Corporate Responsibility Evaluation Framework

1. Introduction

1.1 Corporate responsibility principles constitute a set of guidelines and standards that define proper and ethical conduct for corporations, particularly in matters of oversight, governance, and accountability.

1.2 The adoption of robust corporate responsibility practices inherently enhances the quality of governance and oversight, reduces the likelihood of misconduct that regulators may struggle to identify, lowers uncertainty, and promotes transparency and consistency in corporate conduct.

1.3 When Clal Group considers potential investments, the degree to which a company embraces corporate responsibility practices is an important factor in the decision-making process. The Group attaches great importance to the quality and continuous improvement of corporate responsibility policies within its portfolio companies and dedicates significant resources to this objective.

1.4 Clal Group has also adopted a proxy voting policy for general shareholder meetings in companies in which it invests. This policy serves as an additional mechanism to advance the integration of corporate responsibility principles across investee companies.

1.5 This framework is effective as of the date of its publication.

2. Corporate Responsibility Rating Model

Clal Group engages external service providers to evaluate the level of corporate responsibility of companies under investment consideration, using a proprietary corporate responsibility rating model developed by these providers.

The model is a unique framework and based on a comprehensive database of all publicly listed companies in Israel. Evaluation is conducted across the following parameters:

1. Board independence
2. Controlling shareholders, related-party transactions, and executive compensation
3. Quality of internal audit and external audit oversight
4. Ethics, transparency, and public disclosure practices
5. Responsible investment and social responsibility initiatives

Based on these criteria, each company receives a corporate responsibility score, categorized into three rating tiers:

- **High rating group** (TOP, TOP+, TOP): companies with a strong corporate responsibility assessment.
- **Medium rating group** (MEDIUM, MEDIUM+, MEDIUM): companies with a reasonable corporate responsibility assessment.

- **Low rating group** (BOTTOM, BOTTOM+, BOTTOM): companies with a weak corporate responsibility assessment.

Alternatively, an equivalent score may be provided by a second service provider.

3. Implementation

The various investment committees within the Group instruct portfolio managers to consider the quality of corporate governance and responsibility as an integral factor in any investment decision, whether new or additional. Investment managers and analysts retain discretion to assess further aspects of corporate responsibility beyond those captured in the rating model.

Each analytical review conducted prior to investing in a corporation must include the company's most recent corporate responsibility rating report. Where relevant, the findings are discussed in the Group's investment forums.

As part of the management of policyholders' assets, the responsible portfolio manager will review the corporate responsibility rating before executing investments in companies traded in Israel.

As a guiding principle, the Group favors investments in companies rated **High** or **Medium** for corporate responsibility, while investments in companies rated **Bottom** require enhanced scrutiny. In such cases, the Group conducts a detailed review of the rating report, focusing on the specific weaknesses that led to the low rating, and any decision to proceed requires the prior approval of the Group's Chief Investment Officer for the relevant portfolio. The deliberations and rationale must be formally documented in the investment committee minutes.

Additionally, once a year, portfolio managers review all listed holdings to identify companies whose corporate responsibility rating has declined to **Bottom** during the preceding year. The Chief Investment Officer must record the justification for maintaining such holdings.

It should be clearly noted that, a low corporate responsibility rating—whether overall or in any sub-category—does not, in itself, automatically preclude investment. Given that corporate responsibility is an evolving field subject to regulatory and market developments, the Group will continue to review and, where necessary, update its policy through regular discussions in the investment committees to ensure alignment with changing market conditions.