

BOARD OF DIRECTORS (6/98) (1/01)) (8/01 (11/03) (2/05)

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BOARD OF DIRECTORS (6/98), (1/01)

Chapter 1: General

Introduction

1. (a) The proper conduct of a banking corporation requires that the board of directors function appropriately and at a high standards. For that purpose, regulations have been set down as regards its functions, composition, and method of operation. These regulations constitute the minimum required rules for the proper conduct of a banking corporation in everything connected with the activity of its board of directors. The Supervisor of Banks' view of the functions of the board of directors is that it is responsible for supervising and directing activity, including determining the banking corporation's policy, while implementation is in the hands of the management. Naturally, in view of the responsibility that rests on a director, he must be capable with appropriate skills and able to devote the necessary time to fulfill the tasks with which he has been charged.
- (b) So that there should be no room for doubt, it is stated hereby that as a rule, these regulations do not repeat the contents of the Companies Law, 5759–1999, and in effect supplement it.

Application

2. These regulations shall apply to all banking corporations, except for a banking corporation which is a joint services company. The Supervisor of Banks is entitled to determine specific regulations which differ from those given below, and which will apply to specific banking corporations.

Definitions

3. **“General manager”** - an individual who occupies the most senior management position in the company, whatever his title is;
- “Companies Law”** - The Companies Law, 5759–1999.
- “Office holder”** - As defined in Section 11A of the Banking Ordinance, 1941.

Office holders certification (2/05)

3A. In accordance with Section 11A of the Banking Ordinance, a person shall not serve as an office holder unless a notice was given to the Supervisor of Banks, at least 60 days before the start of the term. The banking corporation shall enclose with the said notice, a questionnaire to be completed by the candidate. (For questionnaire format – see appendix).

Chapter 2: The functions and authority of the board of directors

The functions of the board of directors

4. (Repealed)

The activities of the board of directors

5. (Repealed)

Subjects which the board of directors must discuss and decide

6. From time to time the board of directors shall hold a meeting to discuss the banking corporation's policy and general guidelines for the way it operates. In addition, the board of directors should discuss and decide on the following matters, as well as take the actions specified below:
 - (a) Define the policy of the banking corporation, including that of all its subsidiaries and overseas branches, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.), as specified in section 9a;
 - (b) Approve the overall budget of the banking corporation (income, expenditure, and investments), which shall be submitted not later than the end of December of the year preceding the fiscal year discussed; nonetheless, an overall budget may be approved not later than the end of January of the fiscal year discussed, provided that by the end of December of the preceding year an interim budget for the fiscal year in question or for the month of January itself is approved;
 - (c) Ongoing monitoring, at least quarterly, of the actual implementation of the budget;
 - (d) Implementation and realization of fixed investment, including in a controlled corporation, whether in Israel or abroad, above an amount to be specified by the board of directors;
 - (e) Implementation of changes in the control structure of the banking corporation in a controlled corporation whose activities are significant for the activity of the banking corporation;
 - (f) Issuing shares (including options and convertible securities) by a controlled corporation, both in Israel and abroad, and other issues by a controlled corporation

guaranteed by the banking corporation, excluding the issue by a company which is controlled solely by the parent-company and the issue is to the banking corporation itself or to a corporation controlled by the banking corporation;

- (g) Examination of capital adequacy, including adequate minimum capital ratio, structure of capital, and changes in it;
- (h) Discussion of the banking corporation's credit policy and objectives as set out in section 9;
- (i) Determining the salary and promotion of the internal auditor, as recommended by the audit committee;
- (j) Discussing the notification of the external auditor regarding the failure to correct deficiencies, in accordance with section 3(b) of [Regulation no. 304](#);
- (k) Discussing the audit reports of the Supervisor of Banks and taking the actions that are required as a result, and discussing the banking corporation's replies before the conclusion of dealing with the audit report;
- (l) Discussing the notification of the external auditor in accordance with section 6(c) of [Regulation no. 302](#) regarding the existence of doubts as to the continued existence of the banking corporation as a going concern; the discussion shall be held not later than three days after the notification has been received, before the financial statements are approved;
- (m) Any other matter of substantial importance to the activity of the banking corporation or the supervision and monitoring of its management;
- (n) The computerization policy of the banking corporation.
- (o) Discussing the policy of indemnifying and insuring office-holders, and discussing prior to the approval of the indemnification or commitment to indemnify an office-holder in advance or a change in the terms of an existing commitment. Before the said discussion, the members of the board of directors should be provided with updated information about the overall commitments to indemnify and the amounts to which office-holders in the banking corporation are insured, as well as estimates of the alternative cost of the pre-commitment to indemnify (e.g., the cost of the premiums demanded by the insurance companies for a policy equivalent to the terms of indemnification).

- (p) Appointing and dismissing the general manager.

Frequency of discussions

7. (a) The board of directors should be informed at least once every six weeks, and discuss where necessary, of the banking corporation's business situation, as indicated by a monthly report that is submitted in writing and whose form shall be determined by the board of directors.
- (b) The monthly report shall include at least the following information:
- (1) A summary of the balance sheet and the profit and loss statement, referring also to financial profits, fee income, and operating expenses;
 - (2) The extent of the banking corporation's exposure to the various kinds of risk;
 - (3) The treatment of problem debts of a substantial amount;
 - (4) Major changes in the situation of subsidiaries and substantial investments in fixed assets;
 - (5) Transactions that are significant or exceptional with respect to the business of the banking corporation if designated as such by the general manager, further to the rules set down by the board of directors in this respect;
 - (6) The activity of the banking corporation in the capital market, in its "nostro" account.
- (c) Every three months the board of directors shall discuss the banking corporation's business situation on the basis of a quarterly report that is submitted in writing and whose form has been determined by the board of directors, in accordance with the details set out above. This quarterly report shall also comprise major changes in assets and liabilities sections, as well as details regarding provisions for doubtful debts; the discussion should also review the exposure document to the various risks, as specified in [Regulation no. 339](#).
- (d) At least annually the board of directors shall discuss setting implementation targets for the coming year, as well as the extent to which they are consistent with the banking corporation's policy.
- (e) (1) The board of directors shall discuss any event included in the list of exceptional events determined in advance by the board of directors, including

infringements or *prima facie* infringements of the law, violation of proper conduct of banking business, and violation of integrity, provided any irregular incident which involves the suspicion of a criminal offence is submitted immediately to examination by the internal auditor or, if necessary, by the police.

- (2) The board of directors shall immediately discuss any event that departs from the customary routine of the banking corporation, which may have a significant effect on its business affairs (even if it is not included in the list given in section (1) above).

Terms of employment

8. The board of directors must discuss and decide, as well as take the actions specified below, in order to determine its wage policy, terms of retirement, and system of remuneration of employees and officers, in accordance with the following:
- (a) The board of directors must ensure in advance that the terms of employment and retirement are consistent with the banking corporation's business situation, and that changes in this situation are expressed, as far as possible, in the terms of employment and retirement;
 - (b) Before the beginning of discussions of collective wage agreements for each year the board of directors shall, if necessary, update its policy in this respect as defined in the budget for that year;
 - (c) The board of directors shall determine the terms of employment of the general manager and the principles of the terms of employment and retirement of the senior management echelon of the banking corporation's employees. Before the said terms are determined with respect to the general manager, within a reasonable time before the meeting at which these matters are discussed, the board of directors should be supplied with the main points of the previous and new terms of employment;
 - (d) When the board of directors approves the conditions on which the chairman of the board of directors serves, including remuneration and terms of employment and retirement, the board of directors should be supplied, within a reasonable time before the meeting at which these matters are discussed, with the main points of the

previous and new terms of employment;

- (e) The board of directors shall determine its policy in everything associated with its involvement in setting the terms of employment and retirement of employees of the banking corporation's subsidiaries, and shall ensure that the board of directors of each subsidiary discusses these terms.

Credit

9. (a) At least annually, the board of directors shall discuss and determine the banking corporation's credit policy, in accordance with section 6(h); this discussion shall include the following topics, *inter alia*:
- (1) The desired ratio between total credit to the public and the bank's total assets and capital;
 - (2) The desired limits on the extent of credit exposure;
 - (3) The desired exposure of the banking corporation vis-à-vis large borrowers or groups of borrowers;
 - (4) The policy regarding collateral and the safety margins for each kind of collateral.
- (b) The board of directors shall discuss and decide its position as regards to the authorization hierarchy for credit extension, provided the extension of credit above a certain minimum to be set by the board of directors is submitted to the board of directors for approval.

Risk management

- 9a. (a) At least annually, the board of directors shall discuss and approve a policy of exposure to the various kinds of risk, and determine the ceilings of exposure permitted in the various activity segments. Similarly, it must discuss and approve the organizational arrangements for managing and controlling the corporation's overall exposure to various risks.
- (b) The board of directors must hold the meeting, supervise risks ranking and determine limits, after it has reviewed the quality of the instruments that exist in the banking corporation for managing and controlling every kind of risk in each sphere of

activity.

- (c) The board of directors must ensure that any new activity of the banking corporation (a new financial derivative instrument that differs significantly from those existing in the corporation, creation of a new kind of exposure, market making, etc.) is approved by it after it has assessed the risks involved in the new kind of activity, examined the mechanisms the banking corporation will use for the management, measuring and controlling of the risks, determined the quantitative restrictions required in connection with the risks embodied in the new activity, and ensured that the banking corporation has the appropriate personnel, sources of finance, and technical and technological infrastructure to ensure that the activity can be undertaken and managed, and can be adapted to the existing situation in the banking corporation.

Subjects on which the board of directors must set guidelines

10. (a) The board of directors shall determine in writing procedures for dealing with the subjects listed below, and shall ascertain that they are implemented. The procedures should specify which body is authorized to deal with these subjects, the method of dealing with them, and the obligation to report to the board of directors as regards a subject whose treatment has been transferred to another person or body within the corporation. The subjects are as follows:
- (1) The periodic rotation of certain office-holders within the banking corporation;
 - (2) Repealed;
 - (3) Mechanisms for separating the activities of the banking corporation in various segments, or for maintaining a distinction between the activities of the banking corporation and those of the group to which it belongs, if conflicts of interest are likely to arise.
 - (4) Mechanisms for supervising and controlling corporations that are controlled by the banking corporation; the board of directors shall determine guidelines for ensuring that the corporations that are controlled by the banking corporation shall transfer to the banking corporation the information it requires in order to monitor, supervise, and control, on an ongoing basis, the transactions of the

group and the extent of the risks at a group level; the guidelines shall include the establishment of a central office unit that will analyze the said information and submit a report to the management of the banking corporation containing a summary of the information and recommendations, on the lines of the report approved by the board of directors;

- (5) Determining a minimum amount for transactions with related parties in accordance with section 7(a)(3) of [Regulation no. 312](#) and procedures for reporting and monitoring significant transactions with related parties, as required under section 7(c) of [Regulation no. 312](#).
 - (6) Any other subject which, in the view of the board of directors, is important for the management of the banking corporation.
- (b) The board of directors shall define in a detailed way the functions and authority of the general manager and charge him with reporting his activities to the board of directors on an ongoing basis; the board of directors shall specify the reports the general manager is required to submit.
- (c) The board of directors shall set down guidelines and procedures for ensuring that the internal auditor receives all the information and documents he requires, as he sees fit, to undertake the internal audit and ascertain that proper internal audits are made in those controlled corporations in which he does not serve as internal auditor; these include work programs of the internal auditors in controlled corporations, reports on exceptional events in these corporations, and any information and material required from the boards of directors of these corporations or from the members of their management and any of their employees, as required by law, including that in effect in the places where the overseas offices are situated.

Holding meetings via communications media

11. The board of directors shall determine procedures for holding meetings by means of communications media, which shall also include the following matters:
 - (a) Only in special situations is it possible to hold meetings of the board of directors not as a frontal meeting but by means of communications media (henceforth, communication meeting).

- (b) The board of directors of a banking corporation shall define in a detailed procedure the way a communication meeting shall be held, e.g., its initiation, quorum, background material, decision-making (including when members object to the proposal or to the urgency of the subject), documentation, including minutes, and any other matter to be determined by the board of directors. The procedure shall make it clear that an effort should be made to involve all the members of the board of directors in the consultation;
- (c) The relevant forum should be shown the minutes of the meeting at the first (frontal) meeting to be held after the decision was reached;
- (d) Despite the foregoing, decisions may not be made at a communication meeting on the following subjects:
- A decision by the audit committee;
 - Transaction with a related party as defined in sections 3(a), (b), (c) and (f) in the definition of a "related party" in section 3 of [Regulation no. 312](#);
 - The terms of employment and retirement of office-holders;
 - Credit above a certain amount to be determined by the board of directors;
 - Credit on exceptional terms to be determined by the board of directors (as regards interest and/or repayment dates and/or quality of collateral).

Making decisions without holding a meeting

11a. The board of directors of a banking corporation which, according to its articles of incorporation, may make decisions without holding an actual meeting even though all the directors entitled to participate in the discussion and vote on the subject to be decided have agreed to this, may reach decisions as stated only in special instances and while specifying the exceptional circumstances in the minutes of the decision.

Prohibition on vesting authority in a committee of the board of directors

12. The plenum of the board of directors, not by means of any of its various committees, must discuss and decide on the subjects specified in sections 6(a), (b), (f), (g), (h), (j), (l), (p), 7(c) (d), (e), 8, 9(a), 9(b) preamble and 45a in every audit report of the Supervisor, if the Supervisor has required that it do so.

Chapter 3: The composition of the board of directors

Number of members of the board of directors

13. (a) The board of directors shall include no less than 7 and no more than 15 directors.
- (b) A banking corporation that is not a bank and the nature and extent of whose transactions do not justify the appointment of 7 members to the board of directors may, if so permitted by the Supervisor of Banks, appoint a smaller number of directors to the board of directors.

Employees of the corporation as members of the board of directors

14. The board of directors shall not include employees of the banking corporation, except for the general manager of the banking corporation.

Outside directors

15. (a) At least a quarter of the members of the board of directors shall be outside directors;
- (b) For the purposes of this regulation, 'outside director' is someone who meets all the following conditions:
- (1) Meets the qualifying requirements specified in section 240 of the Companies Law. For this purpose, 'control' is as defined in the Banking (Licensing) Law, 5741-1981;
 - (2) Repealed;
 - (3) Repealed;
 - (4) Does not hold shares in the banking corporation, in a corporation controlled by the banking corporation, in a corporation that controls the banking corporation, or in a corporation controlled by the corporation that controls the banking corporation;

For the purposes of this section, 'holds' means directly or indirectly, including by means of a controlled corporation, or a person whose spouse, parent, or child holds shares of the corporation directly or indirectly, including by means of a controlled corporation; however, in the case of a corporation whose shares

are traded on the stock market, a director shall not hold directly or via a spouse, parent, or child more than 1% of the paid-up capital of the corporation, in order to be regarded as a 'shareholder' for the purposes of this section;

(5) Does not serve as the chairman of the board of directors of the banking corporation.

(c) The provisions of sections 245(a) and 249 of the Companies Law shall apply respectively to an outside director.

Place of residence of directors

16. The permanent place of residence of at least two-thirds of the members of the board of directors shall be Israel.

Chapter 4 : Chairman of the board of directors

Chairman of the board of directors

17. (a) The board of directors of a banking corporation shall be headed by a chairman who shall be responsible for the proper and efficient functioning of the board of directors and the discharge of the duties of the board of directors.
- (b) In the absence of the chairman of the board of directors his place shall be taken by one of the members of the board of directors who is not the general manager of the banking corporation.
- (c) The chairman of the board of directors of a banking corporation shall not be the general manager or any other office-holder in the banking corporation and shall not deal with the day-to-day management of the corporation, including non-participation in the meetings of the management, other than in exceptional cases, and shall not issue instructions to managers who are answerable to the general manager.

Nonresident chairman of the board of directors

18. A nonresident shall not serve as chairman of the board of directors unless he participates regularly in the meetings of the board of directors.

Chapter 5: Eligibility to serve as director

Eligibility of director

19. (a) A director in a banking corporation shall be an individual.
- (b) A director in a banking corporation shall possess knowledge, experience, or expertise in one or more of the following spheres: banking, finance, economic or business activity, law, management, or accounting.

Permanent conflict of interests – eligibility to serve

20. (a) A person shall not serve as a director if his business or permanent occupations creates a permanent conflict of interests between him and the corporation, or if it is reasonable to assume that such conflict may arise permanently.
- (b) Without detracting from the general nature of the above, a person shall not serve as the director of two banking corporations unless the corporations belong to the same banking group.
- (c) A person shall not be appointed a director if he was a director of another banking corporation and less than a year has passed since he ceased to serve as a director there, unless the agreement of the board of directors on which he previously served is obtained, or the permission of the Supervisor of Banks is granted, after consultation with the chairman of the board of directors of which he was a member.
- (d) Repealed.

Industry conflict of interests (8/01)

- 20a. (a) Without detracting from the general rule on conflict of interest, a director who is connected to a corporation in a secondary industry shall not be present at the discussions of the board of directors or its committees that refer to a customer of the banking corporation who is also a corporation in the same secondary industry, and shall not receive information and reports from the banking corporation relating to that customer.
- (b) (1) If there is any doubt as to the formulation of the quantitative tests mentioned in

subsection (d), the director shall be exempt from the provisions of subsection (a) if a committee consisting of three outside directors of the banking corporation has discussed the case and decided unanimously that the quantitative tests were not held in that case.

- (2) In a banking corporation with only 2 outside directors, the committee shall consist of the two outside directors.
- (c) The banking corporation shall make a list, to be updated every six months, with the names of the directors connected to a corporation in a secondary industry.
- (d) For the purpose of this section:

“Secondary industry” - Any secondary industry, as classified by the Central Bureau of Statistics.

“Corporation in a secondary industry” – A corporation the extent of whose activities (whether directly or via subsidiary companies) in a specific secondary industry constitutes 5% or more of the total extent of activity in that secondary industry (the measurement of the total extent of activity in a secondary industry shall be undertaken on the basis of the index accepted in that secondary industry, such as the total balance sheet or revenues).

“Director connected with a corporation in a secondary industry” –

A director regarding whom one of the following tests applies:

- (1) He holds at least 5% of the means of control in a secondary industry;
- (2) He holds a position in a corporation in a secondary industry.

Approach by a director (11/03)

- 20b. (a) A director shall not approach an employee of the banking corporation with a proposal for a business transaction for the bank to undertake. This regulation shall not apply to an approach to the general manager of the banking corporation for a business transaction for the bank in which the director has no personal interest, provided that the approach is documented.
- (b) A director shall not approach an employee of the banking corporation regarding business matters of specific customers or regarding particular investments of the banking corporation. This restriction shall not apply in the following cases:
- (1) An approach to the general manager of the banking corporation, which shall be documented. An approach by the chairman of the board of directors to the general manager does not have to be documented;
 - (2) An approach by the chairman of the board of directors or the chairman of a directors' committee for purposes of clarifying a matter directly related to a discussion in a plenary meeting of the board of directors or one of its committees. The approach shall be documented, and a copy of the documentation shall be submitted immediately to the chairman of the board of directors and the general manager. The chairman of the board of directors shall decide whether to circulate the documentation to the members of the board of directors or to the relevant committee. In exceptional cases an approach for purposes of clarification of the type and in the manner described above is permitted also if made by a director who is not the chairman of a board of directors' committee;
 - (3) An approach to the appropriate person along the usual channels for clarification regarding a personal account held in that banking corporation, the account being of the director or the director's spouse or a corporation controlled by them.
- (c) This section does not apply to an approach by a director to an employee of the banking corporation in the course of a board or directors' and his committees' meetings.

- (d) (1) The banking corporation shall maintain a centralized record of all approaches in accordance with subsection (a) and sub-subsections (b)(1) and (2) above, including copies of the documentation.
- (2) Copies of all such documentation shall be forwarded promptly to the chairman of the Audit Committee.
- (e) For purposes of this section:

“Director” A director of the banking corporation who is not the general manager of that corporation.

“Documentation” A written document prepared by an employee of the banking corporation soon after the time of the approach, that shall include the names of the director and the employee and their positions, when the approach was made and its substance, and as far as possible also what action was taken following the approach.

Other occupations

21. A person shall not serve as a director if his other occupations do not leave him sufficient time to fulfill his duties in that capacity.

Declaration (8/01)

22. At the time of his appointment or election, a director shall make a written declaration, which includes the following information:
- (a) His principal occupation and on which other boards of directors he serves;
- (b) That he has sufficient time to fulfill his duties as a director of the banking corporation;
- (c) If he is a candidate to serve as an outside director, that he meets the conditions set out in section 15;
- (d) That he has read this regulation and undertakes to act in accordance with it.
- (e) A list of the corporations he controls and the corporations in which he serves as general manager.

(f) A list of the corporations in the secondary industry with which the director is connected, as stated in section 20a.

This declaration shall also be made when a director is re-appointed or re-elected, and shall be submitted to the secretary of the banking corporation.

Chapter 6: Board of directors' committees

Vesting the authority of the board of directors

23. (a) Repealed.
- (b) If the board of directors appoints a committee, it shall specify its authority and functions, and approve its procedures.
- (c) The board of directors shall not vest authority in one of its committees in a vague or residual way unless it has examined the significance of the said concentration of authority.

Board of directors' committees

24. (a) The board of directors' committees shall consist solely of directors, and the number of committee members shall not be less than 3; the composition of the committee shall be on the basis of the ratio determined in sections 15 and 16.
- (b) Despite the aforesaid in subsection (a), a committee that has been authorized to set the salary of the banking corporation's external auditor shall have a majority of outside directors.
- (c) Repealed.
- (d) The working procedures and legal quorums of the committees shall be as specified in sections 11 and 11a and in Chapter 7 as regards the board of directors, with changes as appropriate.

Audit committee

25. (a) The board of directors of a banking corporation shall appoint an 'audit committee' as defined in section 115 of the Companies Law, and the provisions in section H of chapter 3 of Part 3 of the Companies Law shall apply to it, with changes as appropriate, unless stated otherwise in this regulation.
- (b) The chairman of the audit committee and most of its members shall be outside directors.
- (c) The legal quorum for a meeting of the audit committee is a majority of its members,

provided most of them are outside directors.

- (d) If the chairman of the audit committee does not call a meeting within a reasonable amount of time, after being requested by the internal auditor to do so to discuss a subject he has specified should be discussed, as stated in section 116(b) of the Companies Law, he shall document in detail his reasons for not calling the said meeting.
- (e) At least once a year the audit committee shall hold a meeting with the internal auditor alone.
- (f) (1) As a rule, the decisions of the meetings of the audit committee and the transactions with related parties committee shall be reached in the presence of the committee members only.
(2) The aforesaid in section (1) does not apply to legal counsel, internal auditor, or holders of management or professional functions.
- (g) As a rule, the audit committee shall hold at least six meetings a year.

Functions of the audit committee

26. (a) The audit committee shall discuss the work program of the internal auditor and submit recommendations about it to the chairman of the board of directors. In this respect, the audit committee should also relate *inter alia* to the desired framework of the internal audit of its subsidiaries in Israel and abroad, and make recommendations about it to the chairman of the board of directors.
- (b) (1) The audit committee shall monitor the implementation of the internal auditor's work program.
(2) The chairman of the audit committee, in consultation with the chairman of the board of directors and the internal auditor, shall determine which significant internal audit reports shall be brought in their entirety before the audit committee. The committee is entitled to decide that the other audit reports of the internal auditor shall be brought before it in summary or in full, as it sees fit. The committee shall discuss the findings of the reports that are brought before it.
 - (c) The audit committee shall discuss the audit reports of the Supervisor of Banks and

reach the necessary decisions as a result of these discussions. The audit report of the Supervisor of Banks shall be discussed at the first meeting after the report is received, and in any event no later than 45 days after it is received by the banking corporation. If the above report states that it should be brought for discussion before the plenum of the board of directors, the audit committee may discuss it in addition to the discussion in the plenum.

- (d) The audit committee shall discuss the audit reports of the external auditor.
- (e) The audit committee shall make recommendations regarding the salary and advancement of the internal auditor.
- (f) The audit committee shall discuss transactions as mentioned in section 7 of [Regulation no. 312](#), if the transactions with related parties committee has not discussed them.
- (g) At least once every three years, or when the external auditor ends his term of office, whichever is longer, the audit committee shall discuss the possibility of replacing the banking corporation's external auditor.
- (h) The audit committee shall bring its views before the general meeting when the conclusion of the term of office or termination of services of the external auditor is on the agenda.
- (i) If a banking corporation is involved in a transaction with someone in whom an office-holder in the bank has a personal interest (as defined in the Companies Law) to an amount exceeding the amounts specified in section 7(a) 1–3 of [Regulation no. 312](#), including provision for or forgiveness of a debt, this requires the advance authorization of the audit committee or the transactions with related parties committee.

For the purpose of this section, despite the aforesaid in section 7(a)(1) of [Regulation no. 312](#), the minimum amount for such a transaction with an individual, shall not exceed N.I.S 1 million.

Transactions with related parties committee

27. (a) The board of directors may appoint a transactions with related parties committee to discuss the subjects specified in section 7 of [Regulation no. 312](#) which have not

been discussed by the audit committee.

- (b) The provisions and restrictions that apply to the audit committee shall also apply, as appropriate, to the transactions with related parties committee.

Chapter 7: Work methods of the board of directors and its committees

Frequency of meetings

28. (a) As a rule, the plenum of the board of directors of a banking corporation shall meet at least once a month. If the nature and extent of the banking corporation's transactions do not justify this, it is entitled to decide, with the approval of the Supervisor of Banks, that the meetings of the board of directors will be less frequent than specified in this section, but not less than one meeting every three months.
- (b) A banking corporation shall call for a meeting of the board of directors in instances specified in section 98(b)-(d) of the Companies Law within 14 days of the relevant period.

Attendance at meeting of the board of directors

29. (a) A director who has failed to attend six successive meetings of the board of directors or eight intermittent meetings of the board of directors within a year shall be regarded as having resigned. If the Supervisor of Banks has determined a smaller number of meetings in accordance with section 28, the director shall be regarded as having resigned as said, unless he has attended a given number of meetings a year, as specified by the Supervisor of Banks. Notwithstanding, the board of directors is entitled to permit a director who has not attended the specified number of meetings to continue as a member of the board of directors if this has occurred within a period of not more than six months.
- (b) A director who has, whether directly or indirectly, a personal interest in an existing or proposed transaction of the banking corporation that is brought for discussion before the board of directors, or in a decision that the board of directors is about to make, shall declare his personal interest as aforesaid without delay, and not later than the meeting of the board of directors at which the transaction is first discussed.
- (c) A director who is an interested party as aforesaid in subsection (b) should not attend the meeting that discusses the matter that concerns him, shall not be counted for purposes of determining a legal quorum required for that discussion, and shall not vote on the relevant proposal.

Announcements and background material for meetings

30. (a) An announcement regarding a board of directors meeting shall be submitted to the board of directors within a reasonable time period prior to the meeting. The announcement shall specify the time and place of the meeting as well as reasonable details about all the subjects on the agenda.
- (b) An announcement as aforesaid in section (a) shall be accompanied by background material in writing that also refers to its significance and implications, including financial ones, and enables the subjects for discussion to be addressed in a serious manner in the framework of the meeting. This background material shall be kept in the offices of the banking corporation together with the minutes of the meeting at which the subjects referred to in it are discussed.
- (c) Only in exceptional cases will the board of directors be entitled, with the agreement of all its members, to hold a meeting without an announcement as specified above, provided the minutes of the meeting give the reasons why the case is regarded as exceptional.

Participation of the internal auditor in meetings

31. The plenum of the board of directors must invite the internal auditor to attend a meeting where a subject that is in the sphere of the internal audit is discussed, including a discussion of the audit reports of the external auditor and the supervisory authorities.

Legal quorum and voting

32. (a) The legal quorum for a meeting of the board of directors is a majority of its members, provided the ratio of the board of directors is as determined in sections 15 and 16.
- (b) Each director shall have only one vote in the board of directors voting. The aforesaid in this section does not prevent the granting of an additional vote to the chairman of the board of directors when the votes are even, in accordance with section 107 of the Companies Law.

Agenda

32a. The agenda of the board of directors' meetings shall include *inter alia*, every subject requested by a director or the general manager from the chairman of the board of directors, within a reasonable time before the board of directors meeting convenes.

Minutes

33. (a) The chairman of the meeting shall be responsible for recording the minutes of the discussion. The minutes shall reflect the subjects discussed at the meeting, the main points raised and by whom, as expressed during the meeting, the decisions reached, and the point at which each participant entered and left the meeting.
- (b) The board of directors shall determine guidelines for approving the minutes provided the latter are brought for approval not later than the next meeting or 30 days after the meeting to which the minutes refer, whichever is later.
- (c) To the minutes shall be attached the documents that served as background material for reaching the board of directors' decisions.

Determining additional work procedures

34. Without detracting from the foregoing, the board of directors shall determine detailed work procedures for its meetings and the meetings of its committees, as well as procedures for reporting by the board of directors' committees. These procedures shall specify *inter alia* the way the material shall be submitted to the board of directors for review.

A director's right to receive information

35. A director who wishes to utilize his right to receive information in accordance with section 265 of the Companies Law shall submit a written request for information which will be discussed by the board of directors.

Professional assistance for directors

36. A director who wishes to use his right to employ advisors in order to receive professional advice in accordance with section 266 of the Companies Law shall first submit a reasoned request for reimbursement to the board of directors. If the board of

directors has rejected his request, it shall be transferred to the Supervisor of Banks at least 21 days before the director seeks the intervention of the courts in approving his request for employing the expert.

Transmitting announcements to the Securities Authority

37. Repealed.

Signatory rights

38. (a) A director of a banking corporation who is not the general manager of that corporation will not have signatory rights on behalf of the banking corporation in matters that concern its day-to-day business.
- (b) If the plenum of the board of directors considers that with regard to a specific matter signatory rights should be granted to another director who is not the general manager of that corporation, it shall authorize that director to sign specifically for that matter; in such a case the senior office-holder in the banking corporation will have counter-signatory rights.
- (c) The contents of this section do not apply if the signature of a director is required by law (e.g., signature on a financial statement, prospectus, etc.).

Substitution

39. A substitute director may not be appointed in a banking corporation.

Chapter 8: Reporting to the Supervisor of Banks

Frequency of reporting

40. The secretary of the banking corporation, or whoever has been appointed by the board of directors, shall submit the following reports to the Supervisor of Banks:
- (a) An immediate report that must be submitted within two weeks of an event;
 - (b) An annual report that must be submitted each year by the end of January for the year ended on the December 31st preceding it.

Annual reporting

41. The report shall comprise the following:
- (a) The names of the directors and their places of residence;
 - (b) The names of the members of the various board of directors' committees;
 - (c) The frequency with which meetings of the board of directors are held, and the names of the committees-members attending them, as follows:
 - (1) The number and dates of meetings of the plenum of the board of directors during the past year, and the number and dates of meetings in which each director participated during that period;
 - (2) A report of all the meetings of each of the board of directors' committees as well as the number of meetings in which each committee-member, the internal auditor, and the external auditor participated;
 - (d) A description of the main business of each director and the names of the other corporations of which he is a director or the general manager.
 - (e) Other details, as determined periodically by the Supervisor.

Immediate reporting

42. The report shall be submitted if one or more of the following occurs, and shall include the following relevant details:
- (a) A change in the composition of the board of directors or its committees, including a change resulting from the death, resignation, or dismissal of a director; this should

comprise a statement to the Supervisor of Banks by the chairman of the board of directors regarding the reasons for the resignation or dismissal of the director, as well as a statement by the director regarding the reasons for his resignation or dismissal;

- (b) The appointment of a general manager and the approval of the appointment of the most senior officials of the banking corporation who constitute its management. This also applies to the appointment of an internal auditor and external auditor and to the cessation of their employment, for whatever reason;
- (c) Exceptional events that are reported to the board of directors and constitute a departure from the proper conduct of banking business, or infringement of the provisions of the law, or substantive violation of the interests of the corporations' lenders, customers or shareholders;
- (d) The announcement by the internal auditor of the failure to take appropriate steps to correct defects, as required under section 7(c) of the Banking (internal auditing) Regulations, 5753–1992;
- (e) The announcement of the cessation of the employment of the internal auditor against his will, or his suspension in accordance with section 10 of the Banking (internal auditing) Regulations, 5753–1992;
- (f) A report of the receipt of an announcement from the external auditor under section 3(b) of [Regulation no. 304](#);
- (g) A report of the approval of an action under section 255 of the Companies Law;
- (h) A report of the approval of a transaction of a banking corporation which meets the aforesaid in section 270(1) of the Companies Law and is an exceptional transaction according to section 272 of the Companies Law;
- (i) A report of a transaction under sections 274–275 of the Companies Law;
- (j) A call for a meeting of the board of directors as demanded by a director, as stated in section 257 of the Companies Law.

Reporting an exceptional event

43. (a) Despite the foregoing, the banking corporation shall submit a report to the Supervisor of Banks, within three business days after learning of the event, on the

following exceptional events:

- (1) A loss to an amount in excess of 5% of the banking corporation's capital accrued since the end of the last quarter regarding which a financial statement has been published;
 - (2) A loss in excess of 1% of capital arising from a single action or transaction;
 - (3) A loss in a foreign subsidiary to an amount in excess of 3% of its capital, or in an overseas branch to an amount exceeding 3% of its notional capital arising from a single action or transaction, or a loss in a company or branch as stated to an amount in excess of 5% of the capital of the company or the notional capital of the branch and that has accrued since the end of the last quarter regarding which a financial statement has been published, or if in any case the loss exceeds an amount equivalent to \$ 1 million;
 - (4) The classification of a debt as doubtful in part or in full, when the indebtedness is to an amount in excess of 5% of the banking corporation's capital;
 - (5) An announcement by the external auditor under section 6(c) of [Regulation no. 302](#) (External auditor of a banking corporation).
 - (6) The implementation of the authority of the board of directors by the general meeting under section 52(a) of the Companies Law;
 - (7) The implementation of the authority of the general manager by the board of directors under section 52(b) of the Companies Law;
 - (8) The annulment by the board of directors of a decision of the audit committee and/or the transactions with related parties committee under section 113 of the Companies Law.
- (b) For the purposes of this section, 'capital' is as defined in Appendix A of [Regulation no. 311](#) (Minimum capital ratio).

Mode of reporting

44. The reports specified in this chapter shall be made in writing and be available to all members of the board of directors.

Chapter 9: Miscellaneous

Documents of incorporation

45. (a) The documents of incorporation of the banking corporation and the corporations it controls shall be amended as necessary in such a way as to fit these regulations.
- (b) Despite the contents of sections 50(a) and 58(b) of the Companies Law, the constitution of a banking corporation shall not permit:
- (1) Appropriation by the general meeting of the rights granted to another organ.
 - (2) The transfer of rights from the general manager to the board of directors, except as stated in sections 6(d), (f), and 9(b) of this regulation.

Management

- 45a. (a) A banking corporation shall have only one general manager.
- (b) Employees shall be appointed to the management of a banking corporation by the general manager, subject to the approval of the board of directors.

Cooperative associations

46. Regarding a cooperative credit association, wherever the 'board of directors' is mentioned this shall be regarded as a 'committee,' as defined in the Cooperative Associations Ordinance.

Chapter 10: Transitional provisions

47. An outside director who has been appointed in accordance with the provisions of section 15 of this regulation prior to the publication of the amendments to the regulation (10/1/01), shall be subject to the provisions of section 15 of the regulation prior to the date of the amendment, until the end of his term of office, or as long as the provisions of the Companies Directive (new version), 5743–1983 apply to the period and renewal of his term of office, as stated in section 372 regarding transitional provisions in the Companies Law, whichever is later.

* * *

Appendix

Questionnaire for Candidate for Office in Banking Corporation **(Director, Chief Executive Officer, Internal Auditor, Other)**

Guidelines for Candidate

1. Answer *all* questions on the questionnaire (print the answers) and attach *all* required documents. Filling out the questionnaire in the manner indicated is an integral part of the announcement of the appointment of an officer and the beginning of the process of examination by the Banking Supervision Department.
2. Terms in this questionnaire that are defined in the Banking (Licensing) Law or the Banking Ordinance shall carry the meaning given them in said statutes, except where explicitly stated otherwise.
3. If a given question is answered in the negative or when information needed to provide a detailed answer is lacking, **note this explicitly**.
4. It is *obligatory* to attach the following to the questionnaire: a detailed curriculum vitae, updated to the date on which the questionnaire is filled out; certification from the Israel Police about a clean criminal record; and a photography of the candidate's ID card or, in the case of a nonresident, his/her passport. Also attach, to the extent possible, documents corroborating the details required in the Statement, e.g., photocopies of certificates from academic institutes.
5. Please attach or note in the Statement further details that are important and relevant to the application and that are not included in the questionnaire below.
6. Please attach, to the extent possible, references from known sources.
7. You must make a statement before an attorney concerning the veracity, correctness, and completeness of the details that you report on the questionnaire, using the format shown at the end of the questionnaire.

8. The Banking Supervision Department may, at its discretion and to any extent that it deems fit, avail itself of information beyond that provided by the candidate on the questionnaire.
9. The requests for information on this questionnaire are standard. Depending on the circumstances and in view of the contents of the questionnaire, the candidate may be asked to provide the Banking Supervision Department with further details.
10. A questionnaire that is improperly filled, or to which the required support documents have not been attached, shall not be reviewed by the Banking Supervision Department.

Details of Statement

1. Details of Banking Corporation

- a. name of banking corporation;
- b. code of banking corporation.

2. Candidate's Particulars

- a. first name;
- b. surname;
- c. father's name;
- d. citizenship;
- e. ID number, or, for a nonresident, passport number;
- f. date of birth;
- g. residential address;

duration of residence at said address: from _____ (date) to date of presentation of candidacy.

Note: If the address has changed during the past three years, note also the addresses at which you lived during these three years.

- h. telephone number;
- i. mobile telephone number.

3. Essence and Terms of Employment

- a. description of office (Chief Executive Officer, chair of board of directors, director, external director under the Corporations Law, external director under Directive 301, internal auditor, other officer);
- b. date of intended appointment.

On questions c–h below, if you answer in the affirmative, note and provide details in accordance with the requirements of the question.

- c. Are there relations of any kind between yourself, and/or your spouse, and the controlling principals of the bank, whether they originate in co-ownership and/or in conduct of joint business/projects, or in any other way?
- d. Are you indebted, as indebtedness is defined in Proper Conduct of Banking Business Directive 313, to the banking corporation, a corporation controlled by the banking corporation, or the parent company of the banking corporation?
- e. Do you or your spouse have kinship relations with the controlling principals?
- f. Do you hold shares in the banking corporation, in the shares of a corporation controlled by the banking corporation, or in the parent company of the banking corporation? If so, record the name of the company, its number,¹ and the percent of shares that you hold.

In the case of an appointment as director of a banking corporation in which all controlling principals not require a permit under the provisions of Section 34(b) of the Banking (Licensing) Law, also answer the following questions:

- g. To the best of your knowledge, do you hold more than 1 percent of a given type of controlling interest in the banking corporation or regularly cooperate with a person who has such a stake (“regular cooperation” as defined in “together with others” in Section 1 of the Banking [Licensing] Law, 5741-1981)?
- h. To the best of your knowledge, do you, your spouse, or an officer in a corporation controlled by either of you, have a relationship with a person who holds more than 1

¹ For an Israeli company, as shown in the Register of Corporations; for a foreign company, note alongside the number the country in which incorporated.

percent of a type of controlling interest in the banking corporation (“relationship”- the existence of a material working relationship, a business relationship, or a professional relationship, and also a term of service as officer)?

In the case of an appointment as a director, answer the following questions as well:

- i. Status (permit holder, employee of corporation, employee of banking group, other);
- j. Membership in board committees, if known.

4. Education

In this section, refer to all forms of education. In regard to each, please note (attach certificates):

- a. type of education;
- b. name and address of institution;
- c. number of years of study;
- d. year in which degree was earned;
- e. major / specialization;
- f. degree (if no degree was earned, note this explicitly).

5. Employment in Past Ten Years

In this section, refer to all positions that you held during the past ten years and hold at the present time. In regard to each, please note:

- a. term of employment;
- b. name of employer;
- c. employer’s most recent known address;
- d. nature of business;
- e. whether the employer was under the supervision of any regulatory authority and, if so, which;
- f. your duties in the business;
- g. your areas of responsibility;

- h. details about additional relations with employer (shareholding, partnership in control, etc.);
- i. reason for leaving (resignation, termination, retirement, end of contract, other—provide details).

6. Integrity

In the past ten years, have any of the following events occurred? If yes, note and provide details in accordance with the requirements of the question.

- a. Were you convicted of an offense, indicted, investigated in regard to suspicion of having committed an offense, or made to pay a forfeit or some other financial sanction?
- b. Were you, or are you, a controlling principal, director, or senior employee (Chief Executive Officer or one rank below) in a company that was indicted, paid a forfeit, or was investigated in regard to suspicion of having committed an offense?
- c. Were you convicted by a disciplinary entity?
- d. Are criminal investigations taking place, or have they taken place, against you or against another business in which you were involved, as stated in Section (b) above?
- e. Are disciplinary investigations or proceedings of any kind taking place, or have they taken place, against you or against another business in which you were involved, as stated in Section (b) above, by any regulatory authorities, in Israel or abroad, or has notice about the possibility of launching such proceedings been served, in regard to violation of requirements or standards of a regulatory system in Israel or abroad?
- f. Were you involved, as an employee or as a shareholder, in a corporation whose registration, certification, membership, or license has been revoked or suspended by a regulatory authority? Was your ability to engage in the field of concern in the license negated or limited by the revocation, if any, of the relevant license of the corporation?
- g. Was your service as an executive or a director in an entity in which you served terminated, or were you disqualified from serving as a director or from holding any other executive office?

7. Financial Robustness²

If you answer any of the following questions in the affirmative, note and provide details in accordance with the requirements of the question.

- a. Is there a verdict against you, in Israel or abroad, on account of which, as of the date of the Statement, you are financially indebted to a third party?
- b. Have you concluded, in Israel or abroad, settlements with creditors, applications for bankruptcy, were declared bankrupt, had your assets condemned or confiscated, or been involved in proceedings related to these matters?
- c. Are you or have you been a controlling principal, director, or senior employee (Chief Executive Officer or one rank below) in a company that was dissolved or is the midst of proceedings of dissolution or receivership, or has concluded a settlement with creditors?

8. Further Details

Please answer the following questions. Where necessary, note and provide details in accordance with the requirements of the question.

- a. Are you familiar with the directives of the Banking Supervision Department and the requirements flowing from the provisions of the law, or from other regulatory and professional provisions, that shall apply to you by force of your function as director / internal auditor / other officer?
- b. Do you know of any drawback that may limit your ability to comply with the aforementioned obligatory rules?

Only candidates for the office of director need answer questions c and d.

- c. Are your other business activities liable to create a permanent conflict of interest between yourself and the banking corporation?
- d. Do your other business activities leave you with enough time to discharge your duties as a director of a banking corporation?

² Unless otherwise stated, the candidate does *not* have to itemize his/her liabilities and main assets and their worth.

Answer questions e-i in accordance with the table below:

| Corporation name | Corporation number ³ | Type of business ⁴ | Percent of shares held | Type of corporation ⁵ | Beginning date of relationship | Ending date of relationship |
|------------------|---------------------------------|-------------------------------|------------------------|----------------------------------|--------------------------------|-----------------------------|
|------------------|---------------------------------|-------------------------------|------------------------|----------------------------------|--------------------------------|-----------------------------|

- e. List additional corporations in which you serve as a board member or Chief Executive Officer.
- f. List corporations in which you have served as a board member or Chief Executive Officer in the past five years.
- g. List businesses and corporations in which you have a controlling interest (note the size of your holdings).
- h. List businesses and corporations in which you are a principal, as this term is defined in the Securities Law, 5728-1968 (note the size of your holdings).
- i. For a candidate for the position of director—list corporations in a secondary industry with which you have relations in the sense of this term in Section 20a of Proper Conduct of Banking Business Directive 301.
- j. Provide any other information that is relevant to the application.

³ For an Israeli company, as shown in the Register of Corporations; for a foreign company, note alongside the number the country in which incorporated.

⁴ Choose one of the following: Chief Executive Officer, chair of board of directors, director, external director, controlling principal, principal, other.

⁵ Choose one of the following: banking corporation, auxiliary banking corporation, capital-market corporation, other.

Statement by Candidate

I the undersigned, _____, ID number _____, after having been warned that I must tell the truth and that I am liable to the penalties set forth in law if I fail to do so, state the following:

I am aware that I am a candidate for the office of Chief Executive Officer / Chair of the Board of Directors / Director / External Director / Internal Auditor / _____ (delete where inapplicable) in _____ (name of corporation). All the information and details that I have provided on this questionnaire are complete, correct, and truthful.

I state that this is my name, that this is my signature, and that the contents of my Statement are true.

Date

Signature

Attorney's Certification

I hereby certify on _____ (date) that Mr./Mrs./Ms. _____, who identified himself/herself by means of ID card number _____, whom I know personally, appeared before Attorney _____ at my office on _____ (address), and after I warned him/her that he/she must state the truth and that he/she will be liable to the penalties set forth in the law if he/she fails to do so, certified the correctness of the Statement and affixed his/her signature thereto.

Date

_Stamp

Signature of attorney

Statement of Banking Corporation

Name of banking corporation: _____

Code of banking corporation: _____

To the best of our knowledge and in accordance with the information and details that the candidate furnished in this questionnaire, we believe that the candidate is suitably fit to serve in the office that has been offered him/her and that his/her appointment does not contravene the provisions of any law and/or the Proper Conduct of Banking Business Directives of the Banking Supervision Department.

In the event that the candidate was or is an employee of the banking corporation, the Statement shall also pertain to the following:

In a review by the internal auditor of the internal-audit reports that the bank performed in the candidate's areas of responsibility, material findings were/were not (delete where inapplicable) discovered. (Insofar as such findings were discovered, please provide details; insofar as they are irrelevant to the candidate, please delete this line.)

_____ Date

_____ Name of authorized signatory

_____ Function

_____ Signature

Review of Completeness of the Material Presented

This examination shall be performed by the banking corporation.

Mark the box with a check to confirm the presence of the information required for this questionnaire.

| | | |
|----|--|--|
| 1. | All questions are answered. | |
| 2. | Candidate's statement to attorney | |
| 3. | Statement of banking corporation | |
| 4. | Curriculum vitae | |
| 5. | Certification of clean criminal record | |
| 6. | Photocopy of ID card / passport | |
| 7. | Additional material | |