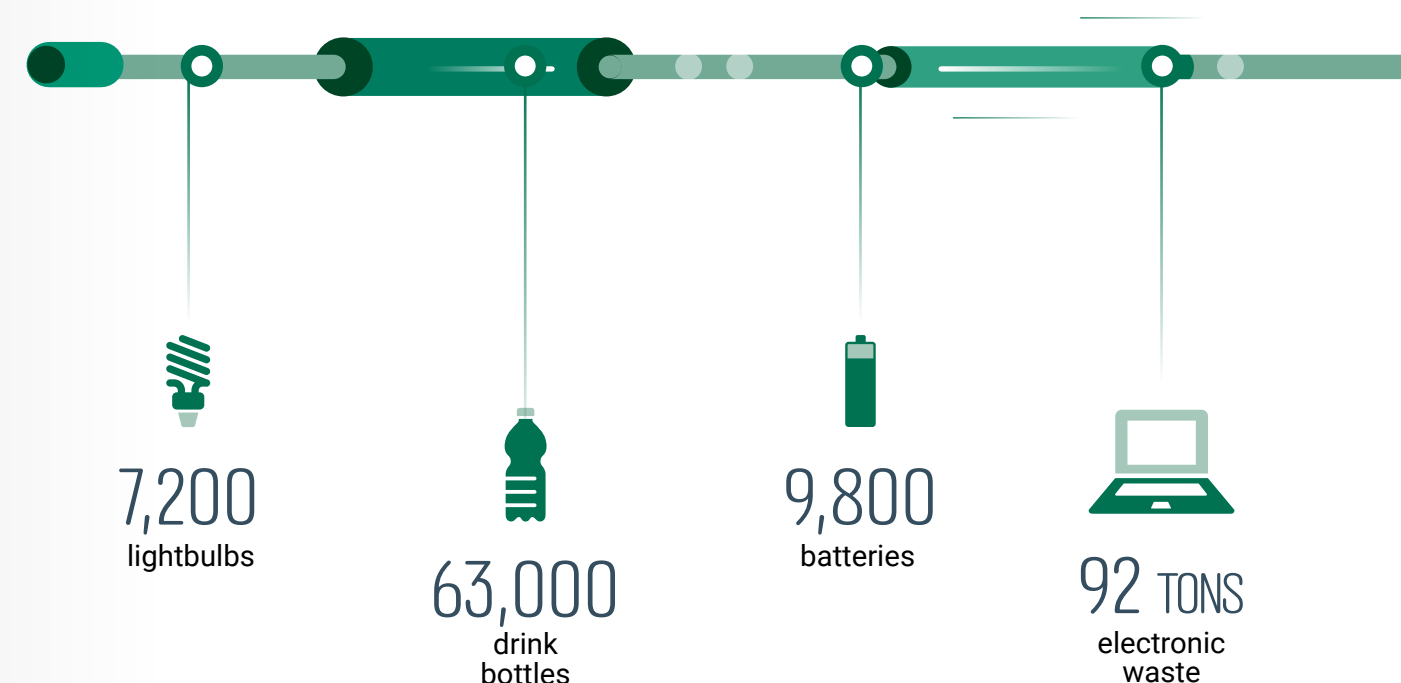
The carbon footprint of Discount Bank and its principal subsidiaries in Israel, whose data are presented below, comprise three scopes:

Scope 1 - Total direct emissions, originating in the consumption of fuel and refrigerant gases;

Scope 2 - Total indirect emissions deriving from electricity consumption;

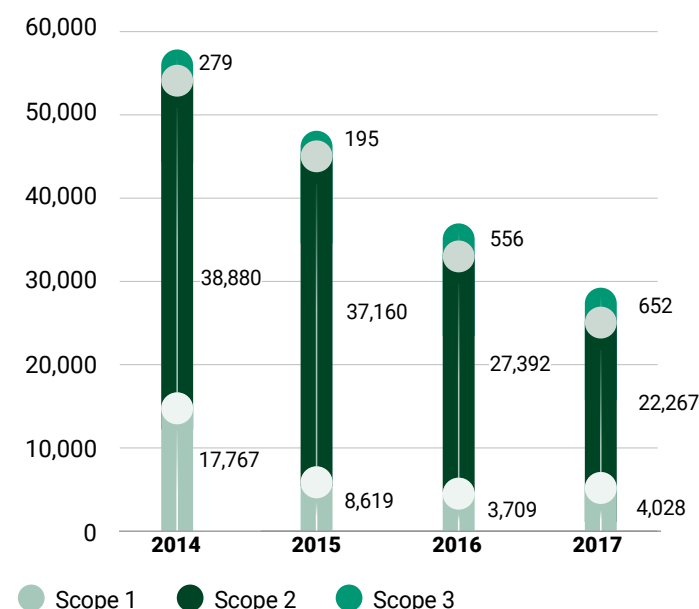
Scope 3 - Total indirect emissions affected by the operations, but not resulting therefrom. Business flights, paper consumption and water consumption are included in this scope.

In 2017, Discount Bank and its principal subsidiaries in Israel managed to achieve a reduction of 15% in their carbon footprint, compared to 2016. The reduction results mainly from a 14% decrease in electricity consumption, which brought about a 19% reduction in indirect emissions (scope 2).



DISCOUNT BANK'S CARBON FOOTPRINT ACCORDING TO SCOPES

in carbon dioxide equivalent tons

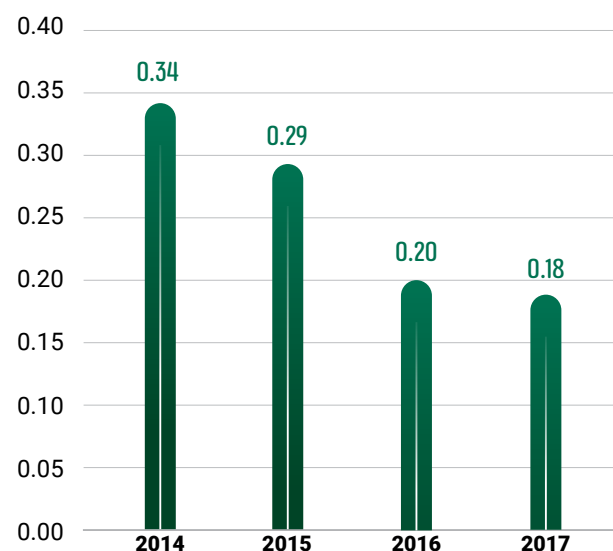


Notes:

1. The computation of the greenhouse gases emission in scope 1 and 2 are based on coefficients published by the Israel Ministry of Environmental Protection for the years 2014, 2015, 2016 and 2017. The computation of emission in scope 3 is based on the emission coefficients of DEFRA and GHG Protocol.
2. As from the year 2016, the calculation of Scope 3 includes also water consumption and paper consumption by the Bank.

THE INTENSITY OF DISCOUNT GREENHOUSE GAS EMISSIONS

Tons equivalent to carbon dioxide/sq. M



EMISSION OF ADDITIONAL MATERIALS

Discount Bank makes use of refrigerant gases for the air conditioning of its branch and head office buildings. In 2017, the Bank consumed approx. 1.05 tons of R-22 type refrigerant gas and approx. 0.31 tons of R-410 type refrigerant gas. The Bank is acting for the replacement of a major part of its old air conditioning systems with the more economical VRF systems.

INCREASING THE AWARENESS OF EMPLOYEES

The Bank uses the Intranet system for operating an organizational environmental portal, where all information and activity in this respect is being published. The site serves also as an address for employee questions and approaches in the matter.

Additionally, in the offices and conference rooms, stickers are affixed to the switches, reminding to shut off the lights at the end of the work day and, all of the cafeterias have hung banners calling for saving resources and encouraging employees to make use of the recycling bins placed in them.

RESPONSIBLE CONSUMPTION OF RESOURCES AT THE PRINCIPAL SUBSIDIARIES IN ISRAEL

Mercantile Discount Bank

Similarly to Discount Bank, MDB has also adopted many and varied energetic efficiency measures, inter alia:

Cutting down fuel consumption - Motor vehicles were put at the disposal of employees for joint travel for work purposes. Preference was given to vehicles on lease having a low pollution level. Also the bank started to hold meetings by way of video conferences;

"Paperless project" - A designated project for the savings in paper was introduced since the beginning of 2017, inter alia, with the aim of turning MDB into an environment friendly green bank. Processes using large quantities of paper and processes in which

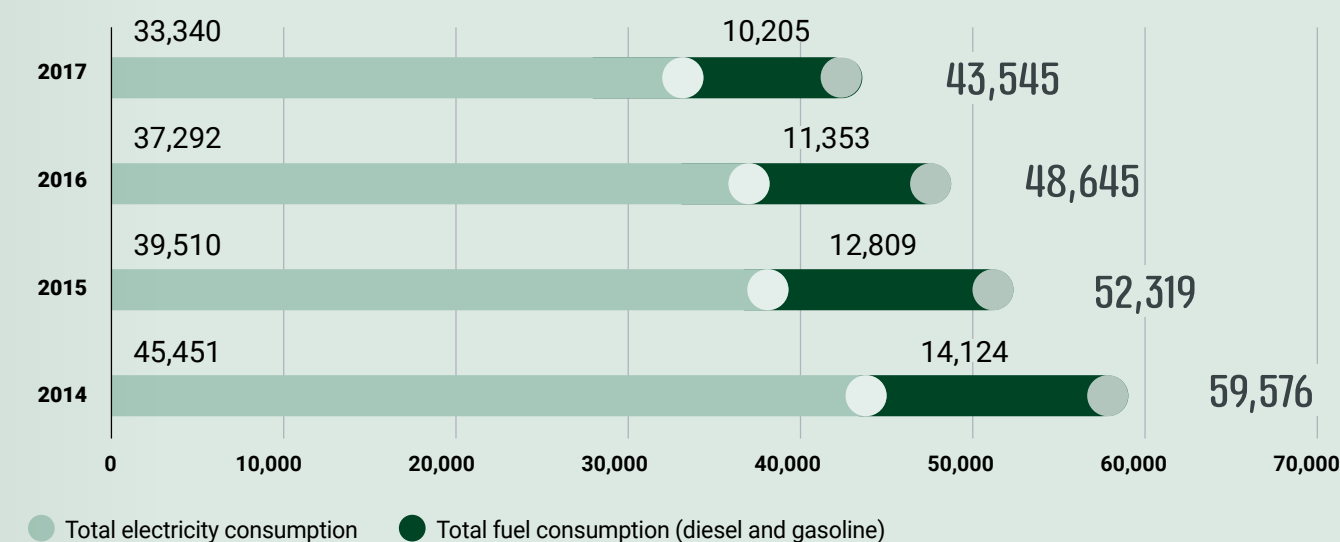
the use of paper is superfluous are being identified within the framework of the project, and following the mapping and examination of such processes, a digital process is introduced and/or printing is obviated, to the extent possible within the framework of the regulatory requirements and procedures.

Following are a number of examples of paper reducing: reducing the number of notices sent to customers via ordinary mail, adding them to the "green mail"; encouraging customers to transact business online, e.g. using applications; installation of two monitors in each work position enabling the parallel use of two systems, thus obviating monitor printings (installation at all work stations of the bank has not yet been completed); use of software for managing internal tasks in the organization (AB), thus obviating internal printed forms (e.g. real time credits and transfers, joining "business+", etc.);

Presentation of proper disclosure in information desks - MDB is committed to publishing proper disclosure every day at each of its branches. As an alternative to a physical noticeboard, screens have been developed in the information desks that are intended for proper disclosure.

MDB'S CONSUMPTION OF ENERGY FROM VARIOUS SOURCES

in GJ, in the years 2014-2017



Notes:

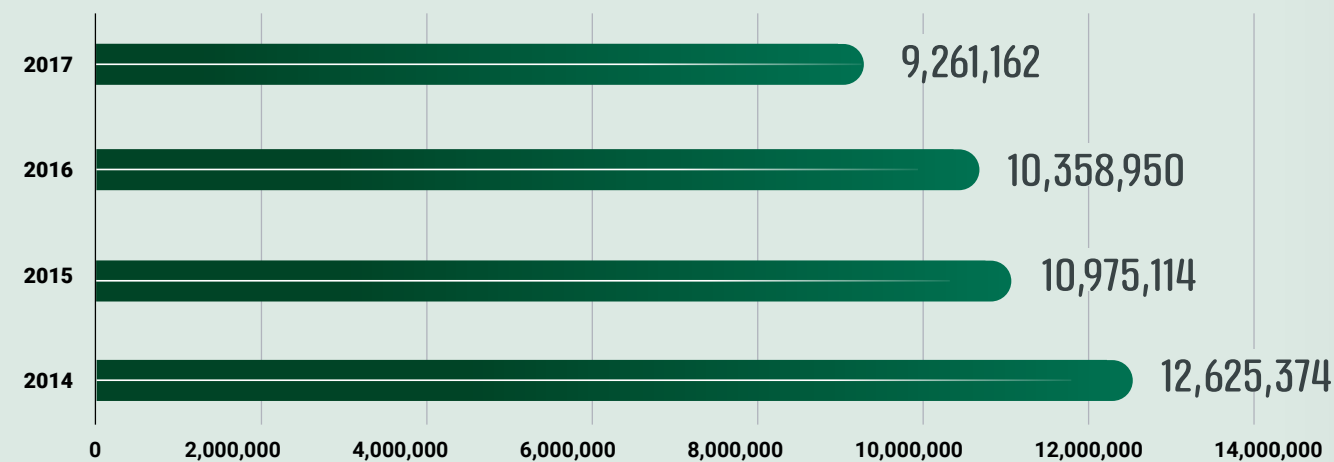
1. GJ - Energy measurement unit (Gigajoules).

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> MDB'S CONSUMPTION OF ELECTRICITY

in kW-h, in the years 2014-2017

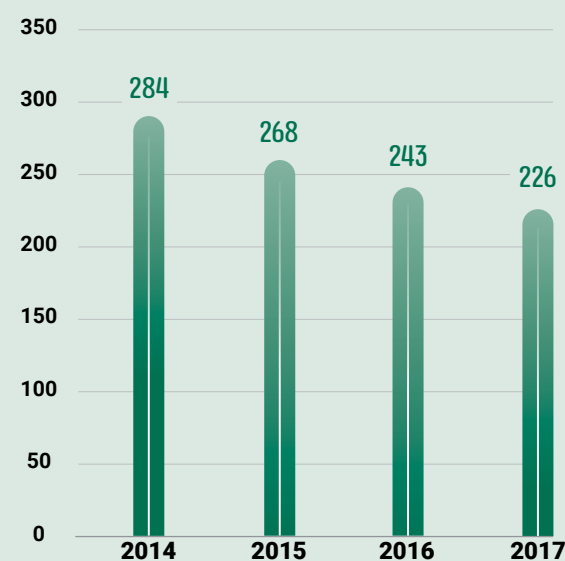


Notes:

1. The electricity consumption at the rental properties of MDB is assessed on the basis of the average kw/h price.

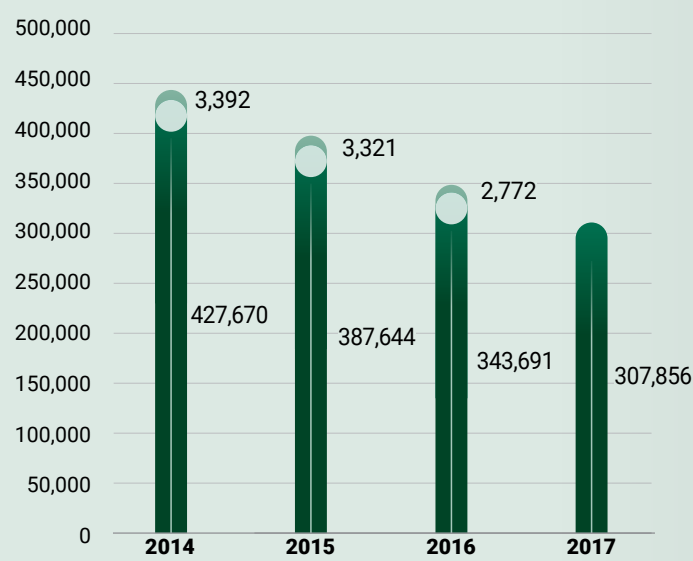
> MDB'S ENERGETIC INTENSITY

total kW-h/sq.m



> MDB'S FUEL CONSUMPTION

in liters, for employee trips and generators



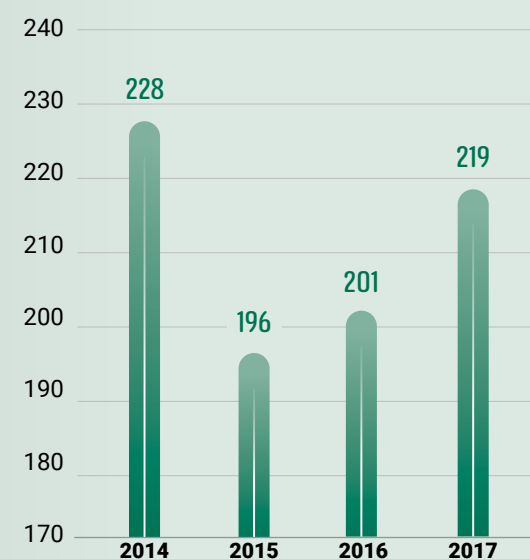
● Gasoline for transport ● Diesel for transport

Notes:

1. MDB does not consume diesel oil for generators.

> MDB'S PAPER CONSUMPTION

in Tons, in the years 2014-2017



ICC

> ICC is also promoting the responsible consumption of resources and the reduction in its carbon footprint. For this purpose, the roofs of buildings owned by it are coated once a year with a white insulation material that contributes to the reduction in the warming up of buildings in the summer months, thus saving energy consumption required for air-conditioning. Furthermore, to the extent possible, ICC utilizes sunlight for the lighting of its offices, and in planning new premises and operational locations, use is made of materials that are not harmful to the environment, while adhering, to the extent possible, to green building principles.

CALMAIL - In 2015, ICC began a move for the reduction in the consumption of paper in its operations, proposing to its customers to receive their monthly statement of transactions by electronic mail instead of by regular mail. In this framework, since 2015, the number

of customers joining this service has grown considerably, and the matter is under an organizational focus. As of the end of 2017, 37% of company customers have joined the service and are receiving their statements by CALMAIL instead of by regular mail.

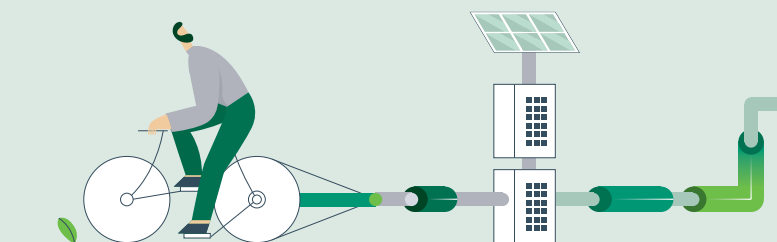
The validity of a part of credit cards has been extended for five years.

This move shall contribute to the reduction in the company's consumption of plastics in the long-run.

The company's vehicle fleet, which numbers approx. 230 motor vehicles, has been replaced during the recent years and includes at present vehicles having smaller motors, which consume less petrol and emit lesser pollution. Replacement of the company's vehicle fleet led to a 5% saving in the company's fuel consumption. Furthermore, the company operates a transportation layout for employees living in Ashdod and Rehovot, with a view of reducing the use of private vehicles by employees. Besides the transportation layout, the company operates a nightly taxi cab service, numbering on an average approx. four taxi cabs per night, for transportation of authorized personnel.

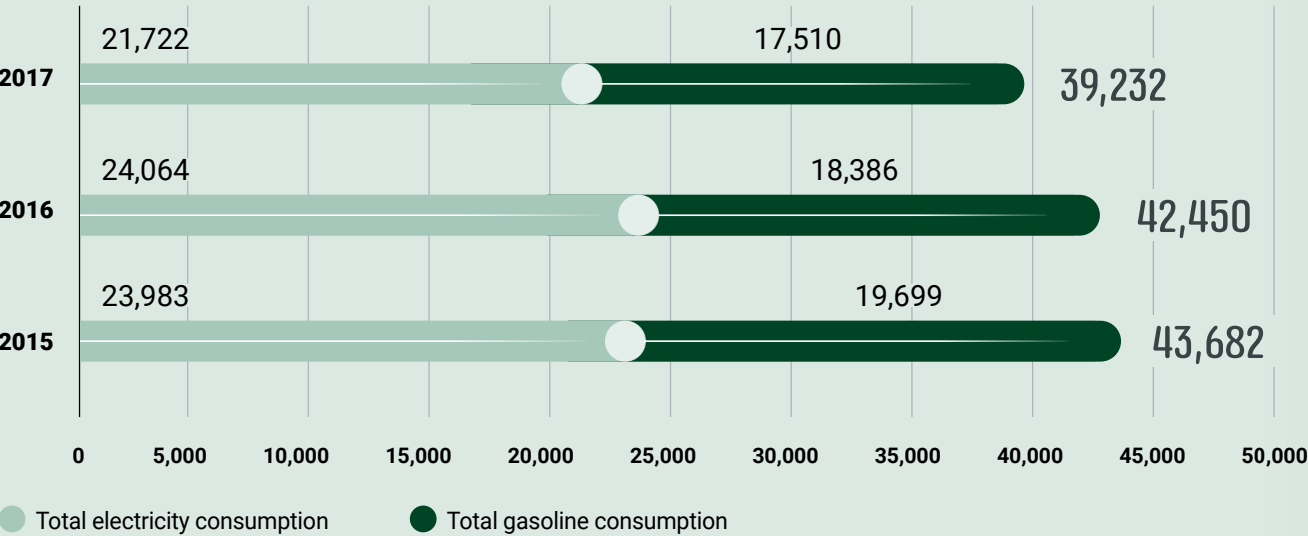
Environmental control - ICC conducts environmental control activity, which includes measurement and monitoring of radiation in company premises. Current monitoring of the work environment is conducted, including attendance and radiation surveys, performed by outside independent companies.

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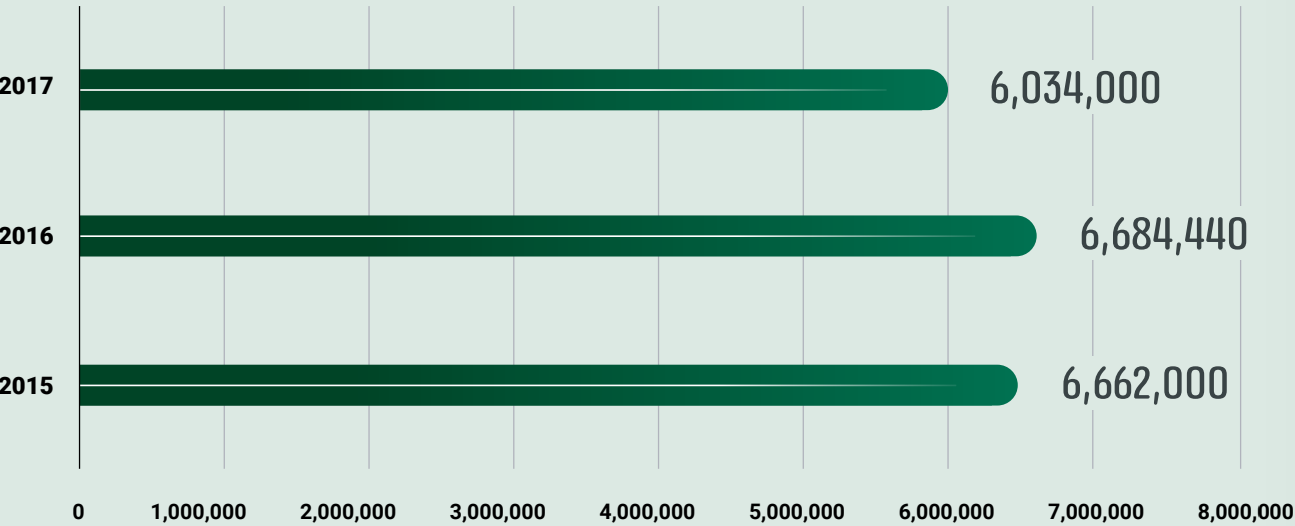
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> ICC'S CONSUMPTION OF ENERGY FROM VARIOUS SOURCES
in GJ, in the years 2015-2017

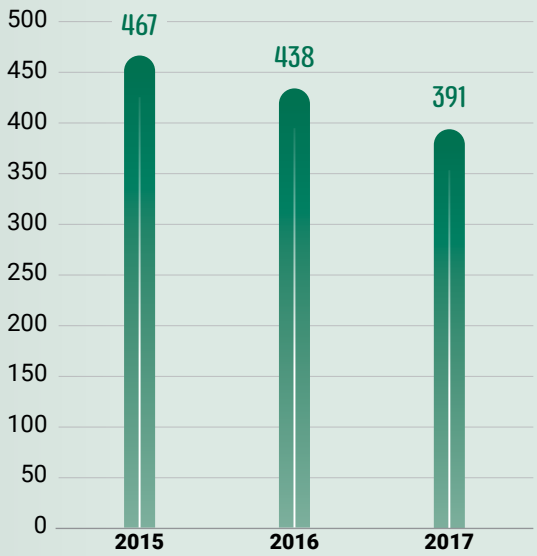


Notes:
1. GJ - Energy measurement unit (Gigajoules).

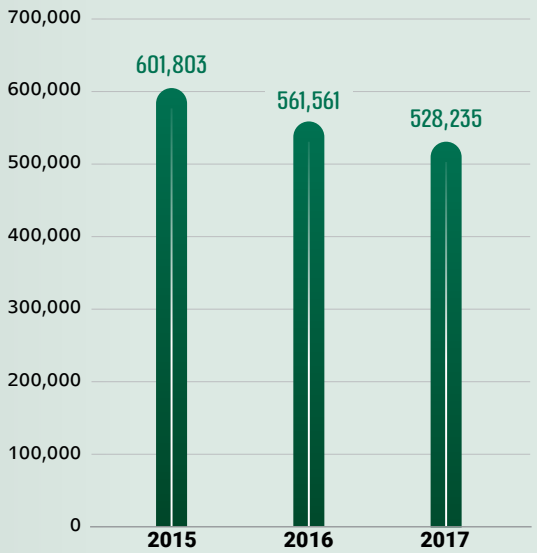
> ICC'S CONSUMPTION OF ELECTRICITY
kW-h, in the years 2015-2017



> ICC'S ENERGETIC INTENSITY
total kW-h/sq.m.



> ICC'S FUEL CONSUMPTION
in liters, for employee trips and generators



Notes:
1. Use of emergency power generators by ICC is negligible (a few tens of liters per year).



GOALS

01

Energy - reducing electricity consumption - 4% annually;

02

Reducing gasoline consumption - 1% annually;

03

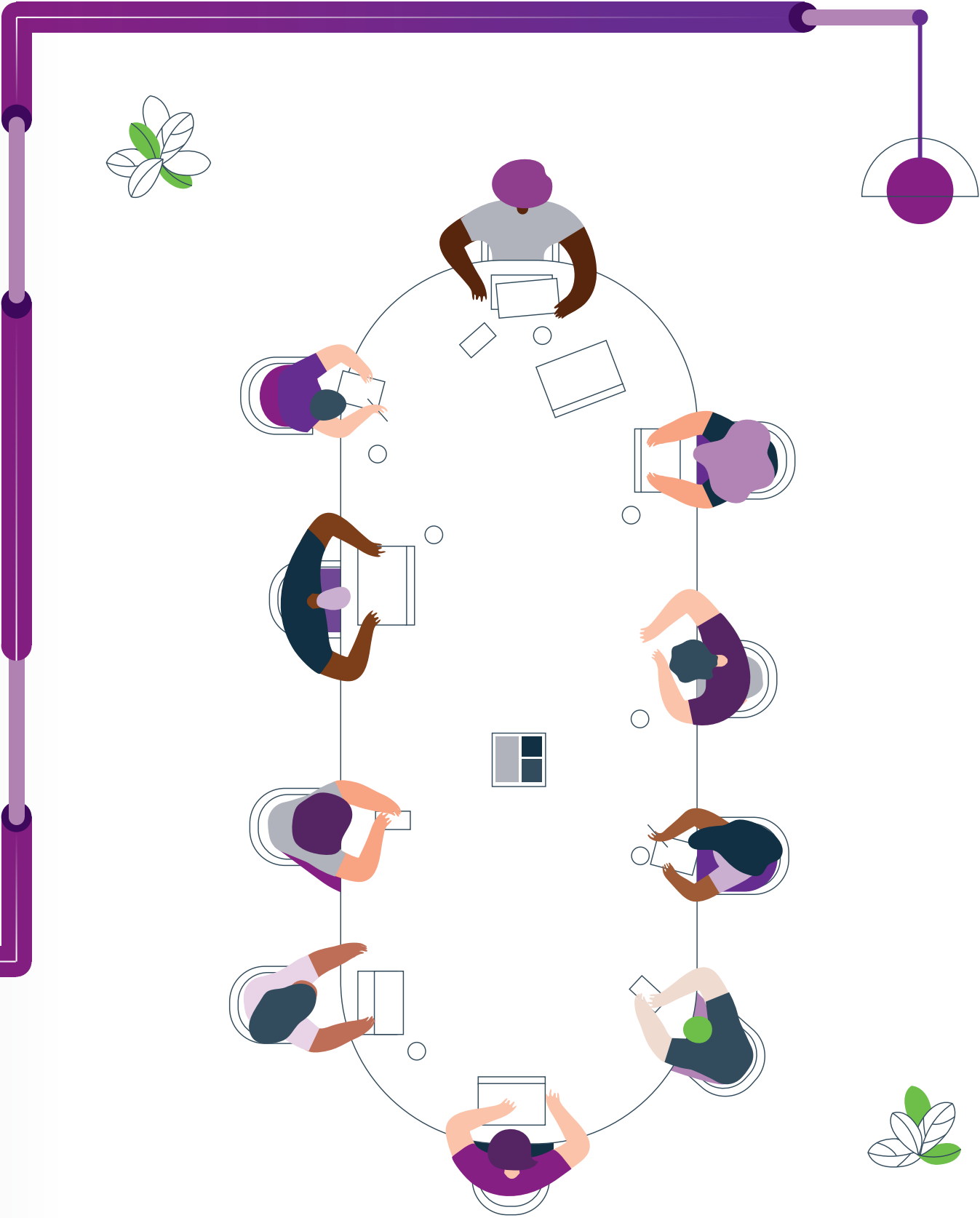
Reducing the carbon footprint in Scope 1 and Scope 2 by 1% per year;

04

It is the intention of the Bank to examine different means for exposure of employees and increasing their awareness to environmental issues relevant to the Bank's operations.

09 CORPORATE GOVERNANCE

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→ Remuneration of senior officers	212
→ Principal control functions	214
→ Corporate Governance Code for the Discount Group	217
→ Goals	226



CORPORATE GOVERNANCE

WITHIN THE CORPORATE GOVERNANCE CODE IT HAS BEEN DETERMINED, THAT THE BOARD OF DIRECTORS IS RESPONSIBLE FOR PRESCRIBING HIGH STANDARDS OF CONDUCT, DESIGNED TO ENHANCE PROFESSIONAL CONDUCT AND INTEGRITY AND TO INTEGRATE THEM THROUGHOUT THE ORGANIZATION. THE BANK ACTS AND WILL ACT IN ACCORDANCE WITH AN ETHICAL CODE INTENDED TO PROTECT THE VALUES OF THE BANK AND TO DETERMINE PROPER STANDARDS OF BEHAVIOR AND A FAIR AND TRANSPARENT CONDUCT WITH RESPECT TO THE CUSTOMERS



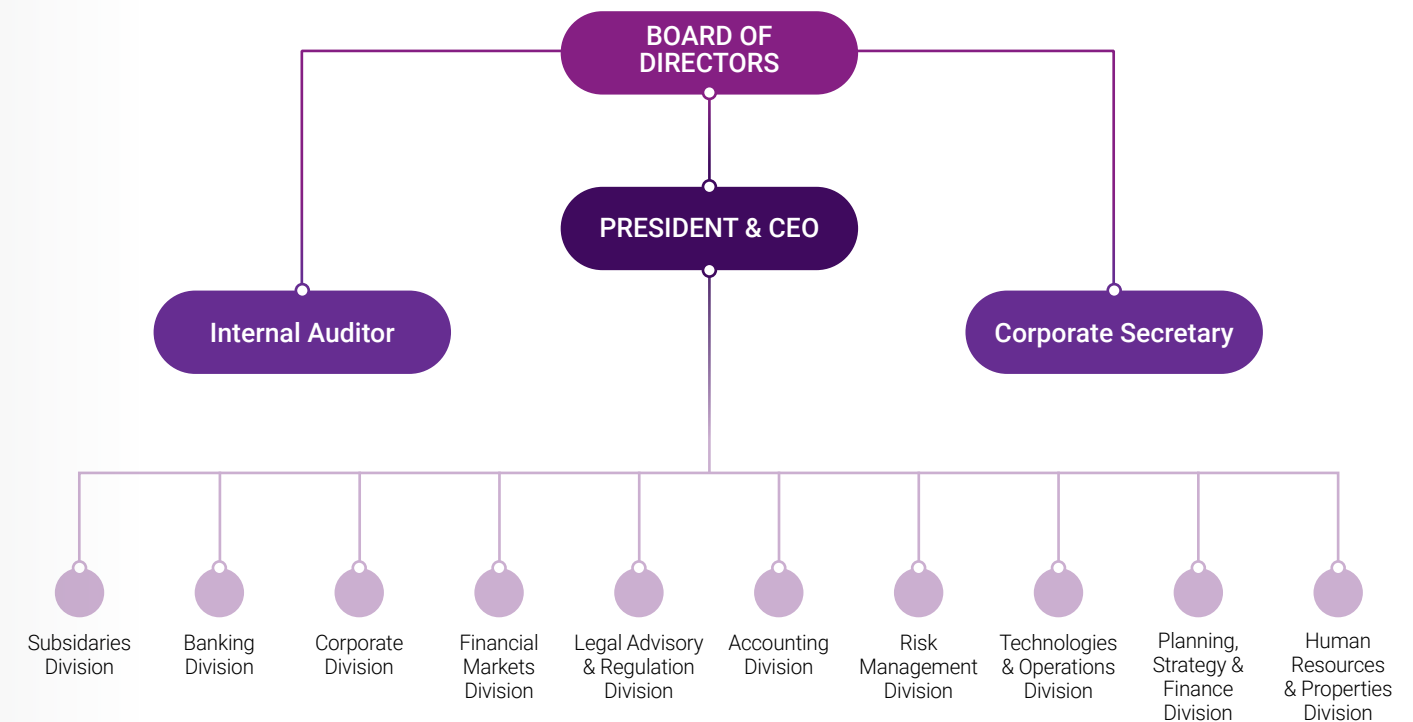
THE GENERAL MEETING OF SHAREHOLDERS

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

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

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

> DISCOUNT BANK'S ORGANIZATIONAL STRUCTURE CHART



THE BOARD OF DIRECTORS

Procedure of appointment of Directors

> The appointment of members of the Bank's Board of Directors is made by the general meeting of shareholders, and everything according to the provisions of the law applying to the Bank as a public company and as a banking corporation having no core controlling interest and in accordance with the Bank's articles. These provisions determine special qualifying conditions regarding the qualifications and experience required from whoever

acts as director of a banking corporation. According to the Banking Ordinance the Supervisor of Banks has to be informed in advance of the intention to appoint a director, and the Supervisor has the authority to oppose such an appointment.

The Bank is a banking corporation without a core controlling interest, subject to special instructions regarding the appointment of directors, their tenure and termination of office. In accordance with these instructions, voting on the appointment of directors shall take place only at the annual meeting of shareholders or in a meeting convened under Section 35A of the Banking Act (Licensing), 1981 (hereinafter: "the banking Act"); the

period of office of a director who is not an external director is limited to three years, and nine years on a cumulative basis, of the period of office of such a director; the number of directors who are to be replaced in each year shall not exceed one half of the number of the acting directors. For additional details see the 2017 Annual Report (p. 318).

Within the context of amendment to Proper Conduct of Banking Business Directive No. 301, the maximum number of directors in a banking corporation shall be reduced from 15 to 10 as of July 1, 2020. For further details, see the 2017 Annual Report (p. 385). Following this, the number of Directors at the Bank was reduced to 12 Directors following the Annual General Meeting of Shareholders held in 2017. The Supervisor of Banks has directed that the number of Directors of the Bank shall be reduced to 10 following the Bank's Annual General Meeting of Shareholders for the year 2019.

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

Concurrently with the committee, in the case of a banking corporation having no core controlling interest, a shareholder and/or a group of shareholders that hold over two and one half percent of a certain class of means of control in the corporation, are entitled to propose

the general meeting of shareholders candidates for election as directors.

Procedure of appointment of Directors at the principal subsidiaries

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

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

Composition of the Board

The Chairman of the Board, in 2017 Dr. Yossi Bachar, does not hold any other office at the Bank in addition to his office as Chairman. In 2017 the Chairman of the Board of Directors of MDB was Mr. Yair Avidan, Senior Executive Vice President in Discount Bank, who does not hold any other office at MDB. The Chairman of the Board of Directors of ICC in 2017 was Mr. Yuval Gavish, a Senior Executive Vice-President of Israel Discount Bank, who does not hold any other office at ICC.

> COMPOSITION OF THE BOARD¹

The Corporation	Discount Bank	Mercantile Discount Bank	ICC	IDB Bank
Number of Directors	12	12	9	10
Directors qualified as external Directors	12	5	3	⁶
Of which:				
External Directors²	4	⁵	⁵	⁶
External Directors in terms of Directive 301³	4	5	3	⁶
Directors with professional qualifications⁴	12	10	7	⁷
Directors with accounting and financial expertise	11	6	7	⁷
Women	3	1	2	3
Men	9	11	7	7
Age:				
up to 49	1	2	2	2
50-60	-	2	4	3
61-70	10	7	3	3
Over 70	1	1	-	2

Notes:

1 The data is updated as of date of publication of the 2017 Annual Report.

2 In terms of the Companies Law, 1999.

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

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

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

6 The provisions of the Companies Act and of Proper Conduct of Banking Business Directive No. 301 do not apply to IDB Bank. Notwithstanding this, IDB Bank's Corporate Governance Guidelines require that a minimum of one-third of the directors be independent and defines the criteria for that independence.

7 The provisions of the Companies Act and of Proper Conduct of Banking Business Directive No. 301 do not apply to IDB Bank. Notwithstanding this, the 3 Bank Audit Committee members all have general financial literacy, as required by the Audit Committee Charter. Two of them have banking or related financial management expertise. All directors, pursuant to IDB Bank's Corporate Governance Guidelines, must have experience or expertise in one or more of the following fields: banking, finance, economics or business, law, management or accounting.

For additional details regarding the Bank's Board members, see the 2017 Annual Report (p. 306) and the periodic report for 2017 (Regulation 26A)²². For additional details regarding members of the Board of Directors of Mercantile Discount Bank, see the 2017 annual report of this bank (pp. 273-284). For additional details regarding members

of the Board of Directors of Israel Credit Cards, see the 2017 annual report of this company (pp. 193-201).

Activity of the Board of Directors

In accordance with the Companies Act, the Board of Directors shall outline the policy of the corporation and supervise the activities and duties

²² The data regarding Directors appearing in the 2017 annual report is up-to-date as of a date proximate to the date of publication of the report.

of the CEO. According to the Act, 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 honestly;
- (e) The Board of Directors will ensure that the banking corporation operates in compliance with the law and regulations.

In accordance with the Directives, the Board of Directors appoints the President

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

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

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

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

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

and issues and transactions that require their approval. The Board of Directors updates the procedure from time to time, as required.

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

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

The process was last performed in November 2016 (in MDB - November 2017; in ICC - December 2015 - January 2016 and in April 2018).

Committees of the Board of Directors

> The Bank's Board of Directors acts, inter alia, through sub-

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



Strategy Committee

The duty of the Committee is to assist the Board of Directors in forming the strategy of the Bank and of the Group, as well as direct the Management in forming the work plans of the Bank and of the Group. The Committee monitors the implementation of the strategic plan of the Bank and of its principal subsidiaries. The Committee verifies performance of analysis of trends and major changes in the local and international competitive environment, and in accordance therewith recommends the Board of Directors changes/revisions of the strategic plan.

The Committee is authorized to make decisions regarding the asset management policy, branch layout policy and transition to online banking.



Credit Committee

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

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

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



Audit Committee

The Committee discusses the annual

and multi-annual work plans of the internal audit, recommends this plan for approval of the Board and monitors the implementation of the work plan.

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

The Committee 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 recommends the Board the appointment of an internal auditor or his removal from office and also recommends the Remuneration Committee the salary and remuneration

of the Internal Auditor and the promotion thereof. In addition, the Committee recommends the Board of Directors the charter of the internal auditor/internal audit, and approves the plan verifying the quality of the internal audit function.

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

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

The Committee approves the yearly work plan of the Compliance Officer and maintains a semi-annual monitoring of its performance. The Committee discusses the annual work plan of the money laundering prohibition director and maintains a semi-annual monitoring of its performance, and discusses the annual assessment report of the prohibition of money laundering director.

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

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

The Committee holds discussions with audit and control functions alone, in the presence of the Committee members

and the relevant officer only.

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

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

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

The Committee may request the external auditors to conduct an examination/audit that is in addition to



those included in the external auditors' audit and/or review plan, and to bring their recommendations before the Committee.

The Committee discusses the Bank's draft of the annual report and the quarterly reports to the public (hereunder: "financial statements") and submits recommendations to the Board in their respect. As part of the discussions, the Committee receives reports by the chief accountant 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 discusses upon disclosures regarding the accounting policy in critical issues and as regards critical accounting assessments. Moreover, the Committee discusses and recommends the Board of Directors matters regarding the formal disclosure policy of the Bank.

Within the framework of the discussion of the financial statements, the Committee discusses the issue of customers, the allowances recommended to be created in respect of whom for that quarter is above the amount determined by the Board, and



recommends the Board the amount of the credit loss expense to be created in their respect.

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

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

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

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

The Committee discusses and recommends the Board of Directors in matters regarding the existence of permanent conflict of interests of a Director of the Bank. Furthermore,

the Committee discusses the issue of negligible relations regarding a director/candidate for office of director of the Bank, in accordance with the provisions of the Banking Ordinance and the Companies Act.

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



Corporate Governance Committee

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



Manpower Committee

The Committee discusses matters relating to human resources, labor relations and labor agreements and is authorized to discuss and recommend 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 the treatment of material matters relating to the level of treatment of the social commitment of the Bank (including issues of human rights and work environment, involvement with the community and environmental issues). In addition, the Committee discusses the Bank's code of ethics.



Remuneration Committee

This Committee has been given the duties and powers required pursuant to Amendment No. 20 of the Companies Act and under Proper Conduct of Banking Business Directives of the Supervisor of Banks. Within this policy, the Committee discusses and recommends the Board of Directors matters on remuneration policy of employees and senior officers of the Bank.

Where required, and prior to approval by the Board of Directors and the General Meeting of Shareholders, the Committee approves the terms of engagement of the Bank with senior officers as regards their remuneration.

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

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

The Committee approves the annual award to officers.



IT Committee

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

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

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

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

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

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

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

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

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



Risk Management Committee

The Committee is authorized to discuss and to make recommendations to the Board of Directors in any matter relating to the overall risk strategy, including the risk management and risk exposure policy, in the Bank and in the Group. Within this framework, the Committee discusses matters of risk tolerance/risk appetite, present and future; scope of exposure to the various risks and limitations on exposure; organizational preparations and corporate governance for the implementation of the risk strategy for exposure management and control; updating of the Board of Directors' procedures in the risk management field.

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

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

The Committee holds discussions regarding periodic reporting in matters of risk management at the Bank and at the Group, as detailed below:

→ Discussions of Group policy

documents and basic documents regarding risk management, in accordance with the frequency determined therein, and recommending their approval to the Board of Directors. The Committee is, inter alia, authorized to discuss the credit risk appetite of the Discount Group;

→ Discussions of the monthly update of the Head of the Risk Management Division and the monthly report regarding legal and regulatory instruction relevant to banks in Israel;

→ Quarterly discussions of the risk document, including the monitoring of the Group's exposure to risk, including reports on changes in the risk profile of investee companies and on material events that affect their risk profile;

→ Quarterly discussions of the legal and regulatory risk document, including reference to material legal actions lodged against and by the Bank and investee companies, material updates of relevant legal and regulatory instructions, and material approaches having legal aspects of the supervisory authorities in Israel and abroad, relating to matters of the Bank and of its investee companies;

→ Quarterly discussions of the report of the Head of the Financial Markets Division, including the general overview by the Bank's Chief Economist;

→ Quarterly discussions of the activity in derivatives by the Bank and by the Bank Group;

→ The quarterly monitoring of the implementation of the internal enforcement plan as well as of the cross-border risk subject.

Annual discussion of the capital adequacy assessment report (ICAAP) and of the independent review by the internal audit;

→ Annual discussions of matters relating to the risk appetite declaration, in line with the strategy, the uniform stress test of the Bank of Israel and the results of the holistic stress tests and their impact on the equity, within the framework of the ICAAP, as well as discussion of the SREP letter and the preparations made by the Group for its implementation;

→ Annual discussion of the annual work plan of the Risk Management Division and of the related performance report;

→ An annual presentation and review of the operations of the principal subsidiaries (MDB, ICC, Bancorp/IDB Bank and Discount Capital), under the leading of the Subsidiary Companies Division and with an emphasis on business activity and risk management aspects, as well as an annual review of the aspects of risk management relating to subsidiaries not considered as material subsidiaries, and of other investee companies;

→ Annual reviews regarding matters of stress tests of market risk and the central assumptions used in the management of exposure to interest risk, fraud and embezzlement, credit

risk relating to household customer operations, material operational risks, and changes in the model catalogues;

→ Annual discussions of investment strategies and the financing strategy of the Group;

→ Discussion of the operational risks survey, including fraud and embezzlement survey, of the compliance infrastructure survey and the Group enforcement survey and the financial plans for strengthening the capital adequacy;

→ Annual discussion with the chief risk officer, in the presence of Committee members and the chief risk officer only;

→ Receiving reports regarding deviations from limits set by the Board of Directors and regarding material failure events, as near as possible to the date of discovery thereof, and receiving reports and current updates from control and compliance factors (chief risk officer, chief legal adviser, head of the financial markets division and the chief compliance officer) regarding material matters relating to risk management.

In addition, the CRO submits immediate reports to the committee, and if required also to the Board of Directors, on any matter, finding or deficiency found in the area within the duty and authority of the Committee, which might have a material effect on the risk management at the Bank and/or on its business. The CRO is entitled at his own initiative, to bring

additional matters for discussion by the Committee (the above stated is also applicable in relation to MDB and ICC).

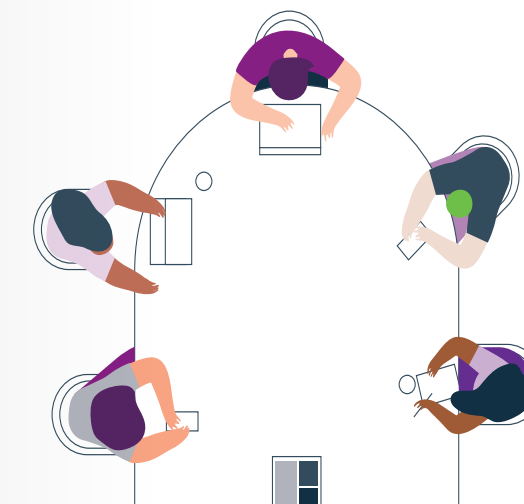


Coordination Committee

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

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

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



COMMITTEES OF THE BOARD OF DIRECTORS AT THE PRINCIPAL SUBSIDIARIES

Mercantil Discount Bank

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

ICC

→ Operating at ICC are the following committees of the Board of Directors: Strategy and Business Committee, Remuneration Committee, Computer System Committee, Risk Management Committee and the Audit Committee. The Remuneration Committee discusses also issues of manpower. The Code of Ethics of ICC was approved in July 2014 by the Board of Directors of the company. Reports regarding the social responsibility areas are submitted on a current basis to the Board of Directors of ICC.

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

Mechanisms for the prevention of conflict of interests among Directors

➤ In accordance with Proper Conduct of Banking Business Directive No. 301, it is not permitted to appoint a Director whose current business interests create a permanent conflict of interest between himself and the banking corporation or where fear of such conflict exists. According to legislation, a director has a fiduciary commitment towards the corporation in which he serves, including a commitment to avoid any conflicting activity between his duties as director and any other office he may hold or between his personal interests and/or of any action constituting competition with the business of the company and avoiding the utilization of any business opportunity of the company with a view of obtaining benefits for himself or for another person. The Bank's Board of Directors has approved guidelines and quantitative criteria, for the prevention on a permanent basis of conflict of interest, based on the scope of the business relations of the director, which raise suspicion of conflict of interest and the materiality of the business relations with the Bank. The Bank's Board of Directors also approved guidelines for cases where a Director has personal conflict of interests.

In addition, within the frameworks of the Companies Act 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 Act 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.

Inter alia, it was prescribed that a director who had declared that he has such a personal interest regarding a specific matter, will not receive information from the banking Corporation with regard to that matter, 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 approval and reporting 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 persons, which sets requirements regarding obtaining approval of the Audit Committee for transactions between the Bank and persons related to the Bank, including transactions between the Bank and

Officers of the Bank. In accordance with this Directive, the Audit Committee is required to confirm that the terms of these transactions do not deviate from market terms of similar transactions that the Bank enters into with other parties.

Accordingly, the Board of Directors approved the procedure for approval of transactions with related persons and transactions, which an officer of the Bank has a personal interest therein, the aim of which is to describe the manner of treatment required in case of transactions with an interested person and transactions, which an officer of the Bank has a personal interest therein (whether transactions of the Bank with the officer himself or transactions of the Bank with others), in accordance with the Companies Act.

It is noted that in term of Proper Conduct of Banking Business Directive No. 301, Directors of the Bank are forbidden to serve also as directors of corporations controlled by the Bank, as well as directors of a financial body, the volume of its assets exceeds NIS 2 billion.

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

brought before ad-hoc committees, composed of external Directors and an independent Director, for an in-depth review of the matter.

THE 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 Management

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

➤ DETAILS REGARDING MEMBERS OF MANAGEMENT¹

The Corporation	Discount Bank	MDB	ICC	IDB Bank
Number of members of Management	11	10	10	13
Women	4	2	4	4
Men	7	8	6	9
Age:				
up to 50	4	4	7	7
51-60	6	5	3	1
61 and up	1	1	-	5

Note:
1 The data is updated as of date of publication of the 2017 Annual Report.

23 The data regarding members of the Bank's Management appearing in the 2017 annual report, is up-to-date as of a date proximate to the date of publication of the report.

For additional details regarding the Bank's members of Management, see the 2017 Annual Report (p. 307)²³ and the Bank's periodic report for 2017 (Regulation 26A). For additional details regarding members of Management of Mercantile Discount Bank, see the 2017 annual report of this bank (pp. 285-287). For additional details regarding members of Management of Israel Credit Cards, see the 2017 annual report of this company (pp. 201-202).

REMUNERATION OF SENIOR OFFICERS

Remuneration of Directors (excluding the Chairman of the Board)

➤ In accordance with Proper Conduct of Banking Business Directive No. 301A (hereinafter: "Directive 301A"), the remuneration for all Directors of the Bank, excluding the Chairman of the Board, is to be determined in an identical manner and in accordance with the manner of determining the remuneration of an external Director, in accordance with the Regulations. In addition, the Amendment to Directive No. 301A, dated August 2015, states that the remuneration of all members of a board of directors, including the chairman, will be a fixed amount only. The provisions of the Amendment apply to new remuneration agreements, including the extension or change of an existing remuneration agreement beginning with the date of publication of the Directive, as well as to existing remuneration agreements no later than December 31, 2017.

Directors' remuneration, excluding the chairman of the board, is determined in accordance with the Companies Regulations (Rules applying to remuneration and reimbursement of expenses of external directors), 2000 (hereinafter in this section: "the Regulations").

The amounts of the remuneration are in accordance with the maximum amount determined in the regulations for an external director who is not an expert external director, though most of the Board members have been defined as having accounting and financial expertise. The remuneration is composed of a fixed annual amount with the addition of remuneration for participation in each meeting of the Board or of one of the committees of the Board. The remuneration does not include any component relating to the performance of the Bank.

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

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

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

➤ For details regarding the terms of office and employment of the Chairman of the Board of Directors and of the President & CEO of the Bank, see Note

35 to the financial statements as of December 31, 2017 (pp. 289-293).

Remuneration plan for officers

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

The formation of a new remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in the Directive of the Supervisor and to the provisions of the Remuneration Act.

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

For further details regarding the remuneration plan for officers of the Bank, see Note 23 to the financial statements as of December 31, 2017 (pp. 191-195).

A mechanism for the reimbursement of variable remuneration. The Amendment to Directive No. 301A states that a variable remuneration awarded to a key employee, shall be subject to the obligation of reimbursement in exceptional

circumstances where the employee was involved in activity causing exceptional damage to the corporation, including: unlawful activity, violation of fiduciary duty, deliberate violation or gross negligible disregard of the policy of the banking corporation, its rules and procedures, fraud or deliberate inappropriate conduct, which caused the restatement of data in the financial statements.

A banking corporation has to determine criteria for the operation of the remuneration reimbursement mechanism and take all reasonable measures, including legal measures, for the reimbursement of the variable remuneration, where all criteria for such reimbursement exist.

The period for reimbursement is five years from the date of the award of the variable remuneration ("the reimbursement period"), which may be extended for two additional years in the case of an officer, where during the reimbursement period an internal or external investigation has been initiated, which might activate the reimbursement mechanism.

The provisions of the Amendment on the matter of the reimbursement of variable remuneration shall apply to new remuneration agreements, including the extension or change of an existing remuneration agreement, with effect from the date of the publication of the Directive, as well as to existing remuneration agreements no later than December 31, 2017.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar

of Basel and additional information regarding risks", available for review on the Internet.

For details regarding remuneration of employees at MDB, see "Additional disclosure according to the third Pillar of Basel - as of December 31, 2017" (pp. 102-110 of the Hebrew version). The said report is available on the website of MDB. For details regarding the remuneration plan for the General Manager of ICC, its managers and employees, see the annual report of the company for 2017 (pp. 151-154) and "Additional disclosure according to the third Pillar of Basel" - 2017 annual report (pp. 50-56 of the Hebrew version). The said reports are available on the website of the company.

PRINCIPAL CONTROL FUNCTIONS

The Internal Audit

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

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

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

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

For further details regarding the internal audit at the Discount Group, see the 2017 Annual Report (pp. 308-310).

The Internal Auditor of MDB is Ms. Tsiona Cohen, who acts in this role since August 1, 2012. For details regarding the Internal Audit at MDB, see the 2017 annual report of this bank (pp. 287-290).

The Internal Auditor of ICC is Mr. Nir Abel, who acts in this role since May 18, 2011. For details regarding the Internal Audit at ICC, see the 2017 annual report of ICC (pp. 204-206).

Risk Management Division

➤ The Chief Risk Officer is Mr. Avi Levi who took office on July 21, 2016 and heads the Risk Management Division. The Chief Risk Officer is a member of the Management who reports to the President & CEO independently from the business lines that create the risk. The Chief Risk Officer assists the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management

of all risks at the Bank and the Group, within the framework of the second defense line.

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

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

Among the main tasks of the Division:

- ➔ Recommendations regarding the risk appetite and risk management policy, identification and correct evaluation of the risks and exposures;
- ➔ Monitoring and current reporting to Management and the Board of Directors, as a risk based management and control tool;
- ➔ Verification of capital adequacy, ensuring the long-term stability of the Group;
- ➔ Involvement in material processes,

such as: supporting the strategic planning and accompanying strategic and business processes, integration of new work procedures derived from regulation;

Risk Management Division is involved in material processes, such as: supporting the strategic planning and accompanying strategic and business processes

→ Leading the credit policy and the integration of risk based pricing, providing a second opinion on credit applications and on investments that involve a material credit exposure and approval of ratings, classifications and allowances, challenging of the capital planning, strengthening of risk based remuneration aspects, improving tools, models and systems supporting risk management, identification of developing risks, etc. This, with the aim of verifying the integration of risk management aspects as an integral part of the business processes and testing their anticipated impact on the risk profile;

→ Active involvement in management of process regarding prohibition of money laundering and the financing of terror at the Bank, as well as management of the risk and conducting current controls regarding compliance matters, administrative enforcement and cross-border risks.

The Risk Management Division combines under it the independent functions supporting the risk management, comprising the units managing credit

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

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

The above stated applies in essence also in relation to IDB Bank, MDB and ICC.

For further details regarding the risk management at the Discount Group, see 2017 Annual Report (pp. 56-100) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the MAGNA website of the Israeli Securities Authority,

on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

The Chief Risk Officer of IDB Bank is Mr. Paul Caulfield, who acts in this role since July 2017. The Chief Risk Officer of MDB is Mr. Gilad Alyagon, who acts in this role since May 1, 2012. For details regarding risk management at MDB, see the 2017 annual report of this bank (pp. 50-107) as well as the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risks" of this bank (in Hebrew).

The Chief Risk Officer of ICC is Mr. Alex Beltush, who acts in this role since July 2013. For details regarding risk management at ICC, see the 2017 annual report of ICC (pp. 47-73) as well as the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risks" of ICC (In Hebrew).

CORPORATE GOVERNANCE CODE FOR THE DISCOUNT GROUP

➤ The corporate governance code, approved by the Bank's Board of Directors in October 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field. In December 2017, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.

This document is designed to present the corporate governance rules that guide the activity of the Discount Group. These rules are intended to regularize the conduct of the Discount Group, inter alia, with the aim of ensuring that the Group will manage its risks in a proper and useful manner, will increase its earnings in favor of its shareholders and will act to maintain the interests of its customers. The corporate governance rules detailed in the document reflect the perception of the Discount Group regarding everything relating to the values of the Group, to the decision making processes, risk management and proper and adequate control and supervision procedures.

Within the framework of the implementation of the corporate governance program, the Board of Directors approved a work procedure vis-à-vis the subsidiary companies. In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank.

The corporate governance code, reflects the implementation of a "best practice" policy in the corporate governance field

IDB Bank's Board of Directors reviews and approves the Corporate Governance Guidelines from time to time, but at least annually. The Guidelines were first approved in 2008 and most recently in 2018. The Guidelines are available to all employees on the Bank's intranet.

The corporate governance code of MDB was approved by the Board of Directors

of MDB in January 2013, and was revised in June 2015. MDB plans to conduct an additional update of the Code in the course of 2018.

The corporate governance code of ICC was approved by the Board of Directors of ICC in November 2014. The code is available on the company's website. ICC validates the code once every two years (last validated in March 2018).

Corporate governance questionnaire

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

The Bank's corporate governance questionnaire for 2017 is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange together with the Bank's 2017 Annual Report.

PREVENTION OF CORRUPTION

➤ The corporate governance code of the Discount Group states as

follows: "The Board of Directors is responsible for setting high standards of conduct, designed to promote professional conduct and honesty, and for the integration thereof throughout the organization".

Fraud and Embezzlement Risks

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

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

First line of defense - business units.

The Bank and the Group prepare operating risk surveys on a current and dynamic basis and maintain, as a routine matter, the operating risk maps by means of a designated operating risk management system. Each risk center manager is responsible for the evaluation of the risks inherent in the operations of his unit. The risk maps contain, among other things, also embezzlement and fraud risks.

The risk survey made at the Bank and at companies in the Group, within the framework of which are examined, inter alia, fraud and embezzlement risks, covers repeatedly a period of three years. A new survey began in 2017, to be performed over three years. The survey applies to all of the units, in the Bank and in the Discount

Group. In addition, each manager of a risk center has the duty of updating the risk map on an ongoing basis, where material changes and changes in work processes or systems occur.

An independent control function operates at each division, which serves as a first line of defense and partly activates control systems for the spotting of suspected activity.

Second line of defense - Risk Management Division.

The Risk Management Division in its role as the second line of defense, determines the operating risk management policy, which includes a designated chapter regarding the management of embezzlement and fraud risks. The policy defines the manner of management, monitoring, mitigating and reporting of such risks. Furthermore, the Risk Management Division challenges the evaluation of the risk in accordance with the determined methodology, where each risk is awarded a rating according to parameters evaluated by the risk center manager. The operating risk management department has established a designated unit: the embezzlement and fraud risk management unit, among the duties of which are: increasing awareness of this issue, current monitoring of irregular transactions, reporting them, where required, to the internal audit, etc. The project concerning an advanced system for the monitoring of embezzlements by employees was concluded in 2017, and procedures for the integration of the system are conducted in 2018.

Third line of defense - Internal Audit.

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

As part of the combat against bribery, fraud and embezzlement, the Bank has integrated different procedures, including procedures prohibiting situations of conflict of interests applying to employees in general, and acceptance of gifts from parties with whom they maintain relations in the course of their work, in particular

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

It is noted, that in addition to the examinations made following reports being received, the second and third lines of defense carry out initiated examinations in order to monitor irregular transactions. The Internal Audit examines on an ongoing basis the accounts of employees within the framework of audit work performed during the year or of specific audits. Some 150 such accounts are examined yearly. In addition, specific examinations of employee accounts are being performed as a result of approaches made by customers, employees, public approaches or the intensification of current audit following audit findings.

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

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

Some 45 special examinations were made in 2017. No exceptional activity was identified in 19 cases. Work at the Bank of 5 employees was terminated. Some 54 special examinations were made in 2016. No exceptional activity was identified in 20 cases. Work at the Bank of 8 employees was terminated. All other cases were concluded by

either a reprimand in writing or by an oral reprimand, transfer from the unit, impaired selective advancement and such like.

Cases examined in the years 2016-2017 included two cases of theft of money. The remaining cases referred to conflict of interests, personal privacy, transactions in accounts of related persons, prohibition on money laundering, investment consulting, accepting loans from customers etc.

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

Additional means for the prevention of bribery, fraud and embezzlement

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

The payment procedures at the Bank involve strict approval and control procedures. Donations are approved by an internal committee (donation committee), and in respect of each donation, an examination is performed regarding the substance of the receiving association, its

objects and as to whether it has all the required approvals. For additional details, see below in "Compliance with the provisions of the law and regulations".

Mechanism for exposing corruption "Whistle blower"

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

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

In the aforementioned information sheets that it distributes several times a year, the Internal Audit function notes the existence of the "hot-line" and its number. In addition, as part of "FaceBank", the central tool for intra-organizational communication, details are provided regarding the "hot-line" and its aims, within the framework of "approach and reporting centers".

A report concerning complaints

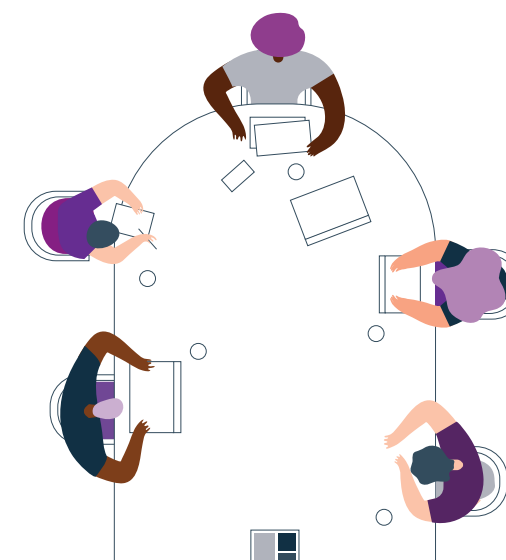
received through the "hot-line" is submitted to the Audit Committee of the Board of Directors.

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

Prohibition on political activity

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

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



PREVENTION OF CORRUPTION AT THE BANK'S PRINCIPAL SUBSIDIARIES

Mercantile Discount Bank

➤ In the course of 2016-2017 several special reviews were performed regarding the bank accounts of employees, where in a number of cases irregular activity has been revealed. The employment of 44 employees was terminated as a result. As regards additional employees, measures were taken such as reprimand, either in writing or verbally, transfer from the unit, hampering advancement and awards. Of the instances examined only one case of money pilfering had been found. The other cases mainly involved transgression of procedures and transactions in accounts of related persons.

ICC

➤ Seven irregular events were treated by the company in 2017, including irregular operations by employees, improper activity by trading houses and failure in the mailing of letters to customers. In all cases relating to irregular operations by employees, the company has terminated their employment.

In respect of all the events summary reports and drawing of conclusion were prepared by the security director, the risk management wing and the director of prevention of employee embezzlement, as the case may be, and in some of which audit reports were issued.

IDB Bank

➤ IDB Bank adheres to all federal, state, and local laws, including but not limited to the federal Bank Bribery Act, and the Foreign Corrupt Practices federal Act. IDB Bank has a Code of

Conduct which all employees are required to sign and abide by, which includes the Bank's rules regarding compliance with internal controls, conflicts of interest and receipt of gifts. IDB Bank also manages risk through a similar approach using three lines of defense: the Business unit, Risk Management & Compliance, and Internal Audit.

ADDITIONAL MEANS FOR THE PREVENTION OF BRIBERY, FRAUD AND EMBEZZLEMENT AT THE BANK'S PRINCIPAL SUBSIDIARIES

IDB Bank

➤ It is the policy of IDB Bank to observe high ethical standards in all of its activities. In matters of accounting and internal financial controls, IDB Bank seeks to ensure that all transactions and corporate assets are properly accounted for and that all audits are thorough and complete. IDB Bank is committed to complying with all applicable laws and regulations, Bank policies, accounting standards, accounting controls and audit practices. In order to help accomplish these objectives, IDB Bank has established a procedure for the reporting and delivery of complaints and concerns about accounting, auditing, financial and other matters related to the conduct of business, such as business relationships with vendors and costumers (collectively "business complaints"). IDB Bank's Whistleblower Policy set forth the procedures relating to the reporting of business complaints. IDB Bank's Whistleblower Policy, in its entirety. Is available by logging into the employee portal.

COMPLIANCE WITH REGULATION

➤ Discount Bank strictly manages its business in a legal and proper manner, diligently complying with the provisions of the law and regulation in its activities.

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

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

The Bank has stated in its policy documents and procedures the extent of tolerance in respect of deviation from compliance instructions and risk endurance therefore. The Bank has established detailed processes and procedures for the implementation of requirements of regulatory instructions applying to the Bank and the enforcement thereof. In view of the fact that the provisions of the law and regulation are being changed frequently,

the Bank has established a process by which procedures and systems are being updated from time to time, in accordance with requirements resulting from such changes. In addition, the Bank conducts processes regarding the drawing of conclusions from failure events, customer complaints and control and audit reports. At the same time, and where required, the Bank updates forms, control processes, systems, procedures, etc. that support relevant products and services. Furthermore, employee training and absorption activities are being conducted. The ethical code adopted by the Bank includes a declaration regarding the commitment to comply in letter and spirit of the provisions of any law, regulatory guidelines and procedures of the Bank.

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

In accordance with instructions of the Supervisor of Banks, the Bank has appointed a Chief Compliance Officer, who assists senior Management and the Board of Directors in the effective management of Provisions of the law and regulation applying to the Bank, including with respect to anti-money laundering and terror financing, and beginning with the year 2016, also with respect to internal enforcement

fields in the securities laws, and the regulations of supervision over financial services (pension consulting), and cross-border risks. This, at the Bank and at the relevant subsidiaries in the Discount Group. Among his other duties, the Chief Compliance Officer examines and verifies the Bank's readiness for any new operation, in order to verify the compliance and implementation of the provisions of the law and regulation within the area of his responsibility. Furthermore, the Chief Compliance Officer conducts through the compliance functions, a follow-up of the rectification of deficiencies concerning compliance, in order to avoid their repetition in the future, monitors audit reports and customer complaints brought to his attention, and initiates action for the detection of cross-organizational failures.

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

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

law and regulations applying to the Bank.

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

Moreover, use is made of the "hot-line" operated by the Internal Audit (see above) also for the purpose of reporting compliance issues.

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

Several times a year, the Internal Audit distributes information sheets

to all the Bank's employees regarding exceptional events. In addition, staff of the Internal Audit give lectures at the various units of the Bank regarding, inter alia, exceptional events and material deficiencies revealed in the compliance field.

Integration and training

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

As a structured part of the compliance culture at the Bank, all bank employees, whether in senior or junior positions, undergo training in various matters of compliance, while designated employee populations undergo in addition training with respect to specific compliance matters. In this framework, also in 2017, the Bank held a group meeting in the matter of compliance, in which different contents relevant to the operations of the Bank and the Group were discussed, with special reference to urgent matters presently on the agenda, and to expected trends and processes both in Israel and globally. Among the actions taken for the implementation of the compliance culture at the Bank, significant use has been made of auxiliary training and learning tools in order to reach even the last of employees. In executing these duties, the Chief Compliance Officer and compliance function employees visited also in 2017 many of the Bank's branches holding discussions with branch management teams and other employees with respect

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

Prohibition of money laundering and the finance of terror

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

Within the framework of integration of the regulation guidelines and international standards in the field of prohibition of money laundering, the Bank had formed a Group policy, approved by the Board of Directors at the beginning of 2018, for the management of the risk, which included also reference to the prevention of using accounts held with the Bank for offences of bribery and corruption.

The subject of Prohibition of money laundering and the finance of terror have turned in recent years into one of the most significant enforcement and prevention subjects in international and domestic legislation and regulation in the matter is changing and developing, intensifying the requirements for monitoring, supervision and follow up. Work procedures are being updated on a regular basis. Concurrently, within the framework of integrating this subject into the compliance

No fines in material amounts and no non-monetary sanctions were imposed on the Bank, during 2017 with respect to non-compliance with laws and regulations on any of the corporations being the subject of this report

culture of the Bank, the Bank holds training and learning sessions for employees by means of frontal studies, computerized courseware made available to the branches and Head Office units, knowledge tests and case studies. Employees are also exposed

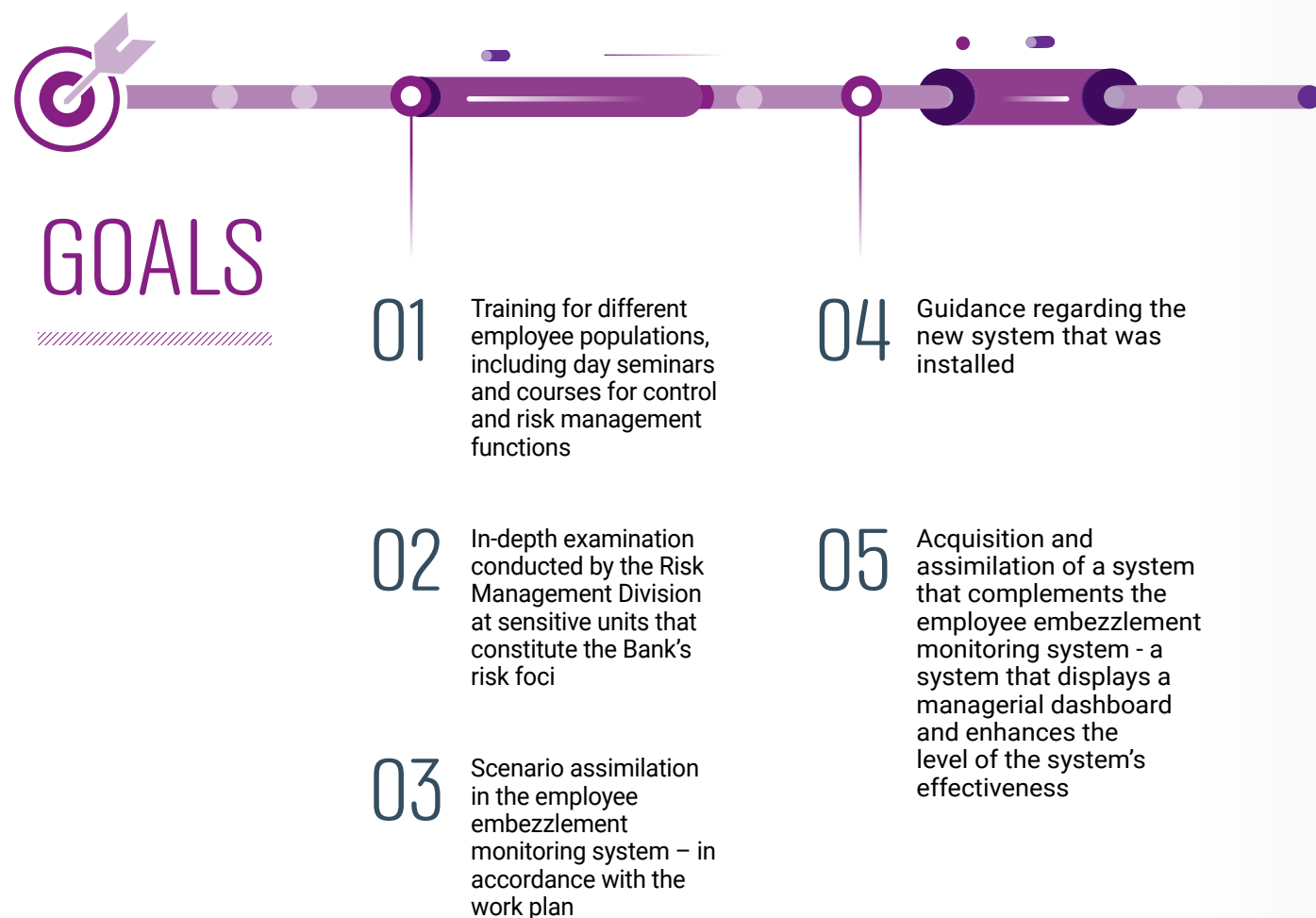
to updated information via the Bank's Intra-net site.

In addition, the Bank effective 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.

The above stated applies also with respect to MDB and to ICC.

Fines

> No fines in material amounts and no non-monetary sanctions were imposed on the Bank, during 2017 with respect to non-compliance with laws and regulations on any of the corporations being the subject of this report.



COMPLIANCE WITH REGULATION AT THE BANKS' PRINCIPAL SUBSIDIARIES

IDB Bank

> The bank's Code of Conduct ("The Code") guides everyone at IDB Bank - employees, officers, and directors - in meeting their responsibilities to the Bank and its customers, and in making ethical business decisions and is intended to provide everyone at IDB Bank with guiding principles on how to apply its own common sense, good judgment and conscience and to assist them in their work for the bank.

The Code is intended to prevent violations of law and the bank's policy, and rests on four primary principles:

1.Fairness and Candor in Conduct - Banking is a business based on mutual trust, and the Bank demands absolute Fairness in all of its affairs. The Bank's success in the marketplace depends to a large extent on the confidence and trust of its customers. Every employee, officer and director must conduct business in a way that fully justifies the continued goodwill of the bank and trust of its customers.

2.Integrity in the bank's Work with Customers, Each Other and the Public - the bank strives to exemplify the highest standards of personal and professional ethics in all aspects of its business.

3.The Avoidance of Conflicts of Interest or Even the Appearance of a Conflict. Each employee, officer and director must avoid engaging in any outside business or other activity that might create a conflict of interest, create a perception of impropriety, or jeopardize the bank's integrity or reputation.

4.Compliance with Laws and Regulations - The bank actively promotes and requires compliance with the laws, rules and regulations that govern the bank's business. Obeying both the letter and the spirit of the law is one of the foundations of the Bank's ethical standards.

This Code, which is distributed to and acknowledged by all employees, consultants, agents and temporary workers annually through the bank's online training system is very detailed and clearly lays out the bank's expectations from all those involved.

In addition, the bank ensures that everyone at the bank receives the UDAAP training course annually, which teaches and reinforces what type of acts or practices by the bank may be considered unfair, deceptive, and/or abusive. There are also other fair lending training courses given to both employees and the Board of Directors which touches on treating customers fairly from various regulatory perspectives.

PROHIBITION OF MONEY LAUNDERING AND THE FINANCE OF TERROR AT THE BANK'S PRINCIPAL SUBSIDIARIES

IDB Bank

> IDB Bank complies with federal, state and the relevant laws of other countries that prohibit money laundering and seek to prevent the financing of terrorist activity, such as the USA PATRIOT Act of 2001, Bank Secrecy Act and other laws.

IDB Bank has a Financial Crimes Program and Code of Conduct which all employees are required to sign and abide by. These documents include the Bank's framework for combating terrorist financing, money laundering and other financial crimes.

10 EPILOUGE

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THANK YOU'S!

And before Discount Bank's Seventh CSR Report gets going... the pleasure of thank you's!

Thank you to the dozens of Discount Bank's employees and employees of the subsidiaries MDB, ICC and IDB Bank who worked so hard gathering and processing the material, who provided responses, ideas, comment, clarifications, proofreading, initiative and encouragement.

A special thanks to "The Storyteller" Studio for upgrading the design of the report. Thanks to Liad Ortar and the Corporate Social Responsibility Institute for control of the report.

Thanks to Nofar Wallach-Lazaresko and Itamar Schwartz from the Corporate Responsibility Group at BDO Consulting for their devoted work in escorting the preparation of the report and for their support in upgrading its contents.

And last but not least - a huge thank you to all the Discount Bank's employees and employees of the subsidiaries MDB, ICC and IDB Bank who convert the corporate commitment, a daily activity, from a vision to a reality.

RESPONSES TO THE REPORT

The Bank's customers, its employees, shareholders from the public, other stakeholders or remaining readers of the Report - all are invited to respond and comment on the Report and its contents: send ideas, comments or illuminations, or just talk about the Report and the social activism of Discount Bank.

Responses may be sent:



> GRI CONTENT INDEX COMBINED WITH UNGC



Standard	Disclosure	Page in the report				UNGC-cop	
		Discount Bank	MDB	ICC	IDB Bank		
GRI 101: Foundation 2016							
	→ ORGANIZATIONAL PROFILE						
GRI 102: General disclosure 2016	102-1	Name of the organization	24	30	33	37	No specific requirement by the COP
	102-2	Activities, brands, products, and services	24, 72	30	33	37	
	102-3	Location of headquarters	24	30	33	37	
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	102-11	Precautionary Principle or approach	179	179	179	179	7
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	102-13	Membership of associations	38	38	38	38	1-10
	→ STRATEGY						
GRI 102: General disclosure 2016	102-14	Statement from senior decision-maker	8	8	8	8	No specific requirement by the COP
	102-15	Key impacts, risks, and opportunities	8, 28	8, 31	8, 34	8, 37	
	→ ETHICS AND INTEGRITY						
GRI 102: General disclosure 2016	102-16	Values, principles, standards, and norms of behavior	46	49	49	49	1-10
	102-17	Mechanisms for advice and concerns about ethics	50	51	51	51	No specific requirement by the COP
	→ GOVERNANCE						
GRI 102: General disclosure 2016	102-18	Governance structure	201	209	209	-	No specific requirement by the COP
	102-19	Delegating authority	199	N/R	N/R	N/R	
	102-20	Executive-level responsibility for economic, environmental, and social topics	12	12	12	12	

Standard		Disclosure	Page in the report				UNGC-cop
			Discount Bank	MDB	ICC	IDB Bank	
GRI 102: General disclosure 2016	102-21	Consulting stakeholders on economic, environmental, and social topics	27, 205	209	209	-	No specific requirement by the COP
	102-22	Composition of the highest governance body and its committees	199	199	199	199	
	102-23	Chair of the highest governance body	198	198	198	-	
	102-24	Nominating and selecting the highest governance body	198	198	198	-	
	102-25	Conflicts of interest	210	210	210	-	
	102-26	Role of highest governance body in setting purpose, values, and strategy	46	N/R	N/R	N/R	
	102-27	Collective knowledge of highest governance body	205	209	209	-	
	102-28	Evaluating the highest governance body's performance	201	201	201	-	
	102-29	Identifying and managing economic, environmental, and social impacts	199, 215	215	215	-	
	102-30	Effectiveness of risk management processes	207	207	207	-	
	102-31	Review of economic, environmental, and social topics	205	209	209	-	
	102-32	Highest governance body's role in sustainability reporting	12	N/R	N/R	N/R	
	102-33	Communicating critical concerns	205	209	209	-	
	102-34	Nature and total number of critical concerns	205-209	209	209	-	
	102-35	Remuneration policies	212	212	212	-	
	102-36	Process for determining remuneration	212	212	212	-	
	102-37	Stakeholders' involvement in remuneration	212	212	212	-	
	102-38	Annual total compensation ratio	143	143	143	-	
	102-39	Percentage increase in annual total compensation ratio	143	143	143	-	
➔ STAKEHOLDER ENGAGEMENT							
GRI 102: General disclosure 2016	102-40	List of stakeholder groups	13	13	13	13	No specific requirement by the COP
	102-41	Collective bargaining agreements	107	109	109	-	1,2,6
	102-42	Identifying and selecting stakeholders	13	13	13	13	No specific requirement by the COP
	102-43	Approach to stakeholder engagement	13	13	13	13	
	102-44	Key topics and concerns raised	13	13	13	13	





Standard		Disclosure	Page in the report				UNGC-cop
			Discount Bank	MDB	ICC	IDB Bank	
→ REPORTING PRACTICE							
GRI 102: General disclosure 2016	102-45	Entities included in the consolidated financial statements	10	10	10	10	No specific requirement by the COP
	102-46	Defining report content and topic Boundaries	13	13	13	13	
	102-47	List of material topics	15	15	15	15	
	102-48	Restatements of information	11	11	11	11	
	102-49	Changes in reporting	11	11	11	11	
	102-50	Reporting period	8	8	8	8	
	102-51	Date of most recent report	10	10	10	10	
	102-52	Reporting cycle	10	10	10	10	
	102-53	Contact point for questions regarding the report	229	N/R	N/R	N/R	
	102-54	Claims of reporting in accordance with the GRI Standards	10	10	10	10	
	102-55	GRI content index	230-236	230-236	230-236	230-236	
	102-56	External assurance	19-21	19-21	19-21	19-21	
→ MATERIAL TOPICS							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	41	41	41	41	No specific requirement by the COP
	103-2	The management approach and its components	41	41	41	41	
	103-3	Evaluation of the management approach	41	41	41	41	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	42	42	42	42	No specific requirement by the COP
	201-2	Financial implications and other risks and opportunities due to climate change	179	179	179	179	7
	201-3	Defined benefit plan obligations and other retirement plans	138	146	146	-	No specific requirement by the COP
	201-4	Financial assistance received from government	42-43	42-43	42-43	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	43	43	43	43	No specific requirement by the COP
	103-2	The management approach and its components	43	43	43	43	
	103-3	Evaluation of the management approach	43	43	43	43	
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	76, 158-172	80, 173-174	80, 174-175	42	
	203-2	Significant indirect economic impacts	42	42	42	42	

Standard		Disclosure	Page in the report				UNGC-cop
			Discount Bank	MDB	ICC	IDB Bank	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	150	150	150	150	No specific requirement by the COP
	103-2	The management approach and its components	150	150	150	150	
	103-3	Evaluation of the management approach	150	150	150	150	
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	150-153	154	154	155	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	218	218	218	218	10
	103-2	The management approach and its components	218	218	218	218	
	103-3	Evaluation of the management approach	218	218	218	218	
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption	218-221	222	222	222	
	205-2	Communication and training about anti-corruption policies and procedures	218-221	222	222	222	
	205-3	Confirmed incidents of corruption and actions taken	220	222	222	222	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	178	178	178	178	7,8,9
	103-2	The management approach and its components	178	178	178	178	
	103-3	Evaluation of the management approach	178	178	178	178	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	183	189	192	-	
	302-2	Energy consumption outside of the organization					
	302-3	Energy intensity	184	190	193	-	
	302-4	Reduction of energy consumption	183	189	192	-	
	302-5	Reductions in energy requirements of products and services	181	181	181	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	178	178	178	178	7,8
	103-2	The management approach and its components	178	178	178	178	7,8
	103-3	Evaluation of the management approach	178	178	178	178	7,8
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	245	245	245	-	7,8
	305-2	Energy indirect (Scope 2) GHG emissions	245	245	245	-	7,8
	305-3	Other indirect (Scope 3) GHG emissions	188			-	7,8
	305-4	GHG emissions intensity	188	-	-	-	7,8
	305-5	Reduction of GHG emissions	188	-	-	-	7,8,9
	305-6	Emissions of ozone-depleting substances (ODS)	188	-	-	-	7,8
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		-	-	-	7,8





Standard		Disclosure	Page in the report				UNGC-cop
			Discount Bank	MDB	ICC	IDB Bank	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	102	102	102	102	1,2,6
	103-2	The management approach and its components	102	102	102	102	
	103-3	Evaluation of the management approach	102	102	102	102	
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	240-242	240-242	240-242	-	6
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	140	140	140	140	No specific requirement by the COP
	401-3	Parental leave	242	242	-	-	1,2,6
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	102, 106	102, 106	102, 106	102, 106	
	103-2	The management approach and its components	102, 106	102, 106	102, 106	102, 106	
	103-3	Evaluation of the management approach	102, 106	102, 106	102, 106	102, 106	No specific requirement by the COP
GRI 402: Labor/Management Relations 2016	402-1	Minimum notice periods regarding operational changes	107	109	110	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	102	102	102	102	
	103-2	The management approach and its components	102	102	102	102	
	103-3	Evaluation of the management approach	102	102	102	102	
GRI 403: Occupational Health and Safety 2016	403-1	Workers representation in formal joint management-worker health and safety committees	134	135-136	135-136	136	No specific requirement by the COP
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	243	243	243	-	
	403-3	Workers with high incidence or high risk of diseases related to their occupation	134	-	136	-	
	403-4	Health and safety topics covered in formal agreements with trade unions	134	135	135	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	102	102	102	102	6
	103-2	The management approach and its components	102	102	102	102	
	103-3	Evaluation of the management approach	102	102	102	102	
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	243	122	124	-	
	404-2	Programs for upgrading employee skills and transition assistance programs	118-121	122	123-124	-	No specific requirement by the COP
	404-3	Percentage of employees receiving regular performance and career development reviews	244	244	244	-	6

Standard		Disclosure	Page in the report				UNGC-cop
			Discount Bank	MDB	ICC	IDB Bank	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	112	112	112	112	6
	103-2	The management approach and its components	112	112	112	112	
	103-3	Evaluation of the management approach	112	112	112	112	
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	244	244	244	-	
	405-2	Ratio of basic salary and remuneration of women to men	108	111	111	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	106	106	106	106	1,2,6
	103-2	The management approach and its components	106	106	106	106	
	103-3	Evaluation of the management approach	106	106	106	106	
GRI 406: Non-Discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	115	115	118	-	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	158	158	158	158	
	103-2	The management approach and its components	158	158	158	158	
	103-3	Evaluation of the management approach	158	158	158	158	
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	158-172	173-174	174-175	-	No specific requirement by the COP
	413-2	Operations with significant actual and potential negative impacts on local communities	180	181	181	-	
	FS13	Access points in low – populated or economically disadvantaged areas by type	56, 81-87	56, 87-89	89	89	
	FS14	Initiatives to improve access financial services for disadvantaged people	74, 76-79, 81-87	80, 87-89	80, 89	89	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	90	90	90	90	
	103-2	The management approach and its components	90	90	90	90	
	103-3	Evaluation of the management approach	90	90	90	90	
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	90-93	93	93	93	No specific requirement by the COP
	417-2	Incidents of non-compliance concerning product and service information and labeling	92	92	93	-	
	417-3	Incidents of non-compliance concerning marketing communications	92	92	92	-	





Standard	Disclosure	Page in the report				UNGC-cop
		Discount Bank	MDB	ICC	IDB Bank	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	94	94	94	1
	103-2	The management approach and its components	94	94	94	
	103-3	Evaluation of the management approach	94	94	94	
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	94	94	94	
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	223	223	223	No specific requirement by the COP
	103-2	The management approach and its components	223	223	223	
	103-3	Evaluation of the management approach	223	223	223	
GRI 419: Socio Economic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	226	226	226	

PRINCIPLES OF THE GLOBAL COMPACT INITIATIVE

Discount Bank expresses support of the ten principles of the Global Compact²⁴ initiative of the United Nations, and acts for the advancement of these principles.

Following is a list of the principles of the initiative:

- Human Rights

01

Businesses should support and respect the protection of internationally proclaimed human rights;

02

Businesses should make sure that they are not complicit in human rights abuses;
- Standards of Employment

03

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

04

The elimination of all forms of forced and compulsory labor;

05

The effective abolition of child labor;

06

The elimination of discrimination in respect of employment and occupation;
- The Environment

07

Businesses should support a precautionary approach to environmental challenges;

08

Undertake initiatives to promote greater environmental responsibility;

09

Encourage the development and diffusion of environmentally friendly technologies;
- Anti-Corruption

10

Businesses should work against corruption in all its forms, including extortion and bribery.

24 <http://www.unglobalcompact.org>

APPENDICES > EMPLOYEES

> MANPOWER STATUS

Employees of Discount Bank and its principal subsidiaries

	2017	2016	2015
Discount Bank	5,502	5,529	5,849
MDB	1,431	1,431	1,490
ICC¹	1,481	1,427	1,440
IDB Bank	483	478	464

Note:

1 The data do not include contract workers

Breakdown of employees by gender

	2017			2016			2015		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Discount Bank	2,219	3,283	5,502	2,258	3,271	5,529	3,455	2,349	5,849
MDB	631	800	1,431	639	792	1,431	657	833	1,490
ICC	418	1,063	1,481	407	1,020	1,427	443	997	1,440
IDB Bank	259	224	483	256	222	478	243	221	464

Notes:

1 The data do not include contract workers.

2 It is noted that Discount Bank's data in this item include tenured employees, under personal employment agreement, members of Management and temporary employees and do not include employees of outsourcing status and employees on leave.

3 In 2017, an update of the employee calculation methodology was performed, which the Bank updated retroactively also for the year 2016.

Breakdown of employees by geographic distribution

	2017	Rate
Discount Bank		
Jerusalem and the South Region	472	8.5%
Central Region	480	8.7%
lowlands Region	471	8.5%
Northern Region	453	8.2%
Headquarters (Tel-Aviv)	3,626	65.9%

Breakdown of employees by type of engagement

		2017	2016	2015
Discount Bank	Tenured employees, under personal contracts and members of Management	3,853	3,917	4,149
	Temporary employees	1,285	1,304	1,386
	Manpower company employees	-	-	-
	Software house	364	308	314
	Total	5,502	5,529	5,849
MDB	Tenured employees, under personal contracts and members of Management	1,232	1,225	1,248
	Temporary employees	165	167	211
	Manpower company employees	75	93	73
	Software house	27	32	39
	Total	1,499	1,517	1,571
ICC	Tenured employees, under personal contracts and members of Management	979	947	954
	Temporary employees	505	508	479
	Outsourcing	177	135	98
	Total	1,661	1,590	1,531

Note:

The data do not include employees on unpaid leave and maternity leave

Breakdown of employees by age

		2017	2016	2015
Discount Bank	Up to 30	657	689	578
	31-50	2,827	2,795	2,615
	Over 50	2,018	2,045	2,343
	Total	5,502	5,529	5,536
MDB	Up to 30	118	121	157
	31-50	929	987	962
	Over 50	384	323	371
	Total	1,431	1,431	1,490
ICC	Up to 30	490	431	517
	31-50	815	827	786
	Over 50	162	169	137
	Total	1,467	1,427	1,440

Notes:

1 The data for Discount Bank and MDB include tenured employees and temporary employees.

2 The data for ICC include permanent employees and non-permanent employees.

3 In 2017, an update of the employee calculation methodology was performed, which the Bank updated retroactively also for the year 2016.

> AVERAGE AGE AND SENIORITY

	2017		2016		2015	
	Average age	Average seniority	Average age	Average seniority	Average age	Average seniority
Discount Bank	45.1	16.5	44.8	16.4	45.1	17.1
MDB	43.90	16.5	43.3	16.1	42.9	16.6
ICC	36	9	36.2	8.5	35.5	7.9

Note:
In 2017, an update of the employee calculation methodology was performed, which the Bank updated retroactively also for the year 2016.

> EMPLOYEE TURNOVER

Breakdown of new employees by gender

		2017	2016	2015
Discount Bank	Men	174	206	239
	Women	448	456	429
	Total	622	662	668
MDB	Men	15	7	24
	Women	38	17	11
	Total	53	24	35
ICC	Men	86	73	40
	Women	256	253	134
	Total	342	326	174

Notes:
1 The data for joining employees include temporary employees and tenured employees.
2 Due to the improvement in data, Discount's data were updated in 2015.

Breakdown of new employees by age

		2017	2016	2015
Discount Bank	Up to 30	403	433	444
	31-50	203	219	208
	Over 50	16	10	16
	Total	622	662	668
MDB	Up to 30	35	12	21
	31-50	18	11	12
	Over 50	-	1	2
	Total	53	24	35
ICC	Up to 30	273	245	273
	31-50	65	80	65
	Over 50	65	1	4
	Total	342	326	342

Note:
The data for joining employees include temporary employees and tenured employees.

Breakdown of leaving employees by gender

		2017	2016	2015
Discount Bank	Men	250	345	287
	Women	467	641	416
	Total	717	986	703
MDB	Men	24	27	32
	Women	30	60	31
	Total	54	87	63
ICC	Men	79	109	92
	Women	230	241	243
	Total	309	350	335

Notes:
1 The data for leaving employees include temporary employees and tenured employees.
2 The data for Discount Bank do not include employees leaving from maternity leave / unpaid leave.
3 Due to the improvement in data, Discount's data were updated in 2015.

Breakdown of leaving employees by age

		2017	2016	2015
Discount Bank	Up to 30	363	260	356
	31-50	229	407	232
	Over 50	125	319	115
	Total	717	986	703
MDB	Up to 30	8	16	9
	31-50	25	29	30
	Over 50	21	42	24
	Total	54	87	63
ICC	Up to 30	230	215	201
	31-50	75	128	120
	Over 50	4	7	7
	Total	309	350	328

Mobility of employees

	2017	2016	2015
Discount Bank	665	709	1,133
MDB	104	160	126
ICC	137	135	126

Breakdown of employees by reasons of leaving

		2017			2016			2015		
		Temp.	Tenured	Total	Temp	Tenured	Total	Temp	Tenured	Total
Discount Bank	Encouraged retirement	-	15	15	-	312	312	-	28	28
	Natural retirement and leaving	8	92	100	34	82	116	89	56	145
	> Of which: termination of contract	7	-	7	34	1	35	37	4	41
	Resignation	444	24	468	400	34	434	363	25	388
	Dismissal (imposed by the Bank)	119	³ 4	123	110	³ 3	113	120	2	122
	Other	4	8	12	6	4	10	2	1	3
	Total retirement	575	143	718	550	435	985	574	112	686
MDB	Encouraged retirement	-	10	10	-	32	32	-	13	13
	Natural retirement and leaving	-	12	12	-	10	10	-	10	10
	Resignation	13	10	23	16	9	25	-	34	34
	Dismissal (imposed by the Bank)	4	4	8	17	2	19	-	5	5
	Other	-	1	1	-	1	1	-	1	1
	Total retirement	17	37	54	33	54	87	-	63	63
ICC	Natural retirement and leaving			3			2			5
	Resignation			199			230			205
	Dismissal (imposed by the Bank)			107			108			124
	Other			0			10			1
	Total retirement			309			350			335

Notes:

- 1 Of which, nine who had passed away.
- 2 MDB, ICC - not including employees retiring from unpaid leave / maternity leave or employees under trial period.
- 3 The dismissals are of employees under trial period or for serious disciplinary reasons.

> MATERNITY LEAVE

		2017		2016		2015	
		Men	Women	Men	Women	Men	Women
Discount Bank	Eligible for maternity leave	140	282	160	302	178	300
	Went on maternity leave	4	248	6	261	1	315
	Returned from leave	4	219	6	237	1	292
	Employees who were still employed 12 months after returning to work	4	205	5	204	1	233
MDB	Eligible for maternity leave	44	66	52	65	45	62
	Went on maternity leave	-	66	-	65	2	62
	Returned from leave	-	53	-	38	2	62
	Employees who were still employed 12 months after returning to work	-	66	-	65	2	62

Notes:

- 1 Eligible for maternity leave - Anyone who had a child born to him / her between the dates of January 1, to December 31, of that year, who did not necessarily exercise his entitlement at the Bank.
- 2 For Discount Bank:
 - a.Data for 2017 - Number of male/female employees who returned to work after a maternity leave and stayed to work - as of April 17, 2017.
 - b.Data for 2016 - Number of male/female employees who returned to work after a maternity leave and stayed to work - as of June 28, 2017.
 - c.Data for 2015 - Number of male/female employees who returned to work after a maternity leave and stayed to work - as of October 31, 2015.
- 3 For MDB:
 - a.Data for 2016 - Number of male/female employees who returned and stayed to work - as of December 31, 2016.
 - b.Data for 2015 - Number of male/female employees who returned and stayed to work - as of December 31, 2015.

> EMPLOYEES ABSENCE

		2017		2016		2015	
		Men	Women	Men	Women	Men	Women
Discount Bank	Absence in respect of paid sick days	25,371	51,314	25,939	55,298	53,667	26,051
	Absence rate	5.99%		6.24%		5.78%	
	Accidents	38	79	37	105	18	10
MDB	Absence in respect of paid sick days	5,083	8,528	10,476	4,840	10,271	4,580
	Absence rate	4%		4.10%		3.56%	
	Accidents	8	12	8	12	18	10
ICC	Absence in respect of paid sick days	3,949	17,357	3,902	14,304	3,738	14,043
	Absence rate	5.09%		5.12%		-	
	Accidents	17	57	8	18	11	22

Notes:

- 1 Paid sick days are counted according to the number of actual days.
- 2 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.
- 3 The absence rate 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 "illness" was recorded, while the denominator comprises the employee population at the end of the year. As a result of this calculation format the absence rate has an upward bias.
- 4 Data on reported accidents are data reported to the National Insurance Institute, and include accidents on the way to and from the workplace. Therefore, these data do not constitute an indication of the number of "safety at work" events.

Events involving customers and employees, who resulted in the activation of insurance policy

		2017	2016
Discount Bank	Customers (third party)	24	12
	Employees (employers' liability)	8	4
	Total	32	16
MDB	Customers (third party)	4	12
	Employees (employers' liability)	-	4
	Total	4	16
ICC	Customers (third party)	2	2
	Employees (employers' liability)	19	3
	Total	21	5

> EMPLOYEE TRAINING

Average training hours per employee

	2017	2016	2015
Discount Bank	39	34	34
MDB	45	40	46

Details of employee training data at Discount Bank

	2017	2016	2015
Total training days at the Bank	66,552	66,249	63,330
> Of which: frontal instruction	29,536	26,335	26,130
> Of which: Computer-Mediated Learning	37,016	39,914	37,200
Average training hours per employee	39	34	34
Average days per employee	12.95	12.68	11.44
Cost of training	9.9 million	7 million	7 million

> FEEDBACK INTERVIEWS OF EMPLOYEES

Percentage of employees who received feedback

	2017	2016	2015
Discount Bank	99%	98%	99%
MDB	98%	96%	96%
ICC	99%	100%	100%

> DIVERSITY AMONG EMPLOYEES

Women in the different grades

		2017		2016		2015	
		Women	Rate of women	Women	Rate of women	Women	Rate of women
Discount Bank	Board of Directors	3	25%	4	29%	3	23%
	Managers	535	49%	533	48%	565	47%
	> Of which: Branch managers and above	63	39%	57	37%	41	31%
	Clerks	2,748	62%	2,738	62%	2,765	64%
MDB	Board of Directors	1	8%	2	17%	2	15%
	Managers	162	36%	160	35%	152	34%
	Clerks	638	65%	632	65%	681	65%
ICC	Board of Directors	2	22%	2	22%	1	11%
	Members of Management	4	33%	4	20%	2	22%
	Managers	148	56%	135	54%	130	52%
	Clerks	911	71%	881	69%	865	71%

Notes:
1 Data of branch managers and above at Discount Bank do not include the members of Management.
2 In 2017, an update of the employee calculation methodology was performed, which the Bank updated retroactively also for the year 2016.

APPENDICES > GREEN

> EMISSIONS

Greenhouse gas emissions in 2017

	Scope 1	Scope 2	Scope 3	Total emissions
Discount Bank	4,028	22,267	652	26,947
MDB	987	5,267	Not measured	6,254
ICC	1,666	3,432	Not measured	5,098

Details regarding the investment of Discount Bank in the process¹ of reducing greenhouse gas emissions in 2017, and the annual savings deriving from them:

Type of activity	Description	Investment in NIS thousands	Annual energy savings (in kwh)	Annual GHG emissions reduction (CO2e tons)	Expected annual financial savings ² (estimate in NIS)
Energy efficiencies in buildings	Energy efficiencies in A/C systems	10,300	3,078,725	1,855	1,636,600
Energy efficiencies in buildings	Upgrading the lighting systems	500	769,681	464	384,100
Buildings – reduction of space		-	2,450,945	1,477	1,223,300
Total		10,800	6,299,351	3,796	3,244,000

Notes:
1 Savings in the consumption of electricity in relation to 2016. Estimated as a percentage of total savings in consumption.
2 In accordance with actual savings data, estimated as a percentage of the total financial savings.

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