

The FIBI Group 2016 Corporate Social Responsibility Report





Table of Content

INTRODUCTION	
A Word from the Chairman and Chief Executive Officer	4
Profile and Activity of the FIBI Group	6
About the Report	12
Dialogue with Stakeholders	18
Our Customers	
Serving diverse customers	23
Promoting diverse sectors and communities in Israeli society	28
Optimal service in all activity channels	41
Customer satisfaction	51
Upholding banking secrecy	60
Advancing customers' financial understanding and incorporating long-term considerations in capital market activity	63
Fairness in banking products and services	75
Managing environmental and social risks in our business activity	79
Our Employees	
Managing the Group's human capital	83
Equal opportunity and workplace diversity	87
Professional training and personal development	94
Dialogue with the Group's employees	102
Supportive work environment	111
Our Management	
Corporate Governance	122
Compliance with the law	131
Creating value for stakeholders	135
Responsible supply chain	138
Business continuity	144
Upholding Integrity	145
Instilling ethics	149
Community outreach and investment	153
Managing environmental aspects of the Group's activity	164
GRI Content Index	176
Quality Assurance Statement	182

A Word from the Chairman and Chief Executive Officer

We are proud to present the fourth Corporate Social Responsibility Report of the First International Bank of Israel (FIBI) Group. The Report reviews the Group's areas of activity in 2016 and presents its main actions in the areas of corporate social responsibility, reflecting the manner in which it promotes the creation of economic value alongside social and environmental values.

In 2016, banks faced numerous challenges, including the continuation of the low interest environment, a lower growth rate, and an overall uncertainty in the capital and money markets around the world, as well as increased regulation and competition. The FIBI Group successfully coped with these challenges, maintaining the quality of its asset portfolio and upholding the principles of proportionality and full transparency vis a vis the Group's Board of Directors, thus creating value for its stakeholders.

This is the second year the FIBI Group has operated according to its three-year strategic plan, which was approved by the Board of Directors in 2015. The plan was revised in late 2016, in an effort to streamline the Group's operations in the coming years. In late 2016 - as part of the plan and its efforts to refocus and concentrate the Group's local core business activities - the Group signed an agreement to sell FIBI Switzerland. The successful merger of subsidiaries U-Bank and PAGI with the First International Bank in 2015 has created value as early as 2016, reflected in growth - mainly due to the preservation of the U-Bank and PAGI brand names, which are leading industry brands - and decreasing costs, which led to greater cost effectiveness.

The FIBI Group focuses on private banking, maintaining its leadership status in securities and investment consulting. The Group also operates in the area of retail banking both through FIBI Bank and the subsidiaries. The Group's strategic plan focuses on providing an end-to-end customized solution to the needs of its retail customers and maintaining the leadership of its subsidiaries - Otsar Ha-Hayal and Massad, and brand names - U-Bank and PAGI, by focusing on the Bank Group's unique customer segments, including adjusting the deployment of the branches in the Group's target communities. The FIBI Group strives to provide customized solutions to various sectors in Israeli society: the ultra-orthodox (haredi) population through PAGI; teachers and employees of Israel's education system, including from the Arab sector, through Massad Bank; as well as IDF soldiers and officers and employees of Israel's defense establishment through Bank Otsar Ha-Hayal.

The FIBI Group attaches great importance to promoting businesses - whether large, medium or small - and is expanding its offerings to the small business sector by providing it with tailored financial tools and banking solutions. This year, the Group also expanded its digital offerings and direct banking channels, by developing unique online and mobile digital products. The digital services provide effective solutions for the dynamic and changing needs of customers, maximizing their added value. The Bank offers its customers a variety of services and solutions to meet their needs, both in terms of personal human contact and of assimilating innovation and developing digital products and services, while placing the customer at the center.

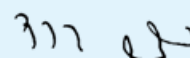
This year, the FIBI Group continued its community activities through the "Nekudat Mifne" community project, which has been championed by the Group for many years, in cooperation with NGOs Matan and Ashalim. The project helps youths emerge from the margins of society and lead a normative life. In addition, the Bank encourages its employees to volunteer in NGOs and various social projects, as well as through its donation budget, which is dedicated to various community causes, with special emphasis on children and youth at risk.

The Report reflects the FIBI Group's commitment to acting in accordance with the values of corporate social responsibility and constitutes an additional step towards maintaining an open dialogue with the Group's stakeholders.

Irit Izakson
Chairperson of the Board



Smadar Barber-Tzadik
CEO



Profile and Activity of the FIBI Group

The FIBI Group is one of Israel's five largest banking groups.

In addition to the FIBI Bank, the Group includes two commercial banks in Israel, which specialize in unique target audiences: Otsar Ha-Hayal and Bank Massad.



The First International Bank of Israel (FIBI) is a public company incorporated under the provisions of the Companies Ordinance (New Version), 5743-1983 (hereinafter - the "Companies Ordinance"). The Bank is a banking corporation with a banking license under the provisions of the Banking (Licensing) Law, 5741-1981 (hereinafter - the "Licensing Law"). The Bank was founded in 1972 and began operations on October 1, 1972. The Group's headquarters are located at 42 Rothschild Boulevard, Tel Aviv.

The FIBI Group is one of Israel's five largest banking groups. The FIBI Group's business activity focuses on several main levels: Financial brokering between depositors and borrowers, which is the foundation of commercial banking. Income from this activity is expressed in net interest income, which constitutes the Group's main source of profit.

Financial and banking services in a wide range of activities, including: foreign exchange, foreign trade, securities, information services, credit cards, derivative financial instruments, etc.

Investment advice and pension advice.

Investment of the Bank's nostro funds and management of market and liquidity risks.

Banking operating services for the capital market in the area of provident funds and mutual funds.

Trust services for individuals and institutions by the Trust Company.

The FIBI Group operates via three main business divisions:

The Corporate Division, which handles all activity for corporate and middle market customers, as well as for businesses and institutionals active in the capital market. A Corporate Area operates within the Division, coordinating the activity of the Bank's main business branches.

The Division coordinates the activities of private banking customers, personal banking customers (households and small businesses). It also includes U-Bank branches - which specialize in private banking and the capital market, and PAGI branches - which specialize in the religious and ultra-orthodox sectors.

The Customer Assets Division coordinates the Bank's capital market activity and deposits, including the dealing rooms specializing in working with the branches, professional customers and institutionals.

In addition to the FIBI Bank, the Group includes two commercial banks in Israel, which specialize in unique target audiences: Otsar Ha-Hayal, which specializes in providing services to retail and corporate customers, with special emphasis on members of Israel's defense establishment; and Bank Massad, which

specializes in providing services to teachers in Israel. In 2016, a subsidiary of FIBI Bank, located in Zurich, signed an agreement for its sale. The completion of the sale is contingent upon receipt of regulatory approvals and the relevant processes in Switzerland. Once the transaction will have been completed, the subsidiary will discontinue its banking activity.

The Bank operates in accordance with the multiyear strategic plan revalidated by the Board of Directors every six months. The plan is based on proportionality in all areas of operation, with the goal of achieving reasonable and sustainable profitability.

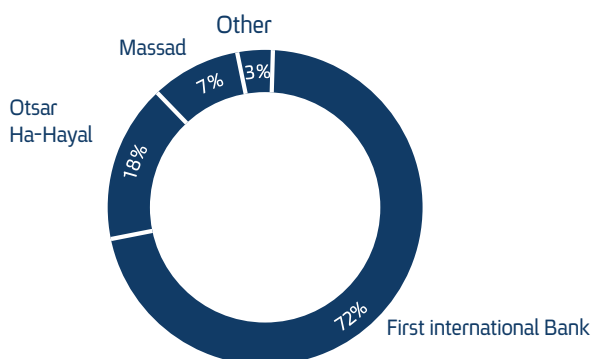
The Bank has a strategic plan for 2016-2018, which was approved by the Board of Directors in September 2015 and revalidated in 2016. The plan's ultimate objectives are stated in terms of return on capital beyond risk-free interest rate and efficiency ratio.

As part of the plan, the Bank will continue to focus on private banking, affluent customers, promoting the retail area and mid- to large-size customers by providing end-to-end solutions, customized to the customers' needs, including in the digital area and through technology; it will also continue the focus of its subsidiaries (Otsar Ha-Hayal and Massad) and merged companies (U-Bank and PAGI) on their respective niches, especially retail banking, the capital market and small businesses. The Bank will maintain its capital market leadership; it will initiate moves to improve cost effectiveness while re-organizing, streamlining processes, continuing to streamline its branch network, increasing the use of direct banking channels, and enhancing the Group's performance- and measurement-oriented culture.

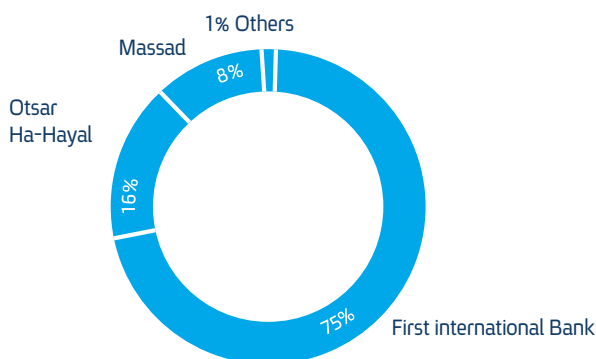
The Bank also promotes innovation by assimilating products and technologies by fintech start-ups, alongside ongoing efforts to develop in-house products and technologies through the Bank's IT Unit. The Bank's fintech activity is focused and adapted to its needs and strategic focal points, as part its "investing in the customer" philosophy. The FIBI Group emphasizes identifying advanced digital solutions with customer interfaces in order to improve customer experience and provide added value.

On November 17, 2016, the Bank's Board of Directors approved the revision of the Group's strategic plan, with special emphasis on restructuring. The Bank re-evaluates the plan every six months with respect to the macro-economic environment, competitive developments in the Israeli economy, the regulatory environment, technological developments as well as changes taking place in the FIBI Group, and revises, as necessary, the plans and moves derived from the strategic plan.

Income Distribution- the FIBI Group 2016



Profit Distribution- the FIBI Group 2016





Ownership Structure and Control

FIBI Holdings owns 48.34% of the issued share capital and voting rights in the bank (constituting the controlling core, pursuant to the Bank of Israel control permit). The controlling shareholders in FIBI Holdings are Mr. Tsadik Bino and his children - Mr. Gil Bino, Ms. Hadar Bino-Shmueli, and Ms. Dafna Bino-Or (hereinafter - the "Bino family"), Mr. and Ms. Michael and Helen Abeles, and Mr. Barry Lieberman, Ms. Casey Lieberman-Harris, Mr. Lee Lieberman, and Mr. Joshua Lieberman (each of the groups through wholly-owned corporations). The current controlling shareholders have various arrangements with regard to the holdings in FIBI Holdings and, indirectly, in the bank, as detailed in the Details regarding the Bank's Controlling Shareholders chapter in the financial statements for 2016.

According to FIBI Holdings' report, as of the date of the financial statements, the controlling shareholders in FIBI Holdings (in capital and voting) are as follows: Binohon Ltd. - 38.29%; Instanz Number 2 Ltd. - 15.66%; and Dolphin Energies Ltd. - 11.68%.

Principal investee companies of the Bank FIBI Group

Bank Otsar Hahayal Ltd.
(E. 78% V.78%)

Israel Credit Cards Ltd.
(E. 28% V. 21%)

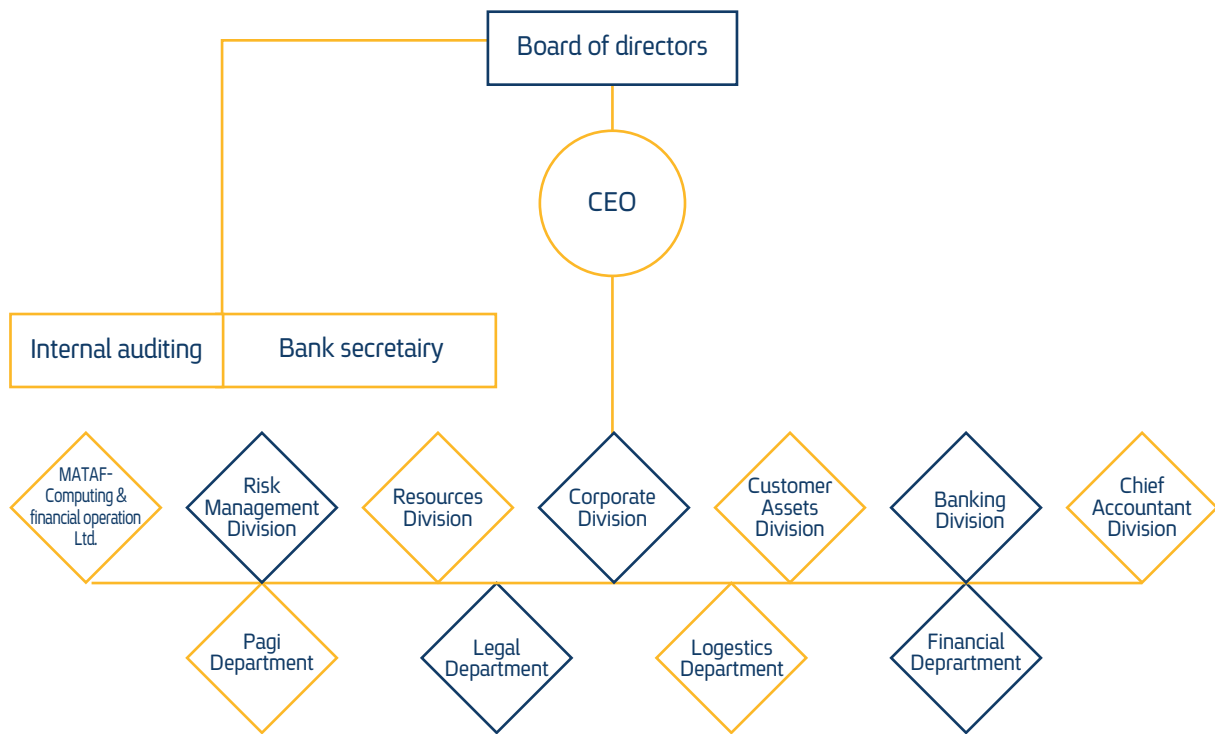
Bank Massad Ltd.
(E.51 % V.51%)

First International Issues Ltd.
(E. 100% V. 100%)

Capital - Percentage of holding in the Company's capital
Voting - Percentage of holding of voting rights

The First International Bank's Organizational Structure

In 2016, the Bank had six divisions and five professional sub-divisions. A member of management heads each division, the Audit Sub-Division, PAGI and the Financial Division. The organizational structure of the divisions and sub-divisions is in line with the management philosophy of customer-oriented banking, allowing specialization in the provision of banking and financial services to customer segments with similar characteristics and needs. MATAF (Computing and Financial Operations Ltd.), a wholly-owned subsidiary of the bank, is engaged in computing and the operation of banking processes for all FIBI Group banks.



The FIBI Group's systemic vision, and its aim to provide added value in all its areas of activity, is reflected in our relationships with all our stakeholder

Corporate Responsibility in the First International Bank Group

The area of social corporate responsibility at the FIBI Group works hand in hand with the various initiatives that provide added value to the Group's customers, employees, shareholders, various suppliers, as well as to the community in which we live. The FIBI Group's systemic vision, and its aim to provide added value in all its areas of activity, is reflected in our relationships with all our stakeholders.

- Our investment in customers is the result of ongoing dialogue held by the FIBI Group, which is expressed in providing an end-to-end personalized solution through a variety of channels and products adapted to the customer's characteristics, as well as in supporting the resolution of various social challenges in Israeli society (e.g., the unique activity among the third age population and young adults from the ultra-orthodox community).
- Our work for the community - expressed in various projects and personal volunteering by many of the Group's employees - reflects the significance the Group attaches to the community and the society in which it operates.
- After assessing its environmental impact, the FIBI Group decreased its power and paper consumption, and in 2016, continued its efforts to increase waste collection for recycling purposes.
- The Group's welfare, training and development, and its upholding of the equal opportunity principle among its employees have led to improvements both in terms of the work environment experience and professional achievements.
- The FIBI Group has appointed a Social corporate responsibility manager, who is responsible for all CSR aspects.

All of the above activities have led the FIBI Group to successfully handle all future challenges, while continuing the path of growth and maintaining the FIBI Group's strength.

About the Report



The FIBI Group's fourth social corporate responsibility report is an excellent opportunity to examine our achievements and communicate the Group's activities to the various stakeholders. The Report reviews the activity of the First International Bank Group in Israel in 2016, in areas of corporate social responsibility. It was written in accordance with the GRI (Global Reporting Initiative) guidelines, specifically in accordance with the new SRS (Sustainability Report Standard), in accordance with the comprehensive reporting level. The objective of the Report is to transparently, reliably, and comprehensively present, as far as possible, the activity of the FIBI Group in the areas included in the Report, in order to allow the Bank's stakeholders to obtain an overview of its activity in the area of corporate social

responsibility. In this context, the Report is targeted towards the Group's various stakeholders.

The Report reviews the activity of the First International Bank Group, including the activities of its three main banks¹: The First International Bank (including PAGI and U-Bank, which were merged with the First International Bank in 2015), Bank Otsar Ha-Hayal, Bank Massad, as well as MATAF (where MATAF's activity has bearing on the issues presented in this Report). The Report does not include FIBI Switzerland, in accordance with the principle of materiality (the impact of FIBI Switzerland is immaterial in relation to the FIBI Group's overall activity). FIBI Switzerland's share of the total activity of the Group, in terms

1. 102-49
2. 102-45

of revenue, profit, and the number of employees, is negligible compared with the other banks in the Group (in addition, at the end of 2016, an agreement was signed for the sale of FIBI Switzerland). For revenues and profits of the Group's subsidiaries, please see sub-chapter Profile and Activity of the FIBI Group above. The Group's previous report, covering 2015, was published in 2016.

The Report presents the issues that are material to the corporate social responsibility aspects of the Group's activity, based on a process of identifying the issues material to the FIBI Group, carried out in preparation for the previous report published by the Group, and based on feedback from stakeholders outside the Bank, in preparation for the present one (see below).

The Report obtained the GRI's approval for meeting the material issues process under the SRS and assurance by an independent third party through the Center for Sustainability Reports Assurance (see the full assurance report on pp. 181). All data regarding issues contained in the Report were collected by relevant professional parties in the FIBI Group, with the assistance of external consultants who specialize in corporate social responsibility. Most quantitative figures in the report relate to the FIBI Group. Some of the data in this report are presented in comparison to the Group's previous report (covering 2015) while other data also serve as a baseline year (in aspects where measurement was improved). The quantitative figures in the Report are based and presented on the basis accepted measurements, as required by the GRI's guidelines.

Material Issues in the FIBI Group's Report

Material issues are defined as issues with economic, environmental, and social aspects in which the organization has a major impact on its stakeholders or which impact the organization. Material issues may be affected by the nature of the reporting organization's activity, the sector in which it operates, the economic or business environment in which it operates, its geographical location, its business and operational structure, etc. As part of the reporting process, and ahead of the previous report issued by the Bank (in 2016), FIBI Group held a process for identifying issues that are material for reporting (for more information on the process, please see FIBI Group's 2015 CSR Report). The process is based on two main stages, summarized below²:

Stage 1: identifying issues that are material to stakeholders outside of the Bank Group - this stage included a professional review of foreign and Israeli stakeholders' expectations regarding material issues, with respect to the banking sector, and was conducted by the Group's consultants on sustainability and corporate social responsibility, BDO Ziv Haft. At this point, foreign and local stakeholders included the following organizations: GRI, SASB, and capital market analyst institutions (EIRIS, OEKOM, Sustainalytics, SAM), Corporate Social Responsibility reports of Israeli banks and a BDO survey of material issues in the Israeli bank sector).

Stage 2: Identifying issues material to the Group - this stage is based on a discussion and a decision by First International Group's management regarding the identification of material issues for reporting. The Group learned about the expectations of the external stakeholders, included them in the decision-making process, and defined a list of issues material to the First International Group, based on the strategy of the banks in the Group, and their processes and work plans.

Feedback from stakeholders on the banks' 2015 CSR Report³

Towards the preparation of the previous report (which was published in 2016), a dialogue process with stakeholders was carried out for the Bank, aimed at obtaining feedback on the CSR reports published by the banks in Israel in 2015 (covering 2014). The process was carried out by BDO Ziv Haft and included a round table discussion with representatives from various fields and organizations. During the discussion, stakeholders were asked to rate 23 different issues that may be material for the banks' reports in Israel, according to their degree of importance. In view of the feedback received from the dialogue with the stakeholders, a meeting was held with FIBI's management to present the results. In the meeting, it was decided to approve the issues material to the Group from the 2015 report, taking into account the views and opinions voiced by the stakeholders (FIBI's response is available in the Bank's 2015 Corporate Social Responsibility Report).

Material issues - the First International Bank Group

Importance For Stakeholders	Vulnerable populations	<ul style="list-style-type: none"> Fairness in banking vproductions services Incorporating sustainability consideration in investment activity Conducting enviromental risk assessments when granting loans 	<ul style="list-style-type: none"> Serving diverse customers Serving accessibilty Integrity and ethics Banking secrecy 	High
		<ul style="list-style-type: none"> Management-employee relations Quality of service Providing financial knowlege Promoting equal opportunity and employee diversity Employment conditions and work enviroment Responsible supply chain 	<ul style="list-style-type: none"> Creating financial value for the stakeholders Corporate governance and compliance 	Medium
	<ul style="list-style-type: none"> Paper consumption Energy consumption and carbon footprint 	<ul style="list-style-type: none"> Business Continuity Product and servide innovate investment in the community Employee training and development 		Low
	Low	Medium	High	

List of Material Issues for the Bank Group⁴

Material Issue	Internal Influence	External Influence
Serving diverse customers - the Group comprises three banks (and two additional brands - PAGI and U-Bank), which provide services to diverse customers, populations, and sectors in Israeli society. While promoting economic activity, as a result of working with these sectors, the banking products and services provided by the banks also advance social causes.		✓
Service accessibility - a major service aspect, which creates value for the Bank's customers in several ways: In addition to providing innovative, fast, and professional service, promoting service accessibility allows people with various handicaps to obtain equal service, like any other customer. In addition, service through direct channels (telephone, the Bank's website, applications, etc.) meets customer needs, prevents unnecessary use of paper, and results in cutting down emissions of pollutants caused by driving to branches.		✓
Integrity and ethics - reducing risks embodied in the Group's activity by maintaining integrity and promoting business and moral excellence based on implementing business ethics in the Group's activity.	✓	✓
Banking secrecy - managing information security and protecting customers' information secrecy, while responding to, and handling customer inquiries in this area.		✓
Creating financial value for the stakeholders - as a leading financial organization, the Group creates value for various stakeholders: shareholders and investors, customers, employees, suppliers, the State of Israel, the community, and others. The Report presents the key economic indicators that reflect this.	✓	✓
Corporate governance and compliance - activity and structure of the board of directors (with regard to corporate responsibility) and the compliance units at the banks, which serve as key aspects of the Group's regular activity, pursuant to the laws, provisions, and rules binding the Israeli banking system.	✓	
Fairness in banking products and services - implementing the principles of transparency and fairness in the Group's products and services and meticulously adapting products to customers' needs and characteristics, by implementing the various consumer regulations that apply to the Bank and exercising responsible marketing based on accepted ethical principles in this field.		✓
Incorporating sustainability considerations in investment activity - a combination of sustainability aspects (such as long-term considerations, corporate governance, human and civil rights, environmental conduct, etc.) in addition to financial considerations in the FIBI Group's significant investment decisions.		✓
Conducting environmental risk assessments when granting loans - including environmental risks, such as: ground- and water pollution and causing harm to other environmental resources, when granting loans to real estate and infrastructures ventures (pursuant to the Supervisor of Banks' directives).	✓	✓
Management-employee relations - managing the interface between the managements of the Group's banks and employees, while taking into account the principle of freedom of association, and cooperating with workers' associations at the bank through existing dialogue channels.	✓	
Quality of service - steps taken by the Bank to promote quality of service and maintain customer satisfaction, including training, monitoring and measuring, learning and improving service quality.		✓
Providing financial knowledge - various initiatives to promote financial knowledge among the banks' customers and in the community		✓
Promoting equal opportunity and employee diversity - a description of the principles and processes that allow and advance workplace equality and non-discrimination, as well as proactive measures to hire populations that are under-represented in the Israeli labor market as a response to social and business needs.	✓	
Employment conditions and work environment - a description of the work environment in the FIBI Group, as an employer of thousands of people, with an emphasis on the employees' circumstances, welfare activity, employee job security, promotion opportunities, and added value which the Group provides to its employees as part of the work environment.	✓	
Responsible supply chain - incorporating corporate social responsibility values into the Group's contracts with suppliers, such as ensuring fair and proper employment conditions by manpower contractors, contributing to the Israeli economy by contracting local businesses and businesses in the periphery, and ensuring proper management of procurement processes.	✓	✓
Business continuity - promoting preparedness for maintaining business continuity and for operating under various conditions, including emergencies.	✓	✓
Product and service innovation - promoting innovation with an emphasis on digital services through direct channels.		✓
Investment in the community (and employee volunteering) - investment in the community by the Group, including policy, financial and cash-equivalent donations, volunteering by employees, and promoting a range of social activities.	✓	✓
Employee training and development - professional training of Group employees according to the Group's business needs and for its employees' personal and professional development.	✓	✓
Paper consumption - paper is a material environmental resource for the Group. Using it more efficiently, automating processes, reducing excessive consumption, and recycling paper waste are significant to the FIBI Group in its effort to reduce its environmental impacts.	✓	✓
Energy consumption and carbon footprint - electricity consumption contributes to climate change. Increasing energy efficiency (electricity and fuel) by the Group reduces its carbon footprint (which is a quantitative figure of the Group's main environmental impacts) and contributes to the group's operations both environmentally and economically.	✓	✓

The dialogue is carried out through the relevant professional parties in the Group for each stakeholder group at a frequency and manner arising from the nature of the interface with that stakeholder

Dialogue with Stakeholders

We work with numerous stakeholders who impact, and are impacted by, our activity, either directly or indirectly, and maintain a dialogue with them on various levels. We insist on maintaining continuous contact with customers, employees, suppliers, and other stakeholders in the Group, and seek to be attentive to their needs and feedback. The dialogue is carried out through the relevant professional parties in the Group for each stakeholder group at a frequency and manner arising from the nature of the interface with that stakeholder. We reserve the right to accept and instill in the Group's activity our stakeholders' positions, insofar as these allow us to avoid risks and create value for the stakeholders.

Stakeholder	Key dialogue channels in 2016 ¹
Customers	<ul style="list-style-type: none"> • Direct channels - in addition to the large-scale deployment of its 165 branches, the Bank relentlessly seeks to promote and instill the use of direct channels (including a website, mobile app, Beinleumi Call, texting and web-mail services), training is provided at the branches, and a booklet was produced and distributed to customers, which features all of the options and methods of use. The FIBI Group attaches great importance to regularly upgrading the direct channels; • Conferences and workshops - the Bank Group promotes dialogue by providing dozens of training sessions, conferences and workshops to its customers each year. Professional conferences are held for the corporate-, capital market- and private customers. In addition, specialized conferences are held for various populations, such as teachers and educational workers, the ultra-Orthodox sector, members of the security forces and former residents of the Soviet Union (there is also a dedicated Russian language line and Russian-speaking staff at the Beinleumi Call service). These conferences, which include a range of lectures on a variety of topics, are delivered by experts from the Group as well as external experts; • Customer satisfaction surveys - each year, the Group's banks conduct dozens of customer satisfaction surveys, tailored to each bank's unique activity and customers. Surveys were also conducted through direct channels, for new and former customers, and for customers who switched branches. In addition, the Group conducted qualitative focus groups among various types of customers. • Inquiries and requests - the Bank enables customers to submit proposals, requests and complaints to its Public Inquiries Department via the website, telephone, in writing or by fax. It is also possible to contact us through "state your opinion" on the bank's website or through our Facebook page; we strive to provide a quick and efficient response, to our customers' satisfaction. • Business customers - FIBI maintains direct contact with its business customers through regional business branches providing financial support for every business need. The Bank has even retargeted its business customers, by dividing them into three operating segments (according to their business volumes): small businesses, commercial businesses - medium and large. A manager was assigned to each sector, in order to adapt the products and services to the nature of each population and provide adequate solutions to their needs. In addition, the Group maintains direct and ongoing contact with the small and medium business sector through dedicated business units at the branches and teams in the credit department at headquarters.

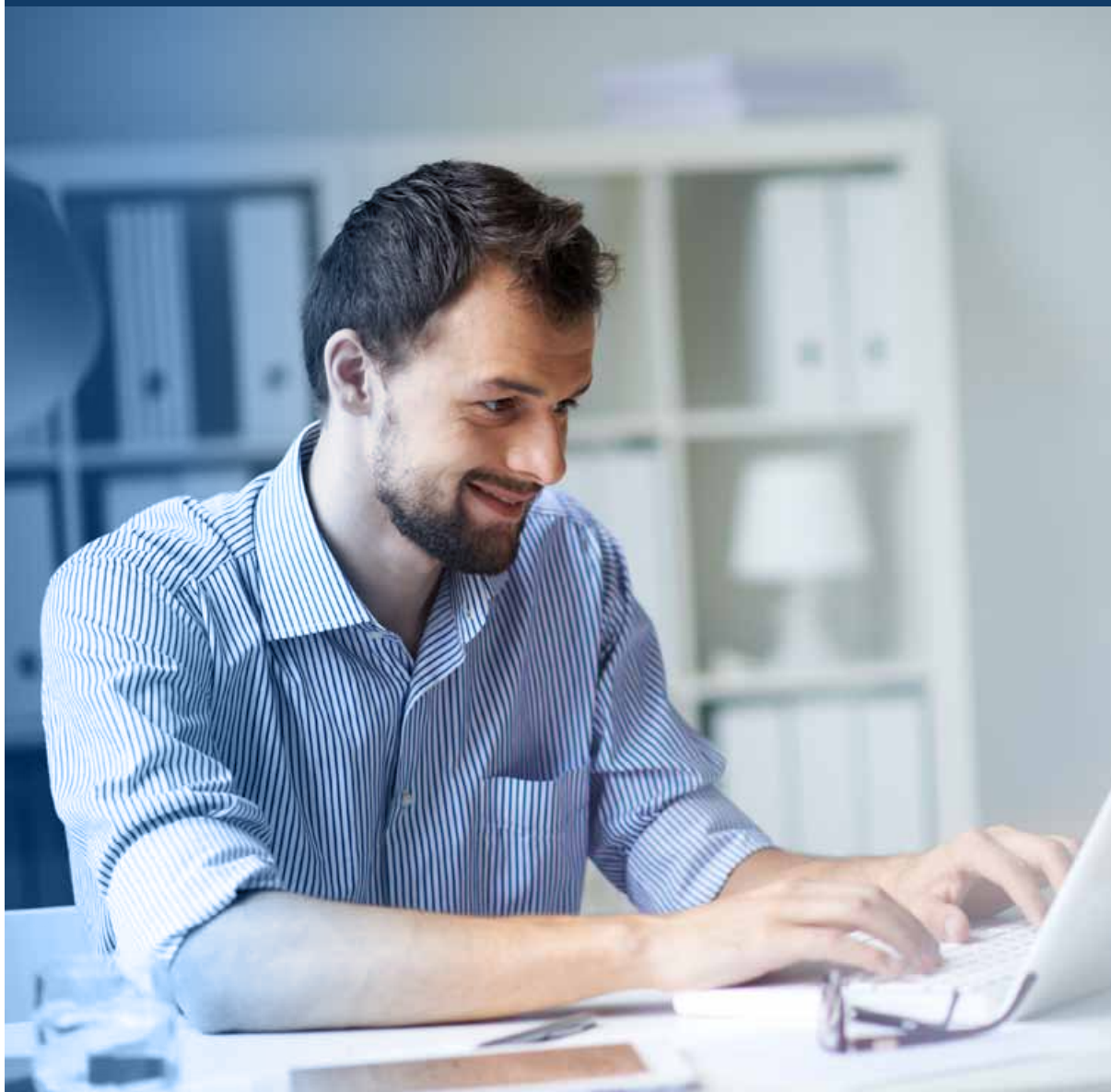
Stakeholder	Key dialogue channels in 2016 ¹
The FIBI Group's Employees	<ul style="list-style-type: none"> • Direct line to Human Resources - the Group's employees have a direct line to the employee inquiries officer for inquiries on any subject (and to the sexual harassment supervisor, if needed); there is also an emergency line for internal audit purposes; • Employee feedback and assessment meetings - the Group considers employee assessment one of the key processes in human capital management. An annual assessment process is conducted for the Group's employees through an assessment meeting between the employee and his/her manager. • Management-employee meetings - all of the Group's banks hold management-employee meetings, which include visits by board members and senior executives in the branch network and the various headquarters units; • Internal communications channels - these include each bank's enterprise portal and internal newsletter; • Executive conferences and workshops - a unique activity for executive development and organizational performance improvement. The conferences and workshops focused on enhancing management skills, holding discussions on core banking issues and enrichment on banking topics, as well as current affairs; • Process improvement teams - annual discussions which serve as a means for obtaining information, feedback and suggestions for improvements on a variety of strategic and procedural issues, with the participation of managers and authorized signatories. These discussions allow for a fruitful dialogue between executives from various Group units, branches and headquarters units; • Streamlining forum - streamlining proposals by employees on various topics; • Round tables - promoting dialogue through round table discussions, on a variety of professional topics; • Committees for improving the working environment - due to the transition to the new MATAF building, the Group's employees took part in many committees established to improve the new working environment.
Shareholders and Investors	<ul style="list-style-type: none"> • Stock exchange filings - to update the investors and shareholders about FIBI immediately and with full transparency; • Financial Statements; • Investor relations website - allows full access to reliable information and supports decision-making; • The shareholders' general meeting mechanism; • Dialogue (conference calls, meetings) with analysts and investors on a regular basis.
Suppliers	<ul style="list-style-type: none"> • Periodic meetings are held with all suppliers at a frequency that depends on the substance and scale of the activity; • Direct contact point for complaints and inquiries by contract workers - the Group's procurement manager serves as a direct contact point for contract workers wishing to file complaints and other inquiries on any issue.
Society and the Community	<ul style="list-style-type: none"> • A close ongoing relationship with NGOs and social organizations - the FIBI Group conducts a dialogue with various social organizations, such as the JDC, Matan, Pitchon Lev, Adopt a Soldier, Runners from the Heart, Fathers and Sons on the Court, etc. The Bank Group runs various programs with these organizations. The Group's key social involvement program is Turning Point ("Nekudat Mifne"), which operates in cooperation with JDC Israel Ashalim and Matan - Investing in the Community. In addition, Bank Otsar Ha-Hayal promotes a joint program with Pitchon Lev, in which it has adopted an artillery regiment as part of the "Adopt a Soldier" ("Ametz Lohem") program. Bank Massad has adopted the teacher population, each year giving away laptops as part of the "Laptop for Every Teacher" program. Each year, MATAF purchases gifts from socially valuable suppliers, and promotes the "Yaldey Kookiot" project. In addition, we hold monthly or quarterly meetings with these organizations and submit reports on the issue to management and the Board of Directors.
The Environment	<ul style="list-style-type: none"> • Measuring the Bank Group's key impacts on the environment - we work together with relevant professional entities, discussing how to reduce the Group's environmental impact. In this context, the Group conducted a dialogue with the Standards Institution of Israel and various consulting firms, such as when incorporating green building standards in our new buildings (the Bank Headquarters and MATAF Building) or other aspects of logistical resource management related to the environment (power consumption, paper consumption, etc.) The Report demonstrates our expanded environmental impact measurement, presenting the results for the Group as whole, an effort which we continue to pursue.
Government Authorities	<ul style="list-style-type: none"> • Ongoing cooperation and contact - the Group cooperates with the relevant government agencies, has continuous contact with them, and scrupulously updates them on any relevant information. However, the FIBI Group does not take positions on public issues nor participates in the development of public and/or political policies.

A photograph of a man in a white button-down shirt and a dark tie, smiling. The image is partially covered by a large, dark blue semi-transparent rectangle. The text 'Our Customers' is centered within this blue area.

Our Customers



Serving diverse customers



The FIBI Group banks promote long-term relations with customers by providing professional, fair, efficient, and courteous service and creating value for the Group's diverse customers. As core stakeholder of the FIBI Group banks, customer operations and relations are managed with a view to the future and the customers' best interests - by expanding innovation in the various service channels and developing a range of unique and dedicated products tailored to the various target audiences of

the Group's banks, in response to the customers' dynamic and changing needs. As part of the main customer segments' activity, the Group provides solutions to the financial needs of diverse populations and segments in Israeli society (as detailed below in this chapter). Thus, the Group provides diverse audiences with improved capabilities for managing their assets and liabilities, while supporting Israel's economic growth.

As core stakeholder of the FIBI Group banks, customer operations and relations are managed with a view to the future and the customers' best interests - by expanding innovation in the various service channels

the Group provides solutions to the financial needs of diverse populations and segments in Israeli society

The FIBI Group's main operating segments (regulated segments)

The Group's activity is managed through eight main operating segments. The division into operating segments is based on the customers' characteristics and the products in each segment, and derived from the customer-focused activity, which is designed to provide an optimal solution to the unique needs of customers in each segment. The following is a classification of customers by operating segment:

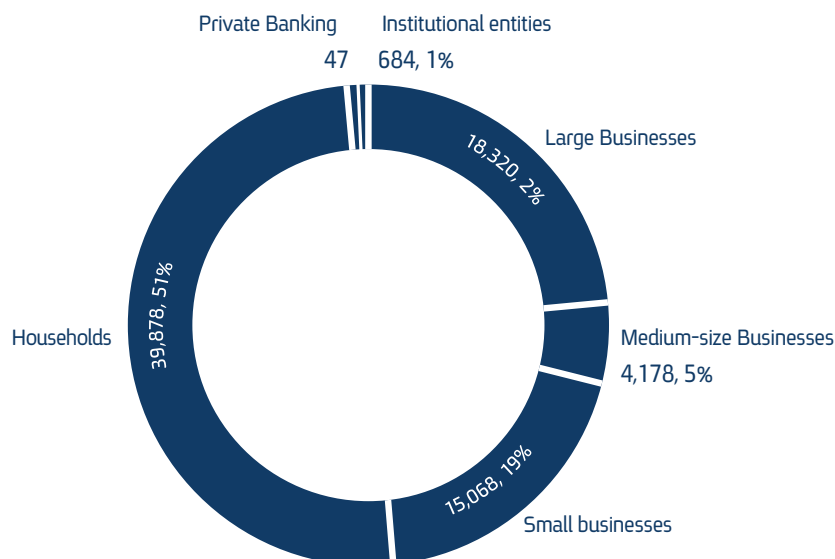
- **Banking Division** - This segment encompasses all the activities of the private banking customers, households, small businesses and commercial customers in the Banking Division's branches. The segment also includes PAGI customers.
- **Banking Division (housing mortgages)** - The segment is responsible for granting mortgages to the Group's customers.
- **PAGI** - the unit serves the religious and ultra-Orthodox public, and includes dedicated plans and tracks, adapted to the exact conduct and needs of religious and ultra-Orthodox customers in various life stages. On December 31, 2015, the process of merging Bank Poalei Agudat Israel Ltd. (PAGI) with and into the First International Bank of Israel Ltd. - PAGI Bank's parent company - was completed, while keeping its brand name.
- **The Business Division (business customers)** - The Division's Business Department coordinates the entire activity of large and global business customers with credit lines of at least NIS 40 million, or turnovers of at least NIS 200 million, as

well as the activities of borrowers in complex credit areas, such as: communications, diamonds, project services, the capital market, etc.

- **The Corporate Division (commercial customers)** - The Commercial Department handles customers with credit lines ranging from NIS 5 million to NIS 40 million and turnovers ranging from NIS 25 million to NIS 200 million, as well as customers in the Business Division branches that are not under the authority of the branch managers. The segment also includes PAGI customers with similar characteristics.
- **Business Division (Other)** - Bank customers in the branches subordinated to the Corporate Division up to the branch managers' authority.
- **Customer Assets Division** - The Division is responsible for the Bank's activity in the capital market, foreign currency and deposits and serves all the Bank's customers.
- **Financial Management** - The segment is responsible for the financial performance of the Bank's assets and liabilities - including management of all market and liquidity risks, the performance of the nostro portfolio, and the activity with other banks and the Bank of Israel. The segment also includes the Bank's share in the earnings of Israel Credit Cards Ltd. (CAL).
- **Subsidiaries** - The segment is responsible for the financial performance of the Group's subsidiary banks Otsar Ha-Hayal, Massad Bank and FIBI Switzerland (which was sold in late 2016.).

Net credit granted to the public, by operating segment* (in NIS millions)

As of 31 December, 2016, total credit granted to the public by the Group totaled NIS 78.2 billion.



* See the operating segment definitions in the FIBI Group's 2016 Financial Statements (Note 28, p.210).

Promoting the small and mid-sized business segment

FIBI

FIBI regards the small and medium-sized businesses sector as one of the economy's key growth engines.

The Bank offers corporate customers services and products by dividing the business customers into operating segments according to their business turnovers and credit lines. The three main operating segments are as follows:

- Small businesses.
- Commercial businesses - medium.
- Large businesses.

Each sector has a line manager responsible for continuously adapting the products and services to the target population so as to ensure their suitability to the customers' dynamic needs. In recent years, FIBI has been investing resources in developing dedicated banking products and services tailored to the segment's needs:

- **Customized service** - the Bank offers the segment's customers with a broad range of banking products and professional services for small businesses, provided by dedicated bankers in the branches and through a variety of digital tools on the Bank's website and app.
- **Credit** - Credit to small businesses is granted through the Bank's 70 branches and is professionally managed by a dedicated team at headquarters specializing in small business. FIBI offers small businesses a range of credit products under convenient terms and conditions, as well as professional and comprehensive advice in order to adapt the credit solutions to each customer's unique needs. The Bank is developing tools for granting credit digitally, and is examining collaborations with other entities in order to expand the range of credit products offered to our customers.

- **Foreign currency and investment services** - The Bank offers small businesses a range of products and professional advice on foreign trade, foreign currency and investments, which are based on the Bank's specialization in these fields.
- **Unique benefits** - The Bank grants unique benefits to small businesses opening an account with FIBI. This includes discounts on current account management fees, credit rates and foreign trade tariffs. The benefits are granted individually, according to each business's characteristics and needs.

Bank Otsar Ha-Hayal

Bank Otsar Ha-Hayal focuses on providing small and medium-sized businesses with loans from assistance funds, including the Small and Medium Enterprises Fund. Ahead of the new tender for the funds, which took place in January 2016, the Bank prepared - in cooperation with Meitav Dash Provident Funds - an extensive infrastructure for bidding in the tender published by the Accountant General at the Ministry of Finance to select financial partnerships for granting state-guaranteed loans to small businesses. The loans, which will be granted by the new fund, replace the loans granted by the fund whose activity ended in April 2016.

In the last tender held by the State in January 2016, Bank Otsar Ha-Hayal won, as did three additional banks: Leumi, Mizrahi-Tefahot and Mercantile. The tender is for a period of four years with an option for two additional extensions of three years each. Following this win, the Bank and Meitav Dash Provident Funds are expected to extend small and medium-sized businesses credit in the amount of NIS 830 million in the next four years. The strategic plan placed emphasis on strengthening Bank Otsar Ha-Hayal's position in this field and expanding its activity with new customers. This will be reflected in the work plan for the coming years.



Promoting diverse sectors and communities in Israeli society



The PAGI Array at FIBI focuses on serving the haredi (ultra-Orthodox) and religious communities, constantly developing new products and services tailored to these communities' unique needs.

Promoting economic activity in the ultra-Orthodox and religious communities

The PAGI Array at FIBI (until December 31, 2015 - PAGI Bank) focuses on serving the haredi (ultra-Orthodox) and religious communities, constantly developing new products and services tailored to these communities' unique needs. The PAGI Array operates through a network of 20 dedicated branches, which serve as leaders in this sector, while adapting the nature of the

service, manner of address and language. The PAGI Array was successfully merged into FIBI in 2015, while maintaining the Bank's brand, the nature of its activity in the ultra-Orthodox and religious sectors, and the deployment of its branches. The objective of the PAGI Array - all of whose employees are haredi or religious - is to have presence in significant ultra-Orthodox population, in response of the unique need of the Haredi population, most of which avoids using the internet. This reality results in heavy use of the Bank's branches, requiring the Bank to provide the necessary services by deploying numerous branches in haredi population centers and employing suitable personnel, while offering time- and cost-saving solutions, such as ATMs for depositing cash and checks, etc.

Since 2010, PAGI has been implementing strategic moves for the retail sector, which focus on accounts which clear paychecks, under the name **PSS** (PAGI's Stations System). In this framework, the Bank created three financial retail plans targeting the three stages in the haredi life cycle - Good Start, Midway, and Full Settlement. In ultra-orthodox households, each stage is generally characterized by a different level of

income, on which each specific plan was based, providing a package of various benefits and products suited for that stage. The objective of the move is to better match the products and services offered to each household customer, according to his/her needs at each stage of life, through a deeper understanding of the haredi life cycle and its associated needs, according to the accepted financial criteria of income, disposable income, repayment capacity, etc. PAGI has a dedicated credit card club for the community, in which more than 1,000 businesses offer discounts to cardholders on charges for consumer goods and at businesses for the haredi community.

In addition, PAGI specializes in providing services to haredi and religious NGOs and institutions, thereby contributing to economic activity as well as to advancing social processes and causes. The Bank's relevant departments have accumulated many years of experience in working with non-profit organizations, and its professional staff specializes in finding creative solutions and leading long-term processes for the proper management of NGO activity over time, while scrupulously complying with regulatory restrictions.

Dialogue with ultra-Orthodox customers

FIBI's PAGI Array is working to create a continuous, consistent and ongoing dialogue with its target audience - the ultra-Orthodox sector. Unlike most large businesses, which view the ultra-Orthodox community as homogeneous, PAGI - as a well-established and leading business in this community - is aware of the unique characteristics of the sector. The result of this approach is the diverse channels through which the Bank creates value for its customers:

- Conducting frequent surveys to examine changing trends and needs of different segments in this sector.
- Providing adequate solutions to the unique characteristics of different customer segments.
- Offering relevant banking products to each segment and each stage in the ultra-Orthodox life cycle.
- Cooperating and providing sponsorships for organizations and institutions promoting the welfare of various sects in Haredi society.

Financial education in the ultra-Orthodox sector

PAGI has teamed up with a financial advisor from the ultra-Orthodox community, who specializes in its financial conduct. As part of the project, lectures are delivered across Israel and financial guidance is provided by various means. The focus of the financial education efforts provided under the auspices of PAGI is to offer a different approach than the one customary in ultra-Orthodox society: In addition to the prevailing approach, which advocates lowering expenses, the training also focuses on increasing income, long-term planning and adopting a new way of thinking about financial matters, so as to allow sound financial conduct over time. Other than being more appropriate, such financial education, also conveys a deeper message regarding proper financial conduct as a way of life, even in times of prosperity, rather than only during a deep financial crisis or to prevent financial collapse.

Activity in 2016

- PAGI operates 20 branches in the ultra-Orthodox sector. The branches' deployment offers easy access to all significant ultra-Orthodox population centers. PAGI has also identified small ultra-Orthodox communities, in which there was no bank branch, and established temporary branches nearby to enable residents to open a designated account with the Bank. In 2016, PAGI opened temporary branches for periods ranging from 3 to 12 months in Kfar Chabad, Rekhasim and Sanz.
- In 2016, PAGI conducted a comprehensive study, with the assistance of an strategy development firm specializing in this field, to examine the trends and needs of a growing segment in the ultra-Orthodox community - employed young adults. A qualitative study, it was based on numerous interviews, analysis of academic studies and studies carried out by government entities, as well as analysis of the Bank's data relating to this segment. In 2017, PAGI embarked on a broad strategic move to provide a solution to the employed young adults population working in the ultra-Orthodox sector, which included a dedicated track for this segment, offering unique benefits for each stage of the family's and financial development.
- Activity in Kol Hai radio station entitled "The Next Venture" - a consultation for a radio reality show that featured candidates with innovative ideas. In the program, the contestants competed by presenting attractive professional business plans. In addition, detailed guidance on how to prepare for, and establish a new venture, was provided.
- Collaboration with a leading media outlet in the ultra-Orthodox community, the Mishpacha newspaper, which featured a series of articles on sensible financial conduct, with emphasis on the unique characteristics of this sector. Additional articles were published in various newspapers: Yated Ne'eman, Hamodia, Hamevaser, and the Belz Hassidism newspaper, on the subject of sensible financial conduct according to the life stages of the Haredi family, how to prepare for taking out a mortgage, etc.
- Lectures on sensible financial conduct were held for customers in Netivot, Kfar Chabad and Petah Tikva.
- Focusing on the new ultra-Orthodox student population and providing a unique solution to their needs as heads of families (most) - a student loan to be repaid after graduation.
- Creating a unique product - Mehadrin Interest-Free Deposit - for this population, which avoids taking loans, in order to remove the barrier for long-term savings.
- In 2016, PAGI sponsored several organizations and activities in the ultra-Orthodox sector: charity associations, small business seminars, educational activities in yeshivas, seminars for NGO managers, etc.
- At the end of 2016, the balance of credit granted by the Bank to social organizations in the haredi community (in the areas of education, welfare and assistance services, social community organizations, religious services, etc.) was NIS 500 million.

Social organizations

Credit to social organizations in the ultra-Orthodox sector (in NIS millions)



Objectives

- In 2017, PAGI will initiate a strategic move, which mostly consists of marketing to the employed young adults segment of the ultra-Orthodox sector. As part of the program, campaigns will be conducted to present the benefits track aimed at assisting this segment with its unique challenges it faces in significant life stages: student grants, interest-free loans repayable when the student begins to work, meeting with an expert consultant on family budget planning when the third child is born, pension advice to customers aged 35 and above. The Bank is also planning joint projects and ventures for this target audience: activities for the welfare of the students in cooperation with student associations (e.g., resume writing workshops, interview preparation workshops, participation by the Bank's experts in hack-a-thons, etc.), creating dedicated online content.
- PAGI will continue its financial education drive in accordance with various target audiences: university students, yeshiva students, growing families, etc. The financial education program will be carried out through joint ventures with three leading ultra-Orthodox newspapers: Yated Ne'eman, Hamevasser and Mishpacha, and through 15 lectures across Israel in a variety of conferences aimed at PAGI's target audience.
- Providing sponsorships for community activities: events to benefit various populations, workshops and seminars for a variety of target audiences, as well as sponsoring various NGOs for the benefit of the community.
- PAGI continues to set up temporary branches in small ultra-Orthodox communities. In 2017, the Bank is planning to open branches in Ramat Beit Shemesh C, Bayit Vagan, Kiryat Ye'arim, Kiryat Gat and on academic campuses with significant ultra-Orthodox populations, such as the Lev Institute. Towards Q4/2017, PAGI is planning to expand this area of activity and to operate partial branches, in accordance with directives of the Bank of Israel on this matter, in order to make banking services available to the religious and ultra-Orthodox population, in as wide a geographic area as possible.



Promoting service in the Arab sector

Massad Bank is expanding its deployment in, and improving its service to the Arab community, as part of its retail customer business in general, and designated activity for the educational system and teaching employees in particular. In the past few years, several branches have been opened in communities with significant Arab populations and additional points in mixed towns and locations accessible to the Arab sector. As part of its effort to improve the service for the Arab sector, the Bank has hired employees from this sector for its branches, and more than 15% of its employees now come from the Arab community. The products and services offered by the Bank are adapted to the customers (language and channels) as well as to the holidays in this sector, wherever relevant.

Activity in 2016

- The Bank operates six branches in the Arab sector. The branches' deployment provides access to the sector's customers for the range of services provided by the Bank.
- Special loans were tailored to specific needs and to the various holidays of the sector throughout the year.
- Throughout the year, various activities in the Arab community with social aspects: activities for the Ramadan - holiday greetings, distribution of Imsakiya (Islamic prayer schedule) at schools and bank branches, special holiday loan, etc.; opening of the school year in September and activity for Mother's Day.
- Unique activities at the end of the year, including distribution of gifts in schools.
- Sponsorships of local activities in schools and colleges in the Arab sector.

Promotion of special activity for new immigrants from the CIS

FIBI caters to new immigrants from the former Soviet Union (CIS). The Bank has mapped and identified 30 branches in relevant cities, where a Russian-speaking point of contact works to handle this community. The Bank promotes ongoing activity in the sector, such as lectures on financial conduct, publishes articles in Russian, assists in organizing conferences for this audience and takes part in events in the community. To provide the optimal response to the segment's needs, the Bank is assisted by external consultants.

Massad Bank is expanding its deployment in, and improving its service to the Arab community, as part of its retail customer business in general, and designated activity for the educational system and teaching employees in particular.

Activity in 2016

National activities

Cooperation with organizations with a high percentage of Russian speakers by Russian-speaking contact persons. Russian-speaking employees of the Bank participate in all activities taking place in locations with a large presence of Russian speakers and assist them wherever needed.

Local activities

The events and conferences for customers from the former Soviet Union are held on two levels:

- **In the Bank's branches** - conferences in Russian on financial and other topics in order to raise financial awareness in accordance with the different stages of life. The conferences provide customers with a wealth of information in various financial fields, in order to optimize their understanding and tools for proper financial conduct according to their personal needs. The conferences also help promote behavioral change and improve financial conduct among the target audience in this sector. In 2016, the Bank held 15 such activities.
- **Outside the Bank branches** - Russian-language conferences aimed at promoting financial literacy in this sector are also held outside the branches, for example in various ulpanim (Hebrew classes for new immigrants) and branches of the Jewish Agency. In 2016, 10 such conferences were held. In addition, financial lectures are held for customers from time to time and on-demand.

Partnerships

The Bank forges and maintains partnerships with large organizations that cater to a large part of the target audience in order to assist and respond to the segment's unique financial needs.

Advertising

The Bank produces various financial materials in the Russian language, adjusting the tone and manner of addressing these customers in conferences, greetings and invitations.



Promoting activity for the third age

The third age population is defined as people aged 50+, and is divided into three main groups: 50-60, 60 to retirement, and above retirement age. The population above retirement age (especially octogenarians and older) is growing faster than the rest of the population, due to the significant increase in life expectancy. Currently, the third age population constitutes about 24% of Israel's total population, and is expected to reach 29% by 2035. People aged 80+ constitute about 3% of the population and are expected to reach 5% by 2035.

During this period, customers' lives undergo extreme financial changes, stemming from retirement and reduced revenues, as well as increased expenses due to new needs. In addition, this new period in life brings new experiences to customers' lives, alongside concern for their future and the future of their family. These challenges require services and products targeted to third-age customers.

The Bank has a comprehensive package for third-age customers:

- **Pension advice** - advice on maximizing the use of income resources and adapting investment products to the investment horizon and risk level appropriate for this population's age range.
- **Strategic investment consulting** - adapting the customers' investment portfolio, while focusing on the unique needs of this sector's age range.
- **Customer conferences for the third age** - customer conferences featuring content adapted to this population, such as: coping with intergenerational transition, proper entry into retirement, digital education for direct training, etc.



Products and services for education employees -

Bank Massad targets teachers and education employees in general and in the Arab community (which is characterized by numerous teaching and education employees) in particular. The bank offers financial products and services tailored to this population, as well as a range of special plans and benefits, in the realization of its unique banking and financial needs.

Activity in 2016

- The Bank operates 'Teachers Club 10', a special plan for teaching employees, for the management of current accounts at a fixed, all included, monthly fee of NIS 10. Teachers who transfer their salaries to the accounts are also eligible for an unlinked interest-free loan of up to NIS 30,000, an interest-free credit line equal to their salary, and a welfare loan. Alternatively, customers can choose to make a three-year deposit of up to NIS 50,000 at attractive interest rates to their current accounts.
- Another plan, offered to teachers who transfer their salaries and charge at least NIS 2,500 a month on their credit card, grants them an exemption from current account fees, a discount on deposit fees for securities, and five free checkbooks a year.
- The Bank operates five temporary branches across Israel to provide access to its services according to customers' needs. Temporary branches operate for up to three months, providing limited banking services through mobile computer stations, to make the bank's services accessible to existing and potential customers in remote locations. Fourteen such branches were operated during the year to make the Bank's services available to existing and potential customers in remote locations.
- The Bank offers a special benefits plan to students enrolled in teaching certificate programs, treating them as "teachers of the future". This clientele receives unlinked, interest-free loans of up to NIS 12,000 to finance tuition, a free credit card ("Ashmoret"), and fee-exempt current account management.
- The Bank sponsors "Israel's Leading Teacher" project - in cooperation with newspaper Yedioth Ahronoth, the Teachers Union and the national lottery, Mifal Hapayis - in which the country's most inspiring teachers are ranked. The panel of judges includes a representative of the Bank. In addition to the sponsorship, the Bank awards laptops to all winning teachers.
- The Bank participates in the Athena Fund, dedicated to empowering Israel's teachers. The Fund's main project is distributing laptops to each teacher in Israel, as well as operating a 120-hour program to improve knowledge and add tools and skills for using the laptop for teaching purposes. The Fund also gives iPads to special-education teachers and special tablet computers to science teachers. In 2016, the Fund distributed computers to 2,300 teachers, and to date has given out more than 15,000 computers in 130 cities and municipalities. In a survey conducted among the teachers participating in the project, 99% said their status in the class had improved. 75% claimed their teaching had improved, and 35% said there was a decrease in classroom discipline issues as a result of computer use. As part of the cooperation between the Bank and the Fund, the Bank actively participates in conferences and grants benefits to teachers who are members of the Fund and have accounts with Bank Massad.

Bank Otsar Ha-Hayal specializes in retail banking with an emphasis on customers serving in the defense forces. As of the end of 2016, the bank had 14 branches and offices at defense establishment.

Special activity with members of the defense forces

Bank Otsar Ha-Hayal specializes in retail banking with an emphasis on customers serving in the defense forces (IDF soldiers and officers, employees of the defense establishment, etc.). As of the end of 2016, the bank had 14 branches and offices at defense establishment facilities and IDF bases across the Israel. The Bank has developed special programs for diverse groups in this segment, such as: career officers, NCOs and IDF pensioners; Ministry of Defense employees and pensioners; civilian employees of the IDF; disabled IDF veterans; discharged career officers and NCOs, conscripts, and the families of members of the defense forces, defense enterprises, and organizations. In addition to retail banking, the Bank has developed a range of plans and products for these defense forces groups' business activity. The Bank has a special-purpose unit for fostering relations with the defense forces and providing rapid response to this group's special needs. These measures include opening the branches on Fridays, for members of the defense forces for whom this is the only day they are available to go to a bank branch near their homes.

Activity in 2016

- In November 2015, Bank Otsar Ha-Hayal won a tender of the Defense Ministry for the provision of credit and banking services to employees of the defense establishment. The tender established, inter alia, the terms and conditions for granting credit and managing an account for employees of the defense establishment, which includes career soldiers and IDF retirees, civilian employees of the IDF, as well as employees and retirees of the Ministry of Defense, and those eligible for rehabilitation benefits. The agreement period under the tender is seven years, from 2016 to May 31, 2023. Winning the tender enables the Bank to expand its activity in the tender's target population and enhance its market share in additional populations.
- The Bank views the employees of the defense establishment as its core business among private customers. An agreement signed with Hever establishes the terms and conditions for managing the accounts of the organization's members at the Bank. As of the end of 2016, the agreement with the organization is valid until July 31, 2018.

- Adapting the service model - the issue of service and customer retention was handled by "Shomrei HaOtsar" and "Shahak" project - retention of former IDF employees as customers. In 2016, a new layer was added - "Mobility Guards" - a project that raises the importance of customer retention; the Ness Project - transferring all military customers to municipal branches and turning military service points into specialized branches (around the clock branches), with emphasis on selling and providing service to all customers.
- "Nice to Meet You"- a program which aims to successfully absorb the transferred customers and enhance their activity in the account and family cluster. In the customer absorption program, products were integrated to enhance activity and measures were taken to strengthen the relationship with the new customers, with an emphasis on preventing abandonment.
- The Bank's activities as part of the Army Career Officer Day at Tel Hashomer and the expansion of the family cluster through complementary products, such as the Green Account and a benefit package for family members joining the army.

Objectives

- **Focusing on recruiting members of the security forces and their core circles** - by developing special recruitment and conservation programs to prevent abandonment.
- **Expanding the core circles** - developing a plan for additional target audiences - family members of security forces personnel and others.
- **Value propositions according to the customer lifecycle** - creating value propositions tailored to the customer's life cycle, including product offerings, anchor management, etc.
- **Continuing to leverage the Ministry of Defense tender** - continue to leverage the win and increase the Bank's market share among the tender's target population.
- **Adapting the service model** - developing a unique service model for customer retention, which will combine direct channels, a unique telephone response, and a full deployment of branches.

Optimal service in all activity channels



The Bank Group's strategic plan focuses on investing in the customer, expressed in providing a comprehensive and personal solution in a variety of channels adapted to the customer's characteristics. Special emphasis is placed on promoting and upgrading digital banking tools and enhancing the use of direct banking channels, while assimilating innovation through unique online and mobile products and technologies and collaborating with fintech companies. We believe that these steps improve our customer interfaces and his/her user experience, while maximizing their added value.

As a result, the Group is implementing solutions in a variety of channels, with emphasis on customer experience and the availability of banking services without the need for physical access to branches. The Group thus invests considerable resources in the development of digital services. At the same time, an effort is made to expand the deployment of ATMs

in order to reduce customers' dependence on the branches' opening hours.

The First International Bank Group now enables its customers to perform most of their ongoing banking activity through the digital channels and ATMs, while receiving services from the Branches and Beinleumi Call, and adapting the services in all channels to people with disabilities. The following are the direct channels available to our customers:

- Websites.
- Mobile apps.
- FIBI Call - a call center available in flexible hours.
- ATMs / check deposit terminals / cash deposit terminals / self-service information terminals.
- Text services, personal messages by push technology and web-based email.

FIBI data show that the greater number of channels customers use, the greater their level of activity and loyalty to the Bank. Surveys conducted by the Bank also indicate that such customers are more satisfied with the Bank's services.

In 2016, in order to help customers benefit from direct banking services, the Bank began placing assistants to explain how to use the ATMs. The program will be extended in 2017. Some of the Bank's branches have tablet computers that allow Bank employees to guide customers on how to use the Bank's website and app. The direct channels are thus more readily available to customers. Customers who fail to execute an online transaction (a transfer, loan, checkbook order, etc.) are invited to chat with, or write to, a banker, who will then get back to them. While developing the direct banking services, the Group continues to offer its customers an extensive branch network, which currently includes 165 branches nationwide. Customers of all of the Group's banks can obtain services in any of its banks.

The Group's branch deployment is examined on a regular basis vis a vis the needs of customers, developments in the Bank's target populations, demographic changes, etc. This serves as the basis for decisions to either open new branches or move or merge existing ones, with the realization that a branch serves as an anchor for the Bank's relationship with the customers, with emphasis on providing them with added value, such as: investment advice, pension advice, mortgages, etc.

ATMs:

The Group has 166 ATMs nationwide (from Kiryat Shmona in the north to Eilat in the south) allowing self-service by customers (in Hebrew and English); 51 allow for cash deposits. The vast majority of the Group's ATMs (all except two) are assigned to a branch, which reduces costs for the customers.

Activity in 2016

In 2016, to promote its digital activity, the Group launched new, state-of-the-art services:

- Novel, advanced applications which significantly upgrade the customer experience, providing tools that assist customers in carrying out financial transactions.
- Added feature enabling customers to deposit a check from any bank through the app.
- Quick identification through the app using a fingerprint or number structure.
- Expanded the "Information At-A-Click" service, which provides customers with access to their account information through the app, without the need for a password. Currently, this service includes the customer's current account balance, last four transactions, value of their security portfolio and next credit card charge.
- Added common transactions to the app: ordering checkbooks, direct debit orders for savings and a wide range of deposits, viewing cancelled checks, etc. In addition, the ability to take out a loan online or through the mobile app was expanded to include a wider audience.
- "Green Account" - In 2016, the Bank continued to market Green Accounts. The latter are part of a global trend aimed

at protecting the environment and providing a solution to customers wishing to have a paperless digital account. Green Account holders are exempt from current account fees and have their foreign exchange and securities charges reimbursed at the end of each year. Subscribing to a Green Account is open to the Bank's existing and new customers and is approved through the branches or the Bank's website.

- **Expanding Fibi's services** - In 2016, the information services provided by Fibi - the virtual personal banker assisting the Group's customers in their online and mobile activities - were expanded. Fibi sends alerts to customers regarding their financial activity and helps them maintain prudent financial conduct. This information includes a monthly statement of expenses, alerts on a low balance in relation to a future expected transaction; alerts on having used 75% or more of the credit line; a deposit about to expire or be renewed automatically; alert regarding a double charge for ATM cash withdrawal; recommendations on how to save money (mortgage recycling, online currency conversion); and analysis of credit card activity: Increase in consumption in a specific category (clothing, food), increase in credit card activity in a specific business (IEC, supermarket), verification of a significant credit card purchase, first purchase in a business, double billing in a business, etc.
- **Opening an account online** - FIBI offers customers to open an account with the Bank online, through the website, without arriving to a branch, by conducting a video conference call. Customers can conduct various transactions in the account, such as: current account transactions, deposits, and securities transactions. The service operates pursuant to the restrictions set by the Bank of Israel regulations.

New online services:

- **Making random real time transfers in shekels through the Real Time Gross Settlement (RTGS) system** - the transfers are credited to the beneficiary's account in real time; **shekel transfers with several signatories** - transfers made with several signatories in the account; giving orders for future foreign currency transfers; orders for debits by authorization.
- **Viewing the pension savings portfolio** - Viewing the pension savings portfolio, including the composition of customer's portfolio, details of their various deposits, and summary of pension coverage.

Objective control status	
Objectives	Implementation status
Corresponding with a banker - In 2016, customers will be given the option of securely contacting a banker online or through the app.	Postponed. The service will be launched in 2017
<p>Mobile innovation - In 2016, the following innovations are expected in mobile services</p> <ul style="list-style-type: none"> • Depositing a check by using a smartphone. • Quick application access. • Automatic customization of the menu according to the customer's usage habits. • Improved "Messages for You" - immediate activation. • Add account balances to "Information At-A-Click". 	Done
Make large random deposits to private customers - in continuation to customer's current ability to make random transfers through the website, larger such transfers will be enabled in 2016.	Done
<p>Expanding the Fibi services - in 2016, a range of new features will be available through Fibi - the virtual banker:</p> <ul style="list-style-type: none"> • Additional alerts (verification of dual billing at a business, a particularly large purchase on the credit card, a fixed deposit that has not come through, etc.) • Budget management (analysis of expenses vs. income) • Fibi follows up on whether the customer has met his/her savings targets • Option to save event history • Providing information on securities events (e.g., a significant increase or decrease in a stock price or index) 	Done

Objectives

- **Corresponding with a banker** - In 2017, customers will be given the option of securely contacting a banker online or through the app. The service will be initially offered to private banking customers, and subsequently be extended to additional audiences.





Fintech at FIBI

In 2016, FIBI accelerated its fintech activity, promoting innovation through cooperation with start-up companies and other external entities that develop innovative applications and products for the financial sector, in addition to its ongoing efforts to develop in-house products and technologies through the Bank's IT system. In 2016, the Bank implemented a biometric identification solution, enabling easy and secure entry into the Bank's mobile application and launched a collaboration with a fintech company to implement an innovative solution for the capital market. The Bank's activity is focused on, and tailored to the Bank's needs and strategic focal points, especially the "Investing in You" focal point, which places emphasis on solutions that can be integrated into customer interfaces, improving the customer experience and providing him/her with added value.

The purpose of these partnerships are as follows:

- Improving the Bank's value proposition to its customers, the variety of products and services, as well as the customer experience.
- Keeping up with the fast development pace in fintech and looking to the future.
- Assimilating innovation into the organization, enriching and refreshing the way of thinking and creating triggers for continuous improvement.

Objectives

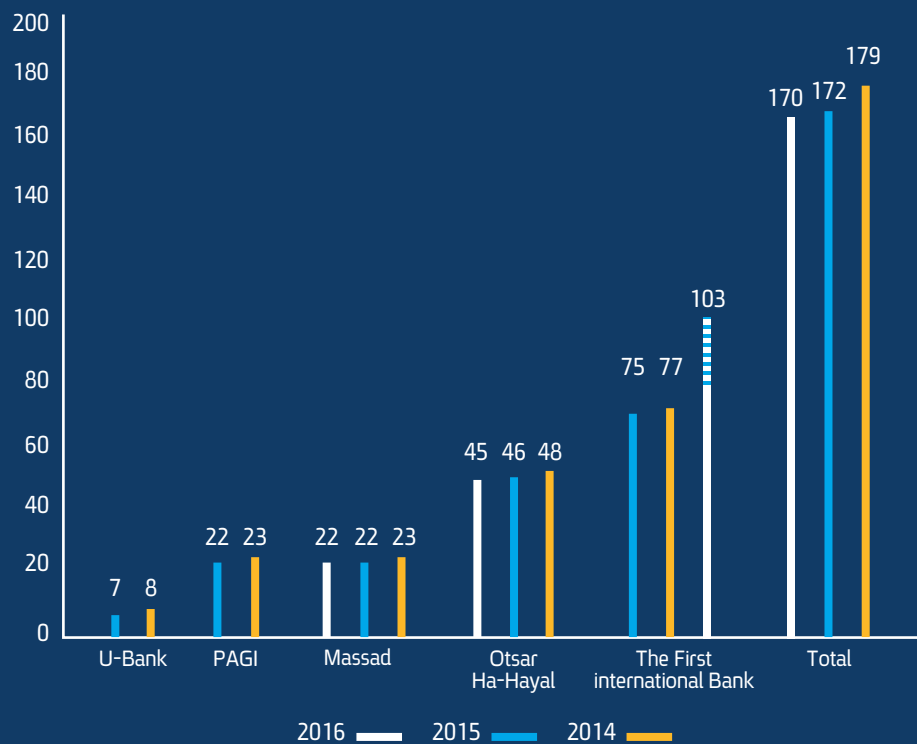
- In 2017, the Bank will continue to drive its fintech activity, and has even established a dedicated unit, which will coordinate and implement advanced digital innovation for all of the Group's customer lines and be responsible for assimilating innovation processes.

Deployment of the FIBI Group branches

The FIBI Group offers its customers a nationwide network of branches which are available and accessible to all customers, with emphasis on customers who prefer personal one-on-one service. The branches are located throughout Israel - from Kiryat Shmona to Eilat, with 25% of the Group's branches located in towns in rural areas. Customers of the Group's banks can obtain most current account- and other services at any branch of the Group's banks, and benefit from the Group's extensive deployment of approximately 170 branches.

170 branches

The FIBI Group branches



* Including the branches of PAGI and U-Bank that were merged into FIBI in 2015.

Promoting access to services for people with disabilities

The FIBI Group is committed to making its banks' services accessible to all its customers - physically at the branches and at call centers and online services. An accessibility coordinator has been appointed at the Construction Department who is responsible for implementing the accessibility plan at the Group level pursuant to accessibility laws and regulations. Access Israel advises the Group on its access to services plan, which is scheduled to be completed in 2017.

Providing physical access to the Group's branches

Rendering the Group's branches accessible began as early as 2007. By the time regulatory accessibility guidelines came into effect in 2012, about 20% of the Group's branches were already accessible to the handicapped. Pursuant to the new regulations, an accessibility survey was conducted at all the Group's branches, and an orderly access plan was prepared, which included setting targets and implementation oversight of accessibility at the various branches. Means of accessibility implemented at all of the Group's branches in anticipation of the new standard include:

- Nearby disabled parking;
- Accessible entrance to the branch;
- Reception desks adapted to the visually impaired and mobility impaired;
- Adapted teller counters;
- Adapted waiting corner;
- Aids for the hearing impaired;
- Accessible toilets;
- Accessible elevator;
- ATMs adapted to the visually impaired and mobility impaired.

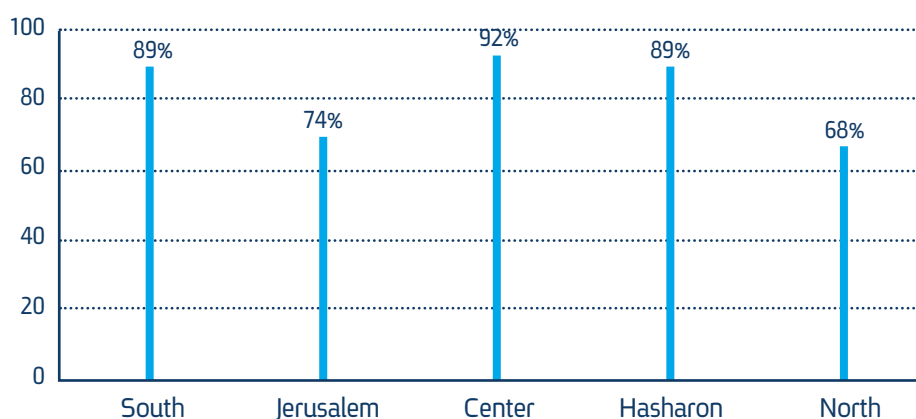
The FIBI Group is committed to making its banks' services accessible to all its customers - physically at the branches and at call centers and online services.

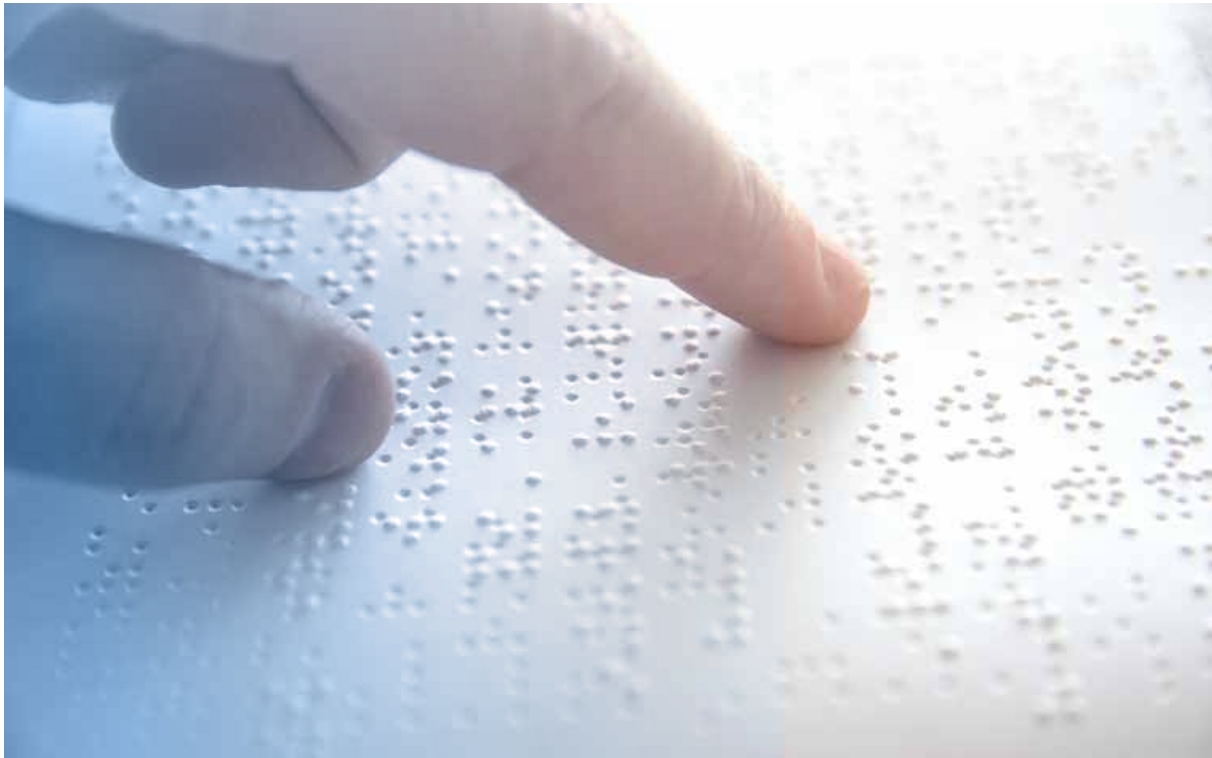
Below is a summary of disabled accessibility data at branches of the FIBI Group in 2016*

	No. of branches in 2016	No. of accessible branches as of 2016	% of accessible branches as of 2016	No. of branches to be rendered accessible in 2017	Total no. of expected accessible branches in 2017
FIBI (Including PAGI and U-Bank)	103	82	80%	21	103
Bank Otsar Ha-Hayal*	31	29	93.5%	2	31
Massad	22	20	91%	2	22
Total	156	131	84%	25	156
				16%	100%

* Excluding Otsar Ha-Hayal booths at IDF bases

Percentage of accessible branches- geographic deployment





Accessibility to services for people with disabilities in other channels

As part of the Group's efforts to render banking services accessible to customers with disabilities, and in addition to providing physical accessibility at the branches of the Group's banks, the following efforts to facilitate accessibility to service channels and service activity are underway via the following channels:

- **ATMs and customer stations** - as of the end of 2016, 90% of the devices were made accessible pursuant to the regulations (these measures are in addition to accessibility to the mobility impaired, which has been completed for almost all devices).
- **The websites** - the Group's websites were made accessible and activated (user1st was integrated) and are in the process of obtaining a standard mark (registered in the Israeli database of accessible websites)
- **Telephone access** - the call center was rendered accessible to disabled persons and a special telephone line for inquiries about accessibility was activated.
- **Training** - The Group developed an accessibility tutorial which was approved by Access Israel and is available on the Bank's training website.
- **Oral and written information** - as of July 2015, the Group provides information accessibility services via various means, pursuant to the regulations and in coordination with customers: reading out loud, audio files, PDF files (adapted for reading by software), and Braille. The information accessibility services are provided by Access Israel's Information Accessibility Center.

In addition, the various disabled accessibility services provided by the Group are available online for the benefit of all users.

Objective control status	
Objectives	Implementation status
The Group will continue to implement the disabled accessibility program under the multiyear plan and pursuant to the regulatory requirements. In 2016, disabled access is planned at 17 branches, with the Group's remaining branches to be rendered accessible in 2017.	At the end of 2016, 85% of the Group's branches were accessible.

Objectives

- The Group will continue to implement the disabled accessibility program under the multiyear plan and pursuant to the regulatory requirements. In 2017, disabled access will be implemented in the Group's remaining branches.

Customer satisfaction



The Group attaches great importance to customer relations and maintaining high customer satisfaction, by providing professional, fair, efficient, and courteous service to all customers and constantly striving to improve the level of service, with an emphasis on initiated and planned service, and on improving the service and response through the direct channels. At the same time, we continue to develop innovative and advanced products for our customers. It is important to us to hold a dialog with our customers, understanding and responding to their needs at the highest level. The Group's service approach is common to all our employees and we take care to equip our employees with up-to-date professional tools and knowledge in order to maximize and streamline customer service.

The Group attaches great importance to providing professional and personal service to its customers and devotes significant efforts to maintaining the high quality of service. For this purpose, in recent years, the Group has undertaken a number of key measures to improve service:

- **Customer segmentation and its implementation process at the branches** - various types of customers (private banking, personal banking, small businesses, etc.) are assigned to dedicated teams specializing in handling them. At the same time, FIBI established the Platinum Center, which provides wealthy customers an additional layer of service beyond that provided at the branches.

- **Developing new products and services according to customers' needs** - and developing the Bank's ability to offer each customer the products most suited to his/her needs, with an emphasis on developing and expanding the service in the Group's direct channels.
- **Training employees at every level on service provision** - as well as customer retention and customer abandonment prevention, excellence workshops, etc.
- **Measuring satisfaction among the Group's customers** - systematic activity to measure customer satisfaction according to various criteria for each bank.

The Group attaches great importance to customer relations and maintaining high customer satisfaction, by providing professional, fair, efficient, and courteous service to all customers and constantly striving to improve the level of service

Activity in 2016:

As part of its effort to improve service in 2016, the Group used the following measures, among others:

- Training, conferences, and workshops for the bank's customers.
- Dedicated conferences for professional staff: marketing trustees, mortgage advisers, and investment advisers.
- Promoting the use of the direct channels. Training was provided at branches, a booklet was issued and distributed to customers, which includes all the options and how to use them easily.
- Expansion of advisory services for a holistic view of all of a customer's assets, with an emphasis on risk management. The process included ongoing training of the banking and advisory staff.
- In the annual work plan conference, teams discussed the subject and means of implementing the proposed solutions.
- Surveys were conducted among the Group's customers to learn about their satisfaction from the service, draw lessons and understand what areas require improvement and change.

FIBI and Otsar Ha-Hayal Bank

To improve the telephone service to customers, a callback system was installed at the banks' branches, through which customers can leave contact details for a banker to call them back. The purpose of this system is to improve customer service and, as a result, their satisfaction.

The banks also appointed service coordinators, which undergo dedicated workshops to improve service at the branches. In addition, FIBI is conducting in-depth surveys among customers who abandoned the Bank, in order to understand the reasons for their dissatisfaction and formulate a response and solution. Improvements were also made to the website and app to speed up and streamline the service using the direct channels, so as to save customers the need to arrive at the branches.

Bank Massad

As part of its service improvement efforts in 2016, the Bank conducted regular meetings at the branches focusing on customer satisfaction and analyzing relevant cases and events on an ongoing basis. In addition, in meetings conducted at the

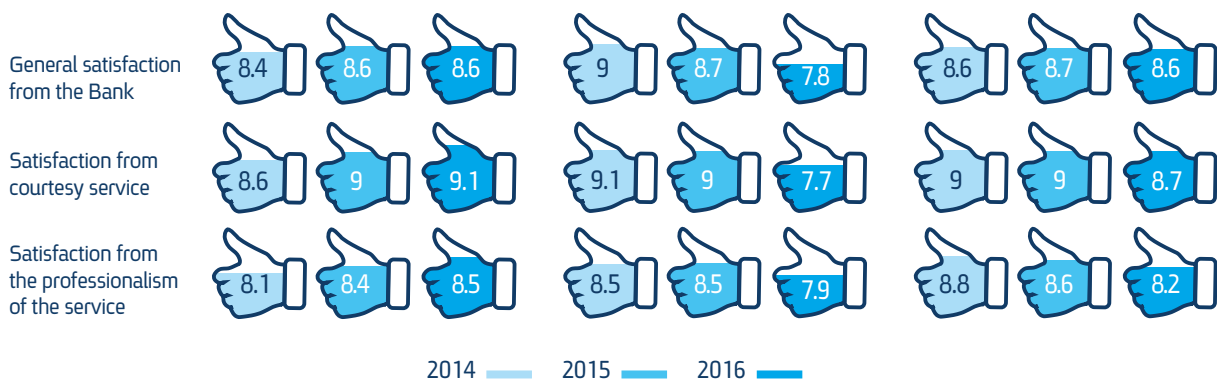
branches every six months, the findings of customer satisfaction surveys are presented. Special-purpose conferences on the subject are held regularly for managers at the branches, including department managers and branch managers, to discuss the surveys' findings and special cases, etc. Workshops were held in all branches to improve knowledge and information about the Bank's digital tools. In some branches, assistants instructed customers on how to use the Bank's digital tools using special-purpose tablet computers.

Customer conferences

Each year, the Group holds professional conferences for our business-, capital market-, private banking-, and other customers, as well as for prospective customers. We hold dedicated professional conferences for select populations, including teachers, ultra-orthodox, members of the defense forces, and CIS immigrants. The conferences include lectures on a wide range of topics: the capital market, managing household finances, real estate, investment, and even family and parenting issues, with the objective of enhancing the participants' financial literacy, sharing knowledge, and winning new customers. The Bank prepares the conferences' content according to the issues raised by the customers. The presentations are given by experts from the Bank and outside it. Each year, the Group holds dozens of conferences both in Israel's geographic and social periphery and in the center.

Customer satisfaction surveys

During 2016, the Group conducted various customer satisfaction surveys based on the specifics of each bank and its customers. The banks conducted surveys at dozens of branches in order to examine their customers' satisfaction level. Surveys were also conducted through direct channels, for new customers, former customers, and customers who switched branches. The Group also conducted qualitative focus groups among various types of customers. The results of the main surveys conducted by the banks in the Group are as follows:¹



⁶The scores are on a scale from 1-10

FIBI - The surveys are conducted among all population segments, among customers who have visited branches and those who mainly use the direct channels. According to the surveys, the level of satisfaction is higher among customers who use the direct channels. In addition, it is clear that the satisfaction scores in all parameters have been rising steadily since 2014. The survey outcomes are examined and lessons are conveyed to the Bank's branches and headquarters units, with emphasis on the strong points which should be further strengthened and the issues that require improvement by the branch.

Bank Otsar Ha-Hayal - At Bank Otsar Hahayal, customer satisfaction surveys were carried out differently in 2016, following the transfer of the military branches customers to the urban branches. As part of this process, thousands of customers were transferred to an urban branch near their place of residence, and the military branches are now open around the clock.

Bank Massad - The annual customer satisfaction survey was conducted in the first half of 2016. The survey is conducted by phone, targeting households, and divided into personal and private banking. The survey asks questions about service, initiation and use of digital services. According to the survey, there was a slight decline in customers' overall satisfaction, but the Bank still received high scores (about 8 out of 10 on average). In addition, customer loyalty levels remained largely the same as in previous years. Also according to the survey - more than 60% of the respondents carry out transactions online or through the mobile app.

The Bank is striving to improve the customer satisfaction level at Bank Massad and Otsar HaHayal. In this framework, several service improvement programs will be implemented in 2017, such as: Making digital services more accessible to Bank Massad customers, holding service workshops at branches, expanding the digital services and placing assistants at branches to familiarize customers with the digital devices offered by the bank. In 2017, Otsar HaHayal will carry out a project entitled "Nice to Meet You", in which bankers from urban branches will contact customers who were transferred to them from military branches to become better acquainted with their new customers.

Objective control status	
Objectives	Implementation status
The FIBI Group: In 2016, the Group will continue to promote customer service and satisfaction, by extending its methods of measurement, including conducting regular surveys at all bank branches (and handling any findings, as needed) and online.	Done
Otsar Ha-Hayal: In 2016, the Bank will launch a new and upgraded mobile app, which will offer additional services for the customers' convenience.	Done
Bank Massad: <ul style="list-style-type: none"> In 2016, the Bank will take steps to improve its employees' familiarity with, and knowledge about, digital tools. During the coming year, service workshops will be held at the branches, emphasizing the direct channels In 2016, the Bank is expected to launch the new mobile app, which will enable customers to receive information and carry out a wide range of transactions directly from their mobile devices. The Bank will also launch Fibi - the virtual banker which assists customers in using their personal accounts on the app and website.	Done

Objectives

- In 2017, the FIBI Group will continue to promote customer service and satisfaction
- By extending its methods of measurement, including conducting regular surveys at all bank branches, and handling any findings, as needed.
 - Conduct online surveys on a regular basis.
 - Foster and develop the digital means of communications which contribute to the customers' satisfaction, as evidenced in the surveys.
 - In 2017, FIBI will continue its cross-organizational process to improve internal customer service as a tool for improving customer service and will conduct internal service satisfaction surveys.



The Group's public inquiries units - especially the public inquiries officers - handle each inquiry in a thorough and unbiased manner, emphasizing fairness and objectivity.

Handling of customer inquiries

The FIBI Group seeks to respond to every customer professionally, responsibly, and with great care. Decisions taken regarding customer inquiries reflect the values of integrity, fairness, and reliability. The Group's public inquiries units - especially the public inquiries officers - handle each inquiry in a thorough and unbiased manner, emphasizing fairness and objectivity. The findings resulting from the inquiries are examined in depth, and any deficiencies are handled systemically, with strict adherence to realizing the Group's purpose and vision, which stresses fairness, reliability and commitment to customers and the environment.

Customer inquiries are handled on the basis of legal and regulatory provisions, and Banking Supervision Department guidelines, as well as on the principles and rules of proper conduct included in the Code of Ethics of the banks in the Group. Responses to customers reflect the values of professionalism, care, and responsibility, and emphasis is placed on the values of fairness in customer relations and efficiency, as well as compliance with the laws, regulations, Bank of Israel positions, and other regulatory provisions. After a complaint has been fully handled, findings are drawn, including remedies, wherever necessary, with detailed reasoning and addressing the claims raised in the complaint, which is then sent to the inquiring party within a reasonable time.

In 2016, the FIBI Group received 2,072 inquiries and complaints. We are committed to responding to every complaint within reasonable time and to provide a clear, courteous and thorough response, supporting our responses with documentation when necessary, on the basis of the following principles:

- Rapid and efficient response to customer inquiries in compliance with the criteria set by the Bank of Israel.
- Raising awareness of adhering to consumer provisions and fairness towards customers among the Bank's employees.
- Turning complaining customer into satisfied customers.
- Placing emphasis on service and courteousness.
- Drawing lessons from complaints in order to improve service and professionalism.

In 2016, the Bank Group focused on shortening response times to complaints and handling complaints promptly and sometimes immediately - in the case of urgent complaints, while complying with Directive 308A, which regulates the activity of the Public Inquiries Unit and its Commissioner.

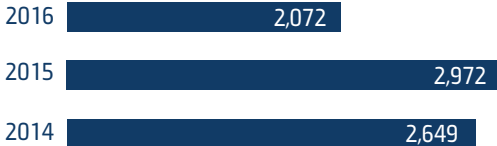
The Bank of Israel published the Public Inquiries Report for 2016, which focuses on complaints filed against Israel's five largest banks (FIBI, Poalim, Leumi, Mizrahi Tefahot, and Discount Bank) and which were reviewed by the Bank of Israel. In the key indicator - percentage of justified complaints (out

of the complaints in which a decision was given), FIBI came in second, with a low score of 5.2%, with a small difference from the first-ranking bank. FIBI also had the lowest number of customer complaints referred to the Bank of Israel, which reflect the Bank's high quality handling of complaints. These figures reflect the importance attributed to this matter, in order to generate fair business practices vis a vis customers, be

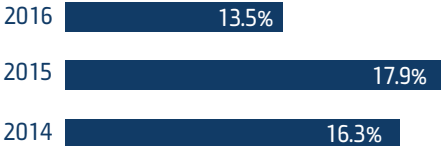
attentive to their needs and handle their complaints properly and optimally.

The Group's total percentage of justified complaints stood at 2% vs. an average of 3% justified complaints in the banking system.

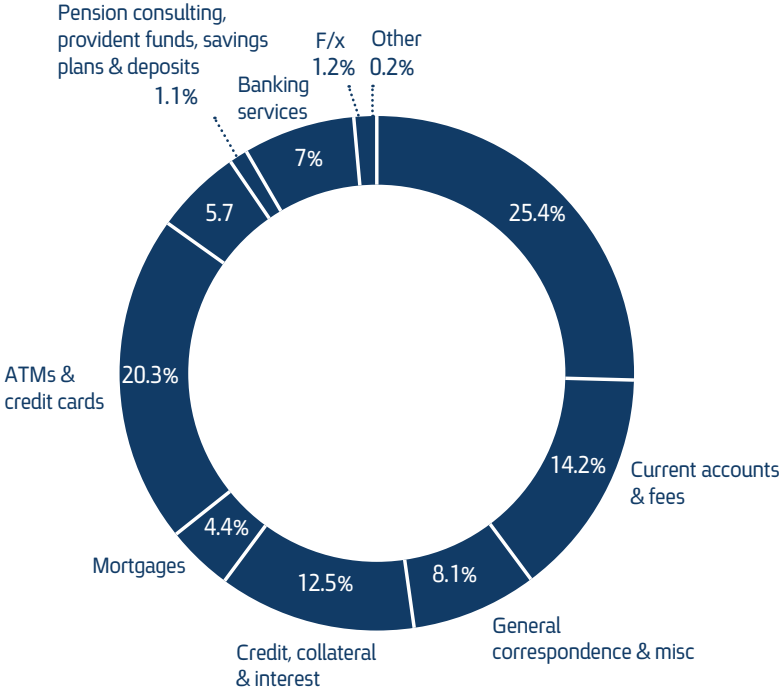
Total of requests referred to FIBI group



No. of justified complaints at FIBI:



Segmentation of inquiries by subject matter



* Other: other topics include proper disclosure, Beinleumi Call, financial transactions and import / export.

Objective control status

Objectives	Implementation status
------------	-----------------------

In 2016, the improvements and adjustments of the IT systems serving the Public Inquiries Unit will be completed. The planned improvements include adapting the system to the Bank of Israel interface. In addition, adequate work procedures are expected to be drafted during 2016, in accordance with the Bank of Israel directive.

- The work procedure of the Public Inquiries Unit was approved.
- Update the branches' work procedure - approved.

Pholding banking secrecy

We also develop tools, knowledge, and technology platforms, and provide advanced personal advisory services to our customers.

The Bank Group attributes great importance to safeguarding its customers' information and maintains an information security policy that is defined and approved by management and the Board of Directors of the FIBI Group's various banks. The Group's information security and IT policy reflect management's commitment to information security, and to the availability, secrecy, integrity and reliability of the information assets and system of the Bank and its customers, while safeguarding customer privacy, banking secrecy and robustness, as well as functional continuity. In this field, the Bank follows strict information security regulatory requirements issued by the Bank of Israel (Directives 357 and 361) and other government and international bodies (the Protection of Privacy Regulations,

the Information Security Regulations of the Commissioner of the Capital Market, etc.). As a result, the Bank's IT Department is ISO-certified in information security and cybersecurity, requirements which are mostly included in mandatory regulations. Policy implementation combines a proactive strategy to safeguard information, defend IT infrastructures, and protect the Bank's online presence. The Bank's Information Security Manager is responsible for implementing the policy, issuing instructions, requirements and procedures to the various units, including the Development Unit and the Computer Infrastructure Operations Unit, with control over the periodic performance and reporting to the managements and Boards of Directors of the Group's banks.



The strategy is implemented using a supportive organizational structure which includes the information security and cybersecurity unit (the functions of which include coordination, guidance, enforcement, control and reporting on these subject matters, in cooperation with the business and operational units) and the Bank's technology unit responsible for integrating and operating security perimeters and technological means for prevention and monitoring of information security incidents in real-time and providing solutions to information security incidents through

In this framework, the overall risks are mapped, reviewed, analyzed, managed and evaluated, including processing of intelligence and implementation of processes and technologies to hedge and mitigate risk and detect unusual access attempts. The Group also attaches great importance to training people through a Group-wide effort to increase employee awareness, involvement, and commitment by way of tutorials, training seminars, and exercises.

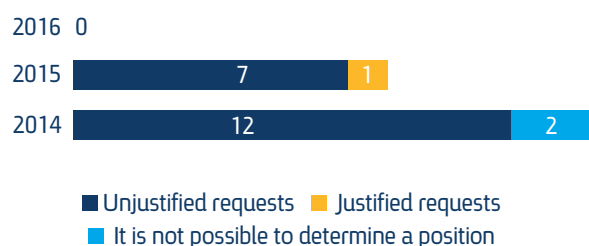
According to the Bank's lawful disclosure requirements, the Bank and its employees are bound by secrecy and the duty to safeguard the customers' privacy, whether they be individuals or corporations. The details and data about the customers and others related to the account (whether given by them or obtained through other sources), including account information and balances, are stored in whole or in part in the Bank's databases or of anyone acting on its behalf, or by other entities engaged in information processing for the Bank or providing other services to the Bank, in relation to the existence or management of the account. The stored information serves the Bank for decision making purposes on relations with the account holders and/or others related to the account and for providing various banking services.

The Bank does not provide the information in its possession to others unless providing the information is mandatory under law and/or required in order to uphold a vital public interest or if the customer has agreed to have his information provided to another entity.

Performance

- In 2016, FIBI launched a cybersecurity incubator for ventures improving cybersecurity capabilities. The cybersecurity incubator is located at MATAF, the FIBI Group's IT arm, in an effort to develop cybersecurity systems and integrate them quickly into the Bank's systems.
- In 2016, the indicator for inquiries on banking secrecy breaches was updated, as a result of a change in classifying the inquiries made by the Bank of Israel.

Banking secrecy inquiries the FIBI Group



Objective control status

Objectives	Implementation status
In 2016, the FIBI Group will continue to advance a project to prevent information leaks (intended to prevent exposure or leaks of information that must be protected) - in accordance with the directives of the Bank of Israel and the findings of its audit.	Done - according to the work plan. To be continued in 2017
In 2016, as part of assimilating banking secrecy at the Bank, the training of employees on information security awareness will continue, with emphasis on guiding and raising awareness to the issue among customers.	Awareness training sessions were held for the Group's employees. An awareness training program was developed for employees. The program will be carried out in 2017.

Objectives

- In 2017, the IT Department and Information Security & Cybersecurity Department will undergo certification for the following information security standards: ISO 27001 for information security management and ISO 27032 for cybersecurity. Such double certification is uncommon in Israel. The certification process will include internal and external inspections (by the Standards Institution of Israel) to assess the effectiveness of the organization's information security processes.
- In 2017, the second class of the cybersecurity incubator will commence at MATAF.
- In 2017, awareness training for employees and customers will continue, due to the Bank of Israel's directive on online banking.

Advancing customers' financial understanding and incorporating long-term considerations in capital market activity



The changes in financial markets in recent years have increased the need to advance the financial understanding of customers, who need to take responsibility for their financial future and manage it independently, proactively, and in an informed manner. The low interest rate environment has made traditional methods of savings (which bear minor returns) less worthwhile compared with long-term investment alternatives in the capital market. Thus, the need for understanding the capital market and its risks is growing even among private customers.

As a leading banking group in the capital market, the FIBI Group has identified the need and importance in referring its customers to diverse investment instruments that would help them deal with the negligible interest rate and adapt their investments to their character, risk appetite and needs. We also develop tools, knowledge, and technology platforms, and provide advanced personal advisory services to our customers. In addition to our Second Opinion services, which are provided free of charge, we offer the general public a second opinion about investment portfolios managed elsewhere.

This active approach positions the capital market as one of the Group's business growth engines and is an important social activity which contributes to the education and financial development of the public, so that this growth engine creates added value for the Group, its customers and the public. The share of the investments segment at the Group is greater than the share of other banking segments compared with the banking sector in Israel.

Dynamic and customized investment management through various life stages

The Group is concerned with the financial future of its customers, directing them to think about long-term investments. The long-term investment management concept requires the presence of meticulous work procedures in line with the characteristics of the portfolio and the nature and wishes of the investor. When making decisions, especially for the long term, most customer need professional guidance. The advisory services we provide are of the highest professional standard and are characterized by caution, objectivity and responsibility. The Group has developed and implemented methodologies that include investment advice milestones with the objective of providing each customer a solution tailored to his/her personal needs and wishes.

- 1. Customer characterization** - the first stage is to characterize the customer, during which the objectives of the investment, the customer's needs, his/her risk appetite, and characteristics are examined. In addition, the investment adviser and customer hold a discussion regarding expected returns based on the customer characterization.
- 2. Diversified investment portfolio** - the second stage is to build a diversified investment portfolio composed of off-the-shelf investment products according to the customer's characterization in the first stage. Through properly matching a diversified investment portfolio to the customer's needs and adhering to the recommendations of the Group's Research Department, which provides content services to all the banks in the Group, the banks can offer their customers optimized portfolios. The Bank's research unit provides ongoing professional support, both in terms of the recommended investment portfolio composition and the suitability of a specific investment product and the level of risk derived from it to the customer's portfolio, as reflected in the initial characterization.

3. Current and proactive maintenance - the third stage involves the ongoing maintenance of the portfolio by keeping regular contact with the customer, updating him about significant events related to his/her portfolio, and providing recommendations for actions needed due to market changes or to his/her needs and characterization.

To support a high-quality and efficient investment service, the FIBI Group has developed investment products, help systems, and supportive technology tools that provide real value to customers and help them in their financial planning for the future.

- **Stock deposit** - a long-term investment plan that allows customers to give direct debit orders for equity ETNs, thereby benefiting from stock returns over time, in addition to traditional debit orders for a wide range of mutual funds.
- **Flexible direct debit orders** - flexible direct debit orders that allow efficient long-term savings through mutual funds or ETNs, taking into account the customer's current accounts balances. The customer determines the current account balance earmarked for ongoing use, above which the deposit will be made, as well as the maximum deposit amount. The product's flexibility allows for maximum compatibility with the customer's characteristics and needs, both in terms of investment choice and customer's current uses.
- **Dynamic investment portfolio** - a long-term investment product characterized by a long average duration and high equity exposure, based on concept that, long-term investment in stocks and long-term instruments may offer a higher than usual return on risk-free assets. The dynamic investment portfolio model is built so that the proportion of risk components shrinks as the target date approaches.
- **Investment radar** - an automated system which identifies events in customers' investment portfolios and warns them of specific events that they should consider in managing the portfolio.
- **Autopilot** - a tool that enables automatic and thorough review of all the data in the portfolio, allowing the Group's investment advisors to draw customers' attention to portfolio events, thus streamlining their work and enabling them to provide higher quality service.

Long-term investment guidance, advice, and education

A central part of the Group's capital market activity is the understanding that customers with financial knowhow will make the right decisions and higher quality transactions in the capital market. We favor applying an educational concept which will contribute to optimal capital market activity by as large a public as possible. For this purpose, we invest resources in making knowledge accessible and developing tools intended to support sustainable capital market conduct by our customers. In this framework, the FIBI Group holds professional customer conferences to increase their understanding and knowledge of the capital market; investment advisors offer the customers to participate in them, as part of the investment advisory services provided to customers.

we invest resources in making knowledge accessible and developing tools intended to support sustainable capital market conduct by our customers.

Pension advisory service at the FIBI Group - taking care of our customers' future

The Group therefore provides its customers with pension advice, which gives them a clear and full view of their pension savings and examines whether the savings are in line with the customers' personal needs and characteristics.

As part of its long-term outlook, the FIBI Group sees great importance to its customers' post-retirement financial needs. The Group therefore provides its customers with pension advice, which gives them a clear and full view of their pension savings and examines whether the savings are in line with the customers' personal needs and characteristics. In addition, the pension advisory service tracks changes in the customers' needs, resources, and characteristics while taking into account short- and long-term considerations, based on the Group's extensive experience and knowledge of financial and pension advice. The combination of these factors provides customers with real added value as to obtaining an overview of their financial situation, of which the pension arrangement is a component. The Group's pension advice is based on the following principles and channels:

- **Continuous advisory service** - including continuous and initiated advice that tracks changes in the customer's needs and personal details, and ensures that the customer has a pension arrangement that is in line with his/her family and financial situation, regularly monitors and oversees the various pension products in the market, and uses a sophisticated analytical model to systematically analyze the products.
- **Active pension planning (prompted by the Group)** - initiating a constant review of the pension plan and adapting it to the customer's needs, while providing an optimal response to personal changes in his/her life and to the frequent regulatory changes.
- **Advanced advisory and service systems** - the Group's advanced systems rely on, and make use of, complex mathematical models to adapt the various kinds of products to the customer, his/her personal situation and needs, so as to ensure that the pension products are best suited to him/her.
- **Objectivity** - as a pension adviser, the Group collects identical and uniform commissions from the product producers (distribution fees), thereby preventing bias of any kind on the part of the Bank's pension advisers about all the existing pension products and ensuring the best fit for the customer.
- **Transparency** - the customer is openly and explicitly updated about the management fees for each pension product, including distribution fees (which are uniform, as mentioned above) paid to the Bank.
- **Accessibility and availability** - the Group makes available to its customers all of its branches across Israel, a call center and website, so as to allow them to readily manage their pension portfolios.

- **Supervision and oversight** - the Group applies advanced supervisory and oversight arrangements and is committed to the highest standards of quality, to guarantee customers a minimum of errors and no manipulation.

The Group's pension advisory process comprises four stages:

- **Review of the customer's needs** - review of the financial needs of the customer and his/her family at retirement and other insurance options.
- **Review of sources** - review of the customer's pension- and financial assets, their quality and suitability to his/her needs.
- **Evaluation of the risk level** - examining whether the risk level is suited to the customer and his/her characteristics in terms of the risk level of the customer's pension products and their suitability to his/her risk appetite.
- **Review of costs** - a review of the costs of the customer's pension products and reducing them as far as possible.

This advisory process improves the customer's pension savings by:

- Reducing management fees paid to savings product producers.
- Matches the pension funds' risk level to the customer's age and characteristics.
- Choosing funds recommended by the rating system.
- Improved insurance coverage and adapting it to the customer's marital status.
- Aligning the contributions with the salary and current tax benefits to maximize the pension savings.

With the understanding of the importance of proper pension planning the FIBI Group holds numerous conferences and lectures throughout Israel to teach and advance knowledge in this area.

The Group's pension advisers undergo extensive training each quarter, such as: workshops on regulatory updates, professional refresher courses, and market updates. Advisers are also sent professional tips by the pension knowledge administration/manager, which assists them on day-to-day professional issues. With the understanding of the importance of proper pension planning, and with the aim of exposing the Group's professional and objective pension advisory services to as wide an audience as possible, the FIBI Group holds numerous conferences and lectures throughout Israel to teach and advance knowledge in this area. Some of the conferences are held at bank branches while others are initiated by the pension advisers, branches, and external parties. The extensive deployment of the Group's branches and the Bank's willingness to share knowledge with the general public enable the FIBI Group to make the highly professional pension savings field accessible to the Israeli public throughout the country.



Pension portfolio - locating and viewing pension products

As of 2016, the FIBI Group provides its customers with a preliminary pension advice service that enables them to locate their pension products and view them on FIBI's website. To obtain the service, customers need only to log on to the Bank's website, read the power of appointment and sign it. Another option is to sign the form at the branch. After the form has been signed, a request is dispatched to the Pension Clearing House, which then sends a request for information to all institutional bodies in Israel, who are required to provide the Bank with the information. The information arrives at the Bank several days later and can be viewed online. At this point, the customer decides whether to contact his/her branch to schedule an appointment for a pension consultation, or make do with the update.

Objective control status

Objectives	Implementation status
<ul style="list-style-type: none"> • Develop new products for long-term savings, which support smart account management by the customer. • Develop unique investment products in line with the low interest rate environment and the customers' various risk appetites. • Evaluate advisory platform through advanced technological means. • Give more lectures at additional forums to expand pension- and financial education. • Provide retirement advice to customers based on their needs and subject to regulatory restrictions. • Expand knowledge and adapt the automated systems to regulatory changes. • Expand the Pension Clearing House's interfaces to allow for ongoing monitoring of customers' pension portfolios and streamlining the ongoing support process. • Use the telephone as an additional platform for providing pension advisory services, so as to make it accessible to more customers. • Expand the pension product offerings to customers in order to maximize the savings for the mid- to long-term. 	<ul style="list-style-type: none"> • Done - a direct flexible-amount debit order was launched, allowing customers to save according to their needs and characteristics. • Done - the range of investment options was expanded by structured products. • Done - the Bank decided to proceed with a project to provide advisory services through a technological platform. • Done - professional lectures were held at a variety of customer conferences across Israel. • The consulting upon retirement service has yet to be launched; expected in 2017. • Done • Done • Under advisement to receive regulatory approval • Postponed to 2017

Objectives

- Continue to develop new products for long-term savings, which support smart account management by the customer.
- Continue to develop unique investment products in line with the low interest rate environment and the customers' various risk appetites.
- Launch advisory platform through advanced technological means.
- Continue to give lectures at additional forums to expand pension- and financial education.
- Provide advisory services tailored to the needs of the Third Age.
- Provide retirement advice to customers based on their needs and subject to regulatory restrictions.
- Expand knowledge and adapt the automated systems to regulatory changes.
- Expand the use of digital means in providing pension advisory services.
- Expand the Pension Clearing House's interfaces to allow for ongoing monitoring of customers' pension portfolios and streamlining the ongoing support process.
- Expand the use of the telephone as an additional platform for providing pension advisory services, so as to make it accessible to more customers (subject to regulatory approval).

Additional initiatives to promote financial knowledge by the Group

The Group attaches great importance to promoting financial knowledge both among its customers and the general public, with the understanding that the more knowledgeable customers are, the better their decisions, financial conduct and financial situation. As a result, dozens of conferences are held each year on a variety of financial topics in the fields of capital markets, pension counseling, financial planning and family finances. The presentations are delivered by external content specialists and the Bank's experts.

In 2016, all of the Group banks participated in a project to promote financial education initiated by Bank of Israel. In this context, lectures were given in selected branches. The lectures were created jointly by the banks, under the leadership of the Bank of Israel. In this context, the Group has various initiatives to advance financial knowledge among its customers, tailored to each customer segment, including the following:

FIBI

- The Bank holds dozens of conferences a year on pensions, mortgages, the capital market, financial planning and family finances, smart banking, etc. These conferences are held at bank branches (for current customers and their friends) and outside the bank (workplaces, community centers, etc.). The lectures are given by external experts and bank employees specializing in the relevant fields.
- The bank also holds various activities to advance financial and academic knowledge as part of its community outreach (for further details, please see the chapter on community investment and involvement).
- Financial education for customers from the ultra-Orthodox community. Several collaborations with leading ultra-Orthodox newspapers which serve various sub-segments through which bank experts offer solutions to financial situations characteristic of the ultra-Orthodox community (children's weddings, which are financed by parents, limited income, large families, etc.).
- Financial education for business customers: The Bank held a business customer conference in which lectures are given on issues on the agenda of businesses and institutions according to changing market conditions and regulatory provisions.
- The Bank has developed a unique method of consulting in order to help customers gain an up-to-date overview of his/her investments in each channel, with a holistic and full perspective on family assets. This service is provided through close supervision of all of the customer's assets across a range of current investment instruments, review of costs to the customer, and, of course- the results.

Otsar Ha-Hayal:

- The Bank holds lectures on various topics, such as: family financial planning, as well as "The Bank and I" talks for teenagers, to raise awareness and knowledge about basic banking issues
- The Bank regularly gives lectures on the topics mentioned above. The lectures are given to Bank customers (security forces personnel) - an activity jointly undertaken with "Hever" (the security forces consumer organization) - and lectures at schools and community centers.

Massad

- Conferences for teachers and educational system employees to provide guidance on budget management and household financial planning, as well as customer conferences. With the objective of enriching financial knowledge on investments, family finances, and smart banking according to the customers' needs. External speakers from investment houses spoke at these conferences, which were held at bank branches. In addition, customer conferences were held in Arab communities as part of the financial awareness week of the banking system.

Objectives

FIBI:

- **Financial education for customers from the ultra-Orthodox community:** In 2017, FIBI will collaborate with leading ultra-Orthodox newspapers to provide information and solutions to financial situations characteristic of ultra-Orthodox life.
- **A strategic move aimed at the young working ultra-Orthodox population,** which will offer a unique benefit plan suited to the life stages and financial challenges characteristic of this segment. The move will also include cooperation with entities working with this population segment, such as academic institutions that operate special programs for the ultra-Orthodox, various entities working to integrate the ultra-Orthodox into the job market, etc.
- **Financial education for business customers:** In 2017, the Bank will hold a professional conference on various topics to provide updated and relevant information to its business customers.

Bank Otsar Ha-Hayal:

- In 2017 Bank Otsar Ha-Hayal will participate in a project initiated by the Bank of Israel to create a financial education program for youths.

Bank Massad:

- Continue activity to enhance financial literacy among the Bank's customers.
- Conduct financial enrichment conferences for the Bank's customers.

Fairness in banking products and services



We at the FIBI Group scrupulously maintain fairness toward its customers, believe in maintaining long-term relations with them, and always have the customer's best interest in mind, alongside business considerations. We therefore scrupulously adhere to fairness and transparency in the banking products and services offered by the Group. Each new product is thoroughly and meticulously examined by business managers, the legal department, and the compliance officer, and we operate on the basis of several principles, as detailed below. We are committed to operating clearly and openly towards our customers, by presenting the information relevant to them:

- We scrupulously maintain proper disclosure, providing our customers with any information that may be relevant to them so they can reach calculated and informed decisions.
- We scrupulously work with our customers in compliance with the provisions of the law that apply to the Group for

our customers' best interest, avoiding taking any direct action which is not to their benefit.

- We notify our customers about everything related to their assets and liabilities toward the Group (each of the Group's banks may provide customers with information on their liabilities and assets in that bank only, rather than in the Group).
- We present our customer with diverse solutions and products and seek to provide clear information about the various options, including the advantages and disadvantages of each product or service (for each customer).
- We are happy to discuss with, and provide full information and comprehensive explanations to, our customers, correcting and improving our actions where necessary.

(From the Group's Code of Ethics).

Fairness of products and services

As an entity that provides services to its customers, the Group is subject to a series of laws and regulations related to the provision of banking services and products, including various prohibitions (such as: misleading or taking advantage of distress, harm, making service conditional on another service, the duty of care, fiduciary duty, duty of trust etc.) and various obligations (proper disclosure, calculation methods, revocation of pledges). These provisions apply to all products and services provided by the Group. We scrupulously comply with these laws and regulations by using dedicated control and auditing mechanisms - the most important of which is the compliance system - which is responsible for ensuring that the Group's banks implement applicable consumer regulations to which they are subject. Furthermore, we instill the values of fairness and transparency in all Group employees through training and the Code of Ethics of the banks in the Group this is reflected, inter alia, in the Group's websites' featuring clear and transparent price lists for the services and products.

Fairness towards customers

When analyzing the crises in the global banking industry in the past few decades, conduct risk emerges as a key cause - in addition to significant failure events, operational and financial failures - due to non-transparent and unfair conduct or lack of proper disclosure by the bankers towards the customers, investors, suppliers and employees (hereinafter - the "Stakeholders") of these corporations.

A conduct risk is a cross-organizational risk based on a long series of lawful provisions and regulations, the foundations of which are fairness and transparency in the bank's conduct towards its various stakeholders.

Thus, and as part of its risk management in general, and compliance risks in particular, the FIBI Group and the organs leading it strive to instill and implement adequate and fair business principles and values in the Group's banking practices, including developing and characterizing the products it offers to its customers according to their changing needs, proper disclosure to customers and to other stakeholders about the various products, including the risk components embodied in them, and having the Group's professionals match the offered solutions to their customers' needs and to the changing market conditions, while adopting technologies which make the Group's products as widely available as possible to its diverse customers.

Fairness in marketing, advertising and sales

The FIBI Group is diligent in its proper disclosure. The Group scrupulously adheres the principles of responsible marketing and always operates on the basis of the accepted ethical rules. The FIBI Group banks promote long-term relations with customers by providing professional, fair, efficient, and courteous service and creating service and product value for the Group banks' diverse customers.

The Bank develops a range of unique, specialized innovative digital products, in the capital market and for households, which are adapted to the various target audiences of the

Group's banks and meet the dynamic needs of our customers throughout their life stages. The Bank maintains strict control and auditing mechanisms based on consumer regulatory provisions: The obligation to provide proper disclosure and maintain transparency towards customers and to uphold the customer's right to receive service from the Bank in line with the requirements of the law.

In this context, the Bank is extremely careful to use several strict layers of screening and control to ensure that all of its messaging conforms to the requirements of the law. The advertising policy is set by the Bank's management, in line with its business strategy and the objectives and characteristics of the target audience, etc. At times, the Bank is assisted by external specialists and external consultants. The Bank manages the brand on a regular basis, and adapts the products to the target audiences, while complying with legal and regulatory requirements and adopting ethical principles.

All content published by the Group (marketing brochures, banners, ads, etc.) undergo an orderly approval process by the legal department and compliance officer in each bank in the Group. The banks in the Group also ensure that their publications are clear and understandable and include all the fine print of which the customers should be aware. In 2016, no fines or other sanctions were imposed on the Group for non-compliance with marketing and marketing communications laws and regulations.

Fairness in investment consulting

A key part of the FIBI Group's investment consulting approach is to ensure the financial future of our customers and to guide them to consider long-term investments. The Group believes in tailoring the service to the customers' characteristics and needs. The Group has developed and implemented methodologies that include investment advice milestones with the objective of providing each customer with financial understanding as well as a solution tailored to his/her personal needs and preferences. (For further information, please see pp. 41-43 of the report).

Fairness towards customers in financial difficulties

When our customers encounter financial difficulties, the Bank's policy is to do our utmost to reach debt arrangements with them prior to initiating legal procedures, which may be very costly. The FIBI Group has developed and uses processes which combine sensitivity, professionalism and will to help these customers regain financial stability.

In this context, the Bank initiates, from time to time, processes to repay old debts, with an effort to assist the customers. The Bank strives to reach agreements with customers who fail to meet their repayment schedules. The Bank has also signed a convention requiring it to give preferential treatment to women in shelters for battered women.

Managing environmental and social risks in our business activity



As part of the Group's risk management system, we also manage environmental credit risk and social risks.

The risk assessment is carried out under the assumption that the activities of some of the Bank's customers may have impact on the environment and society, and that we must strike the right balance between the various considerations.

Credit policy on environmental risks

Environmental risk to the Group may be embodied in various risks to which it is exposed, such as credit risk, market risk, operating risk, and image risk. Environmental risk which is included in credit risk could be manifested as a decrease in the value of collaterals or deterioration in a borrower's financial position due to environmental costs resulting from environmental regulations. Another possibility is reputational risk, due to an environmental hazard being attributed to the Group as a result of its connection to the party responsible for the hazard.

Pursuant to the Supervisor of Banks guidelines from 2009 regarding exposure to, and management of, environmental risks in banking operations, the Group formulated, approved and has been implementing an environmental risk policy.

Implementation of the policy is based on the classification of operational segments, industry-wide and specific environmental risk assessment with regard to each customer's profile (based on financial, business, and other relevant publicly available information).

The policy defines a methodology and regular work processes for monitoring environmental risks in credit provision, and which include identification of high-risk borrowers and material risks, assessment of the borrowers' risk level and quality of risk management, and supervising transactions identified as embodying high environmental risk. The policy sets guidelines for enlisting external environmental consultation, and defines the risk assessment and decision-making processes.

The environmental risk policy is the responsibility of the Corporate Division, and is approved annually by the Bank's Board of Directors as part of the policy papers. Employees performing work that is relevant to this policy are trained on a regular basis by the Group's Training Department as part of the relevant course on credit, in cooperation with representatives of the Corporate Division.

Because of the different disciplines and diverse nature of the social risks (such as money laundering, corruption, corporate governance, employment, and human rights), they are included in the management of other regulatory risks. It should be emphasized that the Group considers a lack of business transparency as a social risk, and therefore conducts a special risk assessment for customers' non-transparent activity as part of the credit approval process and in deposits. Under the Group's policy, customers with non-transparent businesses - including complex business enterprises, business operations in geographical locations which lack transparency - locations with weak laws and enforcement, etc. will be subject to special

The FIBI Group attaches importance to granting credit to environmental projects that contribute to a cleaner environment and, in this context, finances various renewable energy projects.

scrutiny, with an emphasis on neutralizing the possibility that illicit or improper activity is being concealed. Any such transaction will undergo strict due diligence and will be reported to the Group chief risk management officer.

The Bank has a clear policy and procedures in place to prevent activity that is perceived as "lacking transparency". The Bank supervises these operations, if any, including understanding the objectives of the operations, the risks involved and setting restrictions with regard to them, in order to ensure that they are not used to conceal illicit or improper activity.

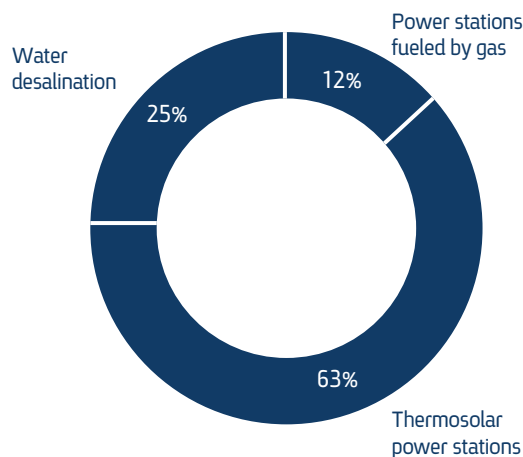
Credit provision for environmental products

As part of its credit activity and its overall credit portfolio, the FIBI Group also finances products that contribute to reducing adverse environmental impact. The FIBI Group attaches importance to granting credit to environmental projects that contribute to a cleaner environment and, in this context, finances various renewable energy projects.

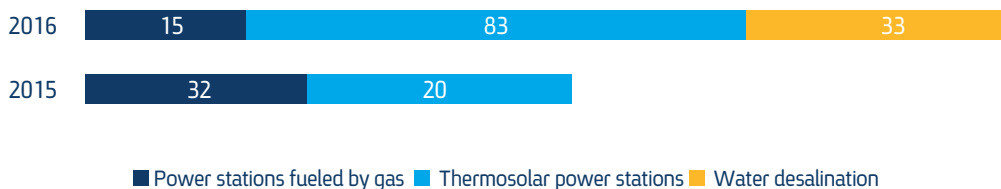
Activity in 2016

- The FIBI Group has granted loans to projects promoting sustainability for a total of NIS 131 million. This includes NIS 15 million in loans to gas-powered power plants, NIS 83 million to thermo-solar power plants, and NIS 33 million to water desalination projects.
- In 2016, the FIBI Group granted a total of NIS 377 million in loans to projects promoting sustainability.

Breakdown of credit granted to environmental products in 2016



Credit granted to environmental products- multi- year (in NIS millions)



A blue-tinted photograph showing the silhouettes of four business professionals in a modern office environment. They are standing on a reflective floor, and their reflections are visible. The background features a glass wall and a bright light source, creating a high-contrast scene. The text "Our Employees" is centered over the image in white.

Our Employees



Managing the Group's human capital



We, at the FIBI Group, view human capital as a significant element for the Group's success and realization of its goals and as a major stakeholder.

The Group's human resource departments focus on combining the needs of the various banks with providing solutions to the employees' needs, development, and welfare, and ensuring a proper work environment. This approach allows the banks to have highly professional employees, who operate in a work environment that is oriented towards achieving the organization's objectives while enabling employees to serve as partners in an organizational culture which promotes dialogue, transparency, and welfare as its cornerstones.

The FIBI Group's human resource departments are responsible for managing human capital in the various banks and in MATAF, serving as supportive partners in realizing the banks' goals. Each bank's human resources strategy is built around its policy and business targets, alongside maximizing the human capital's potential. The strategy is based on several key guiding principles:

- **Development of human capital** - strengthening and developing human capital in accordance with the bank's needs and business targets, with a long-term view: identifying and fulfilling employees' potential, mapping knowledge gaps

and imparting core capabilities, professional and managerial training, and management development.

- **Long-term personnel planning** - mapping and planning human capital needs in line with the bank's targets, adapting career paths, hiring and training management reserves and professional reserves in accordance with the bank's needs.
- **Organizational development** - developing advanced tools in every area of human capital in the organization, including: improving hiring, onboarding, and retention of employees; honoring employees; streamlining organizational processes and building control and performance assessment tools; and supporting the Bank's units, etc.
- **Internal communications** - managing internal communications to create organization-wide dialogue and cooperation through the empowerment of human capital, with an emphasis on openness and information transparency, encouraging ongoing internal dialogue by various means, and branding the Bank's welfare activities.
- **Organizational culture** - supporting a culture that strengthens the Bank's values and goals with an emphasis on excellence in every area, ethics, social responsibility, and community outreach.

The FIBI Group, view human capital as a significant element for the Group's success and realization of its goals and as a major stakeholder.

The Group's human resource departments focus on combining the needs of the various banks with providing solutions to the employees' needs.

The Group's employee profile - 2016:¹

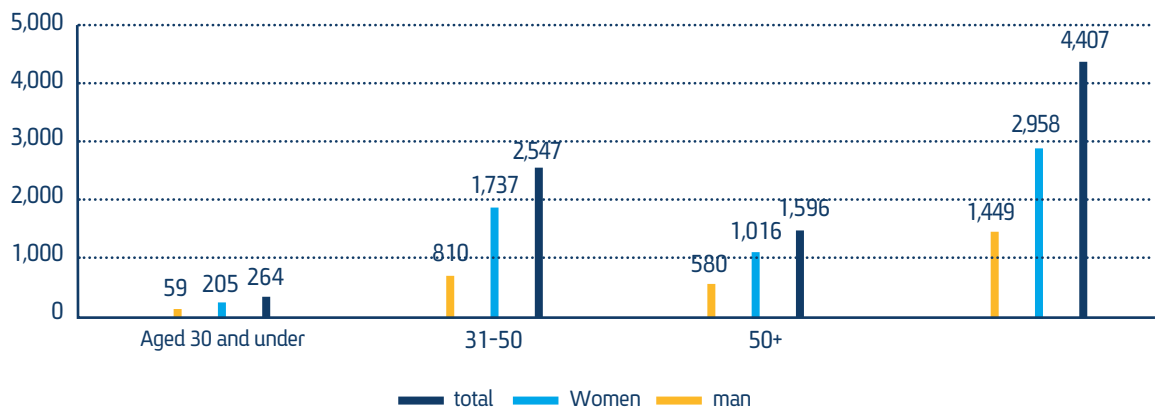
- 97% of the Group's employees work full-time, while 3% work part-time.
- 97.9% of employees are directly employed by the Bank, while 2.1% are contract workers.
- The average age of the Group's employees is 45.9 and the average seniority of employment at the Group is approximately 17 years and 8 months.
- In 2016, 61% of the Group's employees had academic degrees as compared with 62% in 2015.

The Group's employees by age and gender

Age	2016			2015		
	Women	Men	Total	Women	Men	Total
Aged 30 and under	205	59	264	286	88	374
Aged 31-50	1,737	810	2,547	1,812	874	2,626
Aged 50+	1,016	580	1,596	987	602	1,589
Total	2,958	1,449	4,407	3,085	1,564	4,649

The Group's employees by age and gender

(no. of employees)*



* The number of employees does not include workers on maternity leave, unpaid leave, and an external worker.

7. All the data presented in this chapter are based on the number of employees in the Bank Group as of December 31.12.16

No. of employees - by bank, age and gender⁹

FIBI (including) MATAF				Otsar Ha-Hayal			Massad		
Age	Women	Men	Total	Women	Men	Total	Women	Men	Total
Aged 30 and under	121	46	167	53	7	60	31	6	37
Aged 31-50	1,269	638	1,907	344	125	469	124	47	171
Aged 50	804	461	1,265	152	83	235	60	36	96
Total	2,194	1,145	3,339	549	215	764	215	89	304

⁹ Consistent with the financial statements, MATAF's employees data are presented as part of the data of FIBI's employees

Segmentation of employees by place of residence

The FIBI Group Employees

North	561
Center	3,082
South	353
Jerusalem	411
Total	4,407

2016

North	613
Center	3,208
South	506
Jerusalem	322
Total	4,649

2015

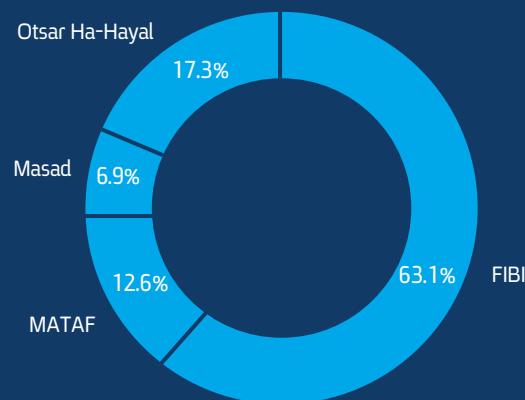
Temporary employees in the FIBI Group

North	61
Center	268
South	51
Jerusalem	46
Total	426

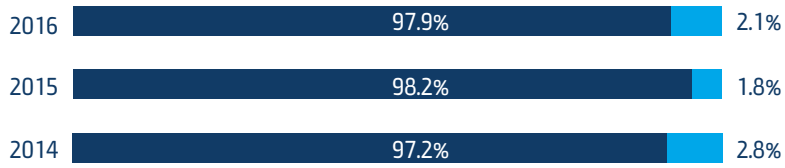
2016

	Personal contract	Collective agreement	Total
Men	11	133	144
Women	8	274	282
Total	19	407	426

The FIBI Group temporary employees, by gender



Group employees/ contract workers



Employee turnover in 2016*

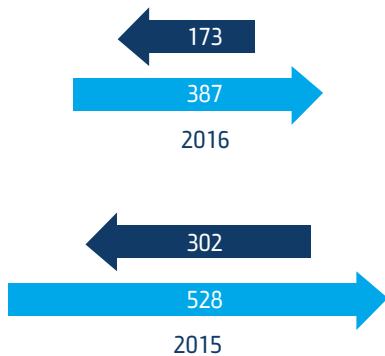
Age group	Hired			Exited		
	Women	Men	Total	Women	Men	Total
Aged 30 and under	88	27	115	77	21	98
Aged 31-50	30	25	55	90	73	163
Aged 50	1	2	3	60	66	126
Total	119	54	173	227	160	387

Employee turnover in 2015

Age group	Hired			Exited		
	Women	Men	Total	Women	Men	Total
Aged 30 and under	142	49	191	115	50	165
Aged 31-50	64	44	108	138	90	228
Aged 50	1	2	3	82	53	135
Total	207	95	302	335	193	528

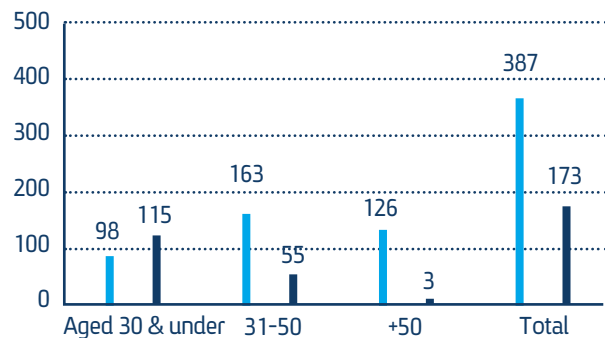
*The employee turnover (a decrease of 214 in the total number of employees in 2016) does not fully account for the gap between the Group's workforce in 2015 and 2016, which totals 242 employees. This gap stems from the fact that 28 employees in the Group were on maternity leave or unpaid leave during the year, and were not included in the Group's workforce count.

Employee's departure and hiring's 2016



— Hiring's — Departurs

Employee turnover (by age) 2016



— Hiring's — Departurs

Equal opportunity and workplace diversity



As a Group serving a wide variety of audiences in Israeli society, it is important to us to create a diverse workplace, which offers equal opportunity to employees of every sector and background.

We scrupulously maintain equality of opportunity (gender, religion, race, ethnicity, nationality, disability, age, or sexual orientation) in all organizational processes at the Group, including hiring and onboarding, salary and job conditions, promotion, and professional training, and in any other organizational process. As a Group serving a wide variety of audiences in Israeli society, it is important to us to create a diverse workplace, which offers equal opportunity to employees of every sector and background.

Wage equality

The base salary of each manager and employee at the Bank is according to his/her role and rank, regardless of the employee's gender. There are differences in wages paid to different employees, in line with the employees' personal characteristics, such as seniority, education, and professional experience, etc.

Equal rights

All employees in the Group, irrespective of gender, are eligible for maternal or paternal leave by law. Parents returning to work enjoy a considerate attitude in the period following their return to work and understanding of their need to balance their personal and professional lives. In addition, the banks in the Group provide new mothers with conditions that exceed those prescribed by law, such as eligibility for nursing hours for up to one year from the date of birth, compared with the four months prescribed by law.

we understand the importance of promoting employment of persons from various sectors in Israeli society, both from a business perspective and due to the favorable impact on Israeli society.

Promoting employment from diverse sectors

As a bank group providing service to a range of customers from various sectors and backgrounds, we understand the importance of promoting employment of persons from various sectors in Israeli society, both from a business perspective and due to the favorable impact on Israeli society - providing employment opportunities on the one hand, and solutions to customers from these sectors on the other.

Due to the differences between target communities and the specialized service provided by each bank in the Group, the issue of employment diversity plays a different role in each bank.

Promoting employment in the ultra-Orthodox sector

PAGI specializes in serving the ultra-Orthodox and religious communities. In addition to being a preferred workplace for employees of this sector, who apply to the Bank on their own accord, we use media outlets that cater to this population segment for hiring purposes: job ads in ultra-Orthodox newspapers; proactive efforts to hire suitable employees in cooperation with ultra-Orthodox education institutions and with job placement companies specializing in this sector. Even after hiring ultra-Orthodox employees, the FIBI Group continuously works to adapt the work environment to the employees' needs, both professionally and through various welfare activities.

Promoting employment in the Arab sector

Bank Massad places great importance on hiring employees from various sectors. About one third of the Bank's branches and offices are located in areas that mostly serve the Arab population. Hiring is made through ads in media outlets which cater to this sector (newspapers and the internet), through partnerships with various parties in the education system and Teachers' Union, and through cooperation with job placement companies specializing in this sector.

Hiring people with disabilities

The FIBI Group attaches great importance to hiring people with disabilities and adheres to the Expansion Order for the Encouragement and Increased Employment of People with Disabilities, adapting the work environment to their needs in the following ways:

- The FIBI Group has appointed officers responsible for hiring persons with disabilities. These officers were trained and took part in events and activities related to the employment of people with disabilities, in cooperation with organizations specializing in this field, such as Access Israel, Sikkui Shave, the JDC, and the Ministry of Economy.
- The FIBI Group is careful to provide a suitable work environment for employees with physical disabilities or employees who undergo a change in their medical condition.
- If needed, the FIBI Group strives to identify a role suited to employees with disabilities, in terms of distance from their place of residence, work hours and type of position.
- If necessary, screening processes are adapted to the needs of job candidates or employees in managerial or professional career tracks. The Group's human resource departments fully cooperate with placement and screening companies to provide maximum adaptations in screening and placement tests.
- Some of the banks in the Group are in contact with hiring entities who specialize in placement of employees with disabilities.

Prevention of sexual harassment

The Group attaches great importance to the prevention of sexual harassment, and has group-wide procedures for the prevention of sexual harassment, with an emphasis on the law's main principles objectives, definition of sexual harassment, the process of handling incidents, and the parties to be contacted in such cases.

Each of the banks (and MATAF) has appointed a sexual harassment prevention officer and has detailed rules and regulations outlining how to file a complaint.

All the banks have a tutorial on the topic, which is mandatory for all Group employees. In addition, the Bank's employees undergo regular training on the law and its significance, as well as proper conduct by the organization in this field.



Performance

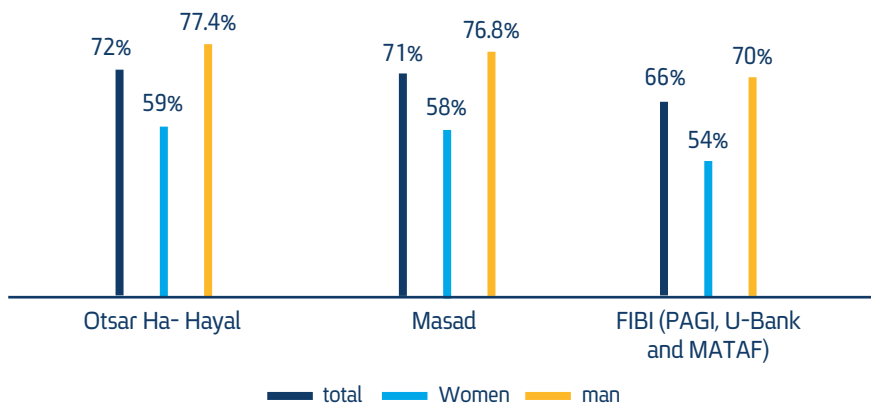
- Women account for 67.2% of the workforce at the FIBI Group (compared with 47% of employees in the Israeli economy as a whole).
- Women account for 53% of the Group's managers - more than half - (compared with 34% of the managers in the Israeli economy).
- Women account for 42% of executives (management and senior executive) in the Group, including the CEO of FIBI and two members of the management.
- No complaints regarding discrimination were filed in the Group in 2016.
- In 2016, the Group conducted an analysis of wage gaps between women and men among the FIBI Group's clerks and authorized signatories. According to the analysis, the average gross salary of female clerks is 88% of the average gross salary of their male counterparts, and the average gross salary of female authorized signatories is 85% of their male counterparts' gross salaries, compared with 68% in the economy.¹¹⁰
- The number of FIBI Group employees from under-employed population segments (the Arab and ultra-Orthodox sectors, Ethiopian Israelis, people with disabilities) was 372 employees in 2016, 8.4% of all Bank employees.
- In 2016, 245 female and male employees went on parental leave, and 173 employees returned to work from parental leave.

Breakdown of the Group's employees by gender and rank

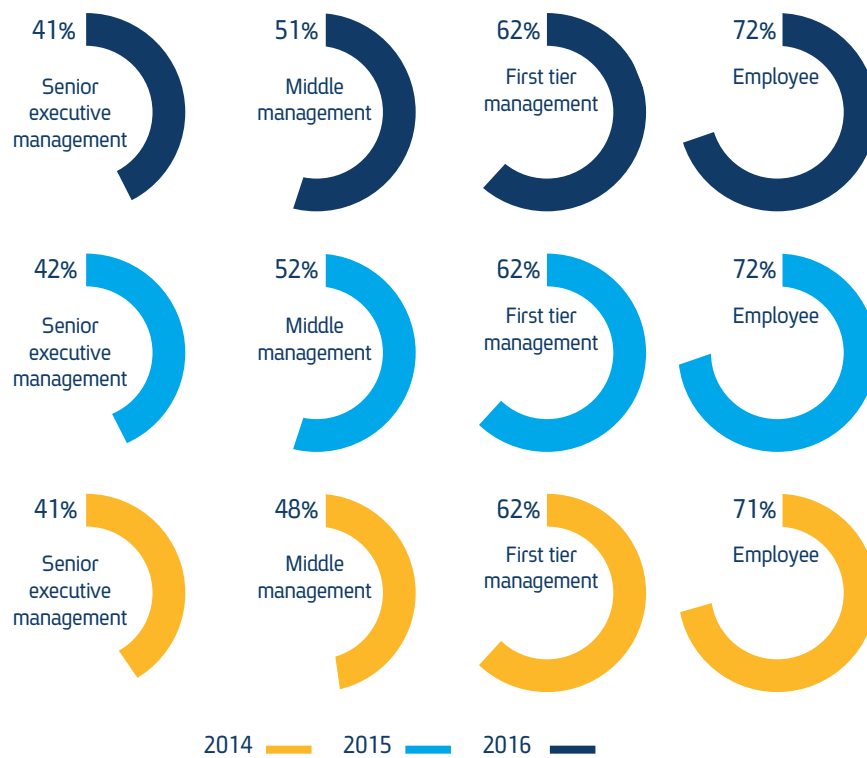
	2016			2015			2014		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Management & executives	60	85	145	67	93	160	70	100	170
Middle anagement ¹¹	288	282	570	287	310	597	300	320	620
First level management	372	229	601	400	243	643	383	235	618
Employees	2,238	853	3,091	2,331	917	3,249	2,506	1,021	3,527
Total	2,958	1,449	4,407	3,085	1,564	4,649	3,259	1,676	4,935

¹⁰ Based on a survey by the National Bureau of Statistics for International Women's Day 2017.

Percentage of women/ female managers by FIBI Group company



Percentage of Women in the FIBI group by managment level



Objective control status	
Objectives	Implementation status
Ongoing monitoring of the Bank's compliance with the Employees with Disabilities Extension Order.	Done

Objectives

- Continued monitoring of the Bank's compliance with the Employees with Disabilities Extension Order.

Professional training and personal development



we are committed to giving our customers and other stakeholders the most professional service possible. To this end, we continuously strive to empower and nurture our employees through training, personal development and encouragement to excellence.

In the competitive environment in which we operate, the strength of the FIBI Group is reflected in our human capital, which is the Bank's face, both vis-à-vis the customer population and internally. As high-level financial service providers, we are committed to giving our customers and other stakeholders the most professional service possible. To this end, we continuously strive to empower and nurture our employees through training, personal development and encouragement to excellence.

The FIBI Group's training programs nurture and develop individual and organizational capabilities, provide tools and skills to managers of all levels, and maintain ongoing processes for imparting knowledge and skills aimed at improving the enterprise's overall performance. To maximize our professionalism while encouraging ongoing excellence among managers and employees of the Group, we use structured and gradual processes to help them acquire the level of professional knowhow and the additional skills they require.

The Group has three training units:

1. A group-wide training department, run from the FIBI Group headquarters, which serves all the banks;
2. The training department at Bank Otsar Ha-Hayal, which provides in-house training services with an emphasis on retail banking and procures services from the Group's Training Department.
3. The Control and Quality Assurance Department at MATAF, which is responsible for specialized training in the organization, with emphasis on technology.

The departments provide solutions to the banks' needs and objectives, while advancing and developing the professional and personal skills of the managers and employees and building long-term promotion horizons.

All the departments routinely assess training needs by examining objective and subjective knowledge gaps and using various mapping processes. The departments continuously review their professionalism through feedback from participants in the various courses and other tests which reflect the quality of the training.

The training activity advances the knowledge of the Group's employees in the following content worlds:

- Basic banking skills.
- Expert training in credit, the capital market, mortgages, foreign currency, and foreign trade.
- Acquiring soft skills (a general name for personal, social, and communication skills that help job performance).
- Executive training.
- Professional assistance for implementing operating systems.
- Advancing specialized professional skills.
- Tech training (at MATAF).
- Training according to regulatory requirements.

Basic training

The Group's employees' training includes basic 101 courses in various fields of knowledge, which serve as the basis for more specialized training.

Each newly hired employee in any position is required to undergo several basic courses to qualify as bankers. In recent years, the departments have worked to reduce knowledge gaps among veteran employees as well, through extensive knowledge mapping processes and building special courses for experienced employees. Employees subsequently receive in-depth training on professional topics according to their field of work. In addition to professional knowledge, workshops are held on soft skills, enrichment and personal and managerial development as a platform for implementing professional knowledge and maximizing professionalism and excellence.

Management training

The FIBI Group holds managerial training for all levels of management that deal with the provision of managerial and leadership tools, maximizing the managers' skills in their respective positions and towards their next ones, in addition to ongoing processes for training management reserves and imparting knowledge, tools and skills in professional fields, to support incumbent managers. The training includes long-term courses, dozens of management enrichment courses and workshops adapted to the various management levels.

Regulatory training

To complete the all-around training, emphasis is placed on regulation as an additional pillar of professionalism and excellence, in addition to the ongoing integration of regulatory content in training courses and activities, an issue that has been one of the most complex challenges added over the year: to provide a professional and readily available solution to regulatory requirements combined with a focus on business targets.

The Department is highly involved in community outreach, both in handling accessibility and volunteering.

Activity in 2016

FIBI's Training Department

The Department is responsible for training the employees of FIBI, Massad and some of the trainings of MATAF and Otsar Ha-Hayal.

Professional training

- In 2016, individual knowledge mapping processes were implemented through meetings representatives of the training department held with unit managers to map the training needs of each unit's employees, and developing annual training programs and individual training tracks that take into account the unit's needs.
- In 2016, FIBI held 16 professional courses of at least 4 days each, as well as 57 professional workshops and seminars spanning up to two days.
- 220 employees participated in the professional courses on various topic: Branding for credit personnel (2 classes); basic business credit (7 classes); advanced course on credit and collateral (2 classes); housing mortgages (one class); bonds (one class); forex (one class); and an advanced mortgage course (one class).
- 622 employees participated in professional workshops, in courses related to their professional worlds, such as credit and collaterals for private customers (12 classes); savings and deposits (12 classes); operation of ATMs and customer stations (9 classes); understanding trial balances and business plans (8 classes); credit systems (7 classes); seminar on forex systems (3 classes); forex workshop (2 classes), foreign trade - import workshop (2 classes); foreign currency risk hedging workshop (one class); and a day-long seminar on business credit failures (one class).

Management training

In 2016, the Training Department trained 342 managers.

The training included, inter alia, a senior management course, manager development course, and on-the-job training for managers.

Senior management course

In 2016, the Training Department, in cooperation with the Human Resources Department, held a senior management course for senior executives, which covered a variety of management topics, including: strategic thinking and planning; familiarity with the changes taking place in the global economy and banking industry; innovation; management and leadership; banking technology; managing human capital and implementing values in management practices.

Manager development training

The Training Department, in cooperation with the Human Resources Department, trains the Bank's managers through structured development training. Upon receiving signatory rights, all signatories undergo an advanced management course according to the needs and requirements of their positions. In 2016, one class was held in each course.

On-the job management training

The Training Department held a variety of training programs to improve the skills of the managers in their existing positions. The programs included: a time management workshop, a topic presentation workshop, a decision-making workshop for managers, an innovation workshop for managers, a workshop on operational excellence, and a seminar on computer systems for business managers.

Regulatory training

In 2016, training courses were held in the Training Department on a variety of topics: Seminars on the prohibition of money laundering, practical training for money laundering trustees, workshops for instilling compliance, seminars on information security and cybersecurity, and seminars on operational risks. A total of approximately 1,000 managers and employees took part in these training programs.

Bank Otsar Ha-Hayal's Training Department

- The Bank holds several training activities tailored to its specific needs, including workshops to enhance banking knowledge in the Bank's area of specialization with the aim of improving its performance in personal and private banking.
- As part of the change in the Bank's branch deployment and the transfer of military branch customers to urban ones, training was held for the employees of the military branches - with emphasis on the work processes at both the transferring branch and the new branch as well as workshops on change management and cohesion for the senior staff of the around-the-clock military branches.
- Following the Bank's win in the Small Business Encouragement Fund's tender, the Bank held seminars for the business units' managers and a conference for external consultants and business branch managers.

MATAF's Training Department

In 2016, as part of the management training program, an interfaces workshop was held for the unit managers. The workshop was held three times, for 52-unit managers (out of 63); in addition, the 16 department managers underwent a short workshop on basic terminology. The course was designed to fit the unique needs of MATAF, with emphasis on creating a continuous dialogue, transfer of knowledge, enabling communication and a productive and stimulating environment.

The course imparted to the unit managers up-to-date academic content along with hands-on practice in managing internal and external interfaces, with the aim of using them for proactive interface work, empowering interpersonal cooperation, building trust, leaving the comfort zones and, overall, enhancing their management tools. At the end of the sessions, summaries and recommendations were submitted to management.

In addition, professional training was conducted on technological topics for developers and for infrastructure and information security personnel, as well as general training on soft skills for all employees.

Performance

- In 2016, 17,573 annual training days were provided to all Group employees, amounting to 4 annual training days per employee in the Group.

Objective control status	
Objectives	Implementation status
FIBI:	
<ul style="list-style-type: none"> • New training platform - in 2016, a new training platform will be created for each branch, as agreed on by branch managers and the Training Department Manager and his/her representative. The training platform will include the completion of all the training necessary for the branch's employees in their current or future position, in the branch manager's view. This process replaces the knowledge gap mapping conducted by way of tests to employees in various positions and the knowledge gap mapping we held at the end of 2014. The new process will improve the Bank's understanding of its employees' training needs. 	Postponed to 2017.
<ul style="list-style-type: none"> • New training workshops and upgrading of existing training programs in the Department - following the trend which began in late 2014 and continued throughout 2015, the Bank will launch additional training workshops. These workshops, which were added to existing ones, allow managers to focus their employees' training on a specific area of activity in a short professional workshop that provides an alternative to sending employees to off-campus resulting in the branches and units' being short-staffed. The new workshops will focus on foreign trade - import and export transactions, collateral and discounts, foreign currency checks and management of a foreign exchange at the branch, hedging of foreign exchange risks, an upgraded private credit workshop and an upgraded basic business credit course. 	Done.
<ul style="list-style-type: none"> • Open a management course for the senior management reserve - The course will focus on effectively handling management challenges in an age of change, while imparting knowledge, tools and skills for coping with a complex and competitive reality. 	Done.
Otsar Ha-Hayal:	
<ul style="list-style-type: none"> • Create a process for training and organizational support following the change in the service infrastructure in the military branches, workshops for employees at the around-the-clock branches, workshops for employees of the urban branches, support the customer transition process and train bankers accordingly. 	Done.
<ul style="list-style-type: none"> • Create and implement a program to close knowledge gaps in business credit. 	Done.
<ul style="list-style-type: none"> • Create a training program for operators of new ATM models. 	Done.
<ul style="list-style-type: none"> • Assessments for the Bank's win of the government's Small Business Fund. 	Done.
<ul style="list-style-type: none"> • Workshops on margins and fees for improving business performance. 	Done.

Objectives

FIBI:

- **Training of fairness and proper conduct with customers** - The Training Department will create a tutorial on fairness and proper conduct with customers, for use by numerous employees.
- **Training on the Code of Ethics** - a broad practical training will be held for all Bank managers and employees on the new Code of Ethics and ethical conduct, which was approved in early 2017.
- **Training on digital banking** - training will be held for Bank employees on the following topics: The Bank's website, the mobile app and online projects to be launched during the year.
- **Examining the effectiveness of the training through an assessment test and a final test** - the process of examining the effectiveness of the training will continue to be implemented in 2017 - as part of the professional workshops.
- **Sales skills training** - in continuation with the training program that began in 2016 as part of sales workshops for managers and business banking employees. The three-day workshops focus on developing sales management skills, providing tools and sales routines and teaching how to serve new and existing customers.

Bank Otsar Ha-Hayal:

- Build a process of enterprise training and support to change the work structure of the Corporate Division, including identifying knowledge gaps and creating complementary training programs.
- Advanced credit to individuals course - enhancing knowledge on retail credit.
- Support process of formulating the service / sales concept in the digital age and holding specialized training on the topic.
- Create training for investment advisors which includes regulatory dilemmas and updates.

Dialogue with the Group's employees

We strongly emphasize the development and effective management of internal communications, in order to promote transparency.

We at the FIBI Group regard our employees as full partners in the enterprise and encourage regular open dialogue between employees and management and among the various units in the organization, with the objective of strengthening employees' identification with the organization and enhancing collaboration between the various units.

The Group places great importance on communicating with the employees on an ongoing basis, and maintains a dialogue with them by various means through a range of channels. We strongly emphasize the development and effective management of internal communications, in order to promote transparency, create dialogue, connect the employees to the organization, and strengthen communications among all Group employees.

Activity in 2016:

Below is a review of the Group's dialogue channels in 2016:

Dialogue channels with the Group's employees

	FIBI	Otsar Ha-Hayal	Massad	MATAF
Open line to Human Resources	✓	✓	✓	✓
Feedback sessions	✓	✓	✓	✓
Management-employee meetings, including visits by the CEO, members of management and executives at branches and various HQ units	✓	✓	✓	
Employee inquiries supervisor	✓	✓	✓	✓
Internal communication channels: enterprise portal, newspaper	✓	✓	✓	✓
Management conferences	✓	✓	✓	✓
Streamlining forum - streamlining proposals by employees on various topics	✓	✓	✓	✓
Round tables - management and employees		✓		✓

In addition, employees may contact relevant officials in the Group through various channels, including anonymous ones, about auditing, compliance, and ethics.



Dialog, innovation, and improvement

"Leading to the Top" - for FIBI executives

In 2016, for the fourth consecutive year, an event was held in the "Leading to the Top" series, which focuses on executive development and organizational performance improvement. The activity targets all of the managers and authorized signatories of FIBI and PAGI - a total of 800 managers. The event featured activities and workshops focused on enhancing management skills, enrichment on banking topics, and discussions on core banking issues.

Ongoing dialogue

The primary objective of the activity is to strive for constant improvement in all areas of activity and promote direct involvement by all managers in the planning and implementation of streamlining processes. At the heart of the "Leading to the Top" activity are discussions in heterogenic work teams. The discussions are based on sharing professional knowledge and allow obtaining feedback and suggestions for improvements on a variety of strategic and procedural issues, by managers on all levels and authorized signatories, who comprise a significant portion of the Bank's employees. The discussion teams are highly varied, to enable a fruitful dialogue between executives from various Group units, branches and headquarters units. Conclusions and insights arising from the "Leading to the Top" activity have been implemented in various areas in previous years, and have been integrated into the Bank's strategy. The discussions were moderated by executives who were trained in structured and effective debating.

This year's activity focused on the theme "Replotting our Course" - promoting innovation and thinking outside the box. The teams discussed strategic issues on FIBI's agenda. The discussions focused on implementing innovation and improving the Bank's core processes. Hundreds of managers and authorized signatories who actively participated in the teamwork offered a huge number of proposals for advancing the Group's objectives and improving work processes. The outcomes of their work serve as the cornerstone for establishing a structured, systematic, and continuous process for improving performance, and constitute a "managerial asset" for the Group.

At the end of the process, the teams' recommendations were collected, organized, processed, and sent for discussion by the Group management towards drawing up the annual work plans. Many of the recommendations which could be implemented in the short term were included in the work plans of the various divisions for 2016 and are implemented in a variety of fields.

Continuation teams

Issues requiring a broader review are examined in an integrative manner by short-term action teams, so as to improve processes launched in early 2016, based on recommendations by the Bank's managers and authorized signatories. These teams - which deal with a variety of professional and organizational topics - include representatives from various areas who submitted recommendations to the Bank's management in Q2/2016, for immediate implementation.

The uniqueness of this work stems from the collaboration and dialogue with an extensive group of hundreds of managers in order to achieve the Group's strategic plan objectives and enhance an organizational culture which promotes a professional and fruitful dialogue between groups of colleagues. The insights and recommendations have utmost significance due to the fact that they came from within the Bank, and have the added value of "end users" who experience these issues on a day to day basis.

Internal Surveys

In 2016, several internal surveys were conducted at FIBI as part of an extensive project to improve the internal service at the Bank. These surveys examined the quality of the service and internal interfaces between the headquarters units and between the headquarters units and the branch network. The results of the surveys were analyzed and their findings were delivered to all the Bank's units in order to create a service improvement plan where needed.

Social cohesion activity at Bank Otsar Hahayal

In 2016, several classes of social cohesion activity were held for all of the Bank's employees. These classes featured activities that enabled Bank employees to demonstrate and expand their knowledge of the Bank's figures, and to share their wishes and issues for improvement.

Each employee contributed to the activity, in an effort to create a complete snapshot by all employees.

Redeployment of the military branches at Bank Otsar Ha-Hayal - launching the around-the-clock branches

Following the Bank's win of the Ministry of Defense's tender, the military branches were redeployed, with significant changes introduced in the scope of the service and manpower. The process began by implementing the Bank's policy, which views the military branches as significant service points in maintaining contact with customers that are career soldier or Ministry of Defense employees, along with transferring customers to urban branches according to their place of residence.

This process is based on ongoing dialogue with branch employees:

As a preliminary move, a team of Human Resources personnel toured the military branches and met with each and every employee to map their needs and knowledge gaps ahead of the transition to urban branches. Subsequently, workshops were held to support the transition, as well as training to complement the required professional knowledge. The process was implemented while transitioning thousands of customers to urban branches, and opening the military branches around the clock.

Managerial empowerment at Bank Massad

As part management empowerment and training processes, Personal Banking managers participate in several specialized quarterly workshops throughout the year. These workshops focus on boosting knowledge about management processes, with an emphasis on sales management, through presentations, workshops and experiencing various content areas. The process of continuous supervision and maintenance increases the managers' knowledge and motivation, impacting work processes and results in the branches.

Round tables at MATAF

As part of the dialogue process at MATAF, two round table forums were held, one with the Company's CEO and the other with the VP Administration, Finance and Human Resources, with the objective of creating an open dialogue, raising ideas, improvement, and streamlining.

In addition, during 2016, four meetings were held with the VP Administration, Finance and Human Resources and MATAF's CEO. One of the results of the process was the promotion of enterprise learning and information sharing across the organization.

Objectives

FIBI

- In 2017, the round tables of employees with members of FIBI's management will be resumed. The meetings will be held weekly and will be attended, alternately, by all members of the Bank's management. The meetings will include employees from all fields of activity at the Bank - managers and clerks, branches and headquarters, etc. The purpose of the meetings is to create a direct dialogue between management and employees, to strengthen the connection between the Bank's various units, and to allow the employees to become closely acquainted with the Bank's objectives and the long-term work plan.
- In 2017, following surveys conducted in 2016, FIBI will hold internal surveys on organizational climate, service and work interfaces. The findings of the surveys will be processed, analyzed and presented to the unit managers for improvement purposes.
- In 2017, a cross-organizational project will be conducted to improve inter-organizational service. The project will include improvement of internal processes and interfaces between internal service providers and their customers within the Bank, with the aim of streamlining work processes, improving intra-organizational service level and enhancing performance.

Bank Massad

- In 2017, the Bank will once again conduct workshops for personal banking managers in order to support the managers and enhance knowledge on work management processes.
- In addition, workshops will be held for the managers of the Corporate Department, in order to include them in the Department's change process. The purpose of the workshops is to create a professional dialogue among the department managers and to contribute to further business development.

Employee feedback and assessment

The Group considers employee assessment as one of the key processes in human capital management, aimed at improving performance, coordinating expectations, summarizing the previous year, and setting a path the year to come.

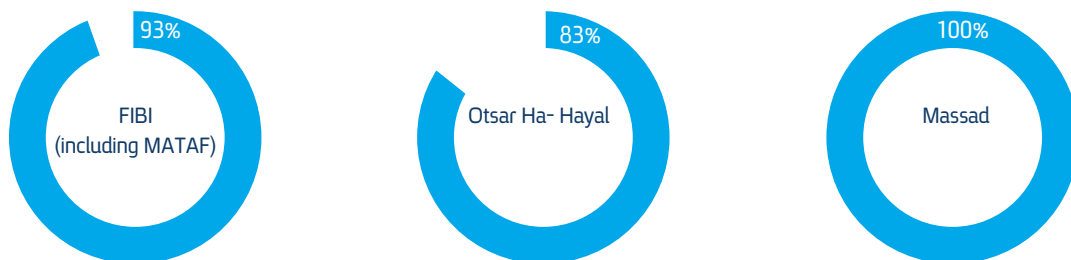
The employee assessment process is an opportunity for managing an open dialog between a manager and an employee, empowering the employee, and obtaining a broad picture of the functioning of the unit and organization. From the organization's point of view, the employee assessment process also serves as a key tool for planning human capital needs for various time frames, identifying training needs and ongoing improvement of the organization's performance according to predefined targets. The process also allows to create an open dialogue between a manager and an employee and serves as a tool that supports the fostering of employees and the setting of standards and a uniform language for managing performance.

The employee assessment process is an opportunity for managing an open dialog between a manager and an employee, empowering the employee, and obtaining a broad picture of the functioning of the unit and organization.

The Group's employee assessment process takes place once a year. At the heart of the process is an assessment meeting between an employee and his/her direct manager. For the employee, the process is an opportunity for dialogue with his/her direct manager and creates a legitimate platform for discussing various topics, an opportunity to obtain feedback about job performance and functioning, as well as to coordinate expectations and set targets for career development.

The annual assessment process is re-evaluated each year and updated in accordance with changes occurring at the Bank and in the business environment and the challenges facing the Bank. In the past year, questionnaires customized for branch managers and department heads at the branches were added, and questionnaires for authorized signatories were updated according to the Bank's objectives.

Feedback at the FIBI Group (Percentage of Employees who received Feedback in 2016)



Management-employee relations

In the Group, there are unions, which are responsible for the rights and duties of all employees, their welfare and entertainment, and assist employees where necessary.

Below is a description of union activity at the various banks

FIBI

The Bank has two employee unions: The union of managers and authorized signatories, which represents about 800 employees, and the union of clerks, which represents about 1,900 employees. The Bank has collective agreements with its employees that require a certain linkage of the terms of the clerks, managers and authorized signatories to the agreements signed between the management of Bank Leumi (hereinafter: "Bank Leumi") and its employee unions.

- *On March 20, 2016, Bank Leumi announced it has completed the conversion of its employees' rights to Jubilee bonuses in Bank Leumi shares. Since the Bank's employees' entitlement to Jubilee bonuses are linked to those of Bank Leumi's employees, on April 5, 2016, FIBI's Board of Directors decided to approve the conversion of the rights for Jubilee bonuses for all Bank employees entitled to Jubilee bonuses and vacations accrued by them under their collective agreements, as well as of certain MATAF employees who are owed Jubilee bonuses.
- On June 14, 2016, following negotiations with the union of managers and authorized signatories, the Bank's Board of Directors decided to approve a work agreement with the union of managers and authorized signatories, whereby the rights of the Bank's managers and authorized signatories for Jubilee bonuses will be converted into cash payments (rather than the Bank's shares), according to the book value of the Jubilee bonuses as of December 31, 2015 (less a 3.5% discount interest and other adjustments).
- On June 30, 2016, a work agreement was signed with the Bank's clerks' union, according to which the union's members' rights to Jubilee bonuses will be converted into cash (rather than the Bank's shares or units of blocked shares), under the same terms as other relevant employees of the Bank.
- On September 28, 2016, the managers and authorized signatories submitted a request to a party in a collective dispute, in which they claimed that by virtue of the linkage agreement to Bank Leumi they are entitled to a bonus equal to one salary per employee following a similar payment made by Bank Leumi to its employees on June 2, 2016.
- The Bank filed a response to the request, and a hearing of the case was held in Labor Court on February 19, 2017. In the hearing, the parties were ordered to submit written summations, following which a ruling will be given.
- On September 17, 2016, the clerks also submitted a request to a party in a collective dispute, in which they claimed that by virtue of the linkage agreement to Bank Leumi they are entitled to a bonus equal to one salary per employee following a similar payment made by Bank Leumi to its employees on June 2, 2016. The Bank filed a response to the request, and a hearing of the case was held in Labor Court on February 23, 2017. At the hearing, the clerks requested permission to present evidence regarding the nature of the one-salary bonus paid by Bank Leumi. An evidence hearing was scheduled for June 15, 2017.
- In addition, a request by a party to a collective dispute is pending at the Tel Aviv Labor Court. The request was filed by the clerks' union requesting that unused sick leave be converted to vacation days to be used upon retirement, following a similar agreement signed at Bank Leumi in January 2015. The Bank submitted an answer to the request, the clerks submitted summations in the case, as did the Bank; the parties are now awaiting a ruling.

Otsar Ha-Hayal

- There is a union at the Bank for employees organized under a special collective employment agreement. The union represents approximately 800 employees and managers. The Bank's management holds regular dialog with the workers' union on various matters that come up from time to time. In general, the Bank is characterized by good labor relations. On September 18, 2016, the Board of Directors of Otsar Ha-Hayal approved a wage agreement for the Bank's employees, which was signed by the parties in August 2016, ending a labor dispute, which began at the Bank on May 22, 2016. The agreement included improved selective promotion rates for 2016 and 2017 and increased pension contributions. Part of the increase was conditioned on the 2017 business results. It was further agreed to revoke employees' right to redeem sick pay on retirement, in exchange for a capitalized payment of the book value of the accrued right. On signing the agreement, the parties agreed to refrain from reopening the issues agreed on until March 31, 2018.

Massad

- The bank has a union, which represents all the employees employed under a collective agreement, 311 in total. The Bank's management maintains an ongoing and open dialogue with the union and the labor relations are good. The Bank's management and the union signed a salary and employment conditions agreement in 2012, which is valid through 2017.

MATAF

- There is a workers' committee in MATAF, which unionizes approximately 50 employees. On March 8, 2017, a notice was received from the New Histadrut (the "Histadrut"), according to which more than a third of MATAF's employees have joined the Histadrut, and as of that date, the Histadrut will serve as the employees' representative body. MATAF's management began negotiations with the employees to sign a preliminary labor agreement, after informing the Histadrut it has agreed to do so. On July 13, 2017, the Histadrut submitted a draft of the future collective agreement. MATAF has submitted its comments to the Histadrut's draft.

Performance

- In 2016, 86.6% of the Group's employees were employed under collective agreements, while 13.4% were employed under personal agreements.

Supportive work environment



We attribute great importance to creating an adequate supportive environment and providing ancillary conditions to help employees realize their skills and maximize their abilities.

We attribute great importance to creating an adequate supportive environment and providing ancillary conditions to help employees realize their skills and maximize their abilities. We believe that promoting employee welfare, development of their leisure time, and responding to needs related to their private lives help create a good working environment. We realize this approach from the employee's first day on the job through every stage of his/her career until retirement, including beyond working hours.

FIBI, the largest employer in the Group, is regularly ranked among the 100 Best Companies to Work For jointly published by BDICoface and The Marker magazine.

The FIBI Group - a good place to work

FIBI, the largest employer in the Group, is regularly ranked among the 100 Best Companies to Work For jointly published by BDICoface and The Marker magazine. The rankings are based on an annual survey conducted among thousands of employees at hundreds of companies, and among the Bank's employees (a representative sample). In the past few years, the Bank has been among the top 40 companies in the rankings.

In 2016, FIBI was ranked 37th and Otsar Ha-Hayal ranked 60th on the 100 Best Companies to Work For list. All in all, the two banks employ about 80% of the entire Group's employees (Massad does not take part since it is a relatively small organization).

Employee onboarding

The FIBI Group places special emphasis on the onboarding period, under the assumption that the nature of the onboarding process affects the performance, integration in the Group, and motivation of the new employees.

The banks' and MATAF's onboarding processes emphasize several aspects: professional onboarding, including imparting the knowledge needed by the employee; employee orientation, which helps employees learn the Group's rules, norms, and values; and social absorption, which facilitates teamwork and connection to the unit where the employee is placed.

This process includes **orientation** for new employees - new employees participate in a one-day orientation seminar to learn about the First International Group, its organizational structure, the various human resources processes, the organizational culture, professional aspects (at some banks, this process is carried out during the onboarding day rather than on a designated date). The training is given by various human resources officials.

Each new employee undergoes a number of mandatory courses to learn about banking and other professional tutorials (for more information, please see the subchapter on training and professional development).

Employee transfers and organizational changes

Transferring employees is yet another means to foster and develop the FIBI Group's human capital. The Group's nature and variety enable employees to experience diverse banking roles, areas of activity and work environments. During their long-term banking career, the Group's employees have various opportunities to create and diversify their roles, acquire experience in different work environments, and participate in learning and training processes that contribute to realizing each employee's potential and to preserving their high motivation throughout their extensive career at the bank.

In the Group's business environment, we must, or see fit to, make structural changes and business adaptations from time to time, which also involve the transfer of employees and are carried out pursuant to the law and agreements at the FIBI Group. We are aware of the impact of changes on employees' working conditions and welfare and take into account reasonable geographical limitations and provide at least two weeks' advance notice.

Recognizing outstanding employees

The banks in the Group believe that recognizing outstanding employees contributes both to the employees, personally, and to the organizational climate in general, as part of promoting a culture of excellence in all fields, with an emphasis on branding and communicating excellence as part of the organizational culture. The recognition activity is carried out annually, varies from bank to bank, and is made at various levels: From the branch level to the CEO's outstanding employees.

Welfare, health, and recreation development

The FIBI Group is committed to ongoing investment in employee welfare and development of employee recreational culture, out of a commitment to employee quality of life at the workplace. The Group offers widespread cultural activity, including trips, after-hour courses, workshops, subsidized subscriptions to various cultural institutions, and special recreational days for the entire family.

The banks' human resources departments are responsible for handling employee welfare and their recreational cultural development. These departments accompany the employees throughout their working life: At the work place, celebrations, leisure time, times of distress and on retirement. As part of this approach, the various banks and MATAF offer cultural activity year-round, including special recreational days for the entire family at various sites, trips, workshops, and representative teams in sports and other recreational fields).

Employee absences in 2016*



* Including all employees of the FIBI Group who have worked during 2016 (and employees who left).

** Including reported illnesses and illness of a family member.

*** Including car accidents

**** The total number of absence days out of total no. of work days in 2016, including family members' illness, reserve duty, vacation leave, mourning, high-risk pregnancy leave, paid volunteering days.

Objectives:

- In 2017, a group-wide HR management system will be implemented across the FIBI Group, which will improve the Group's human resources service.

Investing in human capital

All Group employees, permanent and temporary alike, are eligible for the social conditions set in law and various benefits offered by the banks without distinction. The Group also attaches great importance to employees' health and recreational development, offering them a variety of benefits as well as enrichment and leisure activity.

Together, the banks offer employees the following benefits*:

- **Account management benefits** - The benefits provided by the various banks in the Group include, inter alia, various discounts on employees' personal bank accounts, such as exemption from main fees, reduced fees, loans at preferential terms, and preferential interest rates on deposits.
- **Loans to employees** - The Bank offers its regular employees a wide variety of special purpose loans at convenient terms, such as: car loans, home improvement loans and mortgages. Even employees on trial periods can receive loans subject to approval in principle by the Human Resources Department.
- **Health insurance** - The Bank subsidizes a significant portion of the cost of health insurance for employees and their families, including dental insurance, health insurance, life insurance and workers' compensation.
- **Convalescence pay** - Bank employees are entitled to paid vacation leave pursuant to the law, but in most companies in Israel, the number of convalescence days granted to employees and their calculation method is significantly higher.
- **Sports activities** - FIBI offers its employees subsidized health club membership, as well as full funding for employees playing in teams in various sports fields competing in the Workplace League. The Bank has 30 sports teams in various fields, including soccer, basketball, tennis, swimming and more, which compete throughout the year in the Workplace League. All employees, male and female, can take part in the teams of the FIBI Group and its subsidiaries, subject to passing a fitness stress test as required by law.
- **Recreational workshops and courses** - as part of the Bank Club, employees are offered recreational workshops, courses and lectures on various subjects throughout the year.
- **Periodic medical check-ups** - at FIBI, employees are eligible for periodic medical check-ups with low deductibles, and subsidized psychological consultation and treatment by psychologists or social workers.
- **Subsidized vacations** - FIBI employees are entitled to a fixed annual amount towards their vacation either in Israel and abroad either, undertaken privately or through the Company. The personal vacation budget can be accumulated for up to five years.
- **Holiday gifts** - FIBI employees enjoy personal gifts on Rosh Hashana, Passover, Purim, Family Day and other occasions.
- **Team building events** - FIBI holds regular unit team building events and social events for employees and their families.
- **Discounts and subsidies** - FIBI offers its employees discounted subscriptions to theaters, museums, the Nature Reserves Authority, etc.

* Not all benefits are available in each bank

Supporting reservists

Employees are entitled to paid reserve duty, including all wage benefits that are usually provided only for actual work. In addition, to express support and recognition for the reservists' contribution to the nation, the Bank grants each employee who serves at least 14 days per year a prestigious recreational gift for two.

Work-life balance

FIBI recognizes the great importance of a home-life balance and enables its employees to combine personal and professional development with family life, thanks to favorable work agreements and regular welfare activities:

- **A shorter work week** - FIBI employees enjoy an average of 39 hours of work per week (40 hours during winter and 38 hours in the summer).
- **Overtime** - FIBI strives to organize the work schedule so as to avoid overtime, except in special cases, where necessary, and only subject to the approval of the unit manager. In such cases, employees are entitled to overtime pay of 125% of their regular wages for the first 15 hours and 150% for every additional hour. The Bank also allows to convert overtime into vacation leave.
- In addition, in exceptional cases in which an employee is required to work on his/her day off (usually Friday or Sunday), he/she is entitled to an alternative day off. If this occurs more than twice per quarter, the employee is entitled to two alternative days off from the third time onwards.
- **Vacation leave** - the number of vacation leave days provided by FIBI is significantly higher than that required by law. In addition to their annual vacation leave, FIBI employees are entitled to special leave for family and personal occasions: marriage, birth of a child, marriage of a son/daughter, grief period after bereavement and national memorial Days.
- **Sick leave** - procedures for the accumulation and use of sick leave days are more favorable than those customary in Israel - FIBI employees are entitled to 30 annual sick days, which can be accumulated up to a maximum of 540 days, and are eligible for sick leave pay from the first day of absence.
- **Breastfeeding time** - to help women returning from maternity leave, FIBI's employees are entitled to one hour of breastfeeding for an entire year from the date of birth, far beyond the statutory requirement. The feeding time is coordinated with the unit manager and can be at the beginning or end of the workday.
- **Kindergarten and summer camp subsidies** - FIBI subsidizes kindergarten and summer camp for its employees, offering cooperation agreements with and discounts at numerous summer camps.
- **Gifts on personal occasions** - to maintain and strengthen the personal relations with its employees and their families, FIBI grants gifts on various family occasions. FIBI currently gives gifts on the birthdays, to children of employees who begin first grade, and to the children of employees who enlist in the IDF.
- **Ongoing activities for the employees' families** - throughout the year, the Bank offers exclusive activities to employees and their children, for a nominal fee. These include morning and night tours of the Animal Safari, tours of visitor centers of various companies, trips to various sites across Israel, etc.

Activities in 2016

FIBI

- **Anniversary and Retirement Event** - In 2016, the Group held its annual recognition ceremony for the retiring employees of FIBI and MATAF, or those celebrating their employment anniversaries (20, 30 or 40 years of work), as a token of appreciation for their long-standing work at FIBI.
- **Women's Day** - Each year, the Group holds an event for its female employees (of FIBI, PAGI, U-Bank and Massad) to mark International Women's Day. The event includes a festive breakfast, a guest artist performance and a gift for each employee. FIBI also offers the employees a subsidized vacation in Eilat on the occasion of Women's Day, at a nominal price.
- **The Sportiyada in Eilat** - in 2016, 84 women and men athletes in six different sports represented the FIBI Group in the Workplace League's annual tournament, in the 36th Sportiyada event held in Eilat. In addition to the teams, the Group's "Internationals" band performed at the Workplace Choir Conference. The Group also supports the Walkers' Team, which won second place in the Jerusalem march during the Sukkot holiday.
- **Hanukkah and Purim parties for employees' children** - during these holidays, parties were held for the FIBI Group's employees and their children in several locations across Israel.
- **Event to celebrate the start of first grade** - a festive reception was held for the children of FIBI employees who started first grade, which included gifts for school, a play and a school bag of the pupil's choice
- **Event for the employees and their families** - as every year, a FIBI-only, heavily subsidized families' event was held at Superland in April. In August, a FIBI-only, heavily subsidized families' event was held at a waterpark.
- **Departmental social cohesion events** - each unit at FIBI is entitled to an annual social cohesion budget, to be spent on an event of its choice, taste and according to its objectives.

Bank Otsar Ha-Hayal

- **Event to celebrate the start of first grade** - a festive event was held for the Bank's employees and their children, featuring gifts and a fascinating activity at Madatech in Beer Sheva.

- **An event to celebrate the pending recruitment of employees' children** – the soon-to-be-soldiers received a gift and attended preparatory enrichment lectures ahead of their army service.
- **Sportiyada in Eilat** – 49 athletes won medals in various sports.
- **Departmental social cohesion events** – each unit at FIBI is entitled to an annual social cohesion budget, to be spent on an event of its choice, taste and according to its objectives.
- **Retiring employees** – an enrichment day was held for retiring employees, in order to ease the process.

Bank Massad

- In 2016, in an effort to enhance relationships between the Bank and the employees, the latter were offered a partially subsidized trip abroad.
- Award ceremony for outstanding and veteran employees
- Day-long workshops for managers of the Private Banking, Personal Banking and Corporate Banking departments.

MATAF

- **The CEO's Award** – on the Jewish New Year, a festive event was held at MATAF House, which included a toast for the New Year and the 2016 CEO Award.
- **Team cohesion** – in 2016, MATAF employees went on a team cohesion trip to Milan and Switzerland.
- **Healthy lifestyle** – in 2016, MATAF held Health Week, which included numerous activities, such as lectures on health (nutrition and physical activity) and on raising awareness for breast cancer. In addition, the activities included medical tests for breast cancer, skin lesions, cholesterol, fat, glucose, lung capacity, and more, as well as consultation sessions by a dietitian and a blood donation stand. In addition, during the year, Pilates and yoga classes are held for MATAF employees.

In addition, the FIBI Group offers employee activities and gifts ahead of the Jewish holidays.

Retirement

The FIBI Group supports employees on retirement, offering a preparatory program on a variety of topics for employees nearing retirement. In addition, the Group places great importance on keeping contact with retirees on an ongoing basis. In this context, the Group's banks meet all their pension and retirement commitments to employees in respect of pension or provident fund contributions.

The Bank offers retiring employees a variety of benefits and activities:

Participation in a preparatory retirement course to acquire basic tools for exhausting the various possibilities. The four-day program includes the following topics: processing the retirement process and transition to a "second adolescence" (the core of the program); retirement financials: annuities, rights, taxation, family budget, inheritances and wills; lifestyle: exercise, nutrition and lifestyle in old age; and pension from the Bank. In view of the importance of the topic, we also offer employees' spouses the opportunity to participate in the workshops, free of charge.

In addition, the Bank continues to support and maintain contact with its retirees through the Retirees' Club, which is supported by the Bank and is active throughout the year, offering various cultural, leisure and recreational activities. In addition, the retirees are entitled to account management benefits, holiday gifts, group discounts, etc.

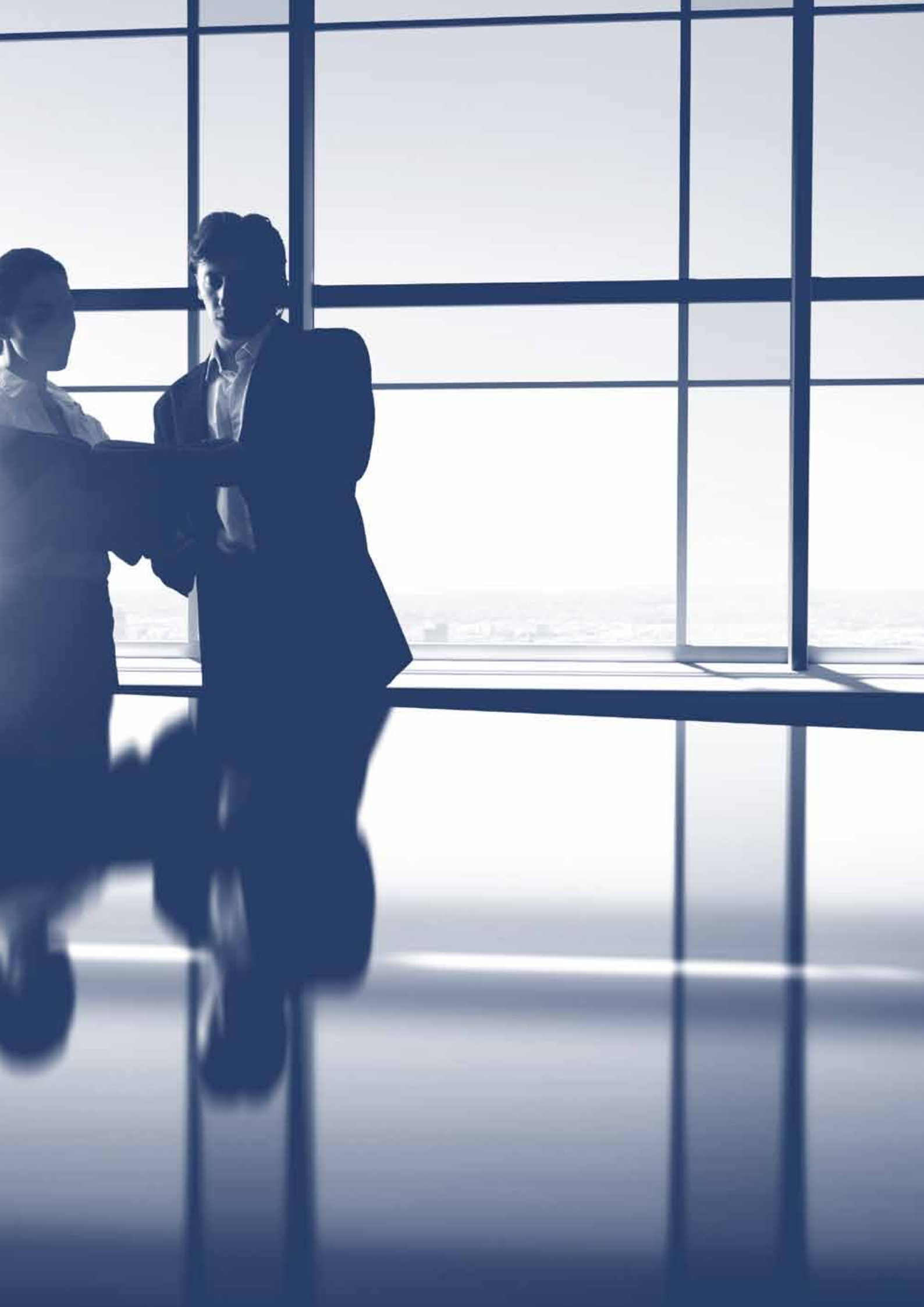
Objectives

The following activities are planned for 2017:

- **Women's Day** – in March 2017, a festive event will be held to celebrate Women's Day, which included a breakfast and a musical performance. Also planned: a women-only vacation in Eilat.
- **Family event** – in May of 2017, a family event will be held at Superland, as well as a summer event at a water park during the month of August.
- FIBI athletes participated in the 2017 Sportiyada.
- 2017 Anniversary and Retirement Event.
- Outstanding employees award ceremony.

The image features a dark blue semi-transparent rectangle overlaid on a background of silhouetted business professionals in a modern office. The silhouettes include a man on the left talking on a mobile phone while holding a clipboard, a woman in the center holding a laptop, and a man on the right. The background is a bright, high-contrast scene of a large window with a grid pattern, looking out onto a city skyline. The text 'Our Management' is centered in white within the blue rectangle.

Our Management



Corporate Governance



As part of the banking system in Israel, we are subject to an extensive legal and regulatory system that regulates the banking industry. This system is the main legal basis for our activity. The main laws governing our activity are the Banking Ordinance, the Bank of Israel Law, banking laws on licensing and customer service, and more. Pursuant to these laws, the Group's banks are subject to the supervision of the Bank of Israel, specifically that of the Governor of the Bank of Israel and the Supervisor of Banks and to all the provisions, rules, guidelines, and directives under their authority. In addition to the banking legislation, our activity is subject to additional legislative systems that regulate the Group's activity in various fields, such as: By being a publicly traded company, our capital market activity, and mortgages, etc. In these fields as well, the Group is subject not only to legislation, but also to provisions, rules, and guidelines of the authorized government regulators, including the Israel Securities Authority, the Capital Markets, Insurance and Savings Supervisor at the Ministry of Finance, the Tel Aviv Stock Exchange, the Israel Antitrust Authority, the FATCA directives and the Antitrust Authority's directives.

Additional laws on special matters impose specific obligations and provisions on the entire banking system, for example, prohibition of money laundering and the financing of terrorism laws, the Credit Information Service Law, and more. The FIBI secretariat assists the activity of the Board of Directors and coordinates its activity, in areas such as: holding meetings of the plenum and the various committees, general meetings, recording of the minutes, monitoring decisions of the board of directors, monitoring the holding of periodic discussions on regulatory matters, sending various reports to the regulators, managing the shareholders registry, paying remuneration to directors, handling transactions with "affiliated persons" and "parties at interest", and payment of dividends.

The Board of Directors' activity

The managements of the banks in the Group are directed and guided by the Board of Directors and the committees of each bank with regard to the business strategy and policy of the bank, in line with the policy of the Group as set by FIBI. In this context, the Board of Directors approves the objectives, qualitative and quantitative targets, the bank's areas of activity,

and the allocation of resources among them.

The board of directors of each bank in the Group acts in accordance with the corporate governance guidelines set in law, and serves as the guiding hand for the bank's management, including setting policies in all areas of the Bank's activity, risk management, compliance, credit, prohibition on money laundering, internal enforcement plan, etc. The Board of Directors of the bank has a critical role in outlining the business strategy and risk appetite of the Group. On the basis of the bank's multiyear strategic plan, management submits to the Board of Directors annual work plans and the bank's budgets, including qualitative and quantitative details of the mix of income, expenses, and investments that management has set as long-term targets and specific targets for the current working year. As part of this function, once a year, the Board of Directors approves the annual work plan and risk management policy of the bank in the material risk areas, and sets out standards for the management, measurement, control, and reporting of exposure to the various risks. Corporate responsibility issues are discussed by the Board of Directors and the various committees. In this context, the Head of the Resources Division presents the Bank's Corporate Social Responsibility Report to the Board of Directors. The boards of directors of the banks in the Group operate under the corporate governance guidelines prescribed by law.

The Board of Directors also has an important role in supervising the Bank's senior executives, so as to ensure that they comply with the organization's policies. It is important to note that the Board of Directors is the body that appoints the CEO and decides the nature of his/her work and duties toward the Board of Directors, and approves the appointment of senior officeholders and other officeholders, as well as their remuneration. Furthermore, the board of directors assesses the performance of these parties.

The board of directors and management of each bank in the Group is responsible for: formulating the vision, values, strategy, and objectives in the bank's areas of business; outlining the organizational culture and standards of professional conduct and a plan for instilling them at all levels at the bank; ensuring the presence of clear areas of accountability and reporting with regard to compliance with laws and regulations; and reporting any exceptional incident and any matter of material importance to the activity of the bank or supervision and control of its management. The members of the board approve the capital planning, periodically discuss the bank's financial position, and are also responsible for approving the financial statements. Once a year, the board of directors reviews the internal control system and procedures for capital assessment. Furthermore, the board's areas of responsibility also cover the appointment and functioning of the internal and external auditing and control parties; contracts and activities requiring approval by law or by decision of the board of directors; making organizational changes in the structure of the Group; raising capital and investments, including the disposal of fixed investments, issuing securities, and periodic review of the capital adequacy of the bank, and more. In order to advance the board members' knowledge and understanding of the FIBI Group, a dedicated training program is created each year for the directors, who participate in professional courses on business- and other issues, throughout the year.

Additional functions of the board include supervision over the effective implementation of the bank's risk management policy; once a year, the board of directors of each bank in the Group approves the annual work plan and risk management policy in the various material risk areas, such as credit risks, market risks, liquidity risks, and operational risks. The work plan and policy set standards for the management, measurement, control, and reporting of exposure to the various risks, which includes, inter alia, the risk appetite, risk frameworks, and permitted exposure limits in the different areas of business and sectors. In this context, the board of directors adjusts the exposure policy for the various risks to changes in the bank's financial markets and business environment.

In accordance with the board of directors' procedures at each of the banks in the Group, if and when it is necessary to raise an urgent matter before the board of directors' plenum, it is possible to convene an urgent meeting, including a conference by way of communication means or decision in writing, in order to make the decision needed, all pursuant to the terms set in the board of directors' procedures and by law. The board of directors' procedures at each of the banks in the Group establish the provisions that regulate a director's right to receive the information he/she needs in order to fulfill his/her duties as director and, if necessary, to consult with various parties as part of fulfilling his/her duties, pursuant to the provisions of the law (including the Companies Law, 5759-1999) and pursuant to Proper Conduct of Banking Business Directive 301 regarding the board of directors.

Board of directors' committees

The board of directors of each of the banks in the Group has the following committees:

- A. An audit committee (which also reviews the financial statements).
- B. A remuneration committee
- C. A risk management committee
- D. A loans committee (at Bank Massad, it is called the Credit, Business, and Risk Management Committee).

In addition, every board of directors in the Group appoints additional committees as necessary, such as an administration and information systems committee, and a problem debt committee. Bank Massad has a strategy committee (which is active every five years).

Corporate social responsibility issues are managed and supervised by the Board of Directors and discussed in several forums, both by the Board of Directors' plenum and by the various committees.

In the area of human capital, the Board of Directors determines the remuneration policy, retirement terms and compensation methodology for employees and managers, taking into account the bank's business position and the impact of the remuneration policy on the corporation's risk profile, all in accordance with Proper Conduct of Banking Business Directive No. 301A. The Board of Directors' remuneration committee discusses, inter alia, the remuneration policy, ensuring that it is in line with the bank's corporate culture, its long-term strategy and control environment. The remuneration committee is also responsible for ensuring that the remuneration incentives do not encourage risk taking beyond the established risk appetite. The committee also recommends to the Board of Directors which principles to adopt for the remuneration agreements of

the Bank's employees, and discusses negotiation processes with the bank's workers' unions.

In addition, the Board's administration and information systems committee discusses, inter alia, the implementation of the annual work plan of the Resources Division on issues such as management succession plans, corporate development plan and the annual training program. The Committee receives annual reports on community outreach, and occasionally receives requests for exceptional donations. Every three years, the committee reviews the bank's code of ethics, its means of distribution, as well as the control and enforcement mechanisms. The committee is also responsible for making buildings more efficient and the bank's services more accessible.

The Board of Directors is responsible for: approving the policy paper for managing each of the bank's material risks, periodically (at least once a year); reviewing and approving the risk management framework based on the policy paper for each of the bank's material risks (including money laundering and terrorism financing risks); and ensuring that the bank is implementing the risk management policy effectively, including overseeing management's work. The Board is also responsible for establishing a corporate culture of risk management as well as professional conduct and integrity standards, and to ensure that they are instilled at all levels of the bank.

Compliance risk is the risk of a legal or regulatory sanction imposed on the bank, substantial financial loss, or reputational damage the bank may incur due to non-compliance with the provisions of the law. To maximize its ability to assess the effectiveness of compliance risk management and to address the challenges, failures and quality of risk management at the bank and the Group, the Board of Directors conducts - via the Audit Committee - at least once a year, a meeting with the Compliance Officer only. The Board of Directors is also responsible for approving the Compliance Officer's annual and multi-year work plans, after ensuring that the plan outlines the risk management and control mechanism, and that the plan is risk-based and risk-oriented so as to adequately address the risk appetite. Each year, the Board of Directors or a committee thereof reviews the definition of the risk appetite and tolerance for the compliance risk, ensuring the existence of an appropriate and efficient infrastructure to ensure compliance and manage the compliance risk according to the risk tolerance established for the compliance risk and oversees that the bank's management addresses the compliance findings adequately.

The Audit Committee discusses, inter alia, employees' complaints about deficiencies in the management of the Bank's business. The committee established procedures for handling complaints and protecting employees who filed grievances.

In addition, for the past two years, the FIBI Group has had a steering committee, with two members that are responsible for community outreach, in an effort to closely monitor, direct,

initiate and formulate a group-wide community outreach policy on a regular basis.

The Board of Directors is responsible for approving the public grievance policy and the Service Charter of the Public Grievance Officer. The Board of Directors discusses the periodic reports of the Public Grievance Officer at least once each year, shortly after they have been filed. In this context, the Board of Directors ensures that the public grievance function is properly staffed and has the resources and powers necessary to carry out its duties.

The directors' skills and experience

As of the end of 2016, pursuant to the provisions of Proper Conduct of Banking Business Directive 2016, at least one third of the members of a Board of Directors are to be external directors; at least one fifth of all the directors shall have proven experience in banking; at least one fifth of all the directors shall have expertise in accounting and finance (according to its definition in Article 240 of the Companies Law, 5759-1999); at least one the external directors will have expertise in accounting and finance, and the others shall be professionally eligible or skilled in accounting and finance (as these terms are defined in the Companies Law); at least one of the directors shall have expertise and experience in risk management and control (and serve on the Remuneration Committee). The above are in addition to the skills required under the provisions of the Companies Law.

Each of the banks in the Group implements all of the provisions set in the legislation, standards, and regulations with regard to the prevention of conflicts of interest by the directors. Accordingly, each of the banks has a dedicated procedure for the matter, the objective of which is to set guidelines for situations in which a candidate for the position of director may regularly find himself facing a conflict of interest between his business or ongoing occupations and the position that he is due to fulfill at the bank, in a way that will result in his disqualification to serve as a board member. None of the directors, including the chairman of the board at each of the banks in the Group, serves in another management position at the bank where he/she serves as director or chairman of the board of directors (for further information about the directors in the Group, please see the 2016 financial statements: FIBI, pp. 250-254; Bank Otsar Ha-Hayal, pp. 218-224; Bank Massad, pp. 202-204;

Members of the FIBI Group Boards of Directors (2016)*

	Women	Men	Total
FIBI	2	11	13
Otsar Ha-Hayal	4	11	15
Massad	5	7	12

*As of the end of 2016

Activity and composition of the Board of Directors (2016), as of December 31, 2016

	FIBI	Otsar Ha-Hayal	Massad
Total no. of directors	13	15	12
External directors	8*	5	4
Directors with accounting and finance skills	12	9	9
Directors with accounting and finance skills in the Audit Committee	5	6	5
No. of the board plenum meetings	28	16	15**
No. of the board's committees' meetings	54	33	30

* 3 external directors in accordance with the Companies Law and 5 external directors according to Proper Conduct of Banking Procedure

** Of which, 1 long-distance meeting.

Assessing the board of directors' performance

Every two years, the board of directors of each of the banks in the Group conducts an internal self-assessment process intended to improve the Board of Directors' work. The assessment process is included in a procedure drafted by the bank pursuant to the requirements of Proper Conduct of Banking Business Directive 301. The process is intended to evaluate the efficiency of the work by the board of directors, identify weaknesses, and make changes as needed. The assessment process focuses on aspects of corporate governance, risk management, and the control and supervision undertaken by the board of directors.

Mechanisms for contacting the board of directors

We operate under a normal administrative hierarchy: at each bank, issues, questions, and grievances by employees are submitted to management, and, if necessary, forwarded to the board of directors. Inquiries to the board of directors are made through each bank's secretariat. Issues forwarded to the board by the shareholders are presented through the general shareholders meeting mechanism. In addition, some members of FIBI's management serve as directors in the banking subsidiaries.

In 2016, five general meetings were held in the FIBI Group, of which three were annual meetings and two special meetings.

Executive remuneration plan

On 16 February 2014, the general shareholders meeting of the bank approved the remuneration policy for officeholders, pursuant to Section 267A of the Companies Law and Proper Conduct of Banking Business Regulation A301, "Remuneration Policy in a Banking Corporation" (hereinafter: the "Directive"). For more information about the remuneration policy for said officeholders, see the Bank's immediate report dated January 5, 2014 (Ref. No.: 2014-01-004648). On April 12, 2016 the Law of Officeholder Remuneration in Financial Corporations (Special Permit and Non Tax-Deductible Expenses Due to Exceptional Remuneration), 2016 was published in the Official Gazette, (hereinafter: the "Remuneration Law"), and amendments to the Directive (hereinafter - the "Amendments to the Directive") were published on August 13, 2015 and September 29, 2016. For more information regarding the Remuneration Law and Amendments to the Directive, see the Corporate Governance section under "Legislative Restrictions, Regulations and Special Constraints Applicable to the Bank Group." On November 20, 2016, the

Bank's shareholder meeting approved the employment terms of the Bank's CEO, Ms. Smadar Barber Tsadik, as of October 12, 2016, pursuant to the provisions of the Remuneration Law. For more information, see the Bank's immediate report dated January 13, 2016 (Ref. No.: 2016-01-064245). The contents of this report are included herein by way of reference. The employment terms of the former Chairman of the Board of Directors, Mr. Rony Hizkiyahu, were removed from the agenda of the shareholders' meeting, following a decision by the Board of Directors and the request of the Chairman of the Board, following his announcement, dated November 20, 2016, of his intention to resign his position as Chairman of the Board. On 23 February 2017, the general shareholders meeting of the Bank approved a new remuneration policy for officeholders, pursuant to Section 267A of the Companies Law and pursuant to the Remuneration Law and Amendments to the Directive, as well as the employment terms of the incoming Chairman of the Board, Ms. Irit Izakson, as of the date of her appointment. For more information, see the Bank's immediate report dated January 18, 2017 (Ref. No.: 2017-01-006415). The contents of this report are included herein by way of reference.

2017 objective

In the first quarter of 2017, new remuneration policies will be approved for the Bank's officerholders and employees, which are updated according to the Remuneration Law and amendments to the Directive.

Compliance with the law



We are bound to comply with all the provisions of the law, including provisions regarding customers that apply to the Bank and which govern the Bank's relations with its customers and require the Bank to treat customers fairly, without bias and discrimination of any kind, and with proper disclosure in all matters related to the customer's activity with the bank.

The compliance units at the Group banks, which are headed by the Chief Compliance Officer, are charged with: ensuring implementation of the customer-related provisions; ensuring implementation of legislation regarding to the prohibition of money laundering and financing of terrorism; internal enforcement of securities, the Code of Ethics, adequate banking business conduct with customers, the FATCA provisions (taxation of American customers), and the declared money policy (the objective of which is to address risks derived from the possibility that money deposited in the bank originates from tax evasion in the source country). The compliance officer at each bank in the Group participates in drawing up work

procedures by approving procedures and circulars, developing new products and processes, and advising on aspects of money laundering prohibition and the financing of terrorism in complex transactions, etc.

In addition, the Group assumes a conservative policy of low risk with regard to entering into agreements and legal commitments, and conducts its business with customers by proper banking business conduct, using adequate legal advice, while scrupulously complying with any legal provision and regulation and the restrictions and duties derived thereof. Furthermore, the Group has a zero-tolerance policy toward bank managers and employees in all matters pertaining to administrative or criminal violation of the provisions of the law that apply to the Group's activities.

The Board of Directors is the highest governance body to manage the compliance risk and for ensures that the Bank

We are bound to comply with all the provisions of the law, including provisions regarding customers that apply to the Bank and which govern the Bank's relations with its customers and require the Bank to treat customers fairly, without bias and discrimination of any kind, and with proper disclosure in all matters related to the customer's activity with the bank.

is in compliance with the laws and regulations. Within this framework, the Board of Directors operates a committee that approves and oversees the implementation of the compliance risk management policy. The Board of Directors receives periodic and immediate reports regarding risk management. Once a year, based, inter alia, on an annual assessment report submitted by the Chief Compliance Officer, the Board of Directors discusses assessing the quality of the overall compliance risk management. In this framework, the Board discusses any deficiencies and/or weaknesses in the Bank's existing control and work processes, implementation of the policy, effectiveness of the existing control system and adequacy of the resources available to the Bank for efficient and effective risk management.

All employees of the FIBI Group, both clerks and managers, at the branches and at headquarters, have free and direct access to the Chief Compliance Officer and/or a representative thereof at the various units of the Compliance Department, in order to obtain expert advice and/or report flaws discovered in aspects of compliance. Inquiries are made directly by telephone, email, through designated systems, or at various forums concerned with banking issues.

Activity in 2016

FIBI

- Management and the FIBI Group's board of directors have approved the Group's compliance policy papers and compliance plan (including adjustments for the various banks).
- The compliance policy paper was updated in accordance with the amendment to Proper Conduct of Banking Business Directive No. 308, which came into force on January 1, 2016.
- The employee information website is regularly updated - "The Risk Management World", which includes various banking issues, constituting a source of information for all employees of the Bank.
- Compliance trustees at the branches attended annual seminars in which expert lectures were given by external speakers and bank employees.
- The compliance unit conducted proactive audits to identify and prevent alleged violations of various laws.
- As part of the training about, and instilling of, a compliance culture with the Bank's employees, lectures were given at various branches and during various courses initiated by the bank's Training Department.

Otsar Ha-Hayal

- The Bank's management and the Board of Directors approved the compliance policy paper and compliance program, which were updated in accordance with the amendment to Proper Conduct of Banking Business Directive No. 308, which came into force on January 1, 2016.
- Branch and unit compliance trustees attended the annual seminar, where they heard expert lectures given by external speakers and bank officeholders.
- Audits were conducted, on the basis of which a number of risk focal points were identified in various matters.

Massad

- The Bank's management and the Board of Directors approved the compliance policy papers and compliance program, which were updated in accordance with the amendment to Proper Conduct of Banking Business Directive No. 308, which came into force on January 1, 2016. Branch and unit compliance trustees attended the annual seminar, where they heard expert lectures given by external speakers and bank officeholders, as well as courses in the Compliance Unit.
- Branch employees were instructed on compliance issues at the branches and various conferences held by the Bank's management at the parent company's training center. Compliance topics were also instilled and taught through various courses and in the Training Department, as well as through procedures and tutorials.
- As part of the work plan, controls were activated at risk focal points, according to the compliance area, to locate and prevent alleged violations of the law.

- In 2016, the Bank's compliance units conducted 149 inspections of compliance trustees' protocols in 97 branches, which constitute 60% of the Group's branches. In addition, 29 branches were visited.
- In 2016, 798 employees in the FIBI Group - who constitute 47% of the Group's relevant employees - were trained on money laundering prohibition. In addition, 3,409 employees took an exam on account management procedures and executing securities transactions by a bank employee, through an automated tutorial). In addition, 475 additional employees were trained in the content worlds of the consumer-related provisions.
- In 2016, the Prohibition of Money Laundering Law was amended, designating certain tax offenses as predicate offenses. The amendment came into force on October 7, 2016. Later on, in November 2016, the Supervisor of Banks issued directives for the banking system. As part of the Bank's preparations for the implementation of the amendment to the Law and the guidance letter issued by the Supervisor of Banks, training was conducted for 380 employees from all the Group's banks, including all of the branches' compliance trustees. In addition, training seminars were held for all of the compliance trustees in the Group.
- In 2016, no sanctions related to money laundering were imposed on the FIBI Group.
- In addition, the bank had no significant fines or sanctions for non-compliance with laws or regulations in 2016.

Objectives

FIBI

- In 2017 the Bank will deepen the implementation of policies and procedures to prevent bribery and corruption of foreign officials.

Bank Otsar Ha-Hayal

- Training and implementation through visits to the branches, relevant training courses and dissemination of procedures.
- Continued implementation of controls.
- Finalize integrated infrastructure survey in accordance with Proper Conduct of Banking Business Directive No. 308.

Bank Massad

- Finalize integrated infrastructure survey in accordance with Proper Conduct of Banking Business Directive No. 308 and addressing the gaps discovered therein.
- Deepen knowledge among the employees through training courses, tutorials and knowledge tests, to increase awareness as part of an organizational infrastructure that encourages compliance.
- Conduct inspections to identify risk focal points.



Creating value for stakeholders



As a key leading financial organization which is one of the five largest banks in Israel, the FIBI Group has major economic influence reflected in the creation of value for its various stakeholders. The activities of the Group and its business results create direct financial value for its shareholders and investors; for Israel - through the payment of taxes, creation of jobs nationwide, purchase of locally-produced goods, and more; for the Group's employees - through their employment and payment of salaries; for its suppliers and business partners - by advancing their business activities; for the community - through support and outreach by financial donations and volunteering by employees of the Group. The Bank receives no government aid or financial support.

Below are key financial figures on value creation value for FIBI and its stakeholders:

Financial performance - the FIBI Group (in NIS millions)					
	2016	2015	2014	2013	2012
Total income	3,649	3,494	3,768	3,851	3,797
Operating and other expenses	2,683	2,710	2,912	2,860	2,814
Salaries and related costs	1,656	1,629	1,780	1,746	1,676
Provision for taxes on profit	398	326	328	366	315
Net profit	521	446	455	538	563
Dividend to shareholders	200	130	285	200	-
Community outreach	2.8	2.8	2.9	3.6	2

* There are differences between figures in this table and those found in the FIBI Group's previous CSR report, for 2012-2014. This is attributable to the retrospective application of US GAAP to employee benefits, including the restatement of comparative figures. For further details, please see Note 1.c (1) to the 2015 financial statements.

The FIBI Group also contributes indirectly to the development of the Israeli economy, through several aspects: branches of the Group are deployed nationwide, enabling economic activity in communities and regions that are located far from the center of the country. In addition, the banks provide the main segments of customers with whom the Group works a specialized and expert response to a range of population segments in Israeli society: The ultra-Orthodox; Arabs; the career soldiers, active-duty soldiers and retirees of the defense establishment; teachers; immigrants from the former Soviet Union; and small businesses - providing them specialized, custom-made, value added services and products. The Group's activity includes initiatives to promote small businesses operating in Israel. The survivability and stability of these businesses strengthens the domestic economy. In addition, the banks initiate various activities to promote financial knowledge among customers and as part of its community outreach activity, in order to help customers and the public better manage their financial and banking affairs in both the short and long term.

Assisting Israeli exporters and importers

The FIBI Group, which promotes economic activity in Israel, views exports and imports as a central anchor in Israel's economy and industry. For many years, the Group has been instrumental in promoting Israeli industry and in recent years, has developed and initiated various financing and recruitment programs:

- **Exporter financing program in cooperation with Ashra** - the Bank sponsor a program to finance exporters' operations in cooperation with Ashra. This program serves as a means to assist small and medium-sized exporters on the one hand, and to provide them with opportunities to expand their overseas business on the other hand.
- **Recruitment of industrial companies and entrepreneurs as customers** - the Business Development and Marketing Unit of the Corporate Division focuses on the recruitment of industrial plants and entrepreneurs with turnovers of at least NIS 25 million, as customers. Applications are reviewed by the relevant functions at top priority and responses are

fast-tracked in order to promote new business activities as quickly as possible.

- **Financing agreements for the purchase of industrial equipment in cooperation with the Manufacturers Association** - an agreement was signed with the mutual fund of the Manufacturers Association to provide 90% financing for the purchase of industrial equipment for an unusual period of up to 12 years.

Assisting businesses - factoring

Bank Otsar Ha-Hayal operates a specialized financing service (factoring), which provides a comprehensive solution for the risks involved in granting credit to customers. The service is based on the purchase of some or all of the customers' receivables in respect of credit sales made locally or with overseas customers. Bank Otsar Ha-Hayal's factoring services include:

- **Neutralizing the risk of customer credit** - upon the sale of the invoices to the bank, the supplier is no longer under credit risk for that invoice (except in case of a commercial dispute).
- **Advances** - cash payment of 70%-85% of the invoice amount.
- **Collection services** - the Bank carries out the collection process both in Israel and worldwide.

The factoring services provide numerous benefits to the customer, including: early payments and improved cash flow; neutralizing credit risks; increasing the company's financing resources beyond traditional bank credit; improving the financial ratios in the financial statements; marketing means to expand the company's turnover; ongoing assessment of customers' robustness and freeing up customer credit management resources.

Responsible supply chain



The FIBI Group adheres to fair and responsible practices in its conduct with suppliers and service providers with which it works. We take care to cooperate with suppliers and service providers which comply with local and international laws. When contracting them, we take into account service quality considerations and compliance with quality and reliability standards, in addition to cost considerations. The procurement process at the FIBI Group is transparent, and includes notifying the suppliers and bidders about the Group's practices vis-a-vis suppliers. Procurement is based on principles of fairness, integrity, upholding employees' rights, and reciprocity. All of the Group's procurement activities are managed by the

Group's Procurements Department, which is responsible for all procurement and the Group banks' interfaces with suppliers and bidders, in accordance with the Group's procurement procedure. The procurement process at the Group includes the following stages: defining the purchase needs and the terms of the contract; publication of tenders to suppliers, either generally or specifically through prior preparation; review of the bids submitted on the basis of defined criteria, which combine cost and quality considerations; signing the contracts; oversight to ensure that the terms detailed in the procurement agreements are met.

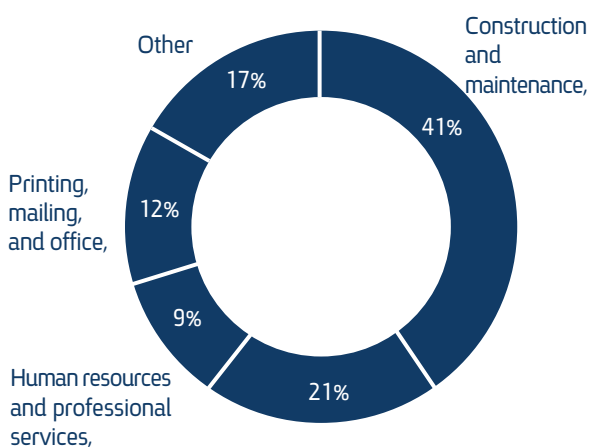
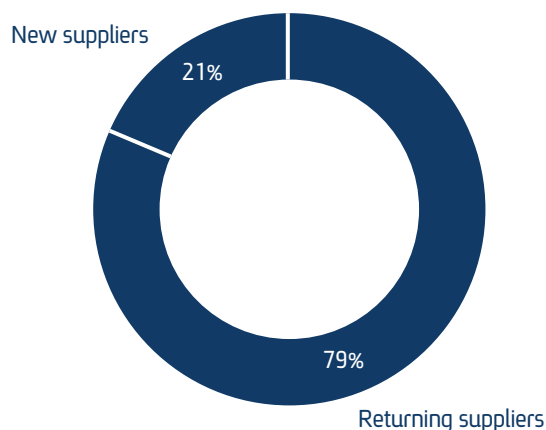
The Group's supplier profile

The Bank Group has working relationships with a large number of suppliers across a wide range of procurement segments. In 2016, the active suppliers database included approximately 1,979 suppliers, of which 418 are new suppliers, which the Group has not previously worked with. We take care to constantly work with new suppliers and service providers, which we consider to be a mutual opportunity that allows the Group to learn about new products, services, and ideas, and, of course, to be exposed to new work methods.

There are four main types of procurement areas which together constitute about 81% of the Group's total annual purchases:

- Construction, real estate, building and property maintenance (41%).
- IT, technology and communications infrastructures (19%).
- Printing, mailing, telephony, office supplies, archiving, and transport (13%).
- Personnel, training, professional and consultancy services (8%).

"Miscellaneous" - in addition to the main areas, there are additional purchasing areas, such as: Advertising & marketing (5%), food, beverage & travel (3.7%), cleaning and security (3.8%), legal advice and insurance (2.2%), and more. The total procurement amount for each of these areas does not exceed 5% of total purchases, and the cumulative share of total miscellaneous procurements constitutes approximately 19% of the Group's annual purchases.



Prioritizing domestic procurement

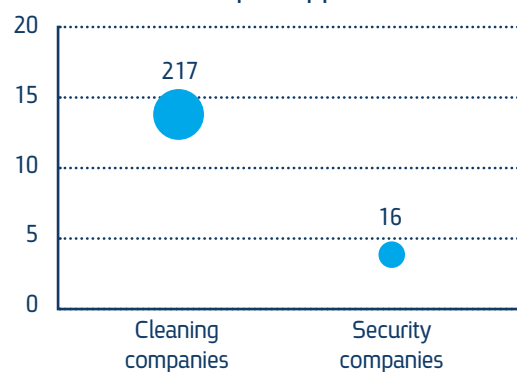
We prioritize contracting Israeli suppliers and encourage Israeli enterprise and products, as much as possible. The absolute majority of the Group's suppliers are Israeli. Only 82 suppliers, accounting for 4% of all our suppliers and service providers, are foreign businesses and companies.

Protecting the rights of contract workers

Pursuant to the Law Enhancing Enforcement of Labor Laws, 5771-2011, which applies to engagements with contractors for cleaning, security, and catering services, and in view of the Group's principle of fairness and the preservation of human rights, the Group has drawn up an enhanced enforcement procedure to regulate the handling of relations with contractors and contract workers. Under this procedure, the Group Procurement Department verifies that relevant contractors employ their employees pursuant to the provisions of the law. The Group Procurement Manager is the person responsible for complying with and instilling the provisions of the procedure, and also serves as the direct contact for contract workers to file complaints and other inquiries on any matter.

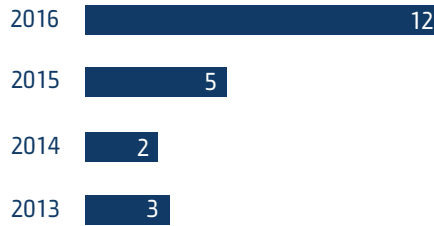
When a supplier begins working with the Bank, it is required to notify all its employees who work at the Bank about the direct contact details for filing a notice or complaint about the terms of their employment. In addition, under the procedure, when a complaint is received by the Group Procurement Department, the relevant supplier is notified, and the subsequent review and handling of any complaint is carried out according to the timetable set out in the procedure.

The FIBI Group's suppliers in 2016



The position of the circle relative to the vertical axis represents the number of companies active in that domain, while the size of the circle represents the total

Below are details of complaints filed by contract workers received by the Group Procurement Department:



The Bank handled all of the complaints. The twelve complaints received in 2016 were handled by the end of the year, to the satisfaction of the complainants. The increase in the number of complaints stems from ongoing efforts to raise awareness of the Group's grievance mechanism.

Proper procurement procedures and upholding integrity

Before signing any contract, the Group Procurement Department conducts a thorough review of the market and the bidders. This review is intended to allow the Procurement Department to choose the most suitable suppliers. The criteria available when choosing the supplier include reliability, past experience, experience in the industry, meeting requirements, and the quality of the service or product, and, finally, the price.

To be entered in the Group's procurement systems, each new supplier must submit a declaration in which it undertakes not to accept any benefits and a CPA's approval that all its employees are paid salaries and provided social benefits according to law. In addition, new suppliers must also provide the relevant permits and licenses for implementing their contracts with the Group.

Exceptions committee for suppliers serving the Group for more than 7 years

The maximum contract period with a supplier is capped at seven consecutive years or seven non-consecutive years over a ten-year period, except for extraordinary cases defined in the Group's contract procedure (such as: Israel Electric Corporation and other utilities companies, project companies for projects which exceed said period, and small suppliers which provide the Group with goods and services in addition to competing suppliers, etc.). When the period is over, the supplier must undergo a two-year cooling off period. If the contract, by nature, creates an undertaking exceeding 7 years, the unit purchasing the service or product must notify the Exceptions Committee for Suppliers for More than 7 Years prior to the date of the engagement. Every contract exceeding the said

period is reviewed by the Suppliers Exceptions Committee, which includes the Group Logistics Manager, the Group Procurement Department Manager, an executive from MATAF, a VP of a subsidiary, an observer of the Group's auditing unit, and a representative of the relevant business unit. Once a year, the Committee reports to the Board of Directors' Audit Committee on all the suppliers whose engagement has been extended beyond the seven-year period. In addition, the Committee shall not approve the extension of the contract with the supplier without having the Group's Procurement Department present alternatives.

Activity in 2016

- In 2016, the Group contracted 16 suppliers of manpower for cleaning and security services, for a total of 217 workers (excluding management company personnel) - 0.8% of the Group's active suppliers.
- In 2016, all manpower suppliers were examined, and 54 pay slips of cleaning and security contract workers were sampled, representing 22% of all pay slips.
- In 2016, the Exceptions Committee discussed 30 suppliers and approved contract extensions with 22 suppliers; engagements with the remaining ones are under review.

Objectives

- In 2017, the Group will begin drafting a responsible procurement policy, which shall be implemented across the Group.

Business Continuity



The Bank of Israel's directives require banks to carry out business continuity planning for a state of emergency. Pursuant to the provisions of Proper Conduct of Banking Business Directive 355 on the matter, the Group prepared for disaster recovery and business continuity during various types of emergencies. A member of the Group's management and head of the Risk Management Division are responsible for coordinating the matter at the Group level. The Operational Risk Management Unit at the bank handles preparedness, which comprises several layers: developing a comprehensive policy paper on business continuity, which was approved by the Group's board of directors; a work plan outlining adequate technological infrastructures; formulating and implementing comprehensive action plans and a support procedure infrastructure; and carrying out drills simulating various types of emergencies.

The Group has a situation room and emergency preparedness forum, headed by the Head of the Risk Management Division, who coordinates this activity across the Group. The forum is responsible for implementing the policy and procedures, and monitoring the Group's preparedness for various types of emergencies. The forum convenes at least once per quarter. Management and the board of directors receive a quarterly report on business continuity and emergency preparedness. The Group regularly undertakes a process to improve preparedness for business continuity as part of the updated mapping of all critical activities and resources needed in an emergency, and updates the emergency scenarios and policy document accordingly. In 2015, the Group transferred its main computer facility from Tel Aviv to the Rishon LeZion area, which is another important step in maintaining business continuity, since this is a new and protected facility that is far from the site located in Tel Av

Objective control status

Objectives	Implementation status
The policy paper and work plan is expected to be updated in 2016.	Done
In 2016, drills will be carried out according to the drill policy and procedure.	Done

Objectives

- The policy paper and work plan is expected to be updated in 2017.
- In 2017, drills will be carried out according to the drill policy and procedure.
- In 2017, a three-year revision project will be carried out for mapping essential processes according to Proper Conduct of Banking Business Directive No. 355.

Upholding Integrity

The FIBI Group recognizes the importance of upholding integrity and preventing corruption in its various banking activities. Accordingly, we act to prevent such incidents through a number of complementary mechanisms to estimate, prevent and control the risks, and to handle them when necessary, so that these areas are fully covered. These mechanisms include the Group's defense lines, such as; the internal audit system, the Risk Management Division, the relevant aspects handled by the Procurement Department, and the code of ethics of each bank in the Group. Training on these topics is regularly provided to all the relevant professional parties in the Group, including managers and employees, as part of their compliance training and as part of instilling the code of ethics.

The risk management and auditing are conducted by the Group through an adequate infrastructure of control, supervision, and auditing, which are implemented by means of three lines of defense:

- **The first line of defense** is held by the people responsible for creating and managing the risk;
- **The second line of defense** is held by the independent units of the Risk Management Division and auditing;
- **The third line of defense** is held by the internal and external audit array.

Risk management is conducted through various control tools: implementation of risk reduction controls; creation of reporting mechanisms about non-compliance with the procedures; establishing a work and training plan; creating procedures for handling violations of banking procedures, etc. - (for more information, please see the Group's financial statements on FIBI's website).



The audits conducted by the banks' internal audit arrays also examine exposure to risks of embezzlement and fraud. The internal audit work plan is based on a systematic methodology of assessing various types of risk, including embezzlement and fraud. The internal audit unit reviews information regarding suspicions of embezzlement and fraud, or other ethical incidents - both through the audits conducted as mentioned above, and through complaints that reach the relevant party in each bank in their capacity as supervisors of employee inquiries. If necessary, an audit report is written, which is sent to the bank manager for the purpose of taking corrective action against those responsible and the incident is reported to the board of directors' Audit Committee. The audit reports are reviewed by a dedicated committee headed by the Head of the Resources Division, with the participation of other members of management and senior executives. The committee issues a recommendation for disciplinary sanctions against employees who were found to be responsible for the deficiencies in audit reports.

The Risk Management Division regularly acts to improve the management and prevention of risks associated with integrity and conduct which do not meet the requirements of the Group's procedures. Before promoting any employee to a first managerial position, to the next managerial rank or to any position, or to a new managerial position (in the same rank) or to the position of a branch manager, the Human Resources Division asks for a "no objection" from the Chief Compliance Officer at the Risk Management Division and from the Internal Auditing Unit, in order to verify that there have been no incidents involving the candidate which are liable to prevent his/her promotion.

As part of its procurement activity, the Group upholds integrity at two main levels: conduct vis-à-vis suppliers, pursuant to defined rules and procedures; and the Group's requirements from suppliers regarding proper conduct, included in their contracts and work procedures governing their engagement (for more information, please see sub-chapter Responsible Supply Chain, pp. 138-143).

As an additional and complementary control tool, the Code of Ethics is a clear and explicit statement of everything we believe in and strive to uphold, and includes these topics. The Code of Ethics applies to all employees of the Group, at every rank and in every position, including members of management and the Board of Directors. It includes statements on upholding integrity. The various banks in the Group instill the content of the Code and train all managers and employees in it.

The means available for requesting advice or reporting ethical issues are regularly advertised and available to all of the Group's employees. Complaints and findings of complaints in each bank are reported to management. In addition, to enable employees to present to an objective and independent party cases in which there is suspicion of significant deviations from the bank's procedures regarding business conduct, integrity and financial reporting controls, the Group has appointed the Head of the Finance Department and Capital Markets in the auditing array to serve as the employee complaints supervisor in FIBI and Massad, and in Bank Otsar Ha-Hayal - the Head of the Auditing Department. The Head of the Resources Division, the supervisor of employee complaints and their counterparts at Bank Otsar Ha-Hayal are responsible for providing protection to employees who complain in order to ensure that their rights

Activity in 2016

- A report was filed on the project "Risks of embezzlement, fraud and unethical behavior", which included recommendations for improving the control mechanisms, updating procedures and processes to prevent embezzlement, fraud and unethical behavior. The recommendations were presented to FIBI Group's management and Board of Directors and to the managements and Boards of Directors of subsidiaries Bank Massad and Bank Otsar Ha-Hayal.
- In 2016, the FIBI Group identified two suspected incidents of compromised integrity by the Bank's employees. The events were investigated and internal audit reports were issued and lessons learned, including recommendations on how to reduce exposure to future incidents. The first incident involved three of the bank's employees; following its investigation, two of them were dismissed, and disciplinary measures were taken against the third. In the second incident, a bank employee was dismissed after the Israel Securities Authority concluded its investigation on suspicion of violating the Securities Law in respect of activities that had begun prior to his employment by the Bank.

Objective control status

Objectives	Implementation status
In 2016, FIBI's management and Board of Directors held discussions on the findings of the work plan to improve management of ethical risks. The work plan will also be discussed by the managements and boards of directors of Bank Massad and Bank Otsar Ha-Hahayal.	Done

Objectives

- Continued follow-up of the recommendations of the report on prevention of embezzlement, fraud and unethical behavior.
- An annual discussion on embezzlement and fraud by FIBI's management.
- Map embezzlement and fraud risks as part of the operational risks survey update and new product approval.
- Implement policies and procedures to prevent bribery and corruption of foreign officials.
- Implement software to monitor and prevent embezzlement and fraud.

Instilling ethics



The ethical values to which we have committed shape the moral structure of our activity at the Group. The Code of Ethics, which imbues these values, is a moral identity card for each and every bank in the Group and functions as the moral compass of each employee in their day-to-day work.

The Code of Ethics

The FIBI Group banks and MATAF have ethical codes. The ethical codes constitute an additional pillar in the FIBI Group's organizational culture, which combines business and moral excellence. The Code of Ethics sets a high threshold of that which is proper and fitting to strive for, and is a clear and explicit statement of what we believe in and seek to uphold. The Code of Ethics applies to all employees of the Group, at any rank and in any position, including members of management and the Board of Directors, both of which have approved it. The Group attaches great importance to the implementation of the Code in its activities with the various stakeholders and expects all employees, members of management and the Board of Directors to work in the spirit of the values included in the Code. The Code of Ethics functions as a binding declarative document. To view the Code of Ethics, please visit the websites of the Group's banks.

Main objectives of the Code of Ethics

1. To create a value-driven, moral environment at the Group and offer a solution where the law or procedures are ambiguous.
2. To present the values that guide our activity vis-à-vis customers, employees, and the external environment.
3. To clarify how the values should be implemented in day-to-day life through rules of conduct.
4. To serve as a moral guide in instances of possible conflict or dilemma at work.
5. To help employees choose the right path and to direct decision-making processes at both the business and interpersonal levels.

We seek to develop and consolidate tools for instilling the Code of Ethics and foster an ethical culture. For this purpose, ethics functions have been established at each bank in the Group, where an ethics committee (chaired by a member of management) is responsible for instilling the Code and providing advice and training in accordance with its values, as well as an Ethics Supervisor (member of management) and Ethics Officer. The means available for requesting advice or reporting ethical issues are regularly advertised and available to all of the Group's employees. We allow managers and employees to remain anonymous on submitting an inquiry. The Group's content on ethics is available to managers and employees via each bank's enterprise portal. In addition, each bank chooses different channels for promoting and instilling ethics (employment agreements, employee conferences, emails, etc.) Each new employee hired by the Group reads the Code of Ethics when he/she begins working, and each employee is required to read the code periodically (the period varies from one bank to another - and ranges between one and three years). In 2016, no ethics-related inquiries were filed in the FIBI Group.

Activity in 2016

FIBI

In 2016, FIBI's Code of Ethics was revised following an extensive process that included the employees. As part of the revision process, focus groups were held among employees, authorized signatories and clerks, representing all banking, business and back-office functions. The focus groups discussed ethical aspects of banking in order to identify the ethical challenges facing the Bank and assess whether they are met by the existing ethical code in the daily work routine. The process also includes reviewing audit reports and other risk management-related documents in order to create a document that is as comprehensive and up-to-date as possible. Some of the Code of Ethics values have been updated in the process.

The following are FIBI's revised Code of Ethics values:

- Integrity, fairness and reliability
 - Excellence
 - Responsibility and commitment
 - Proactivity and innovation
 - Transparency and openness
 - Human dignity
-
- A desktop calendar in the spirit of the Code of Ethics was created and given to the employees
 - Work processes and procedures on preventing conflicts of interest between employees, suppliers and customers were revised.

Otsar Ha-Hayal

- New employees were trained on the Code of Ethics and received a printed version of the Code by their managers.
- Managers trained new hires on the Code of Ethics.

Massad

- The employees were required to undergo a refresher tutorial on the Code of Ethics.

MATAF

- In 2016, MATAF held ongoing processes to instill the Code of Ethics:
- New hires at MATAF undergo training on the Code of Ethics as part of orientation day.
- The values of the Code of Ethics are reflected in MATAF's employee assessment form and all of the employees and managers are assessed on the basis of these values.
- A circular was distributed to employees regarding the dress code, in the spirit of the Code of Ethics.

Objective control status	
Objectives	Implementation status
FIBI (PAGI and U-Bank)	
<ul style="list-style-type: none"> In 2016, the Code of Ethics will be updated and a list of examples of violations of the Code of Ethics will be published. The updating process will be carried with the participation of the Bank's employees, through focus groups of employees from various functions. Launch of, and training on, the new Code of Ethics - upon completing the revision of the Code and accompanying training aids, all employees will undergo training on the new Code, including training of managers and development of values-based leadership. 	<p>Done</p> <p>The training was postponed to 2017</p>
Otsar Ha-Hayal	
<ul style="list-style-type: none"> In 2016, the Bank will complete the instilment of the Code of Ethics in all units by the branch and division managers. In addition, a process will be implemented whereby each new hire will receive guidance on the Code of Ethics by his/her branch or division manager. 	Done
Massad	
<ul style="list-style-type: none"> In 2016, all employees will complete the current tutorial. 	Done. The tutorial was sent to all employees, 95% of whom completed it.

Objectives

FIBI

- Updating the Code of Ethics and its implementation - upon completing the revision of the Code and accompanying training aids, all employees will undergo training on the new Code. Initially, managers and authorized signatories will undergo training on this topic, followed by all of the Bank's employees. The training will include a theoretical part, which will focus on business ethics and ethical conduct, and a practical part that will include analysis of case studies and hands-on experience in using decision-making tools.
- Developing value-based leadership - to emphasize the role of leadership in the process of instilling the Code of Ethics in the organization, a kit for managers was prepared, to be used in team meetings discussing ethics and daily dilemmas.
- A booklet of sample dilemmas, a tutorial and an ethics portal - while holding training courses on ethics, the various training tools will be revised and prepared, primarily a sample dilemma booklet, which will include possible ethical dilemmas in banking activity, vis-a-vis customers, colleagues, suppliers and other stakeholders, and how to deal with them. The dilemmas booklet will serve as an advisory and guidance tool for all employees in their day-to-day work.
- For this purpose, focus group will be conducted to identify possible dilemmas.

Massad

- Updating and maintaining the Code of Ethics in line with the changes in the parent company. If an updated tutorial is created, it will be distributed to all employees.

MATAF

- Development and implementation of ongoing programs to instill the Code of Ethics.

Community outreach and investment



At the FIBI Group, we consider ourselves committed to active community involvement, with an emphasis on employees' involvement, in line with the vision, strategy, and values of the Group and in addition to our broad economic impact and leadership in the business world. Consequently, we undertake diverse and extensive community activities, reflected in social involvement, volunteering as well as financial donations.

The Group attaches great importance to fostering children and youths in order to give them a future advantage, thus promoting equal opportunity in Israeli society. We therefore focus on our social outreach efforts on fostering children and youths in general, and children at risk in particular, through education, personal support, mentoring, a healthy lifestyle, welfare, and helping children and youths with special needs. From time to time, the FIBI Group also invests in other areas. Our community outreach is carried out through ongoing strategic cooperation with social organizations and our employees, who volunteer in various fields. Two years ago - as part of

our community outreach efforts - the FIBI Group established steering committee, which includes two members of the Board of Directors and additional officeholders, who are responsible for community outreach, in an effort to closely monitor, direct, initiate, formulate and oversee the group-wide community outreach policy and activities on a regular basis

Financial investment and donations policy

The Group banks' donations policies (the main focal points of which are outlined above) are approved annually by each bank's board of directors. FIBI's management, through the bank's Resource Division, is responsible for managing the donations budget. Bank Otsar Ha-Hayal manages its donations budget separately from the rest of the Group through its Human Resources Department. Each bank (except for Bank Massad) has a Donations Committee, which handles ongoing requests and allocates donations to each bank for different

entities in accordance with the Group's policy.

The Bank's management chooses a flagship product (in the reporting period, that project was "Nekudat Mifne 2", which is presented below), which serves as its primary community outreach activity. The project lasts several years, and includes volunteer work by the Bank's employees. In a management meeting, the main projects are selected out of the alternatives proposed by the Resource Department, following mapping and consulting with professional entities. Management's conclusions and recommendations are submitted for approval by the Board of Directors. In addition to the main project, additional / secondary projects may be selected.

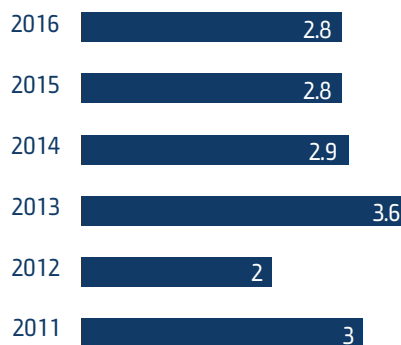
Applications for occasional donations are referred to the Donations Committee, along with a reasoned recommendation. The Committee is responsible for collecting all the requests and issuing recommendations. The decision to donate to an institution or another entity is at the discretion of the Donations Committee and subject to the approval of the Bank's Chairman of the Board. Approval for donations is given only to lawfully managed NGOs (with all required certificates, exemption clauses, etc., and with no political affiliations). Each donation that meets the above criteria is evaluated and considered by the Donations Committee. The Committee considers, inter alia, the following: donations to the needy (children and youth at risk, children and youths with special needs or illnesses, etc.), how effective the donation will be, and gives priority to employees' requests in order to encourage their involvement in the community outreach efforts. Each donation approved by a donations committee is reported to the Bank's CEO and later approved by the Chairman of the Board. Donations above a certain amount are examined by the Board's administrative committee.

As part of its financial investment, the Group also operates the United Way program in cooperation with NGO "Matan - Investing in the Community", in which the Group's employees can donate any amount of money to NGOs of their choice, and the bank increases that donation (in accordance with the program's definitions). The venture is designed to promote joint and empowering donations. So far, the Group has added NIS 464,000 to the employees' donations. From time to time, the Group also donates cash equivalents, for example: collecting necessities for the needy, donations of equipment, etc. The Group does not donate money or cash equivalents to political parties, politicians, or political institutions.

Financial Data - 2016

- Donations by the Group totaled approx. NIS 2.8 million in 2016 (about 0.6% of the profits).
- Over the past five years, donations by the Group reached NIS 14,414 million.

Investment in the community - the FIBI Group (in NIS millions)

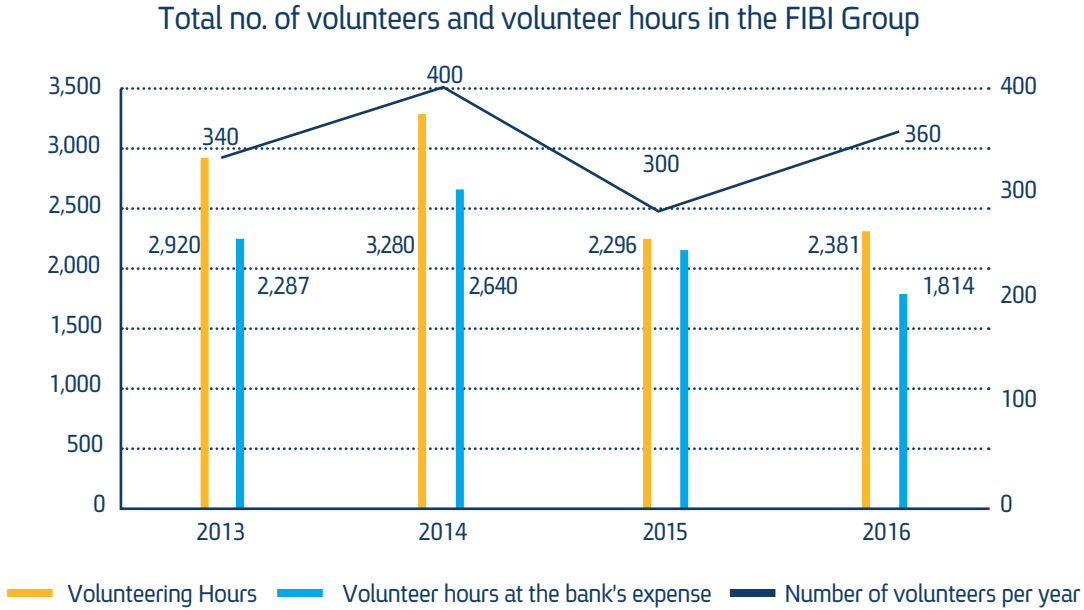


* In addition, each year the FIBI Group sponsors various entities.

Volunteering by employees

Each year, as part of the Group's overall community outreach efforts, hundreds of employees volunteer their time, experience, and expertise to help youths. We encourage all our employees to volunteer and participate in one of the programs - both during work hours and their leisure time, while providing full training and support. Employees who volunteer during work hours are fully compensated by the Group. Over the past few years, thousands of FIBI's employees have invested thousands of hours volunteering in a range of activities.

2016 Results



In 2016, 360 employees of the FIBI Group volunteered (a 20% increase over the previous year), contributing 2,381 volunteer hours to the community, of which 1,814 hours (about 75%) were at the Group's expense. In 2015, 300 FIBI Group employees volunteered 2,296 hours, of which 2,176 were at the Group's expense.



The flagship program - "Turning Point 2"

The Group's key social involvement program is Turning Point ("Nekudat Mifne"), which operates in cooperation with JDC Israel Ashalim and Matan - Investing in the Community. The program focuses on youth at risk who are at the margins of the society, aiming to get them back on track through a healthy lifestyle (among children and youth at risk and disadvantaged populations in general). The first programs operated over the past seven years and during the past three years, were replaced with new ones (see below). Each year, the Group offers the project volunteers from among bank employees, who donate their time, experience, and expertise for the youths.

2016 Results

- Through the end of 2016, Turning Point has helped 23,386 youths at risk in 66 communities across Israel.
- In 2016, Turning Point has helped 4,000 youths at risk across Israel.

Promoting a healthy lifestyle among at-risk youths and children

In 2014, Turning Point launched a new program with the objective of developing and strengthening lifestyle and wellbeing among children and youths at risk. The new program continued to invest in youths and their personal, educational and professional future, focusing on fitness, life skills and healthy living.

In 2016, the program continued, with 4 main projects. The "Runners from the Heart" project was discontinued in 2016



Fathers and sons football teams

A program for strengthening relationships and communication between fathers and their pre-adolescent and adolescent sons with the objective of strengthening the family, enhancing a can-do spirit, and preventing reckless behavior. The teams create an important meeting place for fathers and sons through team sports, comprising a supportive group to encourage sports and promote a healthy lifestyle. The team consists of 10-15 pairs (each comprising a father and a son aged 10-14). The program operates a weekly 90-minute training session for the fathers and sons by a coach and social counselor, assisted by a social worker.

2016 Results

- In 2016, a significant training model was launched for the professional parties involved in the process. The model includes guidelines for the soccer coach, social counselor and group facilitator, providing a comprehensive framework for all those involved.
- The program included support and counseling for 9 teams nationwide. The teams include about 250 participants (children and parents), and are mainly concentrated in the north and center: Kfar Saba, Kiryat Bialik, Kfar Chabad, Netanya, Jerusalem, Afula, Hadera and Bat Yam. FIBI's volunteers participated in joint activities with the father-son teams across Israel. The meetings took place on the teams' "home turf" and provided an opportunity for the Group's employees to become involved with the father-son teams project - experiencing an empowering social meeting while being physically active.
- Towards the end of the school year, a celebratory tournament took place - involving the fathers-and-sons teams and members of their families as well as the Group's employees: More than 80 fathers and sons from four teams across Israel participated, together with 50 Group employees and their sons - some from the Group-organized fathers-and-sons teams and others from the Group's league team - all of whom joined together to celebrate an empowering inter-generational community activity.

"Community gardens"

The program for the development of community gardens was implemented throughout the year in educational and community institutions across Israel, with the understanding that there are many benefits to working outdoors, in a natural environment - reduction of stress, violence and bullying; enhancing serenity, mental and physical well-being, increasing the sense of self-worth, empowering social connections and improving scholastic achievements, easing attention difficulties, and improving concentration and the ability to assimilate knowledge.

The purpose of the program is to promote the personal abilities of children and the community in educational and community settings by using the tool of community gardening as part of the ongoing activities.

The garden serves as a platform for activities such as parent-children activity, imparting life skills and enhancing a can-do spirit and self-image, a sense of belonging, and the assumption of responsibility, steadfastness, and enrichment in a range of knowledge areas. The activity is assisted by a social coordinator, an agriculture/gardening counselor, and a guide, and included training for the educational and community staff, professional guidance, building the garden's infrastructure and multi-participant special events.

2016 Results

- The activities included the development, preservation and maintenance of 6 community gardens in 6 cities and towns, in disadvantaged neighborhoods throughout the country (including 4 boarding schools for at-risk children and youth): the Apple House boarding school in Gan Yavne, the Ahava boarding school in Kiryat Bialik, the Alumim boarding school in Kfar Saba, the Or Hapnina boarding school in Beer Sheva, Bar Ilan community garden in Ramla, Ganei Alon community garden in Hadera and ongoing activities throughout the year. The Group's volunteers participated in the community garden activities with the children and youth, building the infrastructure - such as the garden beds, and planting trees, as well as in ongoing activities, special events and holidays.
- Development of gardens in boarding schools - an innovative communal gardening model incorporated into the curriculum of various boarding schools.
- The garden activities enhanced the participants' sense of belonging to the residential neighborhood. The activity in the residential community gardens gave a significant added value to the students enrolled in the boarding schools and an additional tool to the educational and therapeutic personnel. According to the feedback forms filled out by the participants following the activity, it seems that there has been an improvement in their sense of self-confidence and can-do feeling. The youth acquired training and entrepreneurship skills, as well as a sense of employability. According to feedback by parents regarding the parent-children activities, the program contributed to strengthening of the relationship and allowed them to spend a significant amount of time together.



Eco-friendly sitting corners

One-day workshops in which volunteers and youths at risk establish sitting corners made from recycled materials with the help of an artist, experiencing "making something from nothing". The project is accompanied by explanations about recycling and protecting the environment, and produces artwork that upgrades the aesthetics and functionality of the youths' schools. The corners are set up in the education institutions of youths at risk, and the activity imparts experience and a sense of accomplishment by the youths, an empowering meeting with the volunteers, the ability to plan and work in stages, delayed gratification, followed by an affiliation with the arts and preservation of the artwork over the year.

2016 Results

- The activity was carried out at 18 boarding schools and schools of children and youths at risk nationwide.
- Seventy-one volunteers from among the Group's employees participated in the activity days with the children and youth in their respective schools.
- The participants reported an empowering experience that included the ability to plan, work in stages, delay gratification, take responsibility and feel capable. The youth received added value from their joint work with the Group's volunteers, which included guidance and support by an environmental sculptor and use of reusable materials. There was a sense of pride and satisfaction from "making something from nothing" and having contributed something of their own to their school, as well as to those who will follow and enjoy their eco-friendly sitting corners and better-looking schoolyards.

Meeting additional needs

The Group launched a project to donate food packages to needy families ahead of the holidays. The activity, which included Group employees, was held towards Passover, in cooperation with NGO Latet, and towards Rosh Hashana, in cooperation with NGO Pitchon Lev.

In addition to the main programs led by the Group, the banks also promote investment in the community and social involvement. For example, Bank Otsar Ha-Hayal promotes a joint program with NGO Pitchon Lev in which the Bank's employees collect food for the needy for Passover and Rosh Hashana. The bank has also adopted an artillery battalion through the Adopt a Soldier program. The adoption is reflected in financial donations and participation in events.

Bank Massad is a strategic partner in the Laptop for Every Teacher program. The venture is run by the Athena Fund with additional partners. The objective of the program is to empower teachers and advance their professional standing, including in the area of online classes. As part of the program, about 2,000 laptops are provided to teachers in Israel every year, as well as a 120-hour training program to improve knowledge and add tools and skills for using the laptop for teaching purposes. To date, the Fund has given over 15,000 laptops to teachers in 130 towns across Israel. The Fund also gives iPads to special-education teachers and special tablet computers to science teachers. As part of the cooperation between the Bank and the Fund, the Bank actively participates in conferences and grants benefits to teachers who are members of the Fund and have accounts with Bank Massad. In 2016, the Fund gave laptops to 2,300 teachers.

Each year, MATAF purchases gifts from socially valuable suppliers. In addition, as part its community outreach, MATAF hosts "Kukiyot Children" - a project established as part of a joint project with the Department for the Advancement of Children and Youth in the Tel Aviv Municipality. Kukiyot is a bakery run by youth at risk who dropped out of the school system. The youth earn their living by producing, packing and selling a variety of quality handmade. In addition, in 2016, MATAF employees launched volunteer activities in a high school and in the Naamat Technological College, where school dropouts study. The program aims to enable the students to fulfill their potential and overcome their difficulties. The involvement of MATAF's employees includes tutoring students in English, math and computers, as well as providing them with technological instruction to help them prepare projects and presentations or set up a server in a virtual environment, etc.

Objective control status	
Objectives	Implementation status
In 2016, for the third consecutive year, Turning Point will carry out activities to promote a healthy lifestyle.	Done
In 2016, United Way will continue its joint annual activity with NGO Matan.	Done
In 2016, a call for papers will be issued for business enterprises by youths - a steering committee will select the ventures which will receive a one-time support grant.	Postponed. Will be launched in 2017. Social businesses are examined in terms of success and achievement of objectives.
The FIBI Group will continue the expansion of employee volunteering through the various programs and encourage employees' involvement in the community.	Done
Expand the food donation activity and assist FIBI's volunteers in packing and distributing food baskets to the needy on the following holidays: Pesach, Shavuot, Rosh Hashana.	Done

Objectives

- Expand the community outreach program for educational programs and financial literacy among youth at risk in accordance with a program developed in cooperation with NGO Matan Community Investors.
- Forge new collaborations with NGOs and entities in accordance with the work plan.
- Cooperate with NGO Unistream in a program that trains youth from disadvantaged populations and the periphery to become part of the business world and create ventures in addition to social responsibility, leadership and youth empowerment.
- Cooperate with additional new sectors and populations.
- Build collaborations among the various partners to create synergy and added value.
- In 2017, United Way will continue its joint annual activity with NGO Matan and different, additional activities will be evaluated.
- The FIBI Group will continue the expansion of employee volunteering through the various programs and encourage employees' involvement in the community.
- Continue the food donation activity and assist FIBI's volunteers in packing and distributing food baskets to the needy ahead of the holidays.
- Survey employees to assess the current activity and needs - following a preliminary questionnaire distributed in 2016, an additional, broad survey will be carried out, to closely examine how to match between the needs, current volunteer work and optional activities.
- In late 2016, we created a new branding, byline and logo - "FIBI - Investing in You and the Community". In 2017 the logo will be incorporated into all of FIBI's community activities.
- Hold an event to recognize the Bank's volunteers.

MATAF

- Continue activities to empower and assist the high school and Naamat College students.
- Continue activities with "Kukiyot Children".

Managing environmental aspects of the Group's activity



The FIBI Group provides diverse financial services to its customers. The main environmental impacts resulting from the Group's activity have an administrative, operational character, given the absence of industrial business processes in which various environmental resources serve as process inputs and outputs. Therefore, the environmental impact of the Group's operations is mainly reflected in electricity consumption to operate the Group's facilities, the use of fuel for transportation, the consumption of paper in office and business activity, and office waste generated on a daily basis. In addition to these direct impacts, the Group indirectly contributes to climate change, mainly through the direct and indirect emission of greenhouse gases, mostly from the consumption of fuel and electricity.

We recognize our responsibility for these impacts and therefore manage the key environmental resources of our activity, seeking opportunities to reduce their use and improve the efficiency of resource consumption, by adapting and changing operating and business processes and the responsible management of waste through an accepted hierarchy of reuse, recycling, and proper handling. Management of the various environmental aspects is undertaken through the monitoring of key performance indicators.

Power Consumption and increasing energy efficiency

Energy is a material environmental resource used by the banks. Increasing energy efficiency in headquarters and branch buildings of the FIBI Group is a key priority of the Group's environmental management. The Group's logistics array is the body responsible for the Group's energy management. Logistics is formulating a policy and procedures for resource management and energy use.

Power consumption from natural gas

In recent years, the FIBI Group has begun to use power supplied by Dorad (which produces electricity using natural gas and a cleaner mix of fuels compared with power produced by the Israel Electric Corporation) to power some of the banks' branches. In 2016, about 50% of the Group's power consumption came from Dorad.

New facilities

The energy management process at the FIBI Group places special emphasis on the construction of new buildings. Consumption efficiency considerations are included from the initial planning stage and implemented in the construction process and maintenance of the buildings. In this context and in view of additional environmental advantages, significant new structures are built in accordance with the Green Building Standard - Israeli Standard 5281 (2011).

Existing structures

In addition to the Group's new buildings, most activity is conducted at branches and other existing structures. These are

mostly properties in commercial centers, malls, etc. which are not directly owned by the Group. Nonetheless, and notwithstanding the absence of operational control, the Group undertakes a range of measures to save electricity, including the following:

- Installing a main circuit breaker for the lighting and power circuits
- Adjusting the lighting fixtures' brightness level to the nature of the activity and reducing the number of bulbs.
- Installing presence detectors for turning off lighting and air-conditioning whenever relevant.
- Building a single remote-control center which turns the systems on and off
- Using power-saving lighting fixtures - in the past five years, the Group has completed the gradual replacement of lighting fixtures with T5 units in most properties.
- Installing air conditioning system controllers to maximize the compressors' efficiency.

Power consumption by the FIBI Group*

	2016	2015	2014	2013
Power consumption (kWh)	24,029,961	27,110,604	25,013,696	26,165,505
Area (m ²)	120,308	131,271	77,375	76,375
Power consumption (kWh per m ²)	199.74	206.52	323.28	342.6

*In 2015, the FIBI Group improved its energy consumption measurement (see the FIBI Group's 2015 CSR Report, p. 112). In 2016, the process included the collection of power consumption data from 117 branches. In other buildings and branches, the power consumption was calculated by average consumption per area (average kWh per square meter) based on the existing consumption data.

Total power consumption in the Group's buildings (kWh)

Power consumption in the branches		Power consumption in the management buildings	
2016	12,003,372	2016	12,026,588
2015	13,574,710	2015	13,535,894
2014	7,696,066	2014	17,317,630
2013	7,727,366	2013	18,438,139

Energy intensity in the Group's buildings (Kwh per m2)

Power consumption in the branches		Power consumption in the management buildings	
2016	212.64	2016	188.33
2015	192.65	2015	222.5
2014	277.4	2014	348.9
2013	279	2013	371.5

Objectives

- The Group intends to continue expanding the measurement baseline for power consumption to its remaining branches.
- In 2017, the Bank aims to reduce its power consumption by 2%.



Green building at FIBI

Green building is an advanced construction method which combines planning and technical solutions from a holistic perspective, taking into account a building's total impact on the environment. Green building principles include, but are not limited to, combining the following considerations: location and transportation access; land use; energy efficiency; use of enhanced environmental performance materials; improving the efficiency of water consumption; waste recycling and treatment; efficient environmental operations; and the health and welfare of the users, in order to minimize adverse effects and offer positive value to the environment, space, and those visiting the building.

In 2015, the new MATAF building was inaugurated in the Sorek industrial Zone in Rishon Letzion. The building houses about 16% of the Group's employees. The entire structure was built according to green building principles, at the most innovative level, which allows for natural outdoor sunlight to enter the building during most of the day and renders the use of electricity-powered lighting unnecessary. FIBI currently has two main structures built according to green building principles - its headquarters and the MATAF building. The FIBI headquarters on Rothschild Boulevard in Tel Aviv is a 28-floor, 132-meter high building, which was built in accordance with the green building principles, and has obtained Israeli Standard 5281 (2011) certification.

The MATAF building project was accompanied from the beginning by an environmental green building consulting firm, and was subsequently planned and built according to SI 5281 Sustainable Building Standard at a score of 65 points. The building includes numerous elements which translate to improving office comfort and energy efficiency, as well as many issues related to reducing environmental damage.

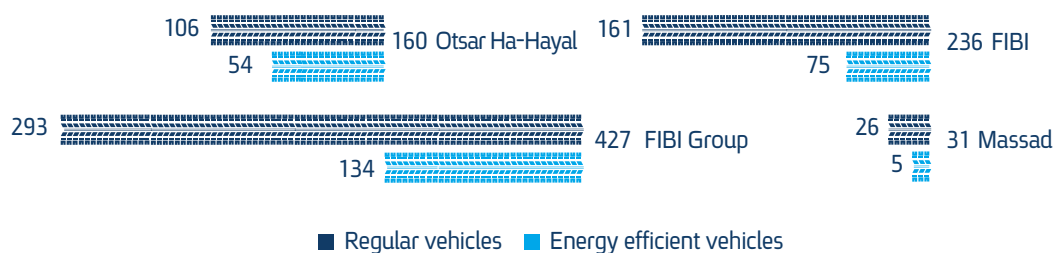
Fuel consumption

Besides power, another component of the FIBI Group's energy consumption is fuel consumed by the Group's vehicle fleet. The Group's vehicle fleet is mainly based on gasoline-powered sedans. To reduce air pollution from car emissions and increase fuel consumption efficiency, the Group is promoting the use of fuel-efficient cars in its fleet, and is expanding the supply of these cars, publicizing their advantages for employees and providing information on safe and fuel-saving driving.

Activity in 2016

- In 2016, the Group's fleet had 427 vehicles, 30% of which were fuel-efficient (with an engine smaller than 1,400 cc and/or a turbo TSI engine). The fleet's reduction of vehicles - from 495 in 2015 to 427 in 2016 - is due to the U-Bank and PAGI mergers, as well as to the reduction of manpower in the Group. In 2016, the Group's vehicles consumed 1,174 thousand liters of fuel.
- In 2016, 38% of the Group's car replacements were to fuel-efficient vehicles.

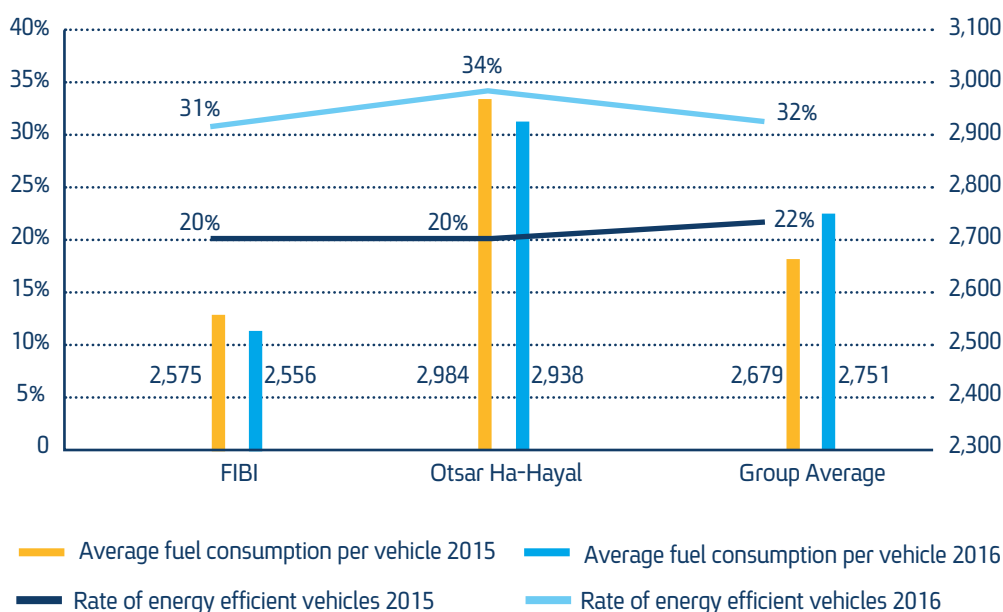
The FIBI Group's vehicle fleet size and no. of fuel-efficient vehicles in 2016



* FIBI's vehicle figures also include those of MATAF, PAGI and U-Bank.

An in-house analysis of fuel consumption by the vehicle fleets of the various banks in the Group indicates that the proportion of fuel-efficient vehicles has a positive effect on lowering the average fuel consumption per vehicle.

Comparison of average annual fuel consumption



* FIBI's figure also include MATAF, PAGI and U-Bank.

Objective control status

Objectives	Implementation status
Due to lower hybrid vehicle prices, the Group intends to start leasing hybrid cars for savings and sustainability reasons.	Postponed. The number of fuel-efficient vehicles has increased significantly and the gap between hybrid and low-cost vehicles has narrowed. The issue will be reassessed in 2017.
The Group intends to increase the use of fuel-efficient vehicles and increase their proportion in vehicle replacements planned for the year, compared with 2015	Done

Objectives

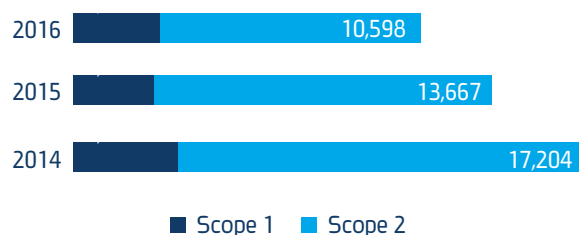
Due to the lower fuel-efficiency gap between hybrid and fuel-efficient vehicles, the Group will consider leasing new generation gasoline-efficient vehicles.

Carbon footprint

The FIBI Group recognizes the climate change phenomenon and monitors the main factors in its activity that impact it. The Group's carbon footprint is monitored in accordance with accepted standards in Israel and other countries and is calculated using calculation tools developed by the Ministry of Environmental Protection and in accordance with the international Greenhouse Gas (GHG) Protocol. The FIBI Group's carbon footprint comprises direct emissions (Scope 1) - the burning of fuel by the vehicle fleet; and indirect emissions (Scope 2) - power consumption. Additional indirect emissions (Scope 3) are immaterial to the Group's activity and are therefore not monitored.

Dealing with climate change and reducing emissions at source is undertaken as part of the energy conservation plan, green building, use of fuel-efficient vehicles, and the purchase of electricity from private power producers which generate power by natural gas (that has lower greenhouse gas emissions compared with the fuel mix used by Israel Electric Corporation). The FIBI Group's total carbon footprint in 2016 was 13,705.1 tons CO₂eq. This constitutes an 18% reduction in the Group's greenhouse gas emissions compared to 2015.

The FIBI Group's carbon footprint in 2014-2016 (in tons CO₂eq)



In 2016, the greenhouse gas emissions intensity stood at 0.114 tons CO₂eq per square meter. This figure reflects a decline from the 2015 figure, which was 0.2 tons CO₂eq per square meter.

Consumption of materials

Paper is one of the main environmental raw materials consumed in the Group's routine banking activity. Therefore, the FIBI Group is managing this resource on the basis of the guiding principles of efficient use, reduced consumption, and maximum recycling. In addition, paper consumption is directly linked to toner consumption for printing. Printer toner contains ink, which has a significant environmental impact. The FIBI Group regards reducing the consumption of paper and printer toner as an opportunity to reduce its impact on the environment, thereby contributing to the organization's efficiency and to a more sustainable planet.

Activity in 2016

- Activity continued during 2016 with the objective of improving the management of the two resources and reducing their consumption. The Group continued to maximize the potential inherent in process automation and to eliminate the printing of forms, which have been automated, as part of the multiyear strategic project to characterize and analyze patterns of paper consumption by the Group, both internally and externally, and to improve, consolidate, automate, and eliminate forms and reports without compromising processes. Below are the main initiatives undertaken in 2016 in this context:
 - Displaying reports on computers and eliminating printouts.
 - Eliminating the delivery of printed forms to branches and instead, displaying them directly on the branch terminals - the paper consumption has been moderately reduced due to printing the forms at the branches.
 - Increasing the use of two-sided printing by all of the Group's managements.
 - Increasing the use of two-sided printing - a 7% reduction is expected due to the increase in two-sided printing.
 - Using a secure virtual safe instead of sending paper by post among the Group companies and to and from suppliers.
 - Sending invitations, reports, and select forms by email.
 - Recycling 99% of toners.
 - Using eco-friendly paper.
 - Moving to digital - reduction in paper consumption, reduced number of clerks, mobile check depositing.

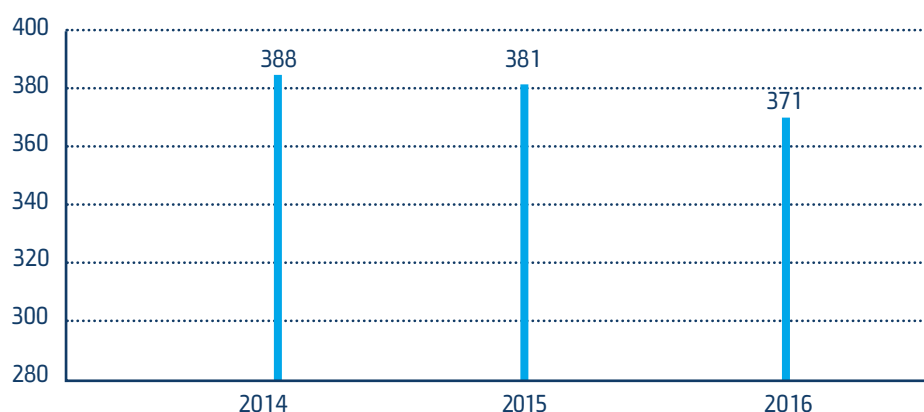
As part of its resource management, the Group monitors paper and ink consumption by internal systems and is gradually expanding the measurement baseline, in order to obtain more accurate results. Below is the FIBI Group's paper consumption in 2013-2016:

	2014	2015	2016
A4 photo-copy paper	376,000	368,578	360,173
Stationery	2,310	2,610	1,713
Brown envelopes	4,891	5,967	5,527
White envelopes	4,806	4,160	3,610
Total (Kg)	388,007	381,315	371,022

In 2016, the FIBI Group consumed 9,989 kg of toner. The Group only uses recycled toners.

The increase in toner consumption is due to a decrease in the number of forms in the Group's warehouses and the transition to automated forms, resulting in more printing by the branches.

Total Paper Consumption (tonne)



Objectives

- Reduce the use of A4 photo-copy paper by 2% compared with 2016.
- Reduce the use of stationery and envelopes by 10% compared with 2016.

Waste recycling

The waste created by the Group's activity can be classified into three main types:

- General mixed office waste.
- Paper waste (including cardboard).
- Computer equipment waste.

In terms of scale and content, the most substantial types of waste characteristic of the Group's activity are paper waste and computer equipment waste.

As a principle, all paper consumed by the Group is collected after consumption and sent for recycling. Major facilities also collect cardboard, which are sent for recycling together with the paper. Out of the total amount of paper consumed by the Group in 2016, 3.51 tons of cardboard were recycled. Similarly, nearly all the toner consumed by the Group, about 99%, is collected and sent for recycling.

Computer equipment waste, electronic products waste and appliances waste, including: magnetic storage devices, batteries, computer equipment and peripherals, appliances, and communications equipment, are centrally collected by the Group Procurement Department and sent for handling by a certified party (an entity recognized under the Environmental Treatment of Electrical and Electronic Equipment Waste Law).

FIBI Group's waste recycling

	2013*	2014	2015	2016
Paper (tons)	583.9	541	528.9	580.3
Archive clearance (tons)	283	254	254	272
Toners (kg)	-	8,192	9,482**	9,989
Electronic and magnetic storage (kg)	1,393	2,261	3,568	5,372

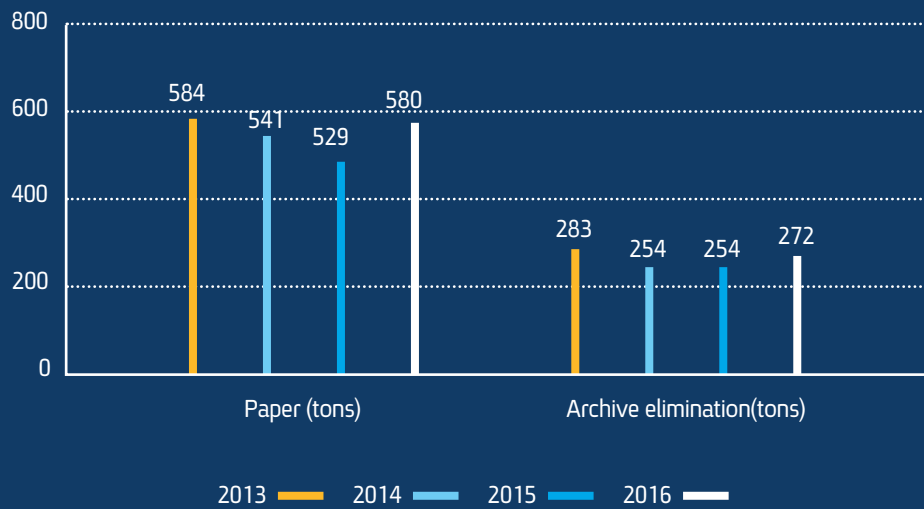
* * There are no data on toner recycling for this year

** The figure in the 2015 report referred to units rather than kilograms.

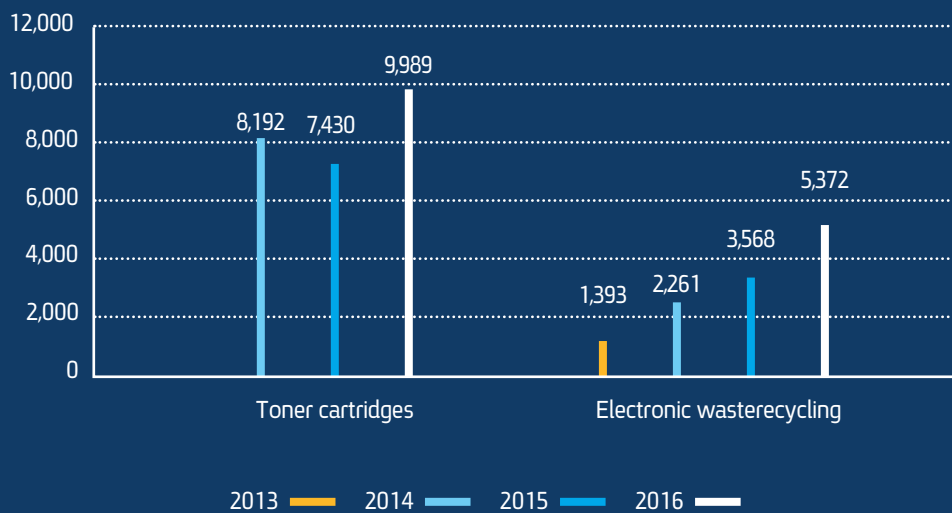
In addition, 472 units (566 kg) that were not reported were added to this figure.

The increase in toner consumption is due to a decrease in the number of forms in the Group's warehouses and the transition to automated forms, resulting in a 5% increase in printing by the branches.

Paper recycling and archiving clearance by the Group (tons)



Toner, electronic waste and magnetic storage by the Group (kg)



Objectives

- Due to the implementation of various processes, including the transition to automated forms as stated, toner usage has increased in recent years. In 2017 we will strive to maintain the existing balance.

The Group's employees contribute to the environment

In 2013, the FIBI Group established the Process Streamlining Forum, which is charged with assessing and promoting streamlining and savings by the Group. The forum is engaged, inter alia, with issues of significant environmental impact (such as reducing the consumption of consumable resources). Any employee may submit to the Forum any idea whose implementation may result in future financial savings, even if it has no practical short-term impact. We are looking for proposals that will result in renegotiating contracts with suppliers, streamlining work methods, and improvement of processes at the Group.

GRI Content Index



Standard	Indicator	Description	Page	UNGC-cop
GRI 102: General Disclosures	102-1	Name of the organization	6	No specific requirement
	102-2	The organization's activities, brands, products, and services	6	
	102-3	Location of the organization's headquarters	6	
	102-4	Location of the organization's operations	6	
	102-5	Ownership and legal form	6	
	102-6	Markets served by the Company	6, 23	
	102-7	Scale of the organization	25, 84, 135	
	102-8	Information on employees	84	
	102-9	Supply chain	138	
	102-10	Significant changes to the organization and its supply chain	6	
	102-11	The Precautionary Principle	Not material to Bank's activity	6
	102-12	External initiatives	The bank didn't implement any External initiatives	4-12
	102-13	Membership of associations	The bank is part of the Association of Banks in Israel	4-12
	102-14	Statement from the organization's senior decision-maker	4	Not relevant
	102-15	Key impacts, risks, and opportunities	4, 15	23-24
	102-16	The organization's values, principles, standards, and norms of behavior	149	4-12
	102-17	The organization's internal and external mechanisms for advice and concerns about legal conduct and ethics	131, 149	
	102-18	Corporate governance structure	122	
	102-19	Delegating authority	122	
	102-20	Executive-level responsibility for corporate governance management	The senior manager who is responsible for CSR in FIBI's Group is the head of resources department at FIBI and part of the management. He reports directly to the Board of Directors	No specific requirement
	102-21	Consulting stakeholders on corporate governance topics	123	
	102-22	Composition of the board of directors	127	
	102-23	Chairman of the Board	127	
	102-24	Determining the composition of the board of directors	127	
	102-25	Preventing conflicts of interest	127	
	102-26	Role of the organization's board of directors and management in developing, approving and updating the organization's vision, values, and strategy	122	
	102-27	Enhancing the board of directors' knowledge about sustainability and corporate responsibility	123	
	102-28	Assessing the performance of the board of directors	129	

Standard	Indicator	Description	Page	UNGC-cop
GRI 102: General Disclosures	102-29	Identifying and managing economic, social, and environmental impacts	122	
	102-30	Effectiveness of risk management processes	123	
	102-31	Review of corporate governance management	120, 129	
	102-32	The role of the board of directors in sustainability reporting	The Board of Directors, the management of the Bank and the managers of the Bank's companies confirm the CSR report	
	102-33	Communicating critical concerns	122	
	102-34	Nature and total number of critical concerns communicated	FIBI does not elaborate the issues discussed at board meetings	
	102-35	Remuneration policies	129	
	102-36	Process for determining remuneration	129	
	102-37	Stakeholders' involvement in remuneration	129	
	102-38	Annual compensation ratio	129	
	102-39	Change of annual compensation ratio	129	
	102-40	List of the organization's stakeholder groups	18	
	102-41	Collective bargaining agreements	110	6
	102-42	Identifying and selecting stakeholders	18	No specific requirement
	102-43	The organization's approach to stakeholder engagement	18	
	102-44	Key topics raised through stakeholder engagement and the organization's response	18	
	102-45	Entities included in the financial statements	12	
	102-46	Defining report content and reporting boundaries	15	
	102-47	List of material topics	15	
	102-48	Restatements of information	57	
	102-49	Changes in reporting	12	
	102-50	Reporting period	12	
	102-51	Date of most recent report	12	
	102-52	Reporting cycle	14	
	102-53	Contact point for questions regarding the report	184	No specific requirement
	102-54	Claims of reporting in accordance with the GRI-SRS Standards	15	
	102-55	GRI content index	176	
	102-56	External assurance	182	

Standard	Indicator	Description	Page	UNGC-cop
GRI 201: Economic Performance	103-1	Explanation of the material topics and their boundaries	5-17	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	201-1	Direct economic value generated and distributed by FIBI	135	
	201-2	Financial implications and other risks and opportunities due to climate change	135	
	201-3	FIBI's obligations for employee retirement/remuneration and pension plans	119	
	201-4	Financial support, grants or assistance received from government during the reporting period	135	
GRI 203 Indirect Economic Impacts 2016	103-1	Explanation of the material topics and their boundaries	135	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	203-1	Infrastructure investments and services supported	153	
	203-2	Significant indirect economic impacts	135	
GRI 204: Procurement Practices	103-1	Explanation of the material topics and their boundaries	138	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	204-1	Proportion of spending on local suppliers	138-139	
GRI 205: Anti-corruption	103-1	Explanation of the material topics and their boundaries	145	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	205-1	Operations assessed for risks related to various types of corruption	131	
	205-2	Communication and training about anti-corruption policies and procedures	131, 150	
	205-3	Confirmed incidents of corruption and actions taken	145	
GRI 301: Materials	103-1	Explanation of the material topics and their boundaries	164, 171	6-7
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	301-1	The materials used by the company, by weight or volume	170	
	301-2	Proportion of recycled input materials used	170	9-10

Standard	Indicator	Description	Page	UNGC-cop
GRI 302: Energy	103-1	Explanation of the material topics and their boundaries	164	6-10
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	302-1	Energy consumption within the organization	164	
	302-2	Energy consumption outside of the organization	Not measured	
	302-3	The organization's energy consumption intensity	164	
	302-4	The organization's energy consumption reduction	164	
	302-5	Reductions in energy requirements of the organization's products and services	41	
GRI 305: Emissions	103-1	Explanation of the material topics and their boundaries	170	No specific requirement
	103-2	The management approach and its components	170	
	103-3	Development of the management approach	170	
	305-1	Direct (Scope 1) GHG emissions	170	
	305-2	Indirect (Scope 2) GHG emissions	170	
	305-3	Other indirect (Scope 3) GHG emissions	Not measured	
	305-4	The organization's GHG emissions intensity	170	
	305-5	Reduction of GHG emissions	167	
	305-6	Emissions of ozone-depleting substances (ODS)	Not measured	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions, by weight and type	Not relevant	
GRI 401: Employment	103-1	Explanation of the material topics and their boundaries	83, 111	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	401-1	New employee hires and employee turnover	88	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	111	
	401-3	Parental leave	92	
GRI 402: Labor/ Management Relations	103-1	Explanation of the material topics and their boundaries	108	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	402-1	Minimum notice periods regarding operational changes	111	

Standard	Indicator	Description	Page	UNGC-cop
GRI 404: Training and Education	103-1	Explanation of the material topics and their boundaries	94	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	404-1	Average hours of training per year per employee	97	
	404-2	Programs for upgrading employee skills and transition assistance programs	95	
	404-3	Percentage of employees receiving regular performance and career development reviews	108	
GRI 405: Diversity and Equal Opportunity	103-1	Explanation of the material topics and their boundaries	88	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	405-1	Diversity of governance bodies and employees	84, 91, 129	
	405-2	Ratio of basic salary and remuneration of women to men	92	
GRI 406: Non-discrimination	103-1	Explanation of the material topics and their boundaries	88	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	406-1	No. of discrimination incidents and corrective actions taken	91	
GRI407 : Freedom of Association and Collective Bargaining	103-1	Explanation of the material topics and their boundaries	108	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	108	
GRI 413: Local Communities	103-1	Explanation of the material topics and their boundaries	153	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	413-1	Operations with local community engagement, impact assessments, and development programs	153	
	413-2	Operations with significant actual and potential negative impacts on local communities	79	
	FS13	Service points for disadvantaged populations by geographical area and type	41	
	FS14	Initiatives for making financial products more accessible to disadvantaged populations	28, 41	

Standard	Indicator	Description	Page	UNGC-cop
GRI 414: Supplier Social Assessment	103-1	Explanation of the material topics and their boundaries	138	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	414-1	Percentage of new suppliers - breakdown by employment environment criteria	138	
	414-2	Negative social impacts in the supply chain and actions taken	138	
GRI 417: Marketing and Labeling	103-1	Explanation of the material topics and their boundaries	75	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	417-1	Requirements for product and service information and labeling	75	
	417-2	Incidents of non-compliance concerning product and service information and labeling	76	
	417-3	Incidents of non-compliance concerning marketing communications	76	
GRI 418: Customer Privacy	103-1	Explanation of the material topics and their boundaries	60	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	62	
GRI 419: Socioeconomic Compliance	103-1	Explanation of the material topics and their boundaries	131	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	419-1	Total monetary value of significant fines. Non-monetary sanctions for non-compliance with laws and regulations	133	
Product profile (Sector Supplement)	103-1	Explanation of the material topics and their boundaries	25, 46, 63, 71, 75	No specific requirement
	103-2	The management approach and its components		
	103-3	Development of the management approach		
	FS6	The value of the organization's products/service portfolio	23	
	FS7	Value of products designated for promoting social causes	25	
	FS8	Value of products designated for promoting environmental causes	28	

Quality Assurance Statement: The FIBI Group, 2016 Corporate Social Responsibility Report

Introduction

The Corporate Social Responsibility Institute is an independent public entity promoting corporate social responsibility among corporations. The Institute is part of the College of Law and Business, a private college for law and business management (accredited by the National Council for Higher Education). The Institute holds professional meetings, writes reports, studies and market surveys, and localizes applicative methodologies from around the world, etc. Corporations' transparency and accountability regarding their social and environmental impacts is one of the issues at the heart of the Institute's activity. In June 2017, the FIBI Group asked the Institute to perform quality assurance on its 2016 Corporate Social Responsibility Report.

It is hereby declared that the Institute receives payment to cover the time invested in this process. In addition, it is hereby noted that neither the Institute nor Mr. Liad Ortar (who performed the work) have business relationships with the FIBI Group and that the quality assurance process was independent. During the quality assurance process, a draft of the report was examined and several work meetings were held to clarify various issues. Some have already been addressed in this report.

Methodology

The aim of the quality assurance process for corporate social responsibility reports is, first and foremost, to improve the final reporting outcome by providing professional feedback. For the avoidance of doubt, it is a process that is integral to the reporting process and aims at rapid and correct implementation, as far as possible, of the professional comments which are provided during the work process.

In addition, we examine whether the report is in line with three key principles:

1. **Inclusiveness** - full coverage of the topics from the reporting process and reporting parties and inclusion of a wide range of stakeholders in the report.
2. **Materiality** - coverage of the topics material to the company's activity.
3. **Responsiveness** - reporting on issues raised by stakeholders.

Findings

This is the FIBI Group's fourth published CSR report. It is in line with the entire local banking segment's adoption of CSR reporting, as required by the Supervisor of Banks. The company has adopted the Global Reporting Initiative's (GRI) new reporting guidelines, the GRI Standards, complying with the Comprehensive reporting requirements. I hereby declare that the FIBI Group does comply with the disclosure and reporting scope required for this level. Issuing a CSR report annually, with all the entailing obligations, is undoubtedly a worthy decision.

I would also like to note the report's high level in terms of disclosure of goals and measures, the data presentation and consistency of reporting over the years. Especially noteworthy is the Group's effort to provide service to the diverse sectors of Israeli society. The FIBI Group's unique ownership structure - in which all of the sectorial entities were combined into a single banking entity - the Group is uniquely positioned to provide services to, and answer the needs of, each sector, especially the ultra-Orthodox one.

My main recommendation for improving and advancing the FIBI Group's reporting in the coming years is related to the scope of reporting: After the Group and the Israeli banking industry have adopted a reporting legacy, as a result of a requirement issued by the Supervisor of Banks, I would like to emphasize that the GRI gives enterprises freedom in terms of the frequency and scope of reporting. The full repetition of the text each year does present a consistent snapshot of the enterprise's work, but at the same time fails to emphasize the Group's significant achievements in the reporting year.

Respectfully,

Liad Ortar
Head of the Corporate Social Responsibility Institute



To comment on the report, please contact:
Orit Itzcovitch
Head of Corporate Social Responsibility
Itzcovitch.O@fibi.co.il

FIBI  **FIRST INTERNATIONAL
BANK OF ISRAEL**