Israel

Proxy Voting Guidelines
Benchmark Policy Changes for 2023-2024

Effective for Meetings on or after October 22, 2023

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### Israel

#### Board of Directors

**ISS Israel Classification of Directors**

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<tr>
<th>Current ISS Policy:</th>
<th>New ISS Policy:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Director</strong></td>
<td><strong>Executive Director</strong></td>
</tr>
<tr>
<td>• Employee or executive of the company;</td>
<td>• Employee or executive of the company;</td>
</tr>
<tr>
<td>• Active chair[1] of the board;</td>
<td>• Active chair[1] of the board;</td>
</tr>
<tr>
<td>• Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.</td>
<td>• Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.</td>
</tr>
<tr>
<td><strong>Non-Independent Non-Executive Director (NED)</strong></td>
<td><strong>Non-Independent Non-Executive Director (NED)</strong></td>
</tr>
<tr>
<td>• Any director who is attested by the board to be a non-independent NED;</td>
<td>• Any director who is attested by the board to be a non-independent NED;</td>
</tr>
<tr>
<td>• Any director specifically designated as a representative of a significant shareholder of the company;</td>
<td>• Any director specifically designated as a representative of a significant shareholder of the company;</td>
</tr>
<tr>
<td>• Any director who is also an employee or executive of a significant shareholder of the company;</td>
<td>• Any director who is also an employee or executive of a significant shareholder of the company;</td>
</tr>
<tr>
<td>• Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material[5] connection with the dissident, either currently or historically;</td>
<td>• Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material[5] connection with the dissident, either currently or historically;</td>
</tr>
<tr>
<td>• Beneficial owner (direct or indirect) of at least 10 percent of the company’s stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent);</td>
<td>• Beneficial owner (direct or indirect) of at least 10 percent of the company’s stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent);</td>
</tr>
<tr>
<td>• Government representative;</td>
<td>• Government representative;</td>
</tr>
<tr>
<td>• Currently provides (or a relative[2] provides) professional services[3] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of $10,000 per year;</td>
<td>• Currently provides (or a relative[2] provides) professional services[3] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of $10,000 per year;</td>
</tr>
<tr>
<td>• Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test[4]);</td>
<td></td>
</tr>
</tbody>
</table>

[1] The term “active chair” is defined as any director who is currently serving as chairman of the board or as a board committee.

[2] The term “relative” is defined as a person related to the director by blood, adoption, or marriage, or a person who is a partner of the director or the director’s spouse.

[3] The term “professional services” is defined as services provided by a professional or professional organization.

[4] The term “materiality test” is defined as a test that determines whether the relationship between the company and the individual or entity is material to the decision-making process.

[5] The term “material” is defined as having a quantifiable impact on the decision-making process.
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative\(^2\) of a current or former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (with five-year cooling off period);
- Defined as non-independent under the Israeli Companies Law 1999;
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

**Independent NED**

- Not classified as non-independent by ISS (see above);
- No material\(^5\) connection, either directly or indirectly, to the company (other than a board seat) or a significant shareholder.

- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test\(^4\));
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative\(^2\) of a current or former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (with five-year cooling off period);
- Not defined as "External Director" or non-independent under the Israeli Companies Law 1999;\(^6\)
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

**Independent NED**

- Not classified as non-independent by ISS (see above);
- No material\(^5\) connection, either directly or indirectly, to the company (other than a board seat) or a significant shareholder.
Israel Policy Updates for 2023-2024

Footnotes:

[1] “Active chair” is the chair of the board of directors who is either defined as such by the company and/or is actively involved in the company’s operations and receives remuneration which is in line with company’s most highly paid executives.

[2] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, stepchildren, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[3] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[4] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company’s turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company’s shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company’s total assets, is more than 5 percent.

[5] For purposes of ISS’ director independence classification, “material” will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one’s objectivity in the boardroom in a manner that would have a meaningful impact on an individual’s ability to satisfy requisite fiduciary standards on behalf of shareholders.

[6] Excluding non-executive directors in banks without a controlling core who comply with Israeli banking regulations safeguarding their independence. Under the banking regulations, all directors in banks without a controlling core comply with the same strict (or stricter) independence requirements and the absence of affiliations to the bank. These requirements are materially identical to the independence requirements imposed on “External” and “Independent” directors per the Companies law.

The Companies Law and the Securities Trading Law define a controlling shareholder/core...
as any person who holds 50 percent or more of the means of control of the company, which is defined as (i) voting rights at the general meeting, or (ii) the right to appoint the CEO or directors. Furthermore, if there is no other person who holds more than 50 percent of the voting rights in the company, any shareholder who holds 25 percent or more of the voting rights is considered a controlling shareholder. Several shareholders who act in concert (either by a voting agreement or negotiations) and have effective control over the company may constitute a “controlling core”.

Rationale for Change:

The policy aligns the Independence classification of directors with the language used in the Israeli Companies Law and accounts for the provisions of Israeli banking regulation regarding banks without a controlling core.

According to this, under the Israel Policy, applicable to all companies/sector, a director is considered to be non-independent if he or she is not classified as independent under the Companies Law, among other criteria. Therefore, the wording for the classification of Non-Independent Non-Executive Director is adjusted to the Companies Law definition, which uses the classifications "Independent" or "External" to refer to independent directors.

For the special cases of banks without a controlling core, the Policy refers to the banking regulations, which require directors of banks without a controlling core to comply with strict regulation that safeguards the independence of all non-executive board members (i.e., excluding the board chair, who is classified as executive director). These regulations address the same safeguards under the Companies Law and beyond. Therefore, all non-executive directors in banks without controlling core are considered as independent by the banks and therefore classified as independent by ISS if they meet all other ISS classification conditions.
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