

BANK HAPOALIM
**SUSTAINABILITY
REPORT 2016**

Economic, Social & Environmental Responsibility





SOCIAL RESPONSIBILITY
IT'S IN OUR HANDS
BANK HAPOLIM

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Message from Bank Hapoalim Chairman, Mr. Oded Eran and the CEO, Mr. Arik Pinto

We are proud to present the annual sustainability and corporate social responsibility report of Bank Hapoalim for 2016. This is the tenth CSR report published by the bank, evidence of the bank's ongoing commitment to this area and to its various stakeholders: to the shareholders; customers; employees and suppliers across Israel; and to the community and Israeli society within which the Bank operates. This activity realizes part of the bank's vision and leadership in the field of sustainability and social responsibility in Israel.

In 2016, the bank began implementing its strategic plan for 2016-2018. Entitled "Personal, Human and Technological", the plan focuses on a number of key areas: creating an optimal and flexible infrastructure for topics such as: capital management; human resource development; building an innovative technological infrastructure as a platform for advanced services for

retail and business customers; innovation in financial products and services; focused development of global operations; and continued operational excellence as a way of life. We understand that - within these channels of activity, which promote the bank's business sustainability and excellence, we are committed - both managers and employees - to promote corporate responsibility as an integral part of our activity. As part of this commitment, the bank has established, over the past year, the Stakeholders' Division, in order to conduct a dialogue with the stakeholders, with the aim of creating common value.

In 2016, we continued to serve our large customer base through the branches and various technological channels. This year was characterized by targeting and customizing services and products to various types of customers according to the special and varied financial needs of each group. The past year was marked

by a significant enhancement of our digital value proposition to customers, along with strengthening of personal and human relations. Innovation is part and parcel of the bank's corporate culture, aiming to offer services to the public in a personal, humane and technological manner. In the past year, the bank has established the Innovation Division to initiate and leverage innovative solutions and new growth engines - both digital and technological - and to accelerate the pace of change and execution of initiatives.

In 2016, we continued to enhance financial freedom - a key value in the bank's vision - for our customers and the general public. Our role at the bank is to serve as our customers' financial facilitators, assisting them through products and tools that support behavior change to promote adequate financial conduct. As part of this effort, we continued to promote tools to assist prudent financial management

among households, segments and population groups, such as new seniors (people in or near retirement age), young target audiences and through various initiatives in the public sphere. Thus, for example, the bank took an active part in the Financial Awareness Week project - during which bank customers and the public in Israel were offered to participate in a series of conferences in various bank branches, with the aim of increasing awareness of informed financial conduct and proper management of banking activity.

In 2016, the Bank continued its strategic activity in the small business segment, with the understanding that this segment is one of the pillars and growth engines of the Israeli economy. The bank's deep commitment and ongoing activity in this area is reflected in enhancing the value proposition, creating innovative products, and providing ongoing financing and consulting to this customer segment. The bank continues to serve as a leading credit provider for this segment, along with service that is tailored to small businesses, and by providing assistance in dealing with the unique challenges facing them.

The bank continues its activity to promote growth in the Arab sector. Economic development of this sector has social implications, which have a positive impact on the economy and society. The bank's momentum among the Arab population in Israel has altered the competitive conditions

in this sector, reflecting the strength and professionalism of Bank Hapoalim. In recent years, the bank doubled the number of branches in Arab communities and, during the past year, two new branches have been opened in Arab communities. As part of our effort to strengthen ties with Arab society in Israel, we are promoting various initiatives for this sector on the community level as well.


In 2016, the bank continued to lead financing in the Israeli economy, even as some of our customers are undergoing a complex and challenging period, while leading the financing of projects promoting environmental sustainability. As in recent years, the bank continued to serve as the leading financing entity in Israel for activities and infrastructure in areas such as: power generation from renewable energies; power plants to generate energy from natural gas; facilities for the proper treatment of waste; green building, etc. In this manner, we help create a more environmentally-friendly infrastructure for Israel's future.

The bank continued to promote and develop the quality of its largest and most important resource: the employees and managers, while maintaining labor relations, which has been a strategic asset for the bank for years. The Employees' Association is a full partner in leading the bank to impressive achievements, serving as a role model for the entire industry. The bank's managerial backbone

- of which more than 50% are women - is an outstanding figure in the Israeli economy, attesting to the uniqueness of the bank's work environment. This year, as part of its human resources development efforts, the bank continued to train employees and managers through courses at Poalim Campus, online training and digital empowerment at the branches.

In 2016 the bank continued to lead the entire banking system in its efforts for the community. The bank focused on projects in the area of education, with special emphasis on education towards prudent financial conduct as a key for promoting financial freedom. In addition, thousands of the bank's employees volunteered in 2016 in social organizations across Israel, throughout the year.

Following a decade of corporate responsibility, we are being recognized by local and global entities and ratings, and are proud to be in line with leading banks across the world. As part of this commitment, the bank continues to be committed to the ten principles of the United Nations Development Program (UNGC), which promotes economic development in a manner that is beneficial to the community and to future generations. This is a milestone, but as part of the challenges we face, we will strive for significant achievements in this field in the coming years.


Oded Eran
 Chairman of the board of directors


Arik Pinto
 CEO

Corporate Responsibility at Bank Hapoalim: About the Report

This is the tenth report to be published by Bank Hapoalim for its stakeholders. Each report surveys a full year of activity within our overall sustainability and corporate social responsibility plan. The annual reports, published since 2007, reflect varied, thorough, systemic, and methodical activity. The sustainability and CSR reports reflect the bank's journey - from the inception of the plan to the present day - to instill corporate social responsibility. Each report focuses on different highlights, according to the key areas of activity in the preceding year.

In 2016, as part of the bank's strategy, we continued to identify and realize business opportunities in this area, while promoting social and environmental benefits; improve service and fair, ethical conduct; form partnerships with stakeholders in society and in the community; and improve environmental and social risk management. The key initiatives and metrics for the activity of the bank in 2016, described in detail in this report, are presented in the following pages.

Methodology for the Preparation of this Report: Measurement, Evaluation, and Control

This sustainability and CSR report refers to the 2016 calendar year. During the reported period, there were no significant changes in the type of ownership, structure, or size of the bank. However,

new managers filled the positions of Chairman of the Board and CEO (assumed office at the beginning of 2017). This report has been prepared in accordance with the GRI Standards: Comprehensive option. Most of the data in the report were generated by the information systems at the bank, in accordance with GRI reporting requirements. Information was collected regularly and routinely throughout the year. However, some of the data were collected at the end of the reporting period. The information is organized in a comprehensive database encompassing data on the reported period as well as multi-year data. All of the information in the report is presented using the various indices. Data are presented using comparative analyses referring to the reported period and to long-term trends. A small part of the data involves the use of estimates and evaluations. Wherever used, estimates and evaluations were diligently checked and validated, and are clearly noted in the report. The report does not address CSR impacts of Isracard Ltd¹. Isracard publishes an independent corporate responsibility report in accordance with the directives of the Supervisor of Banks.

We recognize the importance of auditing and external assurance of our work and of the accuracy of the data accumulated as the plan moves forward. Accordingly, we have decided to continue to maintain external auditing of the adequacy of our reporting, on four levels: Firstly - the corporate social responsibility implementation process;

secondly - auditing the adequacy of the reporting; thirdly - the completeness of the reporting on our carbon footprint; and fourthly - compliance with the reporting guidelines on material aspects in accordance with the requirements of the GRI, which examined the bank's process for identifying issues for reporting and found it to be in compliance with the new reporting standard's provisions.

The readers of this report, our stakeholders, will use it to critique and judge our performance and the extent to which we have met their expectations. We are committed to making use of the comments and feedback we receive from our stakeholders in order to learn from them and continue to examine ourselves in this context. A new mini-site is going to be launched dedicated to the Bank's corporate responsibility activities. We will also publish a booklet presenting social and environmental challenges in Israel and how the Bank is involved in solving these challenges in the vast activity of shared value. This year's Sustainability and CSR Report is available in Hebrew and English on the bank's website, along with an accessible version for people with disabilities, for convenient and environment-friendly distribution and reading.

We would like to thank all of the employees and managers involved in every level of the bank's work, who contribute to these activities each day, and who helped create this report.

Assimilating the Bank Hapoalim vision

The Bank Hapoalim Vision

To be a leading global financial institution, headquartered in Israel, focused on its customers and working towards their financial freedom. To create value for our stakeholders while upholding the principles of economical, social, and environmental sustainability. To cultivate human capital and encourage excellence and innovation. To base our actions on the core values of compassion, integrity, openness, and accountability.

Over the last years, an ongoing process has been underway to assimilate the Bank Hapoalim vision, with the aim of expressing the future projected for the bank at its best. The Bank Hapoalim Vision is a clear, powerful, meaningful description of our future as it can and should be. It also provides a structured framework for charting our future course; declares our commitment to our employees, our customers, and all of our stakeholders; imparts meaning and a connection with our values to the objectives and initiatives led by the bank; and empowers the bank in its leadership on the shared path to the

challenges of the future. Values chosen for inclusion in the Bank Hapoalim Vision are intended to create an impact on the following three levels:

- 1. Proud to belong** – Our focus on our customers and our financial leadership are a source of pride and foster a sense of belonging for our employees;
- 2. Committed together** – The endeavor to create value for our stakeholders and our commitment to the cultivation of human capital on a path of compassion, integrity, openness, and accountability are aimed at nurturing a personal commitment to our shared journey, in

which each person acts responsibly and contributes to the success of all;

- 3. In it for the long haul** – The drive towards financial freedom for our customers, in congruence with the principles of sustainability and in encouragement of excellence and innovation, reflects a long-term commitment to improvement and empowerment.

The concept underlying the integration of these three dimensions and the fundamental motif of the Bank Hapoalim Vision is: Leading Growth Together.



Yael Almog
Deputy CEO
Stakeholders division



Hagit Bechor
Director of the Shared Value Center
Stakeholders division



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The Bank Hapoalim Vision comprises ten elements:

- **Global, centered in Israel** - We are, and will remain, a leading Israeli bank. Yet in today's world, under conditions of a globalized economy, a large top-tier bank must engage in international activities and offer its customers globe-spanning services. Our international operations are an important growth driver for the long term.
- **Leadership** of the bank is mainly measured by its market capitalization, profitability, and return on equity, but also by its operating efficiency, brand strength, CSR activities, upholding of sustainability principles, contribution to the community, and professional ethics. The bank is strong on all of these parameters, and is working to improve and advance further.
- **Focused on the customer** - We are dedicated to responding to the changing needs and aspirations of our customers, during each stage of their lives, while creating economic value for the bank and tailoring services to different sectors: households, private banking, small businesses, commercial, and corporate. We believe that our focus on our customers is the key to our success over any period of time.
- **Financial freedom** - This concept represents the freedom and will of our customers and employees to make good choices, based on their personal preferences, while taking responsibility for and understanding the financial capabilities and possibilities open to them.

- **Sustainability principles** - These represent and reflect environmentally conscious business conduct aimed at preserving and enhancing existing resources and achieving economic, social, and environmental balance for our own sake and for the sake of future generations. The bank believes that the adoption of these principles supports its objectives and increases its value for the long term.
- **Creating value for stakeholders** - The essential mission of a business enterprise is to maximize its value in a way that serves all of its stakeholders: employees, customers, investors, suppliers, the community, and the general public. The creation of value is based on four pillars: the stability of the bank, which ensures its ability to meet its obligations at any given moment and to support the development of the economy; sustainable profitability, balancing risk and returns; promotion and cultivation of sustainability principles, and a philosophy of genuine partnership with employees and customers.
- **Excellence** - An organizational and personal stance leading to success, and expressing the desire, responsibility, and commitment to be better, through resolute and effective efforts. Excellence is the ambition to make the most of our inherent potential, to make optimal use of available resources, and to set a high standard for performance.
- **Innovation** - Finding and promoting new initiatives that generate business value and competitive advantage, through

processes that encourage employees to raise ideas and to think creatively and innovatively, throughout the bank. This effort is aimed at improving processes and systems, developing new products and services, and promoting business initiatives.

- **Developing human capital** - The bank believes that the human capital of any business organization is one of its most valuable assets. The bank considers its employees to be partners, maintains a relationship with them based on mutual trust and respect, and strives to enable them to succeed and to provide them with tools for professional and personal development.
- **Fundamental principles: humanity, integrity, transparency, and responsibility** - These values embody the ethical and moral standards and principles that are the cornerstones of our organizational culture, reflecting the bank's way of life and rules of appropriate conduct. We will uphold these values in our work relationships with each other, and in our connections with customers, suppliers, and the community.

Working to Promote Financial Freedom for the Stakeholders

As a business leader, Bank Hapoalim has the responsibility to promote equal economic opportunities in Israeli society and economic sustainability among its customers, employees and the general public. The bank welcomes this responsibility, and believes in its mission to contribute to the empowerment of the society from which it draws its strength. Each person has different economic needs, according to the milestones in his or her life, and different financial resources available to meet those needs. In order to cope with such needs appropriately in the short and long term, it is necessary to obtain a solid understanding of the full range of financial needs and possibilities, become familiar with the tools and products offered in this area, and achieve optimized matching in order to eventually attain good control and balance between needs and possibilities. Proper identification of needs, full information regarding financial possibilities, tools, and supporting products, use of advice, and appropriate prioritization make it possible to reach good decisions for each time frame and maximize financial potential.

Bank Hapoalim acts strategically to promote prudent financial conduct among its customers and in the Israeli public. This effort is congruent with the trends identified by the bank in recent years in customers' needs and wishes, indicating a greater need

for more extensive financial knowledge. The bank recognizes that financial knowledge and the use of financial tools are essential in order to create financial freedom and strike a balance between financial needs and abilities, for each customer. The bank therefore endeavors to provide information regarding the financial possibilities available to its customers at high resolution and transparency, with maximum availability, adapted to different life stages. A wide range of tools, products, services, knowledge, and guidance by the bank are offered in order to ensure that customers are familiar with the full picture and with all of the alternatives open to them, in order to reach informed, independent decisions.

The bank promotes financial freedom for various stakeholders: by raising awareness and providing information, promoting financial knowledge, as well as tools and financial services to help and support behaviour change. This is done by promoting the growth of various segments and groups in Israel (such as small businesses, the Arab-Israeli sector, the Haredi sector, and the new seniors); through customer clubs for various target groups at the bank; through multi-channel banking services (via telephone, Internet, mobile phones, tablet computers, etc.), offering customers tools and products for prudent financial conduct; and through enhanced physical and virtual access to banking services, customized

consulting services and unique initiatives to help and support customers who experience difficulties. On this foundation, customers' relationships with financial institutions become more balanced and aligned with their expectations, and are able to make better economic decisions for each stage of their lives.

As part of the dialogue conducted by the bank with additional organizations and groups for the promotion of this cause, the bank initiated the launch of the Israel Financial Freedom Forum. The forum brings together many participants from the government, community, and business sectors seeking a shared platform for discussion, identification of opportunities, and initiation of ventures to promote financial education in Israel. The forum enables various stakeholders to join forces in order to consult, discuss, and think about solutions in this area.

The bank promotes financial freedom on several levels, adapted to various target audiences, through diverse channels (for more information on the concept of financial freedom, please see the Customers section and the Community section).

Promoting Financial Freedom

Children and teenagers



Awareness

- Dan the Saver content
- Dan the Saver summer camps
- Training of employees on a volunteer basis
- Training of employees within the framework of a "Enriching parent" for elementary students

Knowledge

- Dan the Saver games
- Enriching Parents project for elementary school children
- Poalim Young
- A study program for middle and high schools in cooperation with ORT
- Training of employees on a volunteer basis

Products and services

- Dan the Saver - savings plans and benefits, website, account, ATM

Soldiers and students



Awareness

- Training of employees on a volunteer basis

Knowledge

- Bankopaedia
- YouTube videos
- Training of employees on a volunteer basis

Products and services

- Digital tools for budget management, encouraging savings and increasing control and flexibility

Households / families



Awareness

- The Growing Family
- Training of employees, in various forums, on a volunteer basis
- Financial Awareness Week

Knowledge

- The Growing Family
- Bankopaedia - database and tips for life's various milestones
- YouTube videos
- Training of employees, in various forums, on a volunteer basis
- Financial Awareness Week
- For bank employees: study hour, training days, campaigns, newsletter
- Training as part of customer conferences

Products and services

- Financial and pension planning
- Credit and savings consulting
- A cash-back club for smart consumption
- Digital tools for budget management, encouraging savings and increasing control and flexibility

Support for behavioral change

- Poalim for Recovery
- Opportunity for Growth - to accompany and assist customers following crisis
- Financial planning course for employees

New seniors



Awareness

- The Growing Family
- Training of employees, in various forums, on a volunteer basis

Knowledge

- The Growing Family
- Bankopaedia - database and tips for life's various milestones
- YouTube videos
- Training of employees, in various forums, on a volunteer basis
- Financial Awareness Week
- For bank employees: study hour, training days, campaigns, newsletter
- Training as part of customer conferences

Products and services

- Financial and pension planning
- Gold club
- Digital tools for budget management, encouraging savings and increasing control and flexibility

Support for behavioral change

- Financial and pension planning
- Digital tools for budget management, encouraging savings and increasing control and flexibility

Small businesses



Awareness

- The Growing Family
- Training of employees, in various forums, on a volunteer basis

Knowledge

- Center for financial assistance in collaboration with the College of Management and the Shekheil Foundation
- Guidance to starting a business
- Training of employees on a volunteer basis
- Training as part of customer conferences

Products and services

- Small Businesses Day
- App for businesses
- Easy Start - small business benefits program
- Variety of credit funds
- My online store
- Poalim Business Club

Support for behavioral change

- Opportunity for Growth for small businesses along the route of the Tel Aviv Light Railway

Public sphere



Awareness

- Financial Freedom Forum

Knowledge

- Partnerships with NGOs

Corporate Social Responsibility and Sustainability at Bank Hapoalim

Corporate social responsibility and sustainability are a strategic and social philosophy for managing a business while creating economic, social, and environmental value. This section presents the bank's CSR and sustainability perception, its organizing model for management in this area, and the implementation of these values in its activity.

Bank Hapoalim was one of the first business institutions in Israel to decide to apply this approach as a strategic element of its operations. The bank views this area as a source of business opportunities, which also promote social and environmental benefits, and as a foundation for innovation and competitive advantages, improvement of service, fair and ethical conduct, management of environmental and social risks, and partnership with stakeholders in the community, which position the bank as a leading economic and social organization. The bank works to achieve in-depth implementation of these values based on the highest international standards, using a wide range of methods and tools to cope with the challenges posed by this approach. CSR management and implementation help to achieve results in the business, social, and environmental spheres that contribute to the bank's success and to the expansion of its positive impact on all of its stakeholders, both internal and external to the organization.

Organizing Model: The CSR Flower

The bank's CSR and sustainability perception has been formulated into an organizing model: the CSR Flower. The model maps the entire CSR and sustainability field into a unified cognitive

pattern, simple to communicate and absorb, organized, and consistent. The model presents CSR by organizing parameters and indicators from the different content areas and condensing them into a short, simple series in four central categories: customers, community, employees, and environment, which constitute the four petals of the flower. These represent the areas in which the bank's CSR and sustainability activities and impact are focused. Each category (petal) of the model contains various activities. Each of the four categories is divided into two tiers:

■ **Value creation tier** – Focused on activity with the external stakeholders of the bank; creation of shared business value for the bank and its stakeholders, combined with social and environmental values, emphasizing:

1. **The best interests of the customer;**
2. **Empowering Society and the Community.**

■ **Resource management tier** – Focused on the intra-organizational activity of the bank, with an emphasis on management of human resources as strategic partners and on the bank's environmental conduct:

3. **Employees' quality of life and wellbeing;**
4. **Living with the environment.**

Implementing and Assimilating CSR Values in All Levels of Activity

This perception is implemented through a sustainability and CSR plan based on five main organizational aspects:

Structure and authority – The sustainability and CSR plan is managed based on the matrix management approach. In accordance with this approach, the head of CSR is the strategic leader for this area, in coordination and cooperation with the various unit heads. Each unit is responsible for implementing certain aspects under its authority, using its resources. Activities of the CSR officer include integration of all actions related to CSR; overseeing methodology, tools, and professional support; controls and reporting; change management and communications in this area; and building an up-to-date knowledge base.

Processes, metrics, and information – Measurement is a fundamental element of management, allowing goals to be set, progress to be monitored, and performance to be compared. Improvement of the measurement infrastructure allows enhanced controls to be applied to the various activities, and is aimed at promoting efficient, effective management of the sustainability and CSR plan. The sustainability and CSR plan is implemented at the bank based on a fundamental infrastructure including:

- Processes that gradually transform new initiatives in this area into routine activities at the relevant units;
- Clear metrics allowing standardization of the plan and analysis of performance over time;
- Extensive information collected in existing organizational systems or produced directly for the purposes of the plan.

Broad implementation – The various CSR initiatives and projects at the bank are implemented and administered broadly, in a top-down process, with the participation of many units and encouragement for units to develop bottom-up initiatives. A large



number of projects are being developed in order to realize various objectives of the plan. Each new activity is first carried out as a pilot project. Following the pilot and the process of drawing the necessary conclusions, the many projects are absorbed into routine work processes and procedures, with the aim of achieving ongoing management comparable to other business processes of the organization.

Branding, communication, and development of awareness – In order to support change management and differentiate the various initiatives

undertaken within the plan, a logo was designed for the organizing model of the plan – the CSR Flower – accompanied by the slogan, “Social responsibility – it’s in our hands”. In the spirit of this logo and slogan, each initiative launched as part of the plan was branded and widely communicated to the various levels of managers and workers. This effort includes the CSR zone of the organizational portal, which presents the bank's worldview in this area and serves as the central location for CSR issues. As part of the communication and implementation of CSR, a series of training sessions and talks was developed, covering topics such

as sustainability, healthy lifestyles, safe driving, and more.

The annual sustainability and CSR report is available and accessible to all stakeholders in the Israeli and international economy: businesses, government agencies, non-profit organizations, academia, analysts, etc. All of the bank's sustainability and CSR reports are available for download, in Hebrew and English, in an accessible, user-friendly format on the bank's website.

Dialogue and collaboration with stakeholders² – Over the last few years,

Bank Hapoalim has developed a range of channels for dialogue with various groups of stakeholders, with the aim of identifying needs and providing an optimal response to sustainability challenges in the bank's dynamic, complex environment. In this context, a comprehensive mapping process of all potentially relevant stakeholders for dialogue and collaboration was performed. Since then, a wide-ranging network of collaborations and connections has been created and continues to form, with clients, employees, government and municipal agencies, environmental and social experts, non-profit organizations, entrepreneurs and businesses, academia, and more. This web of connections has enabled the bank to expand and extend its strategic and business activities and its sphere of influence, and to strengthen the nationwide network involved in this field,

in the areas of the economy, society, and the environment.

The bank runs several forums within the effort to promote social values in the public sphere, rooted in the bank's vision, including the Financial Freedom Forum and the Small Business Forum. The forums are designed to serve as a platform for dialogue among partners, identifying joint opportunities, finding barriers and ways to resolve them, pooling resources, and promoting ideas and initiatives through shared abilities. The forums bring together stakeholders from a range of public, social, and business organizations to lead the various initiatives, and to work together to promote change, in quarterly meetings. Issues on the agenda are discussed at each meeting, and roundtables are held to enable thinking groups to come up with

ideas and solutions, as well as opportunities for cooperation between leading market players, who can join forces to promote common causes. Virtual meetings are held through a website designed for that purpose, and direct dialogue is also promoted via e-mail communications. The uniqueness of the forums lies in the partnership among the different spheres – public, social, and business – coming together to form a single entity acting in unison.

The CSR zone of the bank's website, at www.bankhapoalim.co.il/csr, is the main window for the public to the bank's sustainability and CSR activities. The website presents an appropriate level of transparency for stakeholders with regard to events at the bank and delivers the maximum possible amount of information, which is essential to dialogue and feedback.

Stakeholders Division

The Stakeholders Division was established with the aim of leading an advanced business concept based on creating shared value (economic, social and environmental value) for the bank and its stakeholders in order to create sustainable business success based on social, humane and environmental values. The Division's guiding principle is **creating common value - making positive impact!** With emphasis on action that will produce significant impact on the environment and society, with the objective of making positive impact. The Division was established in early 2016. The bank thus joins leading organizations worldwide in adopting advanced business models, which examine and measure multidimensional aspects beyond the bottom line, adding indicators that reflect the enterprise's impact on all its stakeholders.

During 2016, the Stakeholder Relations Division developed its vision and values, as well as a divisional roadmap and strategic plans that reflect the division's vision and focal points. The Division's vision is as follows: **“Conducting dialogue, creating shared value with our stakeholders and leading sustainable banking, which has a positive impact on the society and community in which we operate”**. The Division operates on two levels:

- It helps the bank take into account the impact of the various moves on all stakeholders;
- It leads and initiates moves and actions of shared value for the benefit of all stakeholders.

The Division includes units such as Poalim for the Community, Poalim Volunteers and the "Poalim Campus". To promote the

implementation of this vision, new units were also formed:

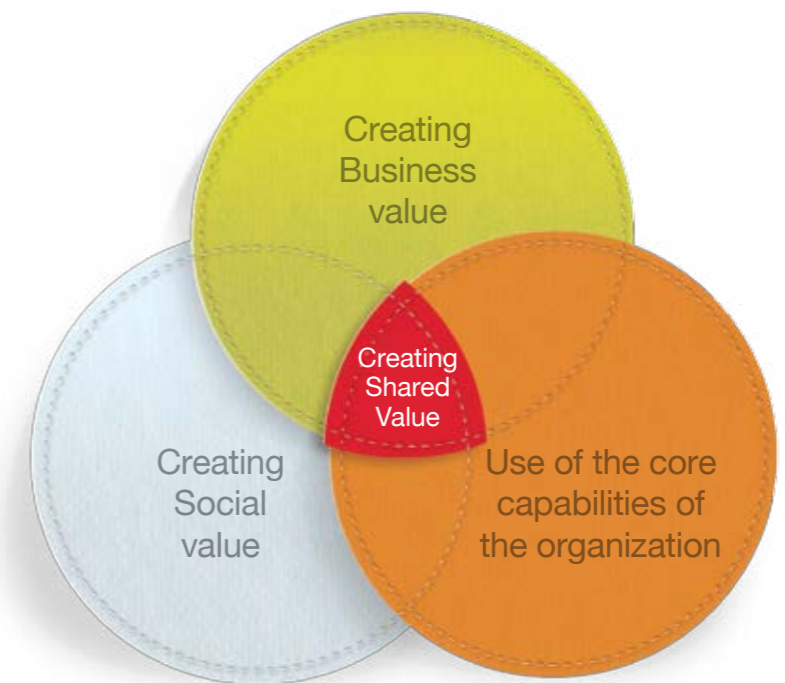
- **Shared Value Center** - established to create a significant and sustainable impact through initiatives that create a common value for the bank and its various stakeholders. Shared value is an advanced business concept, which includes the creation of business value and of social value, using the enterprise's core capabilities.

In banking, shared value focuses on three main areas:

- Financial freedom** - focusing on a person and his/her family;
- Local growth** - focusing on small businesses and local communities;
- Global issues** - focusing on society, the environment and sustainability.

- **The Social Networks Unit** - The Stakeholder Division promotes open dialogue with the bank's stakeholders, and has therefore established a dedicated unit to manage stakeholder relations on social networks, with the purpose of creating an additional platform for listening to interested parties while promoting humane, personal dialogue and providing swift professional solutions.

In addition - as part of promoting the value of financial freedom to our customers and to the general public, out of the concept of shared value - a training center will be established for the bank's customers and the general public, which will focus on providing knowledge and tools to promote proper financial conduct according to life's milestones.



LOOKING AHEAD

In 2017, the Shared Value Center will focus on two main areas of activity:

Development of projects and initiatives to promote shared value for the bank and its stakeholders, including the development of a methodology and tools to promote this area of activity;

Managing relations with stakeholders on a regular basis, including the development of an operating model, tools and work plans for implementation. The initiatives will be based on control and measurement processes of social impact, alongside the business and operational impact, as well as internal and external collaboration in the public sphere as a whole.

The following are selected examples of key stakeholder groups and the ways in which the bank promoted dialogue and collaborated with them during 2016 (out of hundreds of channels and the bank's various stakeholders):

Stakeholder	Selected dialogue channels in 2016 ³
Customers	<ul style="list-style-type: none"> ■ Promoting financial freedom and enhancing relations - All branches hold customer seminars on various subjects several times a year, developing training content and practical tools for budget management, financial planning and investments, and making them accessible through the website and in meetings with customers. In 2016, the bank took an active part in the Financial Awareness Week project - during which bank's customers and the general public in Israel were offered a series of conferences in various bank branches, which were held during a single week in September 2016. The project was accompanied by a campaign and a website to sign up for the conferences, which were held at about 100 branches of the various banks across Israel; ■ A significant customer conference array which provides customers with added value. Each of the branches holds several customer conferences during the year; an annual regional conference is held for small businesses. Professional lectures are given at the conferences, on subjects such as pensions, mortgages, and family budgets, as well as external enrichment sessions. About 840 customer conferences were held at the branches; approximately 1,500 customers participated in four regional conferences for business customers; over 1,000 customers enjoyed a variety of digital experiences as part of the Personal. Humane. Technological. Conferences held across Israel. ■ Small businesses – Bank officials meet with representatives of organizations and groups that promote small businesses in the Israeli economy; branch managers and bankers strengthen relationships with small businesses through meetings at the business, unique products, professional conferences, and more; ■ Encouraging growth in the Arab-Israeli sector – Throughout the year, the bank conducts dialogue with business and social organizations in this community, and leads various initiatives for meetings in Arabic-speaking towns. In 2016, the bank held workshops to manage the family budget, activities on holidays and youth activities; ■ Management visits to branches – Division managers from the head office visit branches, or other points of contact with customers, in order to experience the "factory floor" and raise questions and issues based on interactions with customers; ■ Deeper relationships with selected customers – Management staff at the branches follow defined routines for meetings and telephone calls with customers at various points and at customers' life events; ■ Client surveys – Customers at the branches and in the various channels are continuously sampled, on a daily basis, uniformly across channels, lines, and branches; ■ Focus groups – Of customers, designed to obtain clarity regarding customers' needs and examine solutions on various matters connected to customer relations.
Employees	<ul style="list-style-type: none"> ■ Feedback sessions with all employees of the bank, and midterm objectives tracking sessions with employees – were held in 2016 as every year; ■ Beshutaf ("in collaboration") - a new internal business network launched gradually from the beginning of 2016, to encourage intra-organizational communication and promote business through knowledge sharing and giving back to the community. The network enables employees and managers to receive updates, share information, work in professional teams and promote projects quickly and easily; ■ Employee union – The union's work with management and employees is characterized by continual dialogue (updates, feedback, and consultation) and partnership in all key initiatives and everyday processes; ■ Mobility and transfer processes – The process includes preparation, support, and personal consultation until staffing and full absorption at the new unit are complete, through ongoing contact; ■ Dialogue with managers – Regarding manpower needs, organizational changes, annual processes (ranking, bonuses, etc.), and more;

Stakeholder	Selected dialogue channels in 2016 ³
Employees	<ul style="list-style-type: none"> ■ CSR zone of the organizational portal – Employees are invited to suggest ideas and tips, ask questions, and request help from various content experts. Some of the ideas and tips are posted in the content sections, with credit given to the employees who suggested them. The ideas are considered, and some are even implemented. ■ Dialogue with new employees of the bank – Welcome meetings; orientation days; course opening, midterm, and closing sessions for introductions, mutual coordination of expectations, feedback, etc.;
Suppliers	<ul style="list-style-type: none"> ■ Conferences for the bank's suppliers, attended by hundreds of suppliers from various fields (consulting, transportation, construction, printing, sales promotion, office supplies, food, and more). Professional content is imparted, with an emphasis on purchasing, as well as content with added value for suppliers in the areas of banking, marketing, and sales promotion; ■ Communication of the bank's CSR values to the general population of suppliers of the bank through periodic letters and the ethical code for suppliers.
Regulator, government ministries and local authorities	<ul style="list-style-type: none"> ■ Meetings and lectures for the exchange of knowledge and insights with representatives of government and municipal agencies. Joint projects aimed at addressing environmental and social issues are promoted in this context. ■ Meetings and lectures for the exchange of knowledge and insights with representatives of government and municipal agencies. In this context, joint projects aimed at addressing environmental and social issues are promoted; ■ Cooperation with the Bank of Israel and Association of Banks in the preparation of the Financial Awareness Week - during which bank's customers and the general public in Israel were offered a series of conferences in various bank branches, which were held during a single week in September 2016.
Community and environmental organizations	<ul style="list-style-type: none"> ■ Relationships with non-profit organizations in the field of CSR, in order to obtain feedback, exchange knowledge, and offer mutual assistance; ■ Dialogue and cooperation with associations promoting the field of financial freedom - including "Pa'amonim", "Chasdei Lev" and "Hayim Pluss"; ■ Promotion of green businesses – such as the Renewable Energy Association of Israel, Ecommunity, Tashtiot, and others operating in various sectors such as recycling, transition to natural gas, energy efficiency, solar energy, water, etc., through knowledge sharing, assistance, and examination of opportunities for cooperation; ■ Non-profit organizations active in the area of diverse human capital and employment of population groups underrepresented in the job market, such as The Israeli Forum for Diversity Hiring, Kav Mashve – Employers' Coalition for Equality for Arab University Graduates, Tevet – Joint Israel, Olim Beyahad – Leadership and Employment Excellence for Ethiopian-Israeli University Graduates, and more, for the promotion of diversity in Israel in general and at the bank in particular, through knowledge sharing and action.
Academia	<ul style="list-style-type: none"> ■ Management and professors at universities and colleges, including Tel Aviv University, the College of Management, the Academic College of Tel Aviv Yaffo, and Bar Ilan University; ■ Project for the deployment of recycling means and instilling environmentally-conscious practices at the College of Management campus and at Bar-Ilan University (see the community chapter);
CSR community	<ul style="list-style-type: none"> ■ Contact and professional dialogue with Israel's leading business organizations and CSR managers; ■ Ma'ala – Shared discussion and mutual assistance in facing professional problems and challenges; ■ Lectures on CSR at relevant venues (courses, conferences, etc.).

Defining Material Aspects – GRI-SRS

Since 2008, the bank has reported on its activities and impact in the area of sustainability and CSR in compliance with the recognized GRI international reporting standard. All of the bank's sustainability reports were prepared according to the highest transparency grade, in compliance with the various standards. This report has been prepared in accordance with the GRI Standards: Comprehensive option⁴.

The reporting guidelines require the bank to focus its report on the topics most

material to its activity, in accordance with its strategic approach, while addressing the expectations of its various stakeholders. Material topics are defined as areas of activity in which the bank has a significant impact on its various stakeholders in the area of CSR and sustainability, and in which stakeholders influence the bank, within and outside the bank. This requirement allowed the bank to examine and update the topics reported in its sustainability and CSR report. Accordingly, in order to prepare to comply with the

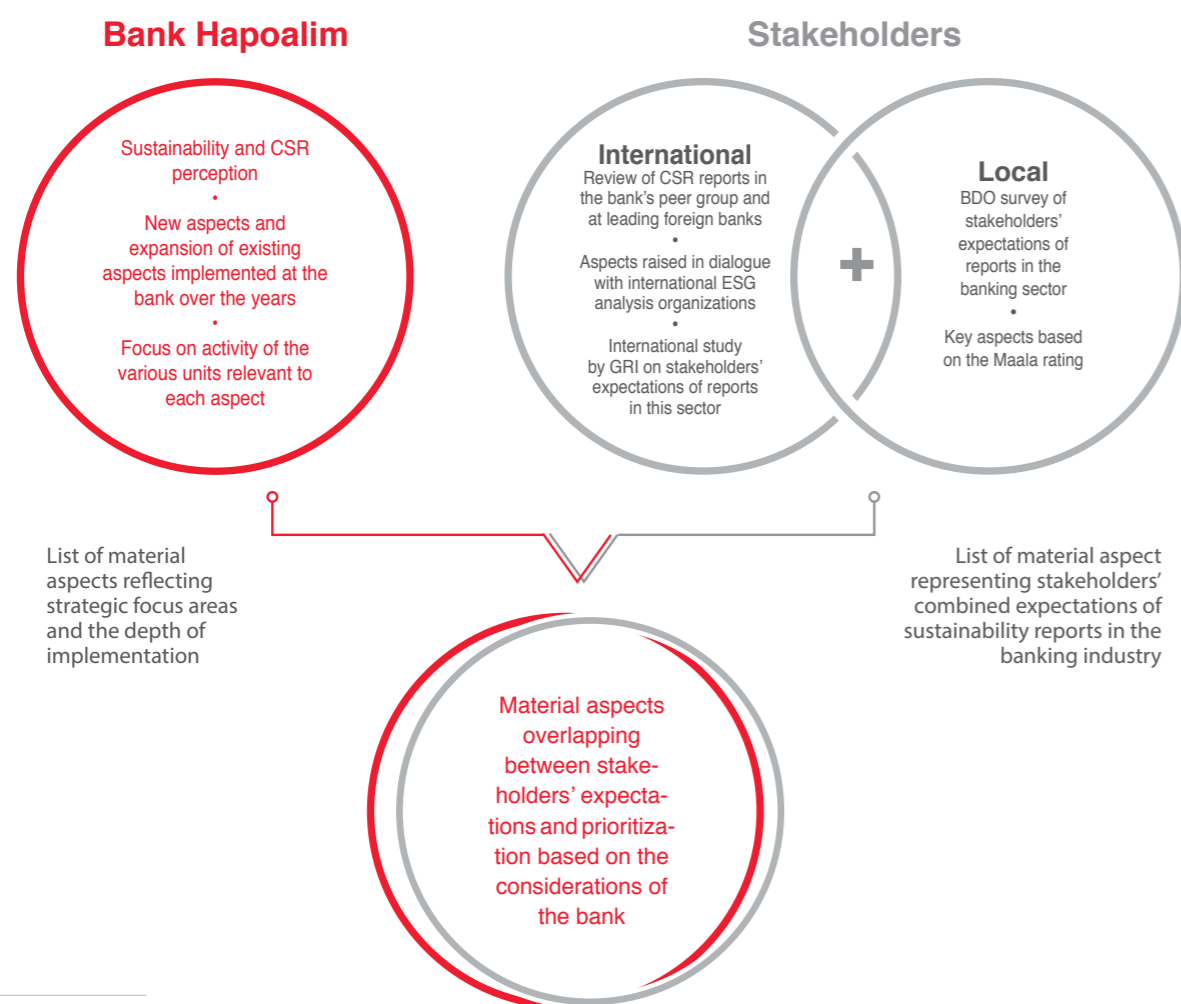
GRI reporting guidelines, in 2014 the bank conducted a comprehensive drive to identify and analyze material topics determined in an integrated internal and external process, with guidance from the BDO Ziv Haft Sustainability and CSR Group. A summary of this process⁵ is presented in the diagram below. For further details, see the bank's 2014 reports.

Feedback on the bank's report, dialogue with stakeholders, and update of the material aspects

As part of the bank's dialogue with external stakeholders throughout the year, the bank receives feedback on its sustainability and CSR reporting from various parties. Following the publication of its previous report, and in preparation for the current one, the bank focused on feedback from global and local analyst firms and rating agencies (dialogue with analysts who are in contact with the bank), following

which data or focal issues were included in this year's report (without material change). In 2017, the bank is expected to begin an in-depth process to re-map its stakeholders and instill an integrative, broad-based dialogue with them, which will be reflected in the bank's next CSR reports (for more information on the process, please see p. 32).

Process of Defining Material Aspects for the Bank Hapoalim Sustainability and CSR Report



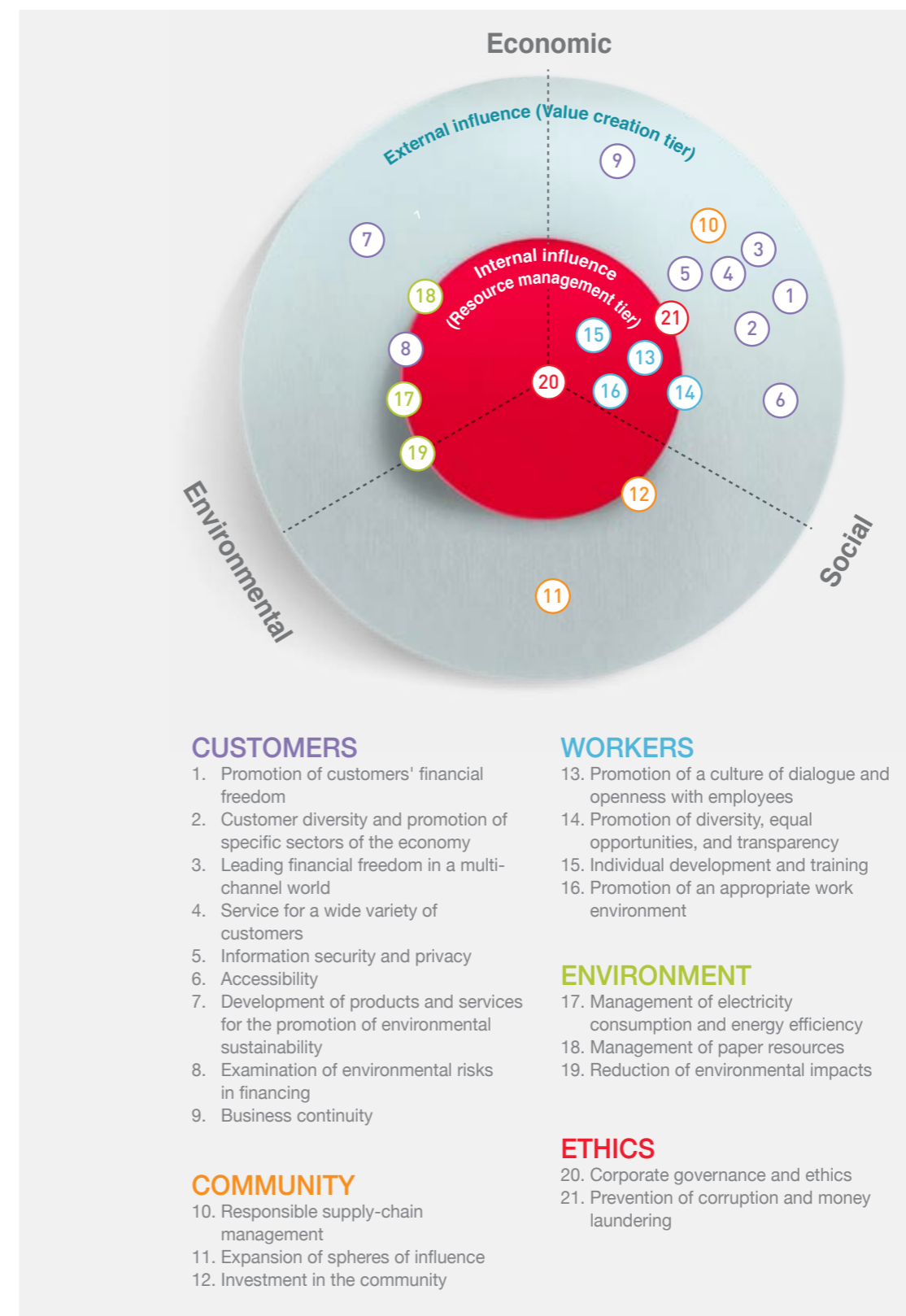
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4. 102-49
5. 102-46

List of Material Topics for Sustainability Reporting at Bank Hapoalim⁶

In accordance with the CSR Flower model, the material topics represent four content areas (the best interests of the customer, empowerment of the community, employees' quality of life and well-being, and living with the environment), which describe impacts on all of the bank's stakeholders. Material topics for the sustainability and CSR report (not in hierarchical order):

1. **Promotion of customers' financial freedom** - Providing information, products and tools, individually adapted service and advice, education, and financial literacy for the various customer segments.
2. **Customer diversity and promotion of specific sectors of the economy** - Inclusion of the Arab-Israeli and Ultra-Orthodox (Haredi) sectors; promotion of small and mid-sized businesses; and promotion of the peri-retirement ("new seniors") population.
3. **Leading financial freedom in a multi-channel world** - Banking services via Internet, mobile, and telephone, offering customers better access and increased control over financial management.
4. **Service for a wide variety of customers** - Perceiving, instilling, and measuring excellence in service for the various customer segments.
5. **Information security and privacy** - Presentation of the area of information security at the bank and the principles for protecting customers' privacy.
6. **Accessibility** - Making the buildings and branches of the bank as well as banking services accessible to people with disabilities.
7. **Development of products and services for the promotion of environmental sustainability** - Financing for projects that promote the protection of the environment.
8. **Examination of environmental risks in financing** - Management of environmental risks when granting financing.
9. **Business continuity** - Preparation to maintain continuous business operations at the bank during emergencies.
10. **Responsible supply-chain management** - Including social responsibility and sustainability considerations in purchasing.
11. **Expansion of spheres of influence** - Direct and indirect influence on the economy and society of Israel and on various stakeholders, with the presentation of the bank's activity in the public sphere.
12. **Investment in the community** - Presentation of Poalim for the Community activities, including support for social causes and donations, as well as Poalim Volunteers, the volunteering activity of the bank.
13. **Promotion of a culture of dialogue and openness with employees** - Presentation of intra-organizational channels for dialogue and sharing with employees at the bank.
14. **Promotion of diversity, equal opportunities, and transparency** - Promotion of gender and sector equality, prevention of discrimination, and promotion of diverse employment.
15. **Individual development and training** - Presentation of the area of individual training and development at the bank.
16. **Promotion of an appropriate work environment** - Policies on human capital, remuneration and benefits, and well-being and caring for employees in various aspects of the work environment and of their lives.
17. **Management of electricity consumption and energy efficiency** - Presentation of activities aimed at reducing energy consumption at the bank.
18. **Management of paper resources** - The bank's strategic effort to cut back paper consumption in its activity (resource consumption).
19. **Reduction of environmental impacts** - Management of environmental protection at the bank, and reduction of the bank's environmental impact and carbon footprint.
20. **Corporate governance and ethics** - Presentation of the structure and activity of the board of directors, and instilling ethics at the bank.
21. **Prevention of corruption and money laundering** - The bank's commitment to the prevention of corruption; presentation of the activity of the bank's compliance unit.



Presentation of material topics for the report in terms of social, economic, and environmental impacts

The diagram presents all of the material topics reported by Bank Hapoalim, based on two aspects:

- **The zone of impact** - internal or external - does this topic affect external stakeholders, internal stakeholders, or both (the external circle versus the internal circle in the diagram).
- **The zone of impact** - economic, social, environmental - does this topic create economic, social, environmental, or combined value.

Bank Hapoalim CSR performance

Field	Metric	2012	2013	2014	2015	2016
General data						
Bank profile	Total revenues (NIS M.)	13,637	13,664	14,022	14,362	14,721
	Number of employees of the bank	10,124	9,745	9,283	8,898	8,701
	Number of branches of the bank (Business and retail)	298	286	277	267	257
Best interests of the customer						
Credit granted for promotion of social/environmental causes	Total credit for small businesses (NIS B.)	24.3	26.2	29.3	32.4	27.3
	Additional credit earmarked for small businesses beyond the ordinary course of business (NIS B.)	2	2.15	3.5	3.5	3.2
	Cumulative credit for environmental projects and products (NIS B.)	-	8.15	6.66	6.63	6.53
	Total credit promoting shared value - business and social (NIS B.)	-	-	-	-	2.04
Promoting small business	Number of businesses in the CashBack Club	1,000	5,000	7,000	8,000	10,000
Financial freedom	Number of users of budget management application (cumulative)	260,000	400,000	~500,000	~500,000	660,000
Service in a multi-channel world	Number of active online accounts	1,000,000	1,200,000	1,200,000	1,300,000	1,370,000
	Number of users of mobile banking services	600,000	650,000	650,000	735,000	906,000
	Number of users of the bank's applications	-	500,000	610,000		
	Number of active accounts at the call center	700,000	750,000	700,000	1,000,000	1,000,000
Processing customer queries	General percentage of justified queries – Bank of Israel data (%)	26.6%	27.3%	14.4%	9.2%	Has not been received as of the date of preparing the report
	Percentage of justified queries concerning privacy and banking confidentiality (%)	13%	10%	0%	7%	3.7%
Accessibility of service to a diverse range of customers	Number of branches serving the Arab-Israeli sector	36	36	38	26	43
	Number of branches in towns with extensive religious and ultra-orthodox populations	22	23	23	20	21
	Number of accessible branches	107	116	155	226	224*
	* Branches with an Accessibility Seal from the Access Israel organization					
	Number of ATMs accessible to blind users	65	316	316	316	536
	Percentage of branches outside central Israel (beyond the area from Gedera to Hadera; in %)	45%	45%	40%	35%	40%
Empowerment of society and the community						
Direct economic value for stakeholders	Economic value distributed by the bank group to stakeholders (operational expenses, salaries and related expenses, donations and sponsorships, provision for taxes, dividends; in NIS M)	9,310	9,800	10,231	10,226	12,062
Promotion of responsible procurement	Percentage of purchasing from Israeli sources	-	98%	98%	93%	92%
	Percentage of purchasing from small and micro-businesses	-	30%	21%	15%	46%
	The percentage of small and micro suppliers (from total annual number of suppliers)	-	60%	70%	52%	81%

* It should be noted that the number of accessible bank branches has decreased since 2015 (224 versus 226), due to the reduction in the bank's total number of branches (including accessible branches).

Field	Metric	2012	2013	2014	2015	2016
Investment in the community	Community donations and investments (NIS M)	48	46	47	43	44
	Donations of computer systems (NIS M)	0.5	0.83	0.32	0.39	0.80
	Number of participants in activities of organizations supported by the bank in the area of education	-	At least 360,000	At least 160,000	At least 185,000	At least 183,000
	Number of participants in activities of organizations supported by the bank in the area of culture and the arts	-	At least 35,000	At least 40,000	At least 25,000	At least 64,000
	Number of recipients of treatment and assistance through the activities of organizations supported by the bank in the area of health care and welfare	-	At least 420,000	At least 410,000	At least 268,000	At least 255,000
Employee volunteering	Number of employees of the bank who volunteer	3,000	3,200	3,000	3,500	3,500
	Annual volunteering hours	110,000	125,000	124,000	148,700	152,200
Employees' quality of life and well-being						
Employment profile	Employees under a collective agreement (%)	93.2%	93.1%	91.7%	91.3%	90.5% ⁷
Diverse employment	Percentage of women at the bank (%)	64.6%	65%	65%	64.6%	64.4%
	Percentage of female executives at the bank (%)	50.7%	51.7%	51.5%	52.1%	52.4%
	Percentage of women on the board of directors of the bank (%)	33%	33%	33%	33%	18%
	Percentage of minorities at the bank (%)	5.2%	5.3%	5.1%	5.4%	6%
	Percentage of hires from under-employed sectors, of total annual hiring	17%	20%	17%	20.5%	22%
Training and development of human capital	Percentage of academic degree holders at the bank (%)	57.6%	59.5%	62.4%	64.4%	65.8%
	Number of learning days at the bank	68,000	56,200	61,400	49,600	49,776
	Average hours of learning per employee	54.1	46.1	43	38.1	42.5
Channels for dialogue for employees	Dialogue sessions for employees with the CEO and members of management of the bank	45	44	43	28	not measured
	Percentage of employees who received feedback (%)	99%	99%	99%	99%	99%
Living with the environment						
Energy consumption and efficiency	Total electricity consumption (kWh)	93,600,417	90,616,904	86,567,004	84,579,103	86,388,184
	Electricity consumption per m ² (kWh)	299.7	294.1	284.6	278.4	280.7
	Percent annual change in electricity consumption (year on year, %)	-0.49%	-3.2%	-4.5%	-2.3%	2%
	Diesel fuel consumption (L)	15,000	11,752	10,840	102,275	13,547
	Gasoline consumption (L)	3,440,152	3,448,047	3,537,444	3,599,730	3,021,768
Consumption of materials	Paper consumption (tons)	1,791	1,668	1,458	1,421	1,378
	Annual savings in paper consumption (tons)	128	123	210	37	42
	Consumption of ink and toner cartridges	28,003	21,700	21,370	17,035	16,643
	Carton recycling (tons)	20	18	40	13	9.3
	Paper recycling (tons)	1,380	987	1,352	700	783
	Recycling of electronic waste at the bank (tons)	17	15.8	44	28.7	38
	Recycling of bottles and beverage containers (units)	150,000	110,000	108,000	101,843	104,690
	Collection of construction waste (m ³)	3,298	2,526	2,168	2,526	2,112
	Collection of batteries (kg)	800	960	280	240	765
	Collection of fluorescent bulbs (units)	14,000	18,560	6,740	2,680	2,340
Carbon footprint	Total emission of greenhouse gases (tons CO ₂ eq)	101,696	94,342	*70,623	61,511	61,082
	Percent annual change in greenhouse-gas emissions (year on year, %)	-4.6%	-7.2%	-25.1%	-12.9%	-0.7%

Process Controls for Implementation of the CSR Plan at Bank Hapoalim

An external assurance process allows readers of this report to verify the bank's self-report based on an independent opinion from a professional observer. The expanded assurance process with regard to the adequacy of the report on sustainability and CSR and the involvement of additional sources of assurance enable the bank to learn from the feedback received from those conducting the process and provide verification of the reliability of the report for stakeholders. The current report underwent four assurance processes, each focusing on a different aspect of the report (for extensive details of the assurance process and methods and the criteria examined, see p. 170).



Routine Process Control and Examination of the CSR Implementation Process at the Bank

The CSR and Sustainability Group at the BDO accounting firm has guided Bank Hapoalim in the implementation of its sustainability and CSR program for the last eight years. The group's activities focus on monitoring the process and progress of the program for sustainability and social, economic, and environmental

responsibility. BDO consultants' close work with the bank allows a professional opinion to be provided based on an examination of the processes performed by the bank throughout 2015 and up to the end of the first quarter of 2016.

The Corporate Social Responsibility Institute

Due diligence examination of the report, in accordance with the GRI and Accountability guidelines

The external assurance process for CSR reports is conducted by a third party who was not involved in the writing of the report. The third party ascertains that the information presented in the report is congruent with the three principles set forth in the AccountAbility quality assurance standard AA1000APS and with the GRI due diligence guidelines.

Examination of the Quality of Reporting on the Bank's Carbon Footprint

This examination was performed by the Sustainability and CSR Group at the accounting firm BDO. The process of examining the bank's carbon footprint is based on prevalent principles for carbon calculation and marking, developed by

the Technical Working Group of the British Government. The data were adapted to Israel based on the Israel Greenhouse Gas Emission Recording System – Operating Rules and Reporting Guidelines, issued by the Samuel Neaman Institute and the Ministry of Environmental Protection in April 2016.

Examination of the GRI: In Accordance with GRI Standards: Comprehensive

This sustainability and CSR report for the year of 2016, was sent to the international organization GRI, which examined it and found that the process of establishing the topics to be reported by the bank complies with the directives in the reporting standard. This report has been prepared in accordance with the GRI Standards: Comprehensive option.

Adoption of Responsible Initiatives, Promotion of Partnerships, and Transparent Reporting

The bank is committed to its partnership with organizations working towards sustainability and CSR, and has adopted international standards of responsible conduct:

Global Sullivan Principles of Social Responsibility

The bank adopted these principles as early as 2004, in the belief that the implementation of the principles would help achieve greater tolerance and understanding among peoples and promote a culture of peace.

Maala

Bank Hapoalim joined Maala in 2006 as a member of the organization's business leadership. In ratings assigned by Maala for 2016, based on reported data for 2015, Bank Hapoalim was ranked at the top of the Platinum Plus class, the highest rating category; it therefore topped the Maala charts. The bank also appears on Maala's stock-market index, which consists of all of the public companies rated by Maala and traded on the TASE.

UN Global Compact

During 2010, Bank Hapoalim joined this UN initiative aimed at promoting economic development that is beneficial for the community and for future generations. Since then, the bank has ensured that the principles of the compact are implemented in its activities. The sustainability report also serves as a COP (Communication on Progress) for the Global Compact.

Voluntary reporting system on

greenhouse-gas emissions in Israel

In 2010, Bank Hapoalim was one of the first organizations to join the voluntary system for recording greenhouse-gas emissions. This system is a joint initiative of the Ministry of Environmental Protection and the Manufacturers' Association. The bank updates this data and reports to the ministry annually.

Bank Hapoalim's Sustainability and CSR Performance - International Analysts' Perspective

Capital-market analysts, both internationally and in Israel, have been including sustainability and CSR components in their evaluation of business firms' and organizations' performance. These components are presented to investors around the world. Over the last two decades, the implementation of corporate responsibility has expanded in the Israeli and global financial sectors. Consequently, information has accumulated that allows financial corporations to be examined and compared based on their performance in this field.

Since the inception of the Bank Hapoalim sustainability and CSR plan, the bank

has received inquiries from international analysts regarding its performance in these areas. The bank accords high importance to this dialogue, for two main reasons:

1. Dialogue with international analysts who are in routine contact with corporations all over the world offers the bank valuable insights regarding current trends in the global CSR field and material issues for the banking sector.
2. An examination of the bank's scores on the various rating scales nourishes a continuous process of gap analysis in the management of CSR issues and a discussion of ways of improving performance on the various parameters.

The bank examines its performance from a broad perspective, aligned with the standards defined in this field for the global financial sector, in order to understand its position relative to banks worldwide. Towards that end, reviews of the bank by analysts and based on key international metrics are compared.

The peer group used for comparison to the global banking industry consists of the banks listed in *The Banker magazine*. This list contains information about approximately 5,000 major banks around the world. A second comparison group is the group of banks that publish orderly reports on corporate responsibility. Approximately 680 financial institutions and corporations worldwide published

sustainability and CSR reports in recent years, on average (2013-2015, based on the official GRI database).

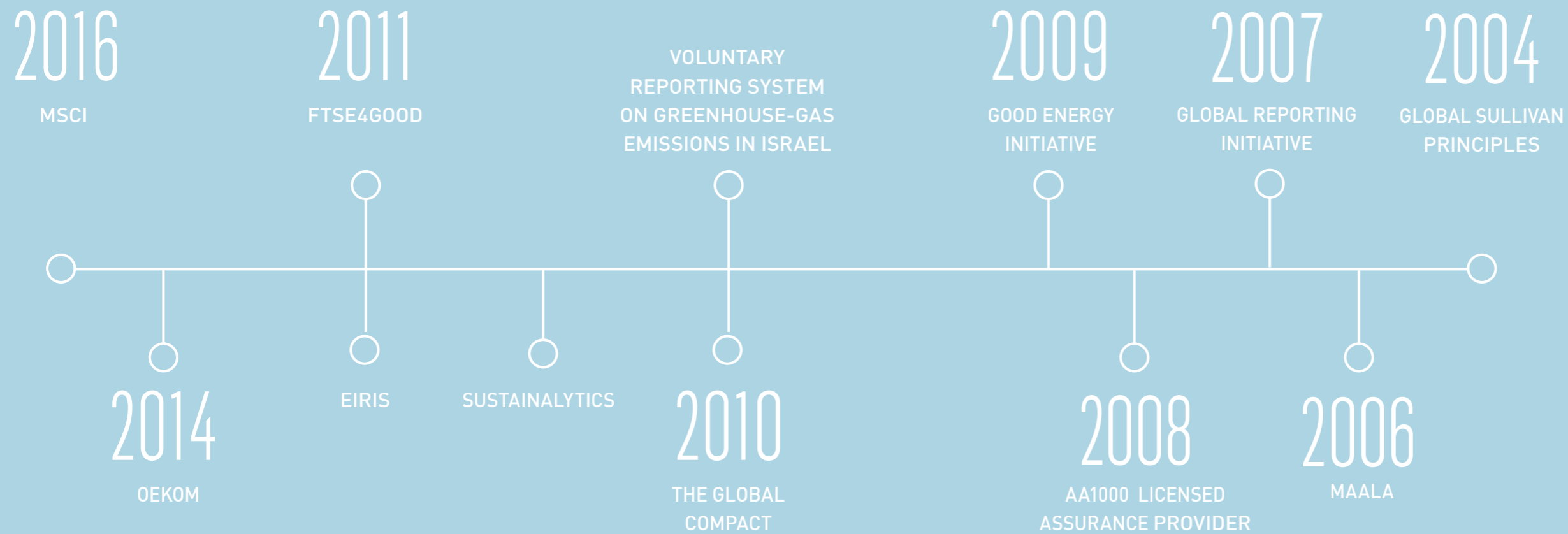
The major analyst reviews and international indices that include the bank (Sustainalytics, FTSE4Good, EIRIS, OEKOM, and MSCI) encompass a smaller set of banking corporations. It is important to note that a prerequisite for inclusion in this group of companies is a demonstrated threshold of corporate responsibility performance, according to

standards of transparency and quality. Approximately 70-300 such banking corporations are reviewed (EIRIS is the only one of these organizations that does not publicly release information about the number of banks included in its review). The group comprises a total of approximately 1.5%-6% of all banking corporations in the baseline group from *The Banker magazine* (the range of percentages results from the different number of banks reviewed or rated in each case).

The scores earned by Bank Hapoalim, and its inclusion in all of the various rating scales of the organizations noted above for sustainability and corporate responsibility, indicate that it ranks with the 5% of banks at the apex of the international banking sector.

The bank was ranked first in the Israeli banking industry by Kaima Research

In 2016, a first CSR review of its kind - focusing on the local banking sector - was conducted by Kaima Research. In the final analysis, Poalim was ranked first among Israel's seven major banks. The purpose of the rating was to assess and quantify the risks and opportunities by examining Environmental, Social, Governance (ESG) aspects and the quality of managing these risks by the banks. The review included five key areas: (1) Customers, society and community; (2) Employees; (3) Corporate governance; (4) The environment; (5) Sustainability management and innovation. The rating reflects the bank's ability to manage two aspects of its sustainable activity: managing the CSR risks it faces and realizing the potential in various opportunities in this field.



The best interests of the customer

Making service accessible to people with disabilities

224

branches have been made accessible, and dozens of branches are in process

Promoting financial freedom for customers

Over 660,000

customers use the budget management application

Supporting the peri-retirement segment

Tens of thousands

of consulting sessions on pensions and finances were held, addressing the unique needs of new seniors

Promoting the small business segment

Credit in the amount of

NIS 27.3 billion

was granted to small businesses

Digital banking

1.37 million customers

use the bank's website

906,000 customers use

the bank's mobile services and applications

Poalim Recovery

Over

50,000

customers participated in the Poalim Recovery program for restructuring of their debts through dialogue with the bank

Encouraging growth in the Arab-Israeli sector

43

branches serve the Arabic-speaking population, in the broadest distribution of branches in Israel

Credit for environmental products in the sustainability sector

NIS 6.5 billion

for projects in solar energy, desalination, natural gas, and more

Empowerment of society and the community

Volunteering by employees of the bank

3,500

employees volunteered regularly nationwide

Economic value for the bank's stakeholders

NIS 12 billion

given back to the state and municipalities, and to suppliers, employees, investors, and the community

Community donations

NIS 0.5 billion

invested by the bank in various community causes since 2004

Promoting equal opportunities in the community

Over

183,000

adults, adolescents, and children participated in the activities of educational organizations supported by the bank

Embedding corporate responsibility considerations in purchasing

NIS 1.36 billion

The Bank purchased from organizations that mainly employ workers with disabilities

Employees' quality of life and well-being

Promoting workplace diversity

10%

employees of the bank come from under-employed population segments

College-educated employees

65.8%

of the bank's employees hold academic degrees; the bank provides tuition aid for hundreds of employees each year

Hiring new employees

4,000

external agency workers were hired as employees of the bank in 2007-2016

Promoting women at the bank

52.4%

of executives are women

Training and development of human capital

46,276

days of study for employees of the bank (without external employee's)

Living with the environment

Paperless branch

196

million pages

were saved in 2016 due to activities aimed at cutting down on paper use. Since 2007 the bank's cumulative saving in preventing trees from being cut down for the paper industry is approximately 138,000 trees

Paper recycling

783 tons

collected for recycling

Carbon footprint

43.1%

of carbon footprint from 2010 to 2016; carbon footprint in 2016: 61,082 tons CO₂eq

Fuel efficiency

16%

% decrease in annual fuel consumption, based on employees' mileage

Electronic waste recycling

38 tons

collected for recycling

LOOKING AHEAD

The Sustainability and Corporate Responsibility program continues to be part of Bank Hapoalim's strategic core. The program is ongoing, and encompasses organizational infrastructures, information and measurement systems, milestones, and controls, constituting an element of the bank's long-term vision. As extensively illustrated in the CSR report, structured work plans and planned future activities have been formulated. At the same time, within its emphasis on innovation and entrepreneurship, the bank works to identify original ideas in this field and to bring these concepts to fruition through pilot projects. The projects are designed to test the feasibility of the ideas in light of societal, environmental, and economic considerations. Following the testing period, ideas that prove successful on these parameters are implemented broadly across all units.

The bank intends to continue to expand the activities conducted within its sustainability and CSR plan, in accordance with its perception and with the material aspects, while continually following global progress in this field. This approach is given practical expression, first and foremost, in the creation of value for customers and in advancement of society and of the community, through business activities and through identifying new opportunities for the promotion of economic value alongside social and environmental values. Concurrently, the bank will continue to develop the quality of its human capital; to care for its workers, in various aspects

of their lives; and to behave responsibly towards the environment. Key directions and activities to be pursued by the bank in the coming years:

■ **The Stakeholder Division** - In 2017, the Stakeholder Relations Division will launch a broad process to map its significant stakeholders, their perceptions and examine the material issues. In this framework, the Division will launch an in-depth research process with stakeholder groups (using the laddering approach) to validate the material aspect that were previously identified and extract the relevant areas and values for each stakeholder group. Accordingly, a measurement and monitoring tool (barometer) will be developed, which will examine how to respond to needs under the bank's material aspects, following which, strategic processes and ongoing initiatives will be launched. In addition, a set of adjusted measures will be formulated on material aspects for each stakeholder group, from which a strategic map will be drawn, to serve as a guiding tool for management.

For the benefit of the bank's customers:

The bank will continue to promote activity with the various sectors, in strategic channels, with responses tailored to each sector's needs and the creation of shared value. This includes:

- **Support for the small-business sector** - With emphasis on targeted measures to reflect the bank's vision - "helping individuals, businesses and communities thrive," working to provide tools that will help in setting up new businesses in communities, improve their chances of survival and enrich the life of their communities, as well as digital empowerment of small businesses;
- **New Seniors** - Increased activity with this population segment. This effort includes services, products, and unique benefits for the pre-retirement and retiree population, in response to their specific financial needs, and the promotion of social issues related to this segment in the public sphere;
- **Increased activity in the Arab-Israeli sector** - implementation of the bank's plan, which includes addressing specific needs, expanding physical and digital services, and integrating employees from the Arab society, as part of the integration of this community with Israeli society.
- **Financial freedom** - Expansion of initiatives and channels for the promotion of financial freedom: the bank will continue to lead a strategic initiative in the coming years aimed at promoting the financial freedom of its customers and of the general public;
- **Poalim Young** - Continued activity with the target group of young customers, with an emphasis on tools

for prudent financial management in the early years of their financial activity;

- **Innovation Division** - In the coming years, the Innovation Division is expected to collaborate with technology, cyber, and fintech companies on designing infrastructures necessary for the improvement and planning of the future of banking, with emphasis on creating new growth engines; information- and analytics-based smart banking; developing AGILE-based processes to enhance efficiency, flexibility and speed; continued development of investment advice and payments tools and development of new banking models; improvement of customer experience and tools on the digital and mobile channels, for a future based on customer experience both in digital media and face-to-face interactions.
- **Promotion of excellence in service** - by instilling the bank's service approach, including the creation of standards for processes, measurement and feedback surveys, absorption of structural changes, job definitions, process improvement, and upgrades of technology;
- Identification of opportunities for financing of banking products in the sustainability field.
- **Promotion of accessibility of banking services for people with disabilities** - Continued implementation of the multi-year

plan, including adaptation of the buildings and branches of the bank for accessibility and accessible service and development of banking products to help promote accessibility in Israel;

- **Social responsibility in purchasing** - Continued implementation of the work plan for integration of CSR considerations into purchasing processes of the bank and into its interaction with suppliers;

Investment in the community:

- **Activity in the public sphere** to promote various social issues, including the collaboration with various entities to promote various communities in Israel, with an emphasis on peripheral areas;
- **Investment in the community** - As part of Poalim in the Community, a strategic process to assess the foci and implementation going forward will be conducted, including additional areas of activity and innovative work processes;

In the bank's work environment:

- **Diverse employment** - Implementation of the multi-year plan to promote the employment of population groups underrepresented in the job market;
- **Cultivation and promotion of the quality of human capital** - with a focus on the employee. This includes the advancement of women in general, and in management positions in particular; encouragement of

academic studies; and support for employees' whole-person well-being.

Minimization of the bank's environmental impact:

- **Decreasing paper consumption** - Implementation of the multi-year process of cutting back paper use (the Paperless Branch project), including conversion of processes to digital formats in order to reduce paper use.
- **Energy efficiency** - Implementation of continuous processes aimed at energy efficiency and reduction of the bank's carbon footprint.

THE BEST INTERESTS
OF THE CLIENT



Meeting Customer Needs

Bank Hapoalim recognizes that customers' needs and aspirations change during different life stages. The bank therefore endeavors to provide customers with all of the financial information and services that can help them understand, plan, and carry out both long-term and immediate financial decisions. The bank's view of its customers is derived from a philosophy of sustainability, giving rise to a relationship designed to encompass a comprehensive understanding of the needs of customers and their families over time

This section describes the bank's relationships with its customers, the services and products offered to customers by the bank, and the ways in which the bank identifies opportunities and manages risks in the area of social responsibility, in a changing business environment. The bank strives to develop banking services and products based on a philosophy of creating shared value for its customers and its other stakeholders, such as the community, various participants in the economy, the environment, and others, while simultaneously generating economic value for the bank.

Bank Hapoalim recognizes that customers' needs and aspirations change during different life stages. The bank therefore endeavors to provide customers with all of the financial information and services that can help them understand, plan, and carry out both long-term and immediate financial decisions. The bank's view of its customers is derived from a philosophy of sustainability, giving rise to a relationship designed to encompass a comprehensive understanding of the needs of customers and their families over time.

In addition to the above, the changes underway in the business and social environment – the rapid technological changes and dynamically changing customer demands, the transition to a low-carbon economy, shortage of resources, water and soil conservation, global warming, and the need to integrate and advance certain sectors of society – offer business opportunities for the

Bank, while contributing to the economy and society. As a result of growing awareness of social and environmental issues, changes are emerging in customer values and needs. The bank's role is to offer a solution to them on the financial side and to respond to emerging demands, by offering financing solutions and various deposits and investment products that encourage sustainable consumption and investment which takes into account the environment and social issues.

The bank works to create value for its customers in the following ways:

- **Development of responsible products** to foster economic and environmental sustainability, for our customers and for the economy as a whole;
- **Maintaining a multichannel network** for communication with customers at any time and place, with appropriate accessibility;
- **Providing optimal service** to achieve customer satisfaction, and responding to and learning from customer communications;
- **Responsiveness to customers' needs** through all life stages;
- **Solutions tailored to the unique characteristics** of different customer groups.
- **An appropriate response to all the needs** that emerge as the result of the dramatic developments in the digital area, social networks and regulatory changes, while cooperating with outside suppliers and stakeholders.

Personal, human, technological – the bank's strategic approach

In recent years, dramatic changes have been taking place in the competitive map, including entry of new competitors, changing customer expectations and enhancement of banking technology. Bank Hapoalim has vowed to offer banking that combines personal and human service with technological innovation to provide a high-quality banking experience, tailored to each and every customer's needs. The bank believes that the combination of Bank Hapoalim's advanced technological tools with professional and experienced personnel at the branches, provides customers with the best possible service.

As part of this concept, the bank focuses its efforts on the digital empowerment of its customers, with the aim of closely assisting them in transitioning to the technological world, and thus allowing them the freedom to manage their financial affairs in the place

and time that are most suitable to them. In addition to the investment in infrastructure, customers need a familiar face, human contact and a personal relationship. Thus, bankers will continue to give customers added value and professional services in material areas, such as pension advice, financial consulting, business consulting, and more.

To promote and strengthen this synergetic approach, the bank operates on two levels:

- **Digital empowerment** – to enable customers to enjoy maximum convenience and access, the bank trains and teaches customers about the advanced digital tools developed in recent years, designed to improve their financial conduct and save them significant time. So far, dozens of branches have undergone a digital empowerment process, which includes guidance, mentoring and training customers on digital tools and ATMs, adding digital elements to the branch, and changing the branch environment so as to

enable customers to become better acquainted with the bank's digital tools. The remaining bank branches will undergo a similar process next year. At the same time, the bank will launch conferences and workshops for the general public, designed to support and guide customers in the digital world.

- **Personal and human banking** – as a leading financial institution, the bank understands that digital banking does not provide a full response to customers' expectations, and that it should therefore provide them with support when needed, offering them uncompromising service which relies on deep familiarity, attentiveness, professionalism and commitment and on a long-term relationship based on trust. To this end, the bank provides customers with a range of services carried out face to face.

Bank Hapoalim has vowed to offer banking that combines personal and human service with technological innovation to provide a high-quality banking experience, tailored to each and every customer's needs. The bank believes that the combination of Bank Hapoalim's advanced technological tools with professional and experienced personnel at the branches, provides customers with the best possible service.

The Bank's Guiding Principles in the Deployment of its Branch Network

On the basis of the bank management's growth strategy, the bank intends to continue the careful deployment of branches and to enhance deployment in new locations, in line with the needs and characteristics of its customers. In the coming years, the bank will continue to examine the opening of branches in new areas, with a focus on strategic populations with growth potential, such as the Arab society, the ultra-orthodox community, small businesses, and additional potential segments, both large and small. The bank is also considering the continued deployment of branches based on an innovative digital concept, in line with the development of customer needs, demographic changes, changes in the competitive environment, and business potential. It is important to note that the competitive dynamics in the Israeli banking market are intensifying daily, requiring the bank to be flexible and adapt quickly in accordance with market conditions. The network deployment policy is therefore dynamic and flexible, based on meticulous research and monitoring of the changing market conditions.

Main branch mergers and services adaptation

In general, every adaptation of banking services to customer needs, such as the merging of branches or adapting the types of services they offer, is an important measure in the eyes of both the bank and the customer. Therefore, the step is carried out in an orderly process that includes an evaluation of customer needs and adaptation of alternative suitable automated and other services. The bank believes in placing strong emphasis on the training of bankers, both through specialized courses

and training videos at the branches, with the objective of helping customers use and carry out transactions on digital channels: the app, bank website, ATMs, and the Poalim call center – are the array available to help customers, showing them the advantages and capabilities of the digital tools and machines. In addition, the employees are instructed to do everything they can to help every customer struggling to adapt to the new reality and to make sure that they have a suitable solution, especially elderly and handicapped customers.

Today, it is possible to carry out most frequent banking transactions on digital channels and self-service stations. The teams at branches which have been converted to cashless service branches will assist customers to carry out transactions on the various channels available to them. At some branches, expert hosts will be placed, to assist customers unfamiliar with the range of transactions on the digital channels or who struggle to carry them out. In addition to the bankers at the branches, reinforced telephone support centers (business/ technical) are also available to customers, as well as online and app support tools.

Optimal service offered at any place and time, while helping to protect the environment

The bank encourages extensive use of its products through online means, thereby improving service quality while reducing environmental impact. In today's world of technological change, customers' expectations for innovative, advanced solutions in the services provided by businesses have increased. The bank invests great effort in immediate adaptation to technological developments, and in the integration of new applications with

its products and services. As a result, a multitude of channels is currently available to customers at any place and time, so that essentially all of their routine interactions with the bank can be conducted without visiting a branch. In 2016 continued expansion of the use of computerized and online channels, such as the Poalim by Telephone call center, the Hapoalim Online website, smartphone and tablet applications, the Mail Net service, and more. This trend minimizes the environmental impact of banking products, in that it often eliminates the need for the customer to visit the branch in person (leading to pollution savings) and, obviously, saves paper. The use of bank branches also carries relatively low environmental impact, due to the broad distribution of the branches of Bank Hapoalim and the extensive network of ATMs, self-service stations, and self-service information stations located adjacent to and outside of branches. Customers can visit a branch or use a self-service station conveniently, with minimal travel and environmental impact.

In 2016, Bank Hapoalim was selected as “the best bank in Israel” by the "Global Finance" for the fifth time

Working to Promote Financial Freedom for Customers

In line with the financial freedom philosophy presented in the introduction, the bank promotes its customers' financial freedom on several key levels:

- **Raising awareness of the importance of proper financial conduct** – To promote financial freedom among its customers and the general public, the bank initiates various channels to raise awareness and provide financial education tailored to various target audiences (children, adolescents, youths, households, and the elderly) and in accordance with the various stages of their lives;
- **Imparting information and financial knowledge** – the bank makes available to the public a variety of channels to obtain basic information on proper financial conduct through the bank's marketing website and training offered to the public. In addition, the bank offers its customers, through every channel and at all times, highly detailed and extensive information regarding their financial assets, liabilities,

transactions they have performed, and more. This information helps customers be aware of their financial condition and of the options available to them, serving as a basis for control, consultation, and making informed life decisions in this area;

- **Services, products and tools that support behavior change to promote proper financial conduct according to life's crossroads** – in recent years the bank has developed a series of products and tools that help its customers make informed financial decisions. These tools enable customers to understand and analyze information, and to obtain control and flexibility in managing accounts and family budgets and in creating long-term savings. The tools are accessible through innovative digital channels, so that they can be used at any time and place. Taking the drive to instill financial freedom to the next level, several initiatives of the bank encourage changes in behavior and in financial habits for its target audiences, effectively promoting financial literacy.

Enhancing awareness of proper financial conduct

- **The Growing Family** – In 2016, the project was held for the fifth consecutive year. It is initiated by the bank, with the Yedioth Ahronoth newspaper and the Ynet website, to mentor families facing various financial challenges in order to help them learn how to improve their economic conduct. The families are provided with guidance by the bank's advisors in various areas, such as personal financial conduct and financial growth, real estate and mortgages, investments, pensions, and more. The project serves as a platform demonstrating to the general public, through the stories of five families, how consumer habits, economic habits, and financial behavior in general can be transformed.

in recent years the bank has developed a series of products and tools that help its customers make informed financial decisions. These tools enable customers to understand and analyze information, and to obtain control and flexibility in managing accounts and family budgets and in creating long-term savings. The tools are accessible through innovative digital channels, so that they can be used at any time and place

- **Taking CTRL** - a television project jointly initiated by Bank Hapoalim and Reshet Television, which promotes proper financial conduct in the digital world. Four families undergo a financial conduct workshop at the Bank's Club and at a digital branch. The content corners on Reshet's website will show the changes the families underwent and were invited to enter the Taking CTRL section on Reshet Television, where tools and aids for proper family financial conduct will be uploaded.
- **Poalim Young** – a broad move to recruit youths and draftees as customers, including contacting their parents. As part of the project, a mini-site – Parents Teach Children about Money – was launched, including training videos for children and youths, offering tips and tools for parents to train children of different ages about handling their money properly. <http://poalimparents.bankhapoalim.co.il>

Providing financial information and knowledge

As part of the bank's effort to enhance financial freedom, it provides its customers with extensive information in various financial areas, with the purpose of giving customers a status snapshot that is as complete as possible, in order to enable them to balance their financial needs and abilities in the short and long term. The information includes details of transactions executed by the customer, a range of products and tools for financial management, and current market data and trends (e.g. with regard to pensions, savings, the capital market, the housing market, etc.). This information is accessible to customers through a variety of channels: direct banking channels (the bank's website, call center, and smartphone and

tablet), bankers at the branches, and the bank's experts in each financial area.

Professional training conferences are offered to customers – the conferences cover various financial content areas and are designed for various target audiences, depending on the professional field and content. The goal of these conferences is to enhance the financial knowledge of various target groups. Dozens such conferences are held each year at the bank's branches. In 2016, a group of volunteers from among the bank's retirees was trained to give training and morning conferences to senior citizens, among others. In addition, the scope and range of the presentations offered have been extended, and they now include training for soldiers, students and senior citizens. Within this framework, dozens of training sessions are held across the country.

Financial awareness week

In 2016, the bank took an active part in the Financial Awareness Week project – during which bank customers and the public in Israel were offered a series of conferences in various bank branches, which were held during a single week in September 2016. The purpose was to increase awareness of informed financial conduct and proper management of banking activities, and to introduce practical tools to help improve financial conduct and reduce expenses. The first of its kind, the initiative was held nationwide, and was led by the Bank of Israel, with the participation of the banks and The Association of Banks in Israel, manifesting the power embodied in cooperation between all the banks in Israel. The banks jointly developed the training content, which was uniformly taught in all conferences, and offered a series of tips to manage the family budget, handle credit properly, encourage savings and even how to discuss money with children. The conferences focused on digital tools that support proper financial conduct in a simple, convenient and even cheaper manner. During the conferences, the bank offered hands-on experience of digital tools. The project was accompanied by a campaign and a website to sign up for the conferences, which were held at about 100 branches of the various banks across Israel.

More than
50,000
customers
use the UP Control service

More than
212,000
customers
save in Dan the Saver plans

למעלה מ-
660,000
customers
use the budget
management tool

5
families
families participated in the
fifth year of the Growing
Family initiative

450
families
have participated to date in the
Growth Opportunities initiative
as well as around 40 lone Israeli
soldiers without family support and
about 30 small businesses in the
light rail route

50
partners
in the Israel Financial Freedom
Forum meet regularly

למעלה מ-
50,000
customers
participated in the Poalim for
Recovery project

About
1,000
people
took part in the Financial
Awareness Week conferences
at the bank's branches

Services, Products and Tools that Support Behavior Change to Promote Financial Freedom

Digital tools for the bank's customers:

■ **The new website** – the customer's smart financial partner – the bank has launched its new website, which includes a range of digital tools for the smart management of accounts. The new website strengthens the customer experience, providing immediate access banking that helps customers manage their money quickly and conveniently, through an advanced user-friendly interface, simple and clear language, and a new and clear design that helps customers focus on what is most important to them. The new website offers new tools for smart money management and long-term planning:

■ **Income versus expenses:** a dynamic comparison of the customer's income and expenses over time, which allows them to know their situation in real time;

■ **My Investments and My Loans:** a convenient display that concentrates the investments in the account and clearly shows the monthly loan payments, so customers can efficiently plan their expenditures;

■ **Making ends meet:** a tool, which will show the customer in real time his/her, expected balance at the end of the month, so they can prepare accordingly. If additional income or expenses are expected, it will be possible to add them to the calculation;

■ **My Objectives and Targets:** the customer can set savings targets and see how close they are to meeting them. The new homepage also provides a full picture of the account, allowing the customer to understand more, including: a snapshot of the account status – with the latest transactions and credit cards, deposits and savings, loans, and

more; the account balance is clearly visible at the top of the homepage. An overdrawn customer can immediately see the difference between his balance and his overdraft limit; reminders and tasks – reminders of pending payments, checkbooks waiting to be picked up, the status of loans, and so on appear on the homepage. The customer can set tasks to be carried out at convenient dates.

■ **The budget management tool** - to educate customers about proper budget management, the bank developed a series of unique tools, with the objective of providing its customers with continuous assistance in managing their finances. As part of this effort, the bank developed online tools for building and managing a budget, which the bank customer can use to examine his/her financial conduct compared with a profile of similar customers – and thereby behave more smartly.

The bank offers the "UP Budget Management Tool", which provides customers with a daily, up-to-date, and detailed picture of their income vs. expenses in a simple, personalized, and accessible way. The tool also allows the setting of monthly targets. At the end of each month, customers can obtain an up-to-date snapshot of whether or not they met their targets.

One of the important applications of the budget management tool is "Poalim Like Me", which allows customers to compare their expenses with customers with similar financial and demographic characteristics.

■ **Tools to increase control and flexibility in the management of current accounts** – Poalim UP incorporates a range of products and services to help customers handle their money day-to-day, with numerous choices and high adaptability;

■ **Up Active** – a service that allows customers to optimize routine account management in a range of areas by setting up automatic transactions, without monitoring their account status daily. Customers set up a series of actions in advance; the transactions are executed following approval by the customer. Actions include withdrawal from a daily interest deposit when the account balance is negative, deposit into a savings plan when the balance is positive, sending an alert when a checkbook is about to run out and ordering a new checkbook, and more;

■ **Up Card** – an international card charged with money from the customer's current account; it is transferrable to family members, since the account holder's name does not appear on the card. The customer can add and deduct money from the card to the account at any time;

■ **Smart UP** – Allows customers to make all current checking account charges on a fixed date each month.

■ **Up On Time** – a real-time text or email alert service from the bank, for updates related to the customer's account or markets, at the customer's choice;

■ **Up Control** – a service which assists customers in monitoring current charges on their credit cards and

direct debits for electricity, water, and other payments. The service sends the customer a text message when it identifies increased charges compared with previous months, enabling the customer to save time tracking the bills and money in extra cost;

■ **Applications with advanced banking services** – private and business customers can use the range of services and information offered through the bank's applications to manage many financial aspects of their lives, at any place and anytime, and to benefit from unique services – using the most advanced technological capabilities, which offer an optimal customer experience and maximum availability.

The applications add smart tools for proper financial conduct, such as the ability to see the account status and expected expenses through the end of the month, without logging on to the account (the Quick Glance service). In addition, as a bank that encourages smart financial conduct, Bank Hapoalim developed Save & Go, a special savings plan for smartphones. The service makes savings accessible to as many customers as possible, offering them an enjoyable customer experience: saving small amounts in a digital piggy bank, similar to the real piggy bank at home, in order to achieve savings targets.

Focusing on population groups and crossroads in life:

■ **Dan the Saver** – offers a series of specialized savings products aimed at encouraging parents to save for their children's future. The goals of the

savings plans are aligned with each life stage of the child's life, until they reach financial independence. In 2016, a board game dedicated to promoting financial education among children was developed; the game was also distributed to participants of the Dan the Saver summer camps;

■ **A Savings Account for Every Child** - In 2016, the Knesset approved the Savings Account for Every Child program as a national project, which gives each child an opportunity to embark on an independent life with an initial amount in savings. According to the program, from January 2017, the National Insurance Institute will transfer NIS 50 per month to every child's account until the age of 18, in addition to the children allowance. This amount is to be deposited in a special-purpose savings account under the child's name, and the parent may add NIS 50 per month from the children allowance to this savings account. Bank Hapoalim believes in the importance of instilling proper saving habits from an early age, and has therefore invested considerable resources in its value proposition in the project in order to serve as a significant partner in this endeavor. The bank has formulated offerings for savings plans at attractive interest rates that will provide certainty and confidence that the funds will be well-kept for the future of the children.

■ **Personalized consulting service** – among the key services offered by the bank to its customers are investment advice services and personalized service. Subject to the provisions of the Regulation of Investment Advice, Investment Marketing and Portfolio Management –

1995, the bank provides its customers who are party to consulting agreements, investment advice tailored to each customer's needs, based on familiarity with his/her personal needs, preferences and objectives; the bank provides its private and business customers with a wide range of consultants specializing in various fields (such as investment, credit and savings). The aim is to in order to help them make more informed decisions about various financial aspects of their lives;

■ **Poalim for Recovery** – the Poalim for Recovery program is designed to assist struggling private customers, through cooperation, with the aim of retaining them as customers. The Poalim for Recovery process is undertaken with emphasis on empowering the customer's financial freedom and providing a quality professional response to his/her needs and preferences. The service and handling package is tailored to each and every customer, through focus on adapting the process to each customer's activity characteristics and financial abilities;

■ **Growth Opportunities** – the project provides tools for families coping with a financial crisis by financial education, navigating a time of change, and growth through crisis. The families receive financial instruction and personal guidance, aimed at preventing financial deterioration and allowing a return to positive financial activity. The idea was sparked by customers' letters to the bank following their financial and personal crises. During 2016, the project continued in different geographic areas, focusing on small businesses along the light rail route in Tel Aviv, Ramat Gan

and Bnei Brak, as well as on lone Israeli soldiers lacking family support;

■ **Promoting financial freedom among new senior citizens** - the bank offers pension advice to its customers of every age, with an emphasis on understanding the various aspects of pensions and with the intention of managing pension savings for the long term;

■ **Promoting financial freedom in the small business sector** – the bank strives to empower and promote the financial freedom of its customers in the small business sector, through developing tools and knowledge in the financial field, tailored to this sector's unique needs. The bank's numerous initiatives in this area create business value in three key aspects: granting credit and providing counseling and specialized, tailored service and creating a marketing platform for the businesses (for more information, please see below in this chapter).

Examining Achievement of Objectives

2016 Objectives	Status
Expansion of the Growth Opportunities initiative to small businesses, focusing on businesses located along the route of the light rail in Tel Aviv, Ramat Gan and Bnei Brak;	Completed.
Expansion of training presentations to promote proper financial conduct for additional target audiences such as senior citizens, soldiers, students and others.	Completed.

LOOKING AHEAD

Establish a training center for customers and the general public that will offer knowledge and tools to improve the financial conduct of various target audiences using both physical and virtual sessions;

Launch of a training website which will include hundreds of study items in various topics and subjects that involve finance. The goal is to reach the customer at the point where he/she needs to enhance their knowledge on a particular subject, using advanced BI capabilities, in order to provide them with the greatest added value;

Promote additional initiatives in cooperation with other banks and the Association of Banks in Israel, led by the Bank of Israel;

Develop additional partnerships with media outlets to increase public awareness;

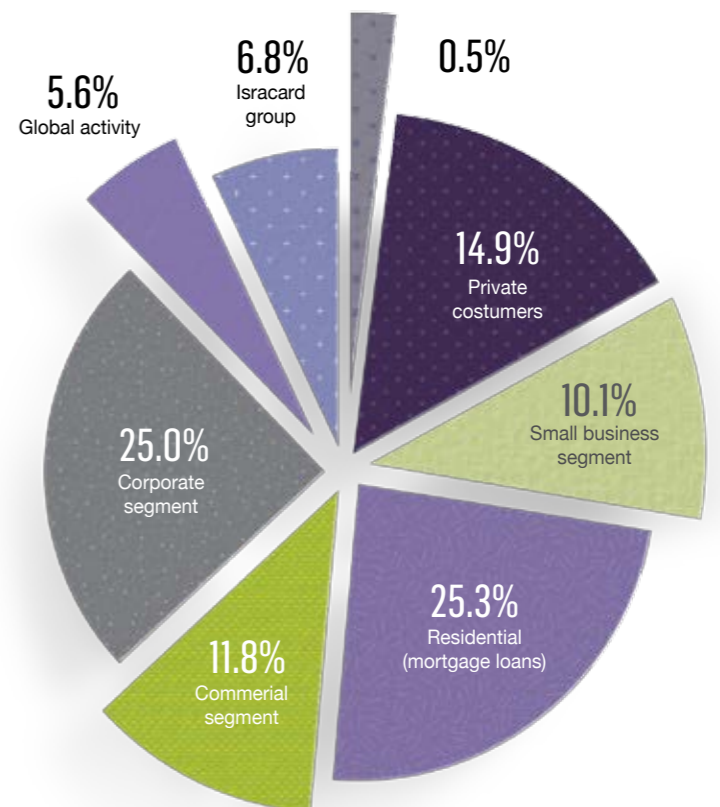
Continue promoting training sessions for customers using hundreds of volunteers from the bank.

Serving a Diverse Clientele

Markets Served by the Bank

The bank's activity is managed through several operating segments. The division into operating segments is based on the types of products and services or on the types of customers. The bank's management uses this division to make decisions and to analyze the group's business results. Below is a division into segments according to the bank management's approach. In accordance with the Supervisor of Banks's directives, a banking corporation whose operating segments according to its management's approach are materially different that the regulatory operating segments, shall also provide a disclosure of the operating segments in accordance with the management's approach. (For a definition of segments and more information, see the Bank's 2016 Financial Statements).

Credit to the public by segment of activity, 2016



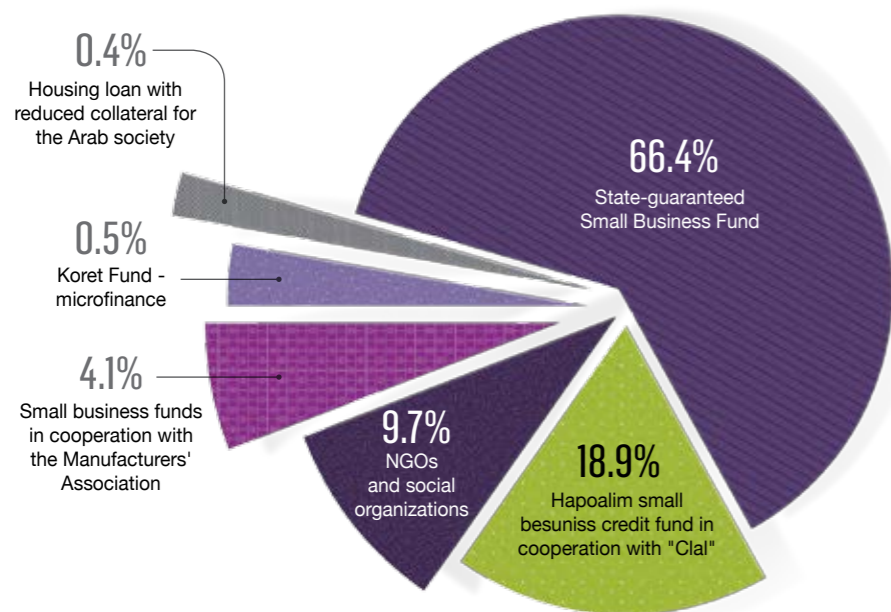
Segmentation of Borrowers

In 2016, total credit to the public amounted to approximately 272 billion NIS, a 2.3% increase over 2015. (For more information on the development of balance-sheet balances of credit to the public by operating segment in accordance with the management's approach, please see pp. 214-217). The following segments have been reclassified in the 2016 Financial Statements.

Provision of credit to promote shared value - social and business

As part of the bank's core business of granting credit, a portion of the financing helps promote social objectives in addition to business benefits for the entity / organization receiving the credit. In 2016, the bank granted credit in the framework of the funds to promote small businesses, micro-financing of micro businesses, financing to NGOs and social organizations and to a dedicated product that meets a social need for housing in the Arab community. The total credit in this field reached NIS 2.04 billion.

Credit with shared value - business/social



NIS **2.04** billion
The total credit in this field reached

Social Impact Bonds

Social impact bonds are a tool which enables the provision of credit to solve social issues with the expectation of returns as a function of the success of achieving the social objective (addressing a social problem that also has financial costs). The bonds are non-marketable and are used for raising financial resources for various social initiatives. The bonds embody a commitment to transfer a known amount of money over a period of several years to finance a defined social cause. Returns on investment will be granted by the government or social organization which gained economic value from the investment and its results, provided the social objective has been achieved (and, as a derivative, the positive economic effects resulting from achieving that objective). In fact, the bonds serve as a business-social investment tool, which creates shared value – return alongside advancing a solution to social problems.

To promote such shared value, Bank Hapoalim has invested in social impact bonds to promote the prevention of diabetes. This disease is one of the major causes of death in Israel and its incidence is on the rise in recent

years. There are approximately 500,000 diabetics in Israel, at varying degrees of severity, and approximately 400,000 people at high risk of developing the disease. The direct cost of treating a diabetic is about NIS 10,000 per patient per annum. Social security benefits for each diabetic are NIS 20,000 per year. The proposed plan for preventing diabetes and reducing the risk of contracting the disease is through a dietary change and physical activity. Numerous studies have shown a link between excess weight and physical inactivity and the development of diabetes.

Fundraising is conducted by SFI (Social Finance Israel), a public benefit company. SFI is managed and operated by senior, well-known professionals from the business sector and philanthropic sector. These entities will pay for SFI, and through SFI – the bank and investors, depending on the success of the investment according to pre-defined criteria. The financial performance is measured by an independent assessor, according to known criteria, which have been agreed on with the beneficiaries of the investment, which will pay SFI according to the success of the investment.

Poalim for Financial Freedom for the New Senior Citizens

Senior citizens account for approximately 11% of Israel's population, and the number of people aged 65+ is approximately 940,000⁸. By 2035, this segment of the population is expected to double, and it is already a highly important force in the Israeli economy. The rapid growth of the senior's segment will have a major impact on the economy, resulting in the development of new markets and expansion of existing ones in areas such as leisure, culture, education, and healthcare.

It is important to distinguish between two senior citizen segments: the Third Age begins at retirement, in the 60s, and lasts as long as a person is still physically and cognitively functional, in good health and leading an independent life. The fourth age usually begins in the 70s, or even later, with physical or cognitive deterioration. In any event, both segments are closely tied to the family: the third age – as a supporter; the fourth age – as the supported.

This life stage is characterized by dramatic changes: retirement leads to a drop in income, expenses shift to align with new needs, and financial routines are deeply transformed. Seniors need to attain a new financial equilibrium. After retirement, many seek to live in the present: to study, travel, and have new experiences; but they may also be concerned about the future and strive for control and security for their long-term needs. At the same time, seniors often wish to support their families by helping their children and grandchildren, serving as the family's anchor. Thus, post-retirement seniors navigate a complex matrix of needs and financial considerations, requiring meticulous and comprehensive financial planning. The challenges faced after

retirement necessitate the creation of a specialized set of services and products designed for this population.

As part of the objective of developing businesses with a social benefit component, and in response to the needs of senior citizens, the bank has launched a broad strategic initiative for peri-retirement seniors, the first of its kind in Israel. This effort is one of the focal points for the bank's activity in 2015 and coming years. It will encompass unique packages for seniors, including pension and financial advice, specialized products, products and solutions for families (seniors as a gateway and important lead to the rest of the family), a customer club, and benefits, which will give seniors the confidence to talk about retirement, ask questions, and obtain advice and direction, and adapt to the new reality. These services are part of Bank Hapoalim's outlook that retirement opens a new period in people's lives, enabling them to benefit from their years of hard work.

The Bank's activity in this area includes partnerships, exchange of information and management of ongoing relationships with many stakeholders in the field, for example: The Joint Venture Company, community centers, Club 50, "Hadarta", entrepreneurs in the senior segment, connection with academic institutions, various associations, professionals specializing in the field, professional bodies dealing with the financial aspects of the adult sector and more.

The program targets three periods towards and after retirement, with an emphasis on pension and financial advice:

- **Customers aged +55** – the primary goal at this stage is to examine the pre-retirement condition and reduce anxiety at retirement; to see whether they are ready for the future, to optimize their retirement terms for their final years in the labor market, and to provide a first look at their post-employment future.
- **Ahead of retirement** – planning to optimally prepare for retirement, with an emphasis on help in realizing pension money in its different forms (annuities, capital considerations, taxes, etc.) and initial financial planning for retirement;
- **Post retirement** – sessions for long-term financial planning, budget control and management, and target realization on the basis of the customers' needs, assets, current and future cash flow sources when they no longer have earnings from work.

As part of this strategic measure, the bank has initiated and promoted a number of channels:

- **Poalim "Advisor"** – people facing retirement often discover the scope of their post-retirement savings and assets for the first time, and realize that they are insufficient for the standard of living they planned after retirement. The bank has launched an innovative advice system, Poalim Advisor, a special simulation program that maps all the assets, post-retirement cash flows, and needs (including unexpected expenses), and analyzes income and expenditures. On the basis of the simulation, the bank starts a dialogue with the customer, to enable him/her to handle their current situation and plan for the future, including the setting of appropriate financial targets and offering solutions to realize them;

8. CBS- September 2016 - data on senior citizens in Israel.

■ **Pension and financial advisor training** – in order to provide a suitable advisory response to senior citizens, a comprehensive training program has been instituted for hundreds of advisors, who underwent specialized training and personal mentoring sessions built by the bank for this purpose, in order to adapt professional and behavioral content to senior citizens, with an emphasis on long-term financial planning. During 2016, consultants underwent ongoing training;

■ **Poalim Gold Club** – benefits for the bank's "new senior customers". The customers' club offers discounts and sales in retail, leisure, recreation, and entertainment. The bank has also created special insurance for club members – travel insurance without medical underwriting in most cases and a cancellation option, as well as personal accident insurance.

■ Customers also benefit from special monthly events and permanent benefits throughout the year. The club, which automatically includes hundreds of thousands of bank customers over the age of 65, will be developed into a marketplace where suppliers and entrepreneurs can offer specialized services for senior citizens;

■ **Pension advice centers** – during the year, the bank completed the deployment of the centers for the new senior citizens population in all its geographic areas of activity;

■ Specialized customer conferences for the "new senior citizens" population, including lectures on planning financials upon retirement;

■ **Entrepreneurship training for seniors** – in an effort to assist retirees in achieving their ambitions to establish new ventures as self-employed individuals;

■ Encouraging start-ups to develop products and services for seniors out

of a wish to encourage businesses and entrepreneurs to enter this high-potential market.

In addition to the advantages mentioned above, and as part of the program, Bank Hapoalim decided to help advance the social challenges that Israel's seniors face, in recognition of their importance and centrality to families and society, by consolidating entrepreneurship in the public space through joint activity with various entities (non-profit organizations, social organizations, and business organizations) in the sector and to promote selected subjects for the new seniors. See the Community Chapter for further information about the bank's response to the social challenges faced by Israel's seniors.

Throughout the year, ongoing training sessions for hundreds of consultants (approximately 800 participants) were trained during the year for pension and financial consulting services for clients before and after retirement.

In 2016, tens of thousands of pension and financial advice sessions were conducted, free of charge

The deployment of 3 pension and financial advice centers was completed in 2016

Hundreds of advisers were trained to provide pension and financial advice for people nearing retirement age and retirees

Examining Achievement of Objectives

2016 Objectives	Status
In 2016, tens of thousands of additional pension and financial advice sessions are planned.	Completed. 

LOOKING AHEAD

In 2017, the bank is expected to launch an Up Card for caregivers of elderly family members – the card is chargeable, reducing the use of cash by the caregivers of elderly family members – thus alleviating family members' fears that the caregiver might misuse their elderly relative's funds and giving them control over the use of the cards and providing greater convenience when paying;

During 2017, the bank is expected to launch a user-friendly retirement kit which includes information for retirees (such as proper handling of compensation, various tax aspects, regulation, etc.). Using the kit will increase the customers' awareness of proper financial conduct on retirement, and will contribute to maximizing economic benefits and prudent financial planning for retiring customers.

Working to Promote Financial Freedom for Small Businesses

The small-business sector, which contributes about- 45% of Israel's gross domestic product⁹ and provides jobs for about 69% of the Israeli job market, is one of the pillars of the Israeli economy and one of its key growth drivers. In recent years, in accordance with the values embodied by the Bank Hapoalim vision, the bank has worked diligently to enhance and promote its small-business customers' financial freedom, through the development of financial tools and services and the provision of personalized, professional service close to every business in Israel. Within this effort, Bank Hapoalim is committed to supporting and promoting small businesses, as a foundation for growth of the Israeli economy as a whole.

The recognition of the importance of small businesses has led to the creation of special programs, over the last three years, aimed at responding to a wide range of these businesses' needs. This extensive activity is aimed at enabling businesses to grow and expand, while coping with challenges, across all life stages of the business, and to provide equal opportunities to all population groups in both the central and the peripheral regions of Israel. The knowledge and services offered in this area are based on the bank's core capabilities and on organization-wide processes. This activity consists of several key elements:

Granting credit

The bank grants credit to small businesses, as part of its routine activity, both within its credit portfolio – the largest in the Israeli banking system, and through funds that specialize in credit for small businesses. The bank creates collaborations through dialogue in the public sphere:

■ **Establishing dedicated business support funds** – which includes several funds- In May 2016, the bank and Clal Insurance launched Poalim Fund for Businesses, a new NIS 8 billion credit fund for small businesses. The Fund's goal is to encourage the activity of small and medium businesses which struggle to obtain credit in the ordinary course of business. In this manner, the bank helps more small businesses in Israel to grow, develop and create new jobs; continue to promote the bank's and the Manufacturers' Association's joint fund, as well as continue to promote the Koret Fund, which enables the granting of micro loans, under special terms, to small businesses;

■ **The Instant Credit for Businesses service** – unique credit solutions for small businesses. This quick and simple service is available to customers at any time on the bank's website, via mobile, or at branches, without additional collateral or bureaucratic procedures. Credit is approved in real time, cutting down the time needed for credit applications and approvals to just minutes and offering an immediate response for businesses, to address challenges or to finance routine operations. To date, the bank has granted NIS 1.9 billion through this service.

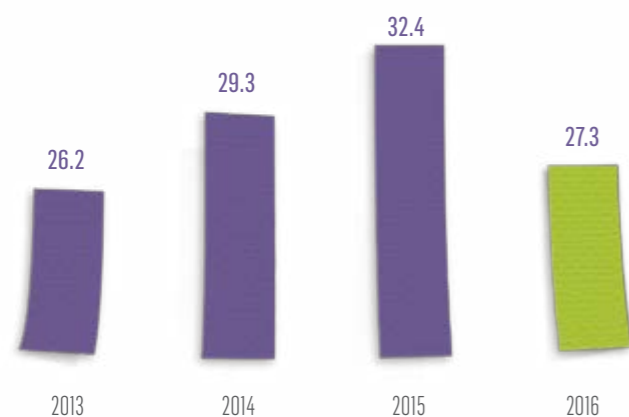
NIS **27.3 billion**

In 2016, the bank granted a total of NIS 27.3 billion in credit to the small business sector.

The recognition of the importance of small businesses has led to the creation of special programs, over the last three years, aimed at responding to a wide range of these businesses' needs. This extensive activity is aimed at enabling businesses to grow and expand, while coping with challenges, across all life stages of the business, and to provide equal opportunities to all population groups in both the central and the peripheral regions of Israel

9. The State of Israel's Small and Medium Businesses Periodic Report - January 2016, Ministry of Economy and Industry.

Total credit to small businesses



NIS 450 million

Poalim for Business Fund - From the Fund's establishment to the date of this report's preparation, the Bank granted NIS 450 million in credit

Personalized Consulting and Service

In line with the needs of small businesses, the bank has initiated a variety of customized services and information to enhance the financial freedom of this sector. The bank has deployed specialized business branches and trained bankers to provide services to small businesses at these branches. The bank has also developed innovative business management services through direct channels and digital platforms, and its experts offer information about different aspects in a business's life;

■ **Broad deployment of specialized business services** – in addition to the deployment of specialized business branches, the bank has classified 80 anchor branches at the Retail Banking Division, which provide a solution to an especially wide range of small businesses, and has designated expert business bankers at 227 branches, who work specifically for small businesses – the widest deployment in Israel;

■ **Innovative channels for business account management** – the bank has developed a range of innovative services for the management of business operations, at any time and place. Hapoalim Online Business is an area of the bank's website tailored to business needs, which offers a range of financial activities that can be carried out simply and quickly. The bank's proprietary mobile and tablet apps for business customers offer a steadily growing range of transactions and information, allowing owners to manage various financial aspects of their businesses and respond in real time;

■ **Professional banking solutions and special benefits** – experienced expert advisors assist businesses with information based on financial and economic research in Israel tailored to the needs of the business, in areas such as: investment advice and foreign trade; a desk specializing in mid-sized businesses operates in the bank's dealing room. The bank has also expanded branch managers' authority to grant credit to these businesses. This process helps business customers receive rapid response to credit applications, through

an efficient procedure without superfluous bureaucracy;

■ **Establishment of the Center for Business Accompaniment** – in May 2016, the Bank launched, in an extensive, first of its kind, move – the Center for Business Accompaniment. The center – launched in collaboration with the College of Management, the Lahav organization and Sachal Fund – operates nationwide with the aim of providing small businesses across the country with knowledge and tools for managing and growing their businesses. The Center for Business Accompaniment provides small businesses with professional courses, workshops on various business topics and one counseling session with an expert consultant;

■ **My Online Store** – in order to provide banking services to small businesses that will help them increase their turnover and expand their customer base, the bank launched an exclusive joint initiative with Isracard, in My Online Store. As part of the project, small businesses which are the bank's customers enjoy an exclusive %50 discount on the basic package for a period of six months, when setting up an online store;

■ **Launch of the Guide to Starting a Business** – to help small new businesses, the bank launched the Guide to Starting a Business in August 2016. The Guide to Starting a Business is a business owner's manual which provides all the information and tools needed by business owners from the very first step. The guide is digital and accessible online by customers of all banks. This move reflects the bank's strategy to support businesses' growth at all stages of their lives, from the very first steps to the growth stage;

■ **Current-account benefits for small businesses in the setup phase** – in order to assist small businesses across all life stages and enhance the survivability of new small businesses in Israel, for the fifth year, Bank Hapoalim has offered the Easy Start Package to small businesses in their first two years of existence. The package provides an exemption from current-account fees for businesses in the setup phase and offers new business owners assistance with their first steps;

■ **Poalim Business Club** – a club for small and mid-sized businesses, which lowers the business management costs by thousands of shekels a year, and offers special benefits to business owners.

Marketing Platform and Promoting the Public Space

The bank assists small businesses to deal with the challenge of publicity and advertising, faced by every small business. The bank has initiated and established several marketing structures and channels to help promote the exposure of small businesses across the country – Small Business Day, the CashBack Club, Business Fairs, and more.

■ **Small Business Day** – tens of thousands of businesses and hundreds of thousands of customers participated in the fourth Small Business Day in early 2016;

■ **Poalim CashBack Club** – in 2012, the bank launched the largest customers' club in Israel, providing all customers who use the bank's credit cards with cash rebates to their current accounts on

purchases from thousands of businesses. 10,000 small and mid-size businesses participate in the program that the club offers, enabling them to benefit from a broad marketing platform reaching a large number of customers, through a range of media channels, within and outside the bank;

Examining Achievement of Objectives

2016 Objectives	Status
In May 2016, the bank and Clal Insurance launched Poalim Fund for Businesses, a new NIS 8 billion credit fund for small businesses. The new fund will help small businesses grow by granting credit at special terms, including a faster underwriting processes and just 25% in collateral.	Completed. The fund was launched may 2016 ✓

LOOKING AHEAD

During the year, the bank will launch targeted measures to reflect the bank's vision – "helping individuals, businesses and communities thrive," working to provide tools that will help in setting up new businesses in communities, improve their chances of survival and enrich the life of their communities, while positioning the branches as a key value factors in the community and contributors to its prosperity;

The bank will strive to digitally empower small businesses that are customers of the bank, and will launch new, advanced technological tools that will help business owners manage their business accounts and all of their business's financial aspects simply and conveniently, in one place, either directly from their mobile devices or desktop computers;

The Bank will launch a platform for value creation in small local businesses to improve their chances of economic survival.

Working with the Ultra-Orthodox and Arab-Israeli Sectors

Bank Hapoalim accords high importance to cultivating a stronger relationship with its customers in the Haredi (ultra-Orthodox) and Arab-Israeli sector, in the view that these communities are catalysts for growth of the Israeli economy. Based on this perspective, and as part of Bank Hapoalim's vision and strategy, the bank continually endeavors to create value offers and develop services tailored to the specific needs of these customers. Over the last few years the bank has achieved a leap forward in marketing to customer segments within the retail banking area, and it continues to expand its community and business activities in these sectors.

Financial Freedom and Encouraging Growth in the Arab-Israeli Sector

The Arab-Israeli sector is growing, and Bank Hapoalim attaches great strategic importance to its business activity in the coming years. The bank is committed to the sector's continued development and growth. The bank's expansion of its deployment in, and offering of products and services to, the sector is based on recognition of the national importance of integrating the country's diverse communities in the job market and economy, and the development of the periphery. The bank's customers have an Arabic language website, which provides changing information about the bank's current and new products and services. www.bankhapoalim.co.il/arabic

In 2016, the bank launched several special added-value initiatives, products, and services for the sector, accompanied by the message Always with You, including:

- **Small Business Day** – was held, as every year, in the Arab community, and included translation and adaptation of all the materials into Arabic. On this day, several senior bank executives visited Arab communities. The bank's management visited Majar and Nazareth;
- **Plan to expand the counseling array** – during 2016, investment advisors from the Arab community were hired and took a preparatory course on the Poalim Campus towards obtaining a license to provide investment advice. The process included a six-month training course at the Campus, followed by an internship period of several months. The process did not end in 2016. At the end of the training period, the bank will reconsider the deployment of the investment advisors at Arab community branches;
- **A unique solution for housing credit** – in 2016, the bank continued to offer the solution in response to the barriers to obtaining mortgages in the Arab-Israeli community. This solution enables members of the Arab community to obtain a mortgage loan secured by placing a partial pledge on the property, in order to meet the existing barriers in Arab society, that do not allow to place a full pledge on properties;
- **Activities to further strengthen and deepen relations with the community** – workshops on family budget management were held. The workshops were conducted for employee groups, such as employees of municipalities, teachers, etc.;
- **Holiday activity** – holiday meals were organized for customers from the Druze, Muslim and Christian communities, attended by senior executives from the bank. Flowers and greeting cards were distributed in the Arab community for Mother's Day;
- **Youth activity** – special activity was

held to encourage youths to join the Poalim Young club, which offers benefits to youths. In addition, hundreds of computers were donated to schools, scholarships were awarded, and Dan the Saver summer camps were held in nine communities;

- **Sponsorship of conferences held for various audiences** – such as business women, architects, driving instructors, an Arab-Jewish women's conference on social change, and a conference on leadership and management;
- **Donations to NGOs** – including NGOs supporting people with disabilities;
- **Volunteering** – volunteer work by bank employees in homes of elderly persons, institutions for children with disabilities, etc.;

10,000 million

In 2016, 10,000 new private customers and approximately 730 new business customers joined the bank, which opened two new branches: in Kfar Manda and Iksal

28 branches

The bank has 28 branches in Arab-Israeli towns and an additional 15 branches are located in mixed towns or adjacent to Arab towns

- **Read & Succeed activity** – to encourage reading among children in Arab society – took place in 26 communities. It included an artistic event, in which books were sold at subsidized prices. In addition, the bank held a unique project – the Young Writer Competition to encourage writing, in which 100 children took part. A professional committee selected 10 winning stories, that were published as a book. To allow visually-impaired children to enjoy the book, an audio version of it was produced on CD and attached to the book.

The ultra-orthodox sector

The bank has 21 branches in towns with large religious and ultra-orthodox (haredi) populations. The bank offers a specialized package of services and products to ultra-orthodox customers. Branches of the bank operating in the ultra-orthodox sector have been adapted to these customers' needs, respecting their way of life. The branches' appearance, the videos displayed on screens at the branches, and marketing material have been adapted to the customers.

The bank's activity in the ultra-orthodox sector in recent years has resulted in initiatives, development, and adaptation of products and services designed to complement and respect the ultra-orthodox way of life: a range of loans suited to customers' needs, matching our observant customers' life stages, including loans for yeshiva students, engagement loans, wedding loans, home purchasing loans, loans for children's weddings, and holiday loans.

This year, the bank updated its website adapted to the ultra-Orthodox community: which operates at www.bankhapoalim.co.il/

bsd. The website serves ultra-Orthodox and observant customers and is adapted to these audiences' norms. Customers can use the website to access their accounts, receive routine banking information, and execute various transactions. During the year, the bank made several moves aimed at exposing the public to the existence of the website, that has been adapted to their values and to its ease of use and

convenience, through cooperation with the Behadrei Haredim portal, as well as through tailor-made tutorials for the ultra-Orthodox population at the branches, as part of the digital empowerment process, and through tablet computer stations placed at the Bnei Brak and Mea Shearim branches. In 2016, the Read & Succeed program for the haredi sector operated successfully for the seventh consecutive year.

Examining Achievement of Objectives

2016 Objectives	Status
The bank will continue to work with the Arab-Israeli community, sponsoring professional conferences, activity to promote small businesses, activity adapted for youth, and expand investment advice and digital empowerment for the sector;	Completed. 
In the ultra-orthodox community, the bank is planning digital empowerment activity and the promotion of special added-value products and services;	Completed 
In 2016, the Read & Succeed program and the adapted website for the ultra-orthodox community will move forward.	Completed 

LOOKING AHEAD

Poalim for Your Own Business – The bank is expected to launch a unique training program to encourage women in the Arab community to turn their talents into small businesses in cooperation with the Economic Empowerment for Women NGO. The six-month long program will provide participants with tools and knowledge through group meetings and individual sessions with leading lecturers and mentors from various fields;

Youths in Arab society – the bank is working to create an incubator for youths in Arab society, in cooperation with ARAB TEENK, in order to become more familiar and better understand the uniqueness and needs of teenagers in Arab society;

In late 2017, the bank plans to hold a unique, extensive economic conference for the Arab society, in cooperation with Calcalist, with the participation of leading recognized speakers from both the general sector and Arab society.

Promoting accessibility

As part of its service philosophy and corporate social responsibility values, the bank sees accessibility for disabled persons as an essential issue and business obligation, and endeavors to fulfill every disabled customer's basic right to receive the full range of its services as independently as possible, or with support, while maintaining their dignity. Disabilities may involve mobility, vision, hearing, cognition, or the weakening of various functions, as a result of old age or a permanent or temporary incapacitation. The bank has the duty to adapt and create specialized solutions for various types of needs and disabilities, and to customize services to ensure that customers with disabilities are served in an optimal manner, consistent with the service offered to the general public. This duty is grounded both in regulations and in the standards the bank has set beyond its regulatory obligation it applies to both physical and virtual service channels.

Further to the ongoing activity of the Bank in the field of accessibility, an orderly plan is being applied for the gradual implementation of the new accessibility regulations in accordance with the timetables defined in the regulations, among others, in the Bank's buildings, facilities and in the accessibility of its website. This plan is scheduled to be completed until 1.11.2017.

Over the years, the bank has continually and consistently worked on a systemic, integrated accessibilization process, including physical accessibilization of its buildings and branches, to customers as well as employees; technological and virtual accessibilization; and adaptation of its service philosophy to customers with disabilities. This process has been conducted based on dialogue with the

relevant stakeholders and professionals, and with the guidance of the Access Israel foundation. The bank routinely reviews relevant legislation and advanced options available for accessibilization, and strives for improvement and adaptation.

Accessibility at Bank Hapoalim

Accessibilization of branches and buildings

The effort includes a thorough examination of all obstacles and barriers that customers with disabilities face when entering the branch from the street and inside the branch, and finding solutions for smooth, continuous movement and accessible service. This begins with wide reserved parking spaces, and continues with ramps to bridge height differences, wide entrances to the branch, sufficient space for movement inside the branch, appropriate signage, a wheelchair-accessible service station, comfortable access to a desk, comfortable waiting seats with armrests and restrooms adapted for disabled persons, and more. An accessible service station is available at each of the accessibilized branches, offering comprehensive service. These stations are staffed by employees who can provide service to customers in the full range of the bank's products and services.

All accessible branches have:

- Accessible service stations pursuant to service accessibility regulations (an accessible station for all banking).
- Accessible parking or a letter sent by registered mail to the municipality to prepare accessible parking.
- Accessible and convenient entry (about 70% of branches are accessible).
- Suitable signs as required by law.

- Every accessible station has an inductive loopset; every branch has several accessible stations.
- Call Hear / Step Hear system at the branch entrance.
- Accessible toilets.
- An elevator, escalator, or lift platform at every branch where they need to be installed.

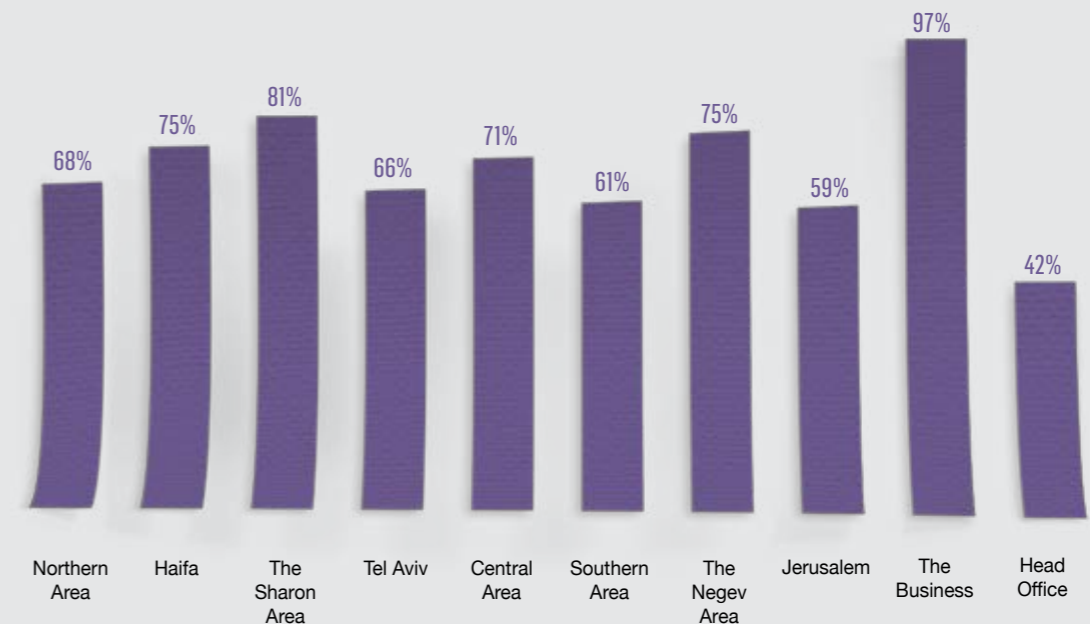
Below are descriptions of the various facilities at branches to help people with disabilities:

- **Step Hear** - a voice-activated navigation system to provide voice direction for the visually impaired, helping them find the branch entrance door and accessible ATMs;
- **Call Hear** - a device to alert the designated banker at the branch's accessible station that a visually impaired or limited mobility customer is at the branch entrance;
- **Induction loop set** - a device to improve the dialogue with an auditory impaired customer, enabling him to hear through his hearing aid hear only the banker providing him service, through his hearing aid, without background noise.

As of the date this report was written, there are Step Hear and Call Hear devices at all accessible bank branches. The devices will be standard equipment for all branches that qualify for the new accessibility seal, as well as at all branches that are renovated. Inductive Loopsets are installed at all accessible stations at the branches;

- **Accessible ATMs for visually impaired customers** - a solution that integrates an earpiece connected to a socket on the ATM, voice commands to activate the keyboard in accordance with the functions wanted by the customer. Instructions are provided in four languages: Hebrew, English, Russian, and Arabic.

Percentage of Accessible Branches by Geographic Area



82%
of the bank's
branches are
accessible

Accessible branches: as of the date this report was written, there are 224 branches under the new accessibility standard from NGO Access Israel. These branches feature Step Hear, Call Hear, inductive loop sets, and other aids. A total of 82% of the bank's branches are accessible. It should be noted that the number of accessible bank branches has decreased since 2015 (224 versus 226), due to the reduction in the bank's total number of branches (including accessible branches). The percentage of accessible branches, however, remained similar and, in any case – exceeded regulatory requirements

Virtual channels and interfaces

Over time, the bank has worked to integrate and enhance technological innovations in its service offering, to enable customers to receive the full range of its services and products, at any place and time: through the call centers, online via desktop computer, on smartphones of every kind, on tablets, etc., using convenient, advanced interfaces. Beyond the benefits to customers and to the environment due to savings on travel, time, paper consumption, this approach represents a leap forward in allowing customers with disabilities to use banking services in the way they find most convenient.

The variety of channels and technologies makes it possible to overcome limitations on mobility, hearing, or vision, making all of the bank's products and services accessible to disabled persons. However, accessibilization of service interfaces in these channels for some customers still presents a challenge, such as in the case of cognitive, visual, or auditory impairments (e.g. in a call to a call center representative), difficulties using the mouse, keyboard, or touch screen and clearly identifying information on the screens.

The bank's marketing site is accessible to users with disabilities. The website meets the Level II accessibility standard, complying with all requirements (approximately 99% of the pages within the website are Level II accessible). The bank plans to make accessible all its websites and apps that are available to customers, pursuant to the accessibility standards.

A page on the bank's portal aggregates all of the information on accessibility

at the bank's buildings, as well as basic guidelines for serving people with disabilities, information regarding accessibility on the bank's website, and an explanation on ways of serving people with various disabilities, such as visual, hearing, or cognitive impairments, during routine operations. News and procedures related to the accessibility of buildings and of service were communicated to employees during 2016. Employees have undergone personal and computerized training on providing service to people with disabilities. The bank has prepared a tutorial to help better understand customer needs and provide them with suitable and adequate services. The tutorial is mandatory for all bank employees.

The bank makes available to customers the option of accessing information in accordance with their requests and needs:

- **Reading aloud of forms** – at the customer's request, a branch banker will read aloud the relevant forms. Audio files of long forms, such as the form for opening an account, have been uploaded onto the bank's website;
- **Email accessibility** – if a customer cannot read an email sent by the bank, he/she can contact the branch which manages his account or a banker at Poalim by Telephone, and ask them to read the email out loud;
- **Translation into sign language** – it is possible to schedule a meeting at the branch with a translator into sign language for complex financial matters that require lengthy discussion.
- **Accessible printing** – at the customer's request, forms will be provided in accessible print or Braille, in coordination with the branch that manages his/her account.

Encouraging business accessibility

Granting credit to promote accessibility

As part of the Bank's efforts to promote accessibility, the bank began to grant credit to small businesses committed to complying with the Accessibility Law. The loan is granted by the bank with low and beneficial interest rates, for an unusually long period (up to five years with the option of postponing principal repayments by up to three months). This initiative continues the bank's activity in this area. Following low demand in previous years, now, after the Law has come into force and enforcement by the authorities is expected to increase, the bank expects a significant rise in the number of new small businesses making their services accessible to people with disabilities. This product will be offered to tens of thousands of small businesses in Israel, including as part of the bank's Business Club.

As part of the Bank's efforts to promote accessibility, the bank began to grant credit to small businesses committed to complying with the Accessibility Law. These activities are held within the framework of cooperation with organizations working with small businesses and at designated conferences

Consumer Club for People with Disabilities

At the end of 2016, the bank announced the launch of a new consumer club, the "Adif Club", which will grant benefits to people with disabilities. The club, which is expected to be launched in 2017, is a joint venture with Isracard and the 2B Community, a social investment fund. The bank attaches great importance to this club for Israeli society, and the integration of people with disabilities in society results in a two-pronged advantage: both on the value side and in terms of the economic potential. The club was established thanks to a cooperation between several stakeholders, who see both the social value and business potential.

To join the club, persons with disabilities need to present a certificate indicating 20% disability as a minimum; this population is estimated at 830,000 consumers in Israel. Club members will be given a Isracard credit card (as a non-bank card). The club will offer its members benefits and discounts in a variety of areas: insurance, financial products, consumer products, cultural services, leisure and recreation, and automotive solutions, as well as information, support and assistance. Club members who wish to manage their bank accounts at the bank are guaranteed benefits, including loans under preferential terms and digital financial tools. As of the end of 2016, about 50 organizations of the disabled persons in Israel have joined the club.

99%

Accessible ATMs

as of the writing of this report, there are approximately 536 accessible ATMs and 285 combined machines, deployed in hundreds of Poalim branches, in total – in 99% of the branches

2016 Objectives

There will be approximately 270 accessible branches in 2016, 83% of all of the bank's branches (including headquarters and business centers).

Status

Completed. A total of 82% of the bank's branches are currently accessible.



LOOKING AHEAD

In 2017, the bank will continue to implement its accessibility plan, in accordance with the multi-year plan and regulatory directives, thereby rendering all of its branches accessible;

The bank will work to increase businesses' awareness of their accessibility requirements, while providing tools and credit assistance to implement the requirements of the law;

The Bank will promote collaborations and conferences to raise awareness of the significance of accessibility as well as make knowledge on this topic available to as wide an audience as possible.

Committed to Customer Satisfaction

Customer service approach at Bank Hapoalim is an expression of our organizational commitment to customer satisfaction. This approach refers to internal customers as well as end users. The approach is broad-based and integrative, and covers the breadth of the bank's operations.

Service is a value exemplified across the entire organization and through all processes, beyond direct, immediate interaction with customers. The direct encounter with both internal and external customers is the initial stage in the service cycle, based on the information that is collected and processed. The analysis of this information makes it possible to draw conclusions, learn, and improve, contributing to the development of work processes that improve the level of service. This service cycle enriches the value offer for various customers, creates a flexible organizational framework open to feedback, and expresses the bank's organizational commitment to customer satisfaction.

Service from an Organization-Wide Perspective

The organizational commitment to service and to increasing the number of satisfied customers is reflected in all levels of the bank's activity from upper management to the lowest-level employees. Service processes pertaining to the organization as a whole can be classified into three levels:

- **Organization-wide culture level** - A focus on organization-wide activities designed to foster a culture of service. These activities include formulation of a service philosophy, improved measurement capabilities, organization-

wide implementation, and creation of work routines and remuneration methods;

- **Division partnership level** - Divisions of the bank not in direct contact with customers provide support for business activities and back up the activity conducted at the points of contact with customers. Service is perceived as a key pillar of the promotion of an organizational culture supportive of and focused on better business performance. Activities in the area of service are therefore a key route to organizational success;

- **Client area level** - The service philosophy is an essential aspect of the promotion of customer satisfaction and enhancement of customers' relationship with the bank.

The Service Philosophy

Instilling intra-organizational service, as part of the divisions' annual work plans, is carried out through three main axes: organizational culture – including the change in values, approach, and organizational identity; processes and measurement – surveys, incorporation of structural changes, job descriptions, process improvement, adaptation of metrics, and technology upgrades; and the business perspective – which includes integrating service into core activities, continually improving the quality of services ranked low on the intra-organizational service survey, initiating new services, and regularly examining the mission and roles of each division as a direct function of its contribution to the bank's customers and leadership. Measures on all three axes were taken in 2016, including the following main processes:

- **Gemba: managers share closely** – division managers from headquarters visit branches and other points of contact with customers, in order to experience "the production floor", raise questions

and issues arising from interaction with customers, and suggest places where small improvements can result in major changes;

- **Be Acceflexible** – as part of an organization-wide campaign, the "Acceflexibility" value was launched (availability + flexibility) at the bank. The various units were asked to choose processes in their areas of responsibility, to suggest how they could be improved so that they would be more "acceflexible" and practical. In addition, the new value was embedded in existing mechanisms.

- **Support for the various divisions** – according to the strengths and weaknesses mapped in the internal service survey, each bank division receives close support to improve the service it offers internal and external customers. In 2016, the divisions underwent restructuring, changes on the internal customer side, and the resulting adaptations required.

In addition, the ongoing processes continued throughout the year, including an internal service review, various measurement processes, and the internal service campaign.

Measures taken during 2016:

- The service experience is measured based on various parameters – customers at the branches and in the various service channels are sampled daily, on a regular basis, throughout the year, for a feedback study;

- The sampling of customers by text message surveys, shortly after their visit to a branch, was expanded;

- Focus on managing customers at the branches, while providing customers with tools and daily guidance on how to perform transactions on the digital channels;

- Making the digital tools accessible, adapting the applications to various audiences;
- Training of managers and employees at the branches – a learning and technological development process;
- Days of guidance at the branches, which focused, among other things, on customers' waiting experience at the branches;
- Service workshops were held at selected branches;
- Training sessions were held at the branches to provide effective tools for recruiting customers;
- Positive Feedback Patrol: Recognition of bankers' excellence in service by a quarterly visit of the Retail Division's management at branches and listening to direct feedback from customers. Meetings were held at 112 branches, in which certificates of appreciation were awarded to 1,250 bankers;
- Outstanding service providers at the branches and headquarters are periodically rewarded,

Customer satisfaction surveys at the branches: Tens of thousands of customers who received service at the bank's branches were sampled in 2016

Customer surveys on the direct channels: Thousands of customers who use the direct channels offered by the bank are sampled each year

Customer surveys at Mishkan (Hapoalim Mortgages): Thousands of customers who contact Mishkan are sampled each year

840 Poalim Host

value-added customer conferences – conferences which provide customers with added value: about 840 customer conferences were held at the branches; approximately 1,500 customers participated in 4 regional conferences for business customers; over 1,000 customers enjoyed a variety of digital experiences conferences held across Israel. Personal Human. Technological

Customer Satisfaction Survey



Handling Inquiries and Requests

The customer contact center operates in accordance with Proper Conduct of Banking Business Directive 308A of the Bank of Israel, which took effect on April 1, 2015. The directive formalizes the obligation of a banking corporation to address customers' inquiries in a fair, reliable, and efficient manner, and is designed to provide uniform rules for addressing and reporting inquiries throughout the banking system. The directive establishes detailed rules with regard to the existence of the unit, the ombudsman at its head, the ombudsman's authority, the procedure for processing customer complaints (including timeframes), and detailed reporting to the board of directors, management, the public, and the Supervisor of Banks.

The customer contact center processes incoming contact (including complaints)

from customers through all channels: mail, Internet, fax, telephone, etc. All units of the bank devote focus to processing complaints, with high alertness and awareness to accurate and appropriate response to complaints, promptly when they arise. The service philosophy of the customer contact center is transmitted to the employees of the bank through the Poalim Campus, intra-organizational communication, and lessons learnt.

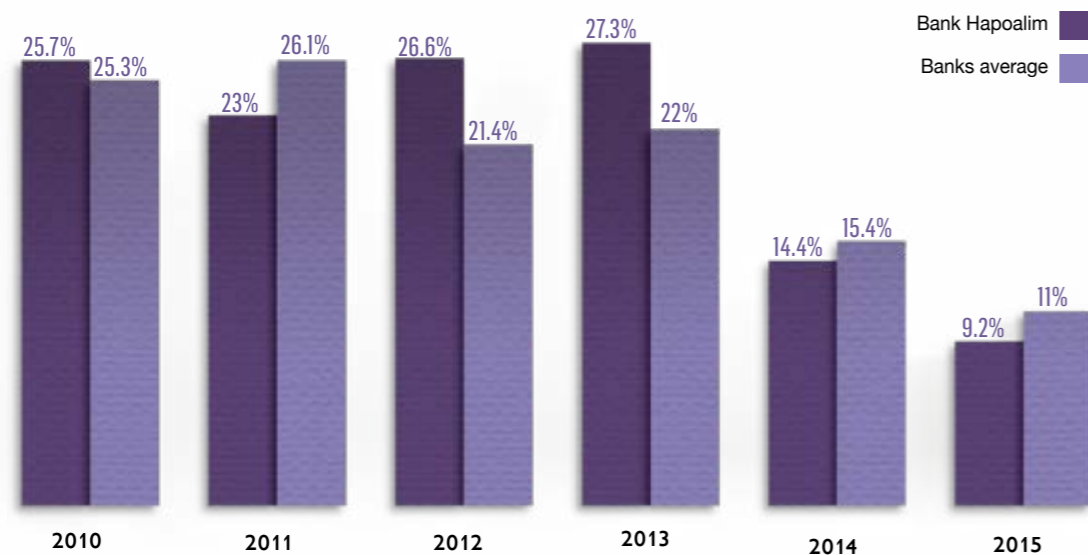
Processing of inquiries – from localized resolution to organizational learning

■ **Organizational learning** - The customer contact center monitors complaints and inquiries with systemic implications, such as recurring events at various units and problems with organization wide procedures or work processes. These inquiries are presented to the appropriate professionals at the bank for study and potential improvement of the relevant

procedures and processes. When an inquiry is classified as systemic, the process and progress of resolution are monitored via a formal procedure. Event analyses of systemic inquiries appear in the service zone on the organizational portal, in order to assimilate the use of inquiries as a driver for learning at the branches. Service inquiries and events are analyzed in branch staff meetings from time to time;

■ **Localized resolution** - Localized inquiries without implications for the lateral activity of the bank are handled appropriately through a shared process by the customer contact center and the source of the issue. For example, at the end of the process, a letter or report summarizing the resolution is sent to both the customer who initiated the inquiry and to the branch. The branch is also issued with recommendations for improvement and instructions for action aimed at avoiding similar incidents in the future.

Percentage of justified requests - Bank of Israel data*



The data are relative to the average of the five major banks in Israel (Hapoalim, Leumi, Discount, FIBI, and Mizrahi-Tefahot). As of the date of preparation of this report, * data for 2016 has not yet been released by the Bank of Israel.

Percentage of justified complaints: Of the total number of complaints recorded at the bank, only 6% were found to be justified; in these cases, the bank apologized, performed the necessary remedies, and compensated the customers if necessary. The percentage of justified complaints decreased this year, compared with the preceding year (8.4%)

24,700

Inquiries by law-enforcement agencies: The customer contact center processed 22,995 inquiries by law-enforcement agencies in 2016

10.8%

Customer inquiries: In 2016, the customer contact center processed 7,372 inquiries, of which approximately 5,303 were complaints. The number of complaints this year was down 10.8% from last year

Information about Banking Products and Services

The bank is subject to laws that impose transparency and disclosure requirements concerning information to be delivered to customers on banking products and services. Bank Hapoalim strictly adheres to the directives, which apply to all products and services, through designated mechanisms subject to controls and audits. Fundamental principles underlying consumer-protection directives: disclosure duty (transparency) towards customers; protection of customer rights to receive advice and service from the bank.

In this context, as a leading business organization in the Israeli economy, the bank exercises caution in its advertising, marketing, and sales promotion, and applies several levels of rigorous screening and controls. All messages published by the bank conform to the law - the first and most essential level. In addition, the bank consults with experts on the essence, content, and style of its advertisements, according to the service or product and the target audience. The third level consists of internal controls applied by the bank's experts in this field, including further review of the preceding two stages.

The bank drew up a statement of ethical principles in marketing and advertising, which are in addition to and go beyond the legal and regulatory compliance and the adopting of accepted ethical rules (such as the ethical rules of the Second Television and Radio Authority). The statement of principles emphasizes cooperation with advertising agencies which are committed to the ethical rules mentioned above. The statement includes ethical principles, such as responsibility, fairness, transparency, customer confidentiality, accessibility, and customization to different clienteles and sectors. The statement is available on the corporate responsibility section of the bank's website.

LOOKING AHEAD

Continued implementation of the bank's philosophy of "human, personal and technological" for customers, while defining and adapting the language, philosophy and measurement.

Continues measurement of internal service, along with the integration of measurement in the control mechanisms of the divisions and the assimilation of the improvement of the service provided to each other as part of a chain that leads to the end customer.

Privacy and Information Security

Bank Hapoalim accords high importance to information security, and invests extensive technological and human resources to maintain the confidentiality and privacy of customers' information and of banking information on the Internet, through the use of highly advanced security methods and some of the strongest encryption systems available. Information security complies with the directives of the Bank of Israel and with the Protection of Privacy Law, 1981, and other laws, as relevant, in order to protect the information-technology system and minimize information security risks. This area is managed at the bank by the information systems and cyber defense division, which reports to the head of information technology. The information security department ensures that its staff, both internal and external employees, consists of the best professionals with the knowledge, experience, and authority in the field of information security, and regularly conducts training, enrichment, and awareness programs.

Information security in the bank's systems is maintained on several levels and circuits, in order to ensure that the bank's systems are properly protected from penetration, unauthorized access, or harm. Information-related projects at the Bank are accompanied from their inception by an information-security team that ensures strict compliance with information-security rules, protection of the privacy of information, and the restriction of access to information to authorized personnel only. Security events in IT systems are referred in real time to an expert center of information-security personnel, and addressed and documented from the initial stage of the event to its completion. Relevant events

are also referred to the audit department. Material incidents are reported to the board of management and the board of directors. The bank routinely conducts resilience tests and information-security surveys of its systems, in order to ensure that information security is maintained at all times and complies with the strict rules established in this area.

The bank and its employees may not transfer information about the customer's account, business, conduct, and other matters with respect to agreement between the bank and the customer. The bank's obligation to keeping banking confidentiality is not limited to the period when ties or legal relations exist between the bank and the customer, but also apply to the unlimited period following the closing of the customer's account or his/her decease.

Access to information about the bank's clients found on the bank's computers is permitted solely to bank employees and solely for the purpose of their work, and only by employees authorized for this purpose by the relevant parties at the bank. The bank uses orderly procedures to protect customer confidentiality pursuant to the Protection of Privacy Law, which details the conditions for keeping and protecting information and the transfer of information between public bodies.

Inquiries concerning privacy and confidentiality

	2010	2011	2012	2013	2014	2015	2016
Number of requests	92	77	78	30	18	43	27
Number of justified requests	14	9	10	3	0	3	1
Percentage of justified requests	15%	12%	13%	10%	0%	7%	3.7%

The Bank Hapoalim became the first organization in Israel to be certified under the international cyber security standard ISO 27032, in a complex certification process conducted by the bank's information technology area. The certification under the new information-security standard is in addition to the older certification under the leading information-security standard ISO 27001.

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Poalim for Innovation

Bank Hapoalim understands that the pace of change in global banking and technology requires a considerable investment in promoting innovation. This investment enables the bank to continue to develop and strengthen its status as Israel's leading bank. In early 2016, the bank announced the establishment of the Innovation Division, which will focus on the design and creation of tomorrow's Bank Hapoalim, with the assistance of all the bank's units. For this purpose, the division has developed a five-year strategic plan, which will position the bank as a smart trusted financial advisor (STFA) for its customers.

Essentially, the strategy is based on three main pillars;

- Smart banking, based on knowledge and advanced analytics, which will enable the bank to better know the customer and proactively offer customized value propositions;
- Creating an advanced customer experience that will allow every customer to feel like a VIP;
- Open banking, partnerships and innovative processes (including Agile ones) that enable advanced development methods as well as the adoption of innovative technologies developed outside the bank and their implementation in the bank within fast and flexible time frames.

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STFA

Smart Trusted Financial Advisor

Open banking: partnerships, fintech and Agile Technological



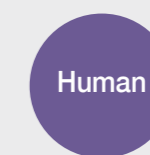
Open and connected to the world, new markets

The bank as a platform

"On any channel of your choice"

Flexible, quick access to the market

Close relations with the customer: advanced customer experience Human

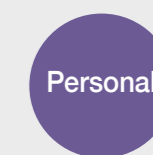


Relationship with the customer - every customer will feel like a VIP

Accessible banker - "the person behind the machine" (Human)

Easy, simple, convenient, accessible, seamless

Smart bank: based on knowledge and advanced analytics



"The bank knows me" Customized, in line with everyday life

"Before I even thought of buying"



The new Innovation division has recruited leaders from various fields, its areas of activity were approved and work interfaces inside and outside the organization were developed. Emphasis is made on developing Agile (a methodology for implementing organizational processes) work capabilities in all units of the bank, process flexibility and feedback that enable to reduce waste and speed up the development of outcomes. This method of operation is based on work processes in Squads (collaborative teams) to establish cooperation between all of the bank's units. Below are the Innovation Division's fields:

Business development and fintech	Technological Innovation – CTO	Customer Experience	Data and analytics (Including Big Data)	Digital Factory	Digital Strategy and Roadmap
Leverage collaboration with fintech companies and empower business development to create new sources of revenue and enhance the bank's capabilities	Identify and "import" technological innovation	Develop a unified and competitive customer experience on all channels	Leverage information from within and outside the bank for business decision-making purposes	Projects Unit responsible for the implementation of digital projects	Strategy, the bank's roadmap, business plans, budget for digital

As part of the division's activities in the field of fintech (financial technology), the division examines both the local and global markets, reviewing and integrating technologies that meet the digital strategy promoted by the division. More than 12% of global investments in technology companies are dedicated to fintech companies. Therefore, the division cooperates with cybersecurity and fintech start-up companies, providing them with technological and business guidance. In addition, the division strives to introduce foreign and local companies, and has promoted dozens of collaborations for the benefit of customers. The relationships and partnerships developed by the division enable it to better understand the market dynamics, enhance the bank's productivity

and improve the bank's ability to comply with regulatory requirements.

In 2016, the division launched additional strategic collaborations, including:

- **Collaboration with the London Stock Exchange and promotion of the ELLITE program** – to encourage and empower high-tech and fintech companies as part of the bank's openness to the global ecosystem. The program offers exposure to mentors and the use of direct channels to other banks and relevant financial institutions;
- **Establishment of an innovation lab with the Technion** – a long-term research cooperation agreement in the fields of data analytics, Internet of Things,

blockchain, and more. The lab will conduct research with the aim of solving various technological challenges for the banking industry – such as advanced risk management and forecasting financial activity of private and business customers;

- **Cooperation with Cisco Systems** – to promote joint ventures in the fields of fintech, smart economics and promote financial education using smart systems in the Western Negev. The cooperation is based on an agreement between Cisco and the Prime Minister's Office to support the acceleration of Israel's digitation process, while promoting a vision of innovation in the fields of education, healthcare, cybersecurity, and more.

In addition, the division is working to promote additional joint projects with Google, Cornell University, etc.

During 2016, the division promoted the following projects, among others:

Services & Products

- **B-online** – improvement of the visibility of the application, which enables end-to-end digital activity in the account, without the need to arrive at the branch;
- **Updating the My Branch app** – updating of the account management application, so as to enhance the relationship between the customer and his/her personal banker;
- **Launch of the BIT app** – a P2P payment app ts from any bank to any bank. The application allows you to transfer funds in an easy and simple language to contacts, from any bank to any bank, with the charge made to the customer's credit card and the credit appearing directly in the beneficiary's account;
- **Chat bot** – an easy to use interactive application for making transactions and receiving information by chat, the first of its kind in the banking industry;
- **Launch of products on the Capital Market website** to empower the capital market, such as showing the daily / monthly investment portfolio history, setting up a regular buy / sell order, and more.

Promoting innovation in the public sphere:

- **"Inspiration for Innovation"** - a series of sessions held by Globes and Bank Hapoalim for new entrepreneurs, hosted by Hagai Golan, Globes' editor in chief, to provide them with various tools to help them succeed. The sessions featured seasoned leading Israeli entrepreneurs, who shared their experience of companies' constant race to survive and maintain their relevancy and profitability;
- **The Airborne Conference by Calcalist** – brought together financial

firms, technology companies and entrepreneurs from Israel and abroad.

- **Startup week**- the event, which took place in November 2016, brought together entrepreneurs, VCs, developers and senior executives from the bank and from the local and global tech industry, in order to expose the ecosystem to the needs of large financial firms, catch up on technological innovations, network with fintech companies and provide a fruitful basis for forging partnerships.

LOOKING AHEAD

- Establish new growth engines, smart banking in terms of data and analytics;
- Develop Agile-based work processes to enhance efficiency, flexibility and speed;
- Continue to develop tools for investment advice and payments;
- Develop new banking models and improve customer experience and tools for the digital and mobile channels.

Personal, human, technological – on digital

The activity in the various channels is derived from the bank's vision, launched this year under the "personal, human and technological" strategy, with the aim of offering banking services which combine personal and human service with technological innovation, while examining and responding to the customers' ever-changing needs, with emphasis on a state-of-the-art customer experience

Bank Hapoalim is committed to helping its customers with all financial aspects of their lives. Out of this commitment, the bank offers its customers full availability and access to banking information and financial services in a variety of service interfaces: an extensive network of branches and a diverse mix of direct channels available anywhere, anytime. The activity in the various channels is derived from the bank's vision, launched this year under the "personal, human and technological" strategy, with the aim of offering banking services which combine personal and human service with technological innovation, while examining and responding to the customers' ever-changing needs, with emphasis on a state-of-the-art customer experience. In addition to the advantage of convenience in saving time for customers, less travel and fuel consumption also mean less environmental pollution. In 2016, the bank continued to lead the Israeli banking industry in providing world-class services and direct channels.

The Website

The bank's website offers a comprehensive set of services to its customers. The concept of "personal, human and technological" serves as the basis for the website's mix: extensive information and an option for self-service transactions in

order to provide customers with complete and informed control over their banking activities. The website offers the diverse services through a unified, easy-to-use, convenient and user-friendly interface (www.bankhapoalim.co.il). This year, the bank placed a major emphasis on digital empowerment processes for customers, with the aim of providing them with a variety of tools and solutions to operate their accounts online in an independent, simple, and intuitive manner.

To serve a wide range of customers in a variety of languages, the bank offers its customers several sub-websites tailored to meet their specific needs: a website for individual customers; a website for retail business customers and customers of the Business Division; an English-language website for business customers; a mortgage website; an international website in English for nonresidents; a global BHI private banking website in English, Spanish, Russian and French; a marketing website for residents of Israel in Russian and Arabic; and a dedicated website for the ultra-Orthodox community.

Bank Hapoalim's online activity is based on customer advocacy principles. These principles are part of a contemporary philosophy that puts the customer's needs and financial freedom at the forefront and is based on the following elements:

- Full transparency regarding the terms, prices, and properties of products and services;
- Thinking from the customer's perspective and offering solutions tailored to unique customer needs;
- Granting customers full and easy control in managing their financial activity on the bank's website.

Accessible Website

The bank's marketing site is accessible to users with disabilities. The website meets the Level II accessibility standard, complying with all requirements. The goal is to enable people with motor disabilities affecting their hands, impaired vision, or cognitive disabilities, as well as people who experience difficulty in using computers and the Internet, to access the website conveniently and spare the difficulties and inconvenience of going to a branch.

New features on the bank's website New website

In 2016, the new website for all private customers was launched, bringing a new level of customer experience, depth of information, and a range of tools for proper financial conduct. Using an advanced user-friendly interface, simple and clear language, and new and clear design, the new website enhances the customer experience, providing immediate access banking that helps customers manage their money quickly and conveniently. The

new site is the customers' smart financial partner: it offers them personal assistance, comprehensive information about their account, interactive tools, insights, and customized solutions that enable them to maximize their money, while digitally empowering them.

As part of the new website, the following features were introduced in 2016:

- **Opening an account through the website and mobile app** – Bank Hapoalim allows private customers to open an account either through the bank's website or through the mobile app – easily, conveniently and without the need to physically arrive at the branch. Opening an account is an easy process, in which the customer is required to fill in personal information, provide a copy of relevant documents and e-meet with a banker using a video calling application. At the end of the e-meeting, an online account is opened, which allows customers to perform banking transactions and enjoy a range of services and applications offered by the bank (subject to restrictions set by the Bank of Israel);
- **Updating authorizations to carry out transactions in the account and updating administrative information through e-banking** – A service that allows the bank's customers to update their authorizations to carry out transactions (through the website and mobile app) directly from the bank's website or app, without arriving at the branch. For example, customers who only have access to e-banking information can begin to carry out transactions in their accounts as well as transfer funds (if they choose to update the authorizations so as to allow the occasional transfer of

funds to beneficiaries). In addition, customers can now update their contact information (such as phone, email and address) in the bank's database through the bank's website and application. The update will be performed across all of the bank's systems;

- **Managing authorizations to carry out payments** – a service that allows customers to manage the authorizations to carry out online payments on an ongoing basis – without filling in signup forms or arriving at the branch;
- **Email correspondence with a banker** – bank customers wishing to ask a question related to managing their accounts can now email a banker from the website or app – easily, conveniently and exactly as if they were using their own mailbox;
- **Ordering checkbooks to the customer's home** – a service that allows the bank's customers to order checkbooks online and through the app and have them delivered to their home. The checkbooks are delivered free of charge, and the customer is notified that the delivery has been made through a text message;
- **Greater availability of pension information on the website** – in 2016, the pension information on the bank's website was expanded, so that customers selected according to their activity characteristics can receive the following data from the pension clearing house: a breakdown of their pension fund coverage and insurance; statement of deposits in provident funds, pension funds, insurance and continuing education funds; information on the continuing education funds' liquidity; accrual forecast for retirement, and more;

- **Managing direct debit orders in mutual funds through the website** – bank customers can now set up, update and cancel direct debit orders in mutual funds through their online accounts;
- **Service of ordering foreign currency at the airport for customers of all banks** – as of 2016, customers of all banks can order foreign currency in advance through the Forex at the Terminal service, and receive it on the day of their flight at the bank's counters at Ben Gurion Airport;
- **Producing an account verification form online** – the bank's customers can now produce a document verifying their account ownership, including a list of the account's beneficiaries and/or signatories (if any);
- **A new identification method for the business website** – logging in using a mobile code or voice message – as of 2016, business customers can log into their online accounts without a physical identification means and without having to download a dedicated software to their computers. The service allows to access the account from any computer (in Israel or abroad) with the user ID, password and or a code sent by a text message or voice message to the user's mobile device when logging in.

Apps

In the dynamic competitive environment shaping customers' expectations, Bank Hapoalim is committed to providing its customers with the most advanced banking services, regardless of the platform or channel of his/her choice. The bank wishes to serve as the customer's smart financial partner, providing added value in a wide range of consumer financial areas. The bank attaches great importance of the products that serve the customer at any given moment, of which he/she can make use anytime and anywhere.

Bank Hapoalim is at the forefront of digital innovation and offers the most up-to-date digital tools available in Israel for managing an online account. The Bank offers its customers the greatest variety of mobile applications available, to make their lives easier, such as: an account management app that was the first banking app in Israel to cross the 1 million download threshold this year; a quick securities trading app for smartphones and tablets; a digital wallet that saves valuable time; an application for smart financial conduct in Israel and abroad; as well as specialized applications for youths and senior citizens.

In 2016, emphasis was placed on improving the customer experience for mobile services while focusing on the "personal, human, technological" experience. In this context, several new features were introduced in the application this year:

■ **My branch application** – as part of the bank's vision to create a banking service that combines personal and human service with technological innovation, a new zone in the account management app was dedicated to the customer's branch. The new zone expands the possible meeting points between a branch's customers and bankers to

the online space, featuring the name and image of the banker working at the branch, a dynamic indication that is turned on when the branch is open, an interface for personal alerts regarding the account, tips on proper financial conduct, etc.;

■ **Deposit of checks from other Israeli banks using the account management app** – the service that allows the deposit of check copies – which was launched 3 years ago and allowed the deposit of Bank Hapoalim checks alone – was expanded this year to allow the deposit of checks drawn on the following banks:

Bank Leumi, Israel Discount Bank, Mizrahi Tefahot Bank, First International Bank, Mercantile Bank, Bank Otsar HaHayal, and Bank Massad;

■ **Receiving mail from the bank in a variety of ways** – either by email or through the app. Customers can now view all their correspondence from the bank through the app as well (in addition to their online account). They can also receive correspondence from the bank directly to their personal mailbox;

■ **Upgrade of account identification options** – as part of expanding its value proposition in terms of quick and easy identification when signing into the account, the bank launched several improvements and services: identification through the app using voice only; identification on the website using a single password; and expansion of the option for identification using a fingerprint in popular Android devices as well.

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■ **A new interface for the Poalim Young app – chat bot** – a new interface and design for the young audience, which allows users – for the first in Israel – to manage an account through online chat (a chat bot), to obtain information, perform actions in deposits, make money transfers and cash withdrawals from ATMs. The app's new version is only available to iPhone users.

■ **The Bit application** – the Bit app (available to the general public free of charge), is a breakthrough in money transfers. It allows people to transfer money to each other no matter in which bank their accounts are held or which credit card they have. To transfer money, all you need to know is the recipient's phone number. Bit helps users in a variety of everyday situations, in which they need to transfer money: when paying a babysitter or a tradesperson, paying back a friend, collecting money for a gift, and more. Money transfers are made in just three clicks, using a smartphone, with no need for a wallet, checkbook or cash.

■ **The Poalim Start App** – a unique app designed for customers making their mobile banking debut, allowing them to receive account status updates and carry out basic transactions, such as: viewing their current account balance and credit card statements, transferring funds, making deposits and withdrawals from daily deposits, ordering checkbooks and applying for loans;

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Poalim by Telephone

Poalim by Telephone is a multi-channel banking center that provides comprehensive banking services. The center allows customers to perform a variety of transactions in their accounts, obtain service for an existing mortgage loan and set up a meeting to apply for a new one; technical support for the bank's website and mobile apps and opening a bank account using video chat without leaving home. The service is convenient and accessible, and allows all customers – including people with disabilities – to receive professional service without visiting a branch. A voice response system is available 24 hours a day for information and various transactions. Services offered through the voice response system include:

■ **Poalim Voice** - An innovative service, the first of its kind in the Israeli banking system, allowing Poalim by Telephone callers to identify themselves and manage their accounts using voice only, without the need to memorize a password or key in digits. Customers can conduct a simple, convenient, intuitive conversation with the bank, to receive extensive information or carry out account transactions, all through speech;

■ **Callback** - This service makes it possible to hold the customer's place in line for the call center. Customers hear a recording offering the possibility of disconnecting the call while the system keeps their place. It is also possible to request a callback, scheduled according to the customer's request;

■ **Voice response in Arabic and Russian** - The Arabic-language and Russian-language voice system provides extensive account information to customers;

■ **UP Mail service** – a service that allows customers to contact and communicate with the bank in writing through e-mail.

The service is available to all customers, including people with disabilities who have difficulty accessing a branch;

■ **Poalim Connect** - a unique and dedicated call center that manages all

interfaces with customers independently and allows customers to call for service using email, chat, phone or text message directly to one's personal banker.

1,000,000 Poalim by telephone – number of active customers

21,000,000 No. of annual conversations – Poalim by telephone

1,370,000 No. of active customers using the bank's website

906,000 No. of customers using the bank's mobile services and apps

LOOKING AHEAD

■ **Switching and upgrading voice response** - In 2017 a new and faster system is expected to enable the operation of telephone operations in a clearer and simpler way. In addition, new voice mail services are expected to be added to the service without the need to wait and hold for the banker. Such as transactions to a third party and a variety of other products;

■ **Receiving full service in a single call** - in 2017 the continues improvement service process will continue, so that customers can receive the highest service in the first call, without the need for further treatment and waiting for the solution. Objective – finishing the service treatment within the first call at 90% of the calls;

■ **Providing preferential service to customers aged 75 and up at Poalim by phone** - In 2017 an emphasis will be placed on a service that includes: receiving an answer from a banker with only several keystrokes, giving priority to standby time - about 10 seconds standby time, and the option to schedule an appointment at the branch.

Poalim through Branches

The branch channel offers customers of the bank 235 (retail) branches – the most broadly deployed nationwide network of the Israeli banking system. Bank Hapoalim has branches throughout Israel, from city centers to remote regions. The bank is working to improve the location of existing branches, with the aim of further improving the accessibility of branches to customers. The bank branch serves as an anchor for managing relations with customers and a point of service for customers seeking face-to-face service along with a variety of advanced tools for carrying out self-service transactions, such as further developing the website, advanced applications and further deployment of self-service stations.

Network deployment

During 2016, the Bank continued the calculated deployment of its branch network, while adjusting each branch's format to the particular needs and characteristics of its target audience, consistently and continuously working to develop advanced banking solutions and services and make them accessible. In 2015, the bank launched Poalim Digital – a network of advanced digital branches which combine innovative tools, products and services to produce a state-of-the-art banking experience for customers, with professional bankers. In addition, the bank is working to expand the services provided in its branches, such as the continued nation-wide deployment of pension advice centers and foreign resident centers. As part of its ongoing efforts, the bank continues to examine the opening of branches in new areas, with a focus on strategic populations with growth potential, such as the Arab society.

Under its “personal, human and technological” strategy, the bank instills the use of digital services among its customers and employees. Customer representatives at the branches assist customers in using the digital channels, providing hands-on guidance and support. At the same time, the bank continues to focus on the needs of the elderly population, providing them with human response in addition to assistance and guidance in using digital channels.

Specialized branches:

- **Pension advice centers** – in 2016, the bank opened 3 pension advice centers nationwide providing pension advice, as part of the effort to strengthen its customers' financial future. The purpose of the centers is to offer professional pension advice;
- **High-tech units** – in 2016, the bank opened 2 additional units specializing in high-tech, to expand the services offered to start-ups and established technology companies;
- **Foreign resident centers** – service for foreign residents has been concentrated at eight expert centers to improve the service offered them and the professionalism of the employees in this field;
- **Business branches** – Specialized branches have been established exclusively for mid-sized and large business clients, as part of the Bank Hapoalim branch network, forming another element of the service package provided by the bank's Corporate Banking Area. These branches provide a skilled, high-quality service experience across all aspects of routine banking activity, offering professional solutions and improving response time and availability to customers. The service offering created by the bank at these

branches focuses on personal service customized to client needs, full availability including opening hours suited to business clients, professional service by experts, and updates and initiatives for clients. The service package was constructed based on a comprehensive process of learning from customers about their needs and expectations. The branch network sets a new standard for innovative, excellent, proactive service, responsive to each business client's unique needs, and for the connection of all systems serving the client. Another significant change was carried out at the business branches in 2014, in which branch managers were granted credit authority, so that customers can be referred to them from the business centers to receive service. The branches will handle all aspects of credit for the business clients assigned to them.

Distribution of the branches of the bank*



The branch channel offers customers of the bank 235 (retail) branches – the most broadly deployed nationwide network of the Israeli banking system. Bank Hapoalim has branches throughout Israel, from city centers to remote regions. The bank is working to improve the location of existing branches, with the aim of further improving the accessibility of branches to customers

*As part of the process of expansion of the services offered to customers, Express Branches were converted into traditional branches during 2013; these branches therefore appear in the traditional branches category and are not listed separately. This information is correct also for the 'boutique' branches as from 2015.

628

ATM distribution

The bank has the most extensive distribution of ATMs in the Israeli banking system, with 628 ATMs – 540 at the bank's branches and 88 in Customer Courts;

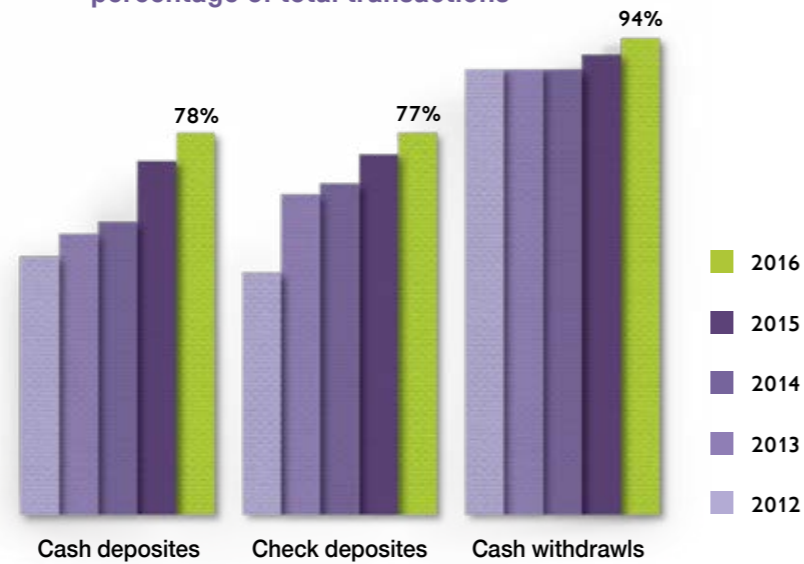
Hapoalim Self Service

The self-service stations (ATMs), available throughout Israel, operate independently of branch opening hours and allow customers to execute a wide range of transactions at their convenience. Self-service stations save time, hassle, and resources, and enable the bank to provide better, more advanced service. Customers are increasingly using the self-service channels to perform transactions previously conducted through bankers. Starting in 2010, funds can be deposited for third parties and into savings plans through these stations.

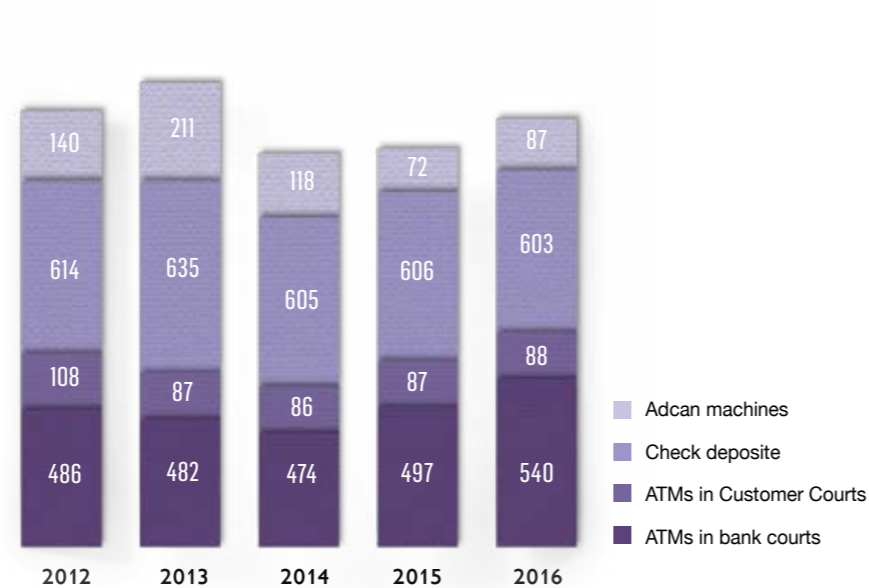
Adaptation of Self-Service Stations for Additional Uses

ATMs offer cash withdrawals, balance inquiries, cash and check deposits, payments into certain deposits, and more, and are widely and extensively distributed throughout Israel. The bank's relative share of total ATMs in Israel is greater than its market share in the Israeli banking sector. The addition of user interfaces in four languages - Hebrew, Arabic, English, and Russian - to the self service network continued during 2014.

Self-service transactions as a percentage of total transactions



Distribution of self-service devices



Developing products and services to promote environmental sustainability

Mankind is at a critical crossroads due to the ever-expanding gap between supply and demand. Most environmental resources are being used faster than they can be renewed in nature, and meanwhile increased consumption of nonrenewable resources (such as fossil fuels, metals, and more) is causing severe shortages. In societal terms, the world's population is growing and developing, adopting wasteful consumption patterns, and creating an even greater strain on the existing resources. These and other trends call for a worldwide systemic change, based on several strategic activities:

Development and implementation of resource-efficient business processes, including in the areas of reuse and recycling; Emphasis on highly efficient product manufacturing processes; Incentivization and acceleration of groundbreaking technological innovation in the energy industry; Creation of sustainable consumption patterns and consumer behavior in line with sustainability values; Water: management, transport, recovery, purification, and desalination; Rising o the challenging of producing and supplying food to a growing population while reducing wastage in the process, and more.

Bank Hapoalim recognizes the strategic inevitability of the necessary change, and the resulting opportunities. Action is therefore being taken on all levels of the activity, both internally and externally. In its outward-oriented activities, the bank is working to impart knowledge to its customers and offer tools for responsible financial planning and management, in order to promote its customers' economic

sustainability. In addition to its internal environmental efforts, the bank has set a strategic objective of being a leader in offering financing solutions to its clients for projects that promote environmental concerns: renewable energy (solar thermal energy, photovoltaic energy, geothermal energy, pumped energy storage, cogeneration stations, wind turbines, transition to natural gas etc.), energy efficiency, water, and more. Activity in these areas is conducted alongside traditional banking activity. The new activity follows the accumulation of the necessary professional knowledge and an in-depth examination of goals and consequences.

Promoting Israel's solar energy industry – Bank Hapoalim has joined forces to promote the new solar energy industry by taking an entrepreneurial approach and becoming an active partner in giving the industry a push. The bank continues to provide financing solutions for the solar energy industry for all customer segments on the basis of the arrangements published by the Public Utilities Authority – Electricity. Construction of the 3.15-million sq.m. Ashalim solar power station in the Negev began in 2015, As of 2016, about %85 of the project was completed;

Wind Energy – The bank financed Israel's first wind energy project – a 21 -megawatt farm at Ramat Sirin and Ma'aleh Gilboa. The bank was also appointed to lead the financing of the -99megawatt Emek Habacha wind farm project; the financing closing of the project is expected in Q2017/1. In addition, talks are being held with top developers in the industry to draw

up a financing package for additional wind farms.

Natural gas power stations – Bank Hapoalim is the largest credit aggregator for the Dorad independent natural gas power station, built south of Ashkelon, which delivers -840megawatt power to Israel Electric Corporation. The bank is also financing the -140megawatt combined cycle cogeneration natural gas and diesel power station, next to the Soreq desalination plant, and the -120megawatt natural gas Nesharim power station at the Nesher cement factory in Ramla;

Biogas power stations - Bank Hapoalim is involved in the financing of two biogas power stations at Beer Tuvia and the Hadera Paper factory. Biogas is produced from digestion or anaerobic (oxygen free) fermentation of organic materials, such as kitchen waste, animal waste, municipal waste, pruned tree waste, agricultural residuals, and sewage. Biogas mainly consists of methane and carbon dioxide. Methane is a natural colorless and odorless flammable organic compound that is a major component of natural gas. Biogas power stations are small, usually between 600 kilowatts and 5 megawatts.

Pursuant to the biogas power stations arrangements of the Public Utilities Authority – Electricity, Israel Electric Corporation is committed to purchasing the entire output of the power station -24hours a day for 20 years from the start of operations and obtaining a permanent license.

Desalination – Bank Hapoalim is the lead financing institution for desalination plants, financing approximately %80

of Israel's desalination industry. The bank led the financing for the Derech Hayam Desalination plant at Palmachim and its expansion and the Ashdod Desalination plant, and was a partner in the syndicate financing the Hadera and Soreq desalination plants;

■ **Green construction** – Bank Hapoalim is financing numerous green construction projects nationwide;

■ **Waste treatment plants** – Bank Hapoalim is financing several companies

that operate responsible waste treatment facilities (sorting, separation, and recycling). A sorting and separation and refuse derived fuel (RDF) production facility was built at the Hiriya landfill outside Tel Aviv. RDF is sold fuel made from waste, which is used as fuel in cement production at Nesher Cement Enterprises. The facility will treat around 1,500 tons of household a day, about half the waste dumped at Hiriya, which is converted into 500 tons of RDF a

day. To maximize recycling, advanced separation technology will be used to separate organic waste from dry and commercial waste;

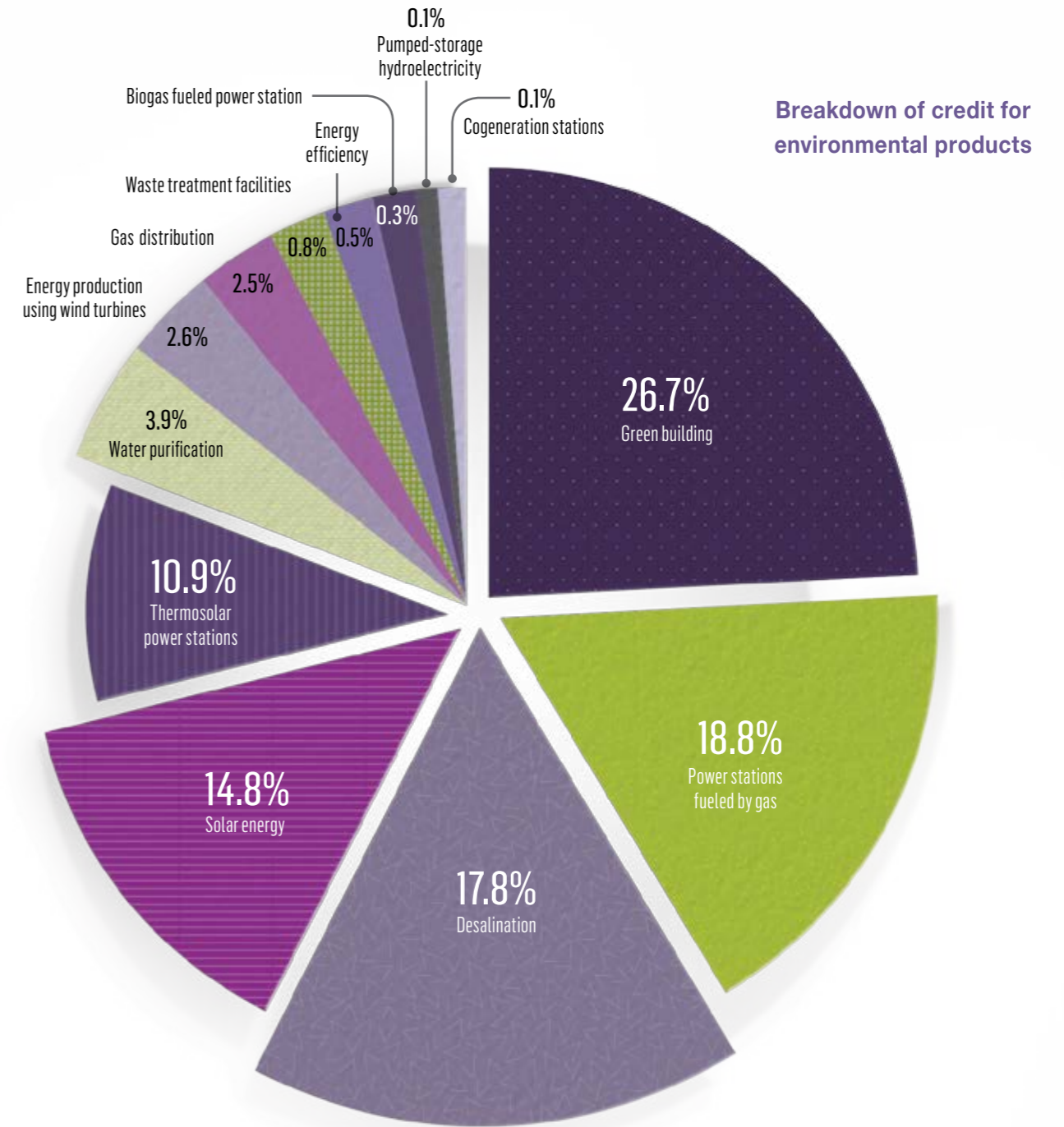
■ **Water purification** – Bank Hapoalim is financing several companies wastewater purification facilities. Most of the treated wastewater is used for agriculture;

■ **Energy efficiency** – Bank Hapoalim is a partner in the financing of several energy efficiency companies.

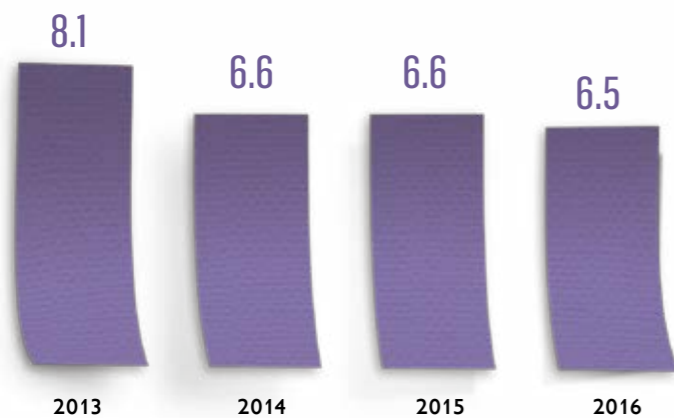
Financing affordable irrigation in Ethiopia

In 2016, the bank led a financing deal for the Ethiopian Sugar Corporation, as part of an innovative irrigation project undertaken by Netafim, in the amount of \$200 million – the Israeli irrigation company's largest transaction ever. The deal is insured by the Ashra state insurance company and a consortium of international insurers, and the bank's co-financers are Israel's Discount Bank and Mizrahi Tefahot Bank. Bank Hapoalim's Corporate Division led the giant financing transaction, for the irrigation of cane sugar fields over an area of 7,000 hectares.

As part of the project, Netafim will provide an exclusive end-to-end solution – from engineering design, to the supply of water pumping and transmission infrastructure, advanced irrigation systems and command and control systems, to agronomic and engineering consulting, which will be provided by the company's experts from Israel and around the world. Sugar cane fields will be watered using advanced drip irrigation technology (subsurface drip systems), which has proven to significantly increase yield, while saving a considerable amount of water and other resources.



Multi-year credit for environmental products



LOOKING AHEAD

The bank intends to continue to examine financing solutions in the areas described above, including the transition of the Israeli economy to the use of natural gas and financing for Israeli institutions and operators in this industry.

NIS **6.63** billion

As of the end of 2016, the Bank has granted credit in a cumulative amount of 6.53 billion NIS for environmental projects and products

Examining environmental risks in financing

Pursuant to the directives of the Supervision of Banks regarding exposure to and management of environmental risks, Bank Hapoalim established a working committee to formulate recommendations regarding environmental risk management policies and methodologies. The committee enlisted the assistance of external advisors and examined existing methodologies at banks elsewhere in the world.

Methodology for Management of Environmental Risks in Financing

The objective of the environmental risk management system is to identify, specify, and manage environmental risks in its key areas of activity, based on a uniform, approved methodology, in accordance with the following principles:

- Management of environmental risks from the perspective of the overall exposure of the bank to each specific risk;
- Management of credit risks through assessment and management of the exposure to environmental risk in the corporate credit portfolio, assessment of environmental risk and its effect on credit risk in new credit applications that meet predefined criteria, and management and monitoring of exposure to environmental risk at the level of the overall credit portfolio and at the individual level;
- Management of market risks - managing exposure to environmental risks in direct investments by the bank (in the proprietary portfolio and in general);
- Management of operational risks - adapting operational systems to regulatory changes on environmental matters.

Risk Management Method of the Bank Group

Risk management at the bank is performed based on a global view of its activity in Israel and of its branches abroad, with due attention to the activity of banking subsidiaries. Risks are managed separately by each banking subsidiary in the group, according to policy formulated by each company's board of directors and presented to the board of directors. Some risks are hedged during risk management. Financial and operational risk assessment and control are performed based on a uniform methodology at the level of the group, with guidance from the risk management area, taking into consideration the unique characteristics of each subsidiary's activities.

Even before a general policy had been formulated, the bank began to apply environmental risk management processes when financing major infrastructure projects. A prerequisite for specific financing of such projects is an examination of the project's impact on the environment. Clients are required to prepare an environmental survey, which is examined for the bank by an external consultant. The consultant ensures that the project complies with all of the requirements set forth in the permits granted by government agencies.

The bank's system of environmental risk management in financing encompasses the organizational components necessary for efficient and effective management in this area, including a policy formulated and approved at the level of the board of directors; organizational structure; a

model for the classification of the risks, including control thresholds; procedures for transaction approval processes; and control systems. The bank has approved a model for environmental risk management in financing. The model links the various environmental risks, as defined by the Supervisor of Banks, to the business sectors to which the bank's clients belong. The model, which is based on equalization principles, categorizes different sectors of economic activity by risk level (high, intermediate, low). The bank is assisted by an environmental consultant, as necessary, to analyze environmental risks in specific credit applications.

All of the relevant personnel of the bank were given training in this area (100 senior-level employees, including customer relationship managers). The bank's system for the management of environmental risks in financing is applied to all infrastructure projects and real-estate projects over NIS 50 million, and to credit above NIS 200 million.

Environmental Risk Segmentation by Customers in Granting Credit - 2016*

	High		Moderate		Low		Total	
	No. of customers	Total obligo (in NIS billions)	No. of customers	Total obligo (in NIS billions)	No. of customers	Total obligo (in NIS billions)	No. of customers	Total obligo (in NIS billions)
Business division	23	19	108	58	88	63	219	140
Commercial division	0	-	33	9	6	2	39	12
Special Credit Division	2	1	13	7	8	2	23	10
Total	25	19	154	74	102	68	281	161

* As of 31.12.2016

Business continuity

In order to protect the bank's business continuity and survivability in the event of a disaster or malfunction, in accordance with the Bank of Israel's Directive 355, Business Continuity, and Directive 357, Information Technology Management, the bank maintains continual preparedness based on detailed action plans, working procedures, and periodic drills, as specified in the system of emergency procedures.

The bank's business continuity management system was approved by the Israel Standards Institute, in 2014, as

conforming with the requirements of the international standard ISO 2230, making it the first bank in Israel to obtain this certification. The certification followed comprehensive tests conducted by the Israel Standards Institute at the business continuity management unit, with the full participation of all areas of the bank. Concurrently with the improvement and upgrade of its emergency preparedness in Israel, the business continuity plans of the bank's subsidiaries in and outside Israel and of its overseas branches have also been adapted. The bank complied

with all of the requirements of the various regulators with regard to emergencies in Israel during Operation Protective Edge, and provided its full range of services. The bank continually works to improve its emergency preparedness system, in order to address deficiencies, including physical flaws and issues with information systems and human resources, resulting from various scenarios.

POALIM FOR THE COMMUNITY



Influencing the State and Society of Israel

As Israel's leading bank, Bank Hapoalim is a powerful economic institution with a strong influence on Israel's economy and society. This section of the report reviews the broad economic impact of Bank Hapoalim, and describes its added value and its extensive efforts devoted to promoting Israeli society and communities. The economic impact of the bank reaches beyond its direct positive value, which is

primarily aimed at its shareholders and investors; it also takes the form of taxes, local procurement, and employment. In addition to its routine business, the bank considers itself an integral part of the community, and is committed to advancing and empowering the community. The practical expression of this philosophy is the bank's community investments, on a number of dimensions:

- A range of community activities, based on dialogue and collaborations with organizations in every sector of society;
- Continual volunteering by employees of the bank;
- Donations and sponsorships.

Through all of these activities, the bank expands its sphere of influence and promotes social and environmental values in society and in the community.

The economic impact of the bank reaches beyond its direct positive value, which is primarily aimed at its shareholders and investors; it also takes the form of taxes, local procurement, and employment. In addition to its routine business, the bank considers itself an integral part of the community, and is committed to advancing and empowering the community

The following table presents key data regarding the bank's financial performance and the added value it generates (based on the bank's consolidated financial statements, in millions of NIS):

	2012	2013	2014	2015	2016
Profit from financing activities	8,415	8,423	8,684	8,929	9,345
Total income (financing profit + operating income)	13,637	13,664	14,022	14,362	14,721
Operating costs	8,886	9,024	9,140	8,790	9,490
Wages and related expenses	5,130	5,434	5,300	4,934	4,783
Donations and investments in the community	48	46	47	43	44
Shareholders' equity	26,561	28,834	31,361	33,032	34,047
Dividends paid to shareholders of the bank	-	276	448	569	685
Interest to debt or bond holders	1,925	2,065	1,361	1,058	1,061
Provision for taxes (tax benefit) on operating profit	1,230	1,271	1,729	2,097	2,358
Provision for doubtful debts	987	874	425	475	269

The following table describes the financial added value of the bank, which includes gross wages (including related items), taxes, earnings, and more (in millions of NIS). This value reflects the bank's contribution to the Israeli economy, as a large organization in economic interaction with many stakeholders (employees, suppliers, the community, government agencies, etc.) Bank Hapoalim pays state and municipal taxes, and receives no financial assistance or support from the state.

12 billion \$
The total economic value that was restored to the various stakeholders of the bank, stood at \$12 billion

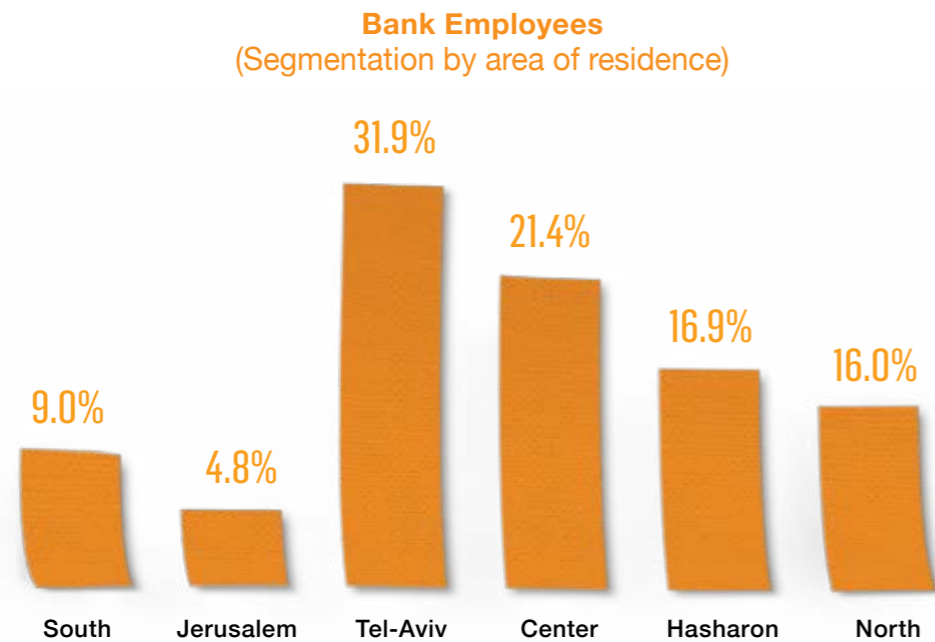
	Breakdown	2012	2013	2014	2015	2016
Economic value created by the group	Total income (including extraordinary income)	13,637	13,664	14,022	14,362	14,721
Economic value distributed to stakeholders by the group (operating and other expenses plus provisions for taxes and dividends)	Operating and other expenses (including municipal tax; excluding depreciation)	8,174	8,350	8,502	8,129	8,839
	Wages and related expenses (within operating and other expenses)	5,130	5,434	5,300	4,934	4,783
	Donations and sponsorships (within operating and other expenses)	48	46	47	43	44
	Provision for taxes (tax benefit)	1,230	1,271	1,729	2,097	2,358
	Dividends declared	-	276	448	569	685
	Total	9,404	9,621	10,231	10,795	12,062
Economic value retained	Difference between the group's income and its operating and other expenses, provisions for taxes, and dividends	4,233	4,043	3,791	3,567	2,659

* Of expenses, in the component of salary expenses, the bank paid the state a total of NIS 732.5 million in taxes on wages and employer contributions in 2016. In addition, the component paid by employees to the state out of their wages totaled NIS 791.6 million (income tax on employees' wages and deductions from employees' wages). This component contributes to the economy through the direct payment of income tax as well as through employees' demand and expenses. The sum of both amounts is NIS 1.52 billion. This is in addition to corporation tax paid by the bank in 2015, in the amount of NIS 2.35 billion.

A Nationwide Employer

A Nationwide Employer Bank Hapoalim maintains a network of 235 branches (as of the end of 2016), distributed throughout Israel. About 30% of the branches are located in National Priority Areas, and approximately 40% of the branches are outside the Gedera-to-Hadera central region. Branch employees and managers usually reside in the vicinity of the branch. Recruitment procedures are identical for all branches. Consequently, the bank employs an equal proportion of residents of peripheral and central regions.

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Bank Hapoalim operates two call centers and a central back office, which provide approximately 1,500 jobs. One of the call centers is located in central Israel, at the industrial zone in the Azor Regional Council, and the other, for reasons including social responsibility considerations, is in the northern town of Neshet. The central back office (Matab) is located outside Tel Aviv, in the Beit Dagan area. The central back office in Beit Dagan also operates through regional offices throughout Israel, located in Beer Sheba, Neshet, Givat Olga, Hatzor Haglilit, and Jerusalem.

Responsible Supply Chain Management Profile of the Bank's Supply Chain

The operational activity of Bank Hapoalim, as a banking organization, is based on a supply chain that consists of a pool of suppliers of goods and services, comprising thousands of companies in the areas of logistics, technology, and consulting. Contractual engagements were executed with approximately 3,000 suppliers from this pool during 2016. The bank's supplier pool contains suppliers of varying sizes (large, mid-sized, small, and micro businesses), operating throughout Israel and in additional countries. Approximately 92% of procurement at Bank Hapoalim is from suppliers who are located in Israel and employ workers here.

The five main categories in the bank's supply chain, which in aggregate account for 86% of its total annual procurement, are:

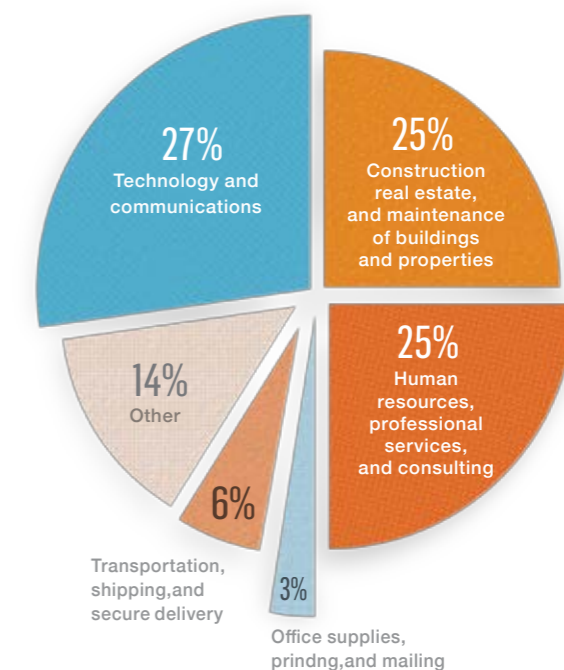
1. Construction, real estate, and maintenance of buildings and properties;
2. Projects, acquisition, and maintenance of technological and telecommunication infrastructures;
3. Human resources, professional services, and consulting;
4. Transportation, shipping, and secure deliveries;
5. Office necessities, printing, and mailing.

In addition to these five categories, additional purchasing groups are aggregated under the category "others," such as advertising and sales promotion, information services, professional literature, and more. Procurement in each of the additional groups does not exceed 4% of the total procurement volume. Procurement at Bank Hapoalim is managed by the corporate procurement unit, which serves as the integrative administrator of all procurement activities and manages interfaces with

the bank's supply chain. The complete procurement process consists of the following stages: specification of requirements, publication of a call for bids, examination of bids and selection of winners, execution of the contractual engagement, and payment of suppliers. The process is defined, uniform, and orderly; clear parameters are established to examine the quality of the purchased items; separation of authority is practiced in the critical stages of the procurement process (such as establishing demand, selecting suppliers, and payment); authorizations are set up on the bank's information systems; and information and decisions in each stage of the process are documented on these systems, which based on advanced technology (ERP). All of these practices are aimed at improving the efficiency and quality of procurement management, allowing control and conclusions, and preventing conflicts of interest.

Approximately
92%
of procurement
at Bank Hapoalim is
from suppliers who are
located in Israel and
employ workers here

Breakdown of Bank Hapoalim procurement in 2016
(financial expenditure)



Responsible Procurement

As part of a comprehensive philosophy of corporate responsibility, the bank is in advanced stages of the implementation of a formalized plan for embedding corporate responsibility within purchasing operations. The goal of this plan is to expand the approach to third-party risk management in allocating the bank's resources, and to act according to norms for responsible conduct in the areas of fair and equitable employment, fair business practices, protection of the environment, and promotion of opportunities in the area of green purchasing. The bank communicates this purchasing approach to its suppliers, and encourages them to adopt the same norms. The plan is based on an in-depth analysis of the purchasing patterns and characteristics of suppliers of the bank, and is being implemented according to the responsible purchasing policy.

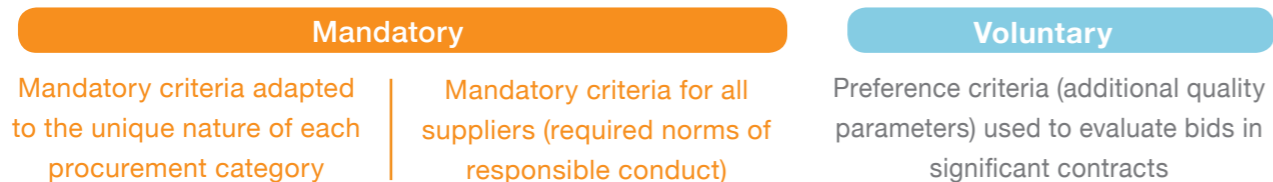
The implementation of the policy was adapted to the customary practice at the bank in contractual engagements and to the nature of the different suppliers:

As part of a comprehensive philosophy of corporate responsibility, the bank is in advanced stages of the implementation of a formalized plan for embedding corporate responsibility within purchasing operations. The goal of this plan is to expand the approach to third-party risk management in allocating the bank's resources, and to act according to norms for responsible conduct in the areas of fair and equitable employment, fair business practices, protection of the environment, and promotion of opportunities in the area of green purchasing



This policy establishes the following principles and guidelines for the management of supplier relationships:

Responsible procurement policy



Basic Rules for Suppliers' Conduct

In 2013, the bank formulated basic rules for the conduct of suppliers in contractual engagements with the bank. The rules are based on the values in the bank's vision and on norms detailed in the bank's ethical code of conduct. The basic rules are designed to clearly and simply elucidate the bank's expectations with regard to the conduct of the suppliers with which it has working relationships. The basic rules of conduct were distributed to 1,700 suppliers of the bank during 2014, as part of the distribution of the terms of contractual engagements. Further, beginning in 2014, the rules have been enclosed with every contract of the bank and are proactively distributed to the entire group of suppliers from time to time.

Embedding CSR Principles in Supplier Agreements

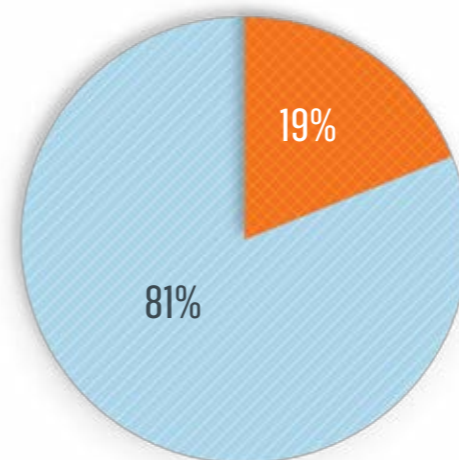
Following the formulation of a list of general requirements applicable to all suppliers (also presented in the CSR section of the bank's website) and a list of specific requirements applicable to certain suppliers, according to area of activity, a process was planned and infrastructures were set up for the inclusion of a corporate responsibility appendix when beginning a relationship with a new supplier. In addition, a process was initiated to apply corporate responsibility performance criteria to relevant suppliers bidding in an RFQ process.

Promoting Small Businesses in the Supply Chain

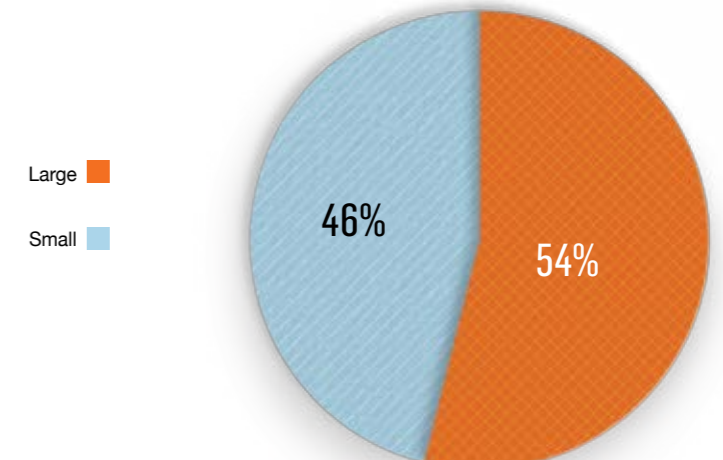
Bank Hapoalim recognizes the importance of small businesses to the progress of the Israeli economy, and promotes these businesses in its procurement processes. The bank engages small suppliers when possible, in view of its size and nationwide reach. The Purchasing Division helps the bank connect small suppliers, who may not be clients or suppliers of the bank, with other suppliers, due to its extensive purchasing activities.

In practice, approximately 46% of the bank's purchasing in 2016 was from small and micro-businesses; they constitute approximately 81% of all of the suppliers engaged by the bank in 2016.

Breakdown of Procurement extent (by size of business)



Expenditure rate- extent of procurement (by size of business)



In 2016, as part of its assistance to small businesses, the bank's Procurement Department continued to support small and micro-suppliers along the Tel Aviv Light Rail route. As part of the Small Business Project - and in collaboration with CEO's office, Retail Banking Division, Procurement Department, and employees' committee - thousands of small business including businesses that are not the bank's customers, which are located along the Light Rail route, were mapped. The bank contacted these businesses on its own initiative, in an effort to promote procurement from these suppliers, by offering discounts in these businesses to bank employees. The businesses participating in this project included apparel, photography, advertising, production businesses and restaurants, etc.

Green Procurement

In 2016, as in previous years, the bank continued to examine alternatives for environmental procurement of products such as envelopes, wood-free paper, double-sided printers, recycled toner cartridges made in Israel, LED lights, etc.

Empowerment of Socially Conscious Suppliers

During 2014, the bank built up a pool of suppliers who organize activity days to promote team spirit, for various units of the bank. This list mainly consists of small businesses from central and northern Israel whose activity embodies social values and content, such as employment of at-risk youth, assistance to people in need, integration of people with disabilities,

and more. When possible, the bank also grants precedence to socially conscious suppliers in procurement gift baskets and flower bouquets for its employees and clients. The database is updated continuously based on the SME suppliers and other social aspects.

Promotion of Professional Knowledge for Suppliers of the Bank

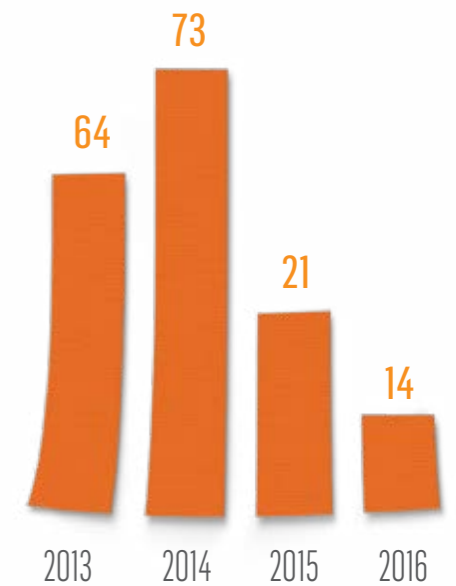
In the course of their routine work with suppliers, the bank's purchasing staff imparts professional knowledge to the suppliers in areas such as internal improvements in efficiency, cost savings, and more. Purchasing staff members also give talks on responsible purchasing for various stakeholders (suppliers, non-profit organizations, etc.).

Protecting the Rights of Contractor Employees Working on the Premises of the Bank

To supply its needs, the bank enters into agreements with various contractors for the provision of security, cleaning, and cafeteria services, through employees of the contractor who are assigned to the bank. In order to ensure the protection of these workers' rights, the agreements between the bank and the contractors stipulate the obligation of the contractors to provide the following to their employees, among other matters: minimum wage, and all other rights granted to workers in Israel under the labor laws; social benefits; prevention of harmful employee turnover, and due disclosure to their rights. This infrastructure was created in order to prevent harmful employment, and has been in place at the bank for years as part of its CSR approach. In 2012, with the implementation of the Law for Increased

Enforcement of Labor Laws, 2011, based on the existing processes at the bank, the infrastructure was adjusted to the provisions of the law, which took effect in June 2012. This move included updates of the bank's procurement contracts, the establishment of a system for inquiries by contractor employees at the bank's human resources division, and the appointment of a supervisor responsible for ensuring the protection of the employees' rights and response to their inquiries during their employment on bank premises. As part of its efforts in this area, the bank collaborates with Hilan, which monitors the terms of payment by suppliers to their employees. During 2016, controls were applied by Hilan at all of the employment contractor companies engaged by the bank (ten suppliers).

Processing requests from external contractor employees



Ethical Code for External Contractor Employees

Within the process of instilling social responsibility, the bank formulated an ethical code adapted for external contractor employees who work on its premises in the areas of security, cafeteria services, and cleaning. The content of the code is communicated to all contractor employees employed at the bank's facilities. These employees receive and read the code, and sign the code document. The bank receives a report of the completion of this process from the company employing the workers, signed by the general manager of the company. The content of the code is distributed in Hebrew, Russian, Arabic, and Amharic. As of 2011, all new and existing suppliers are required to communicate the content of the new code, annually, to every employee they assign to the bank.

14 enquiries
of external contractor employees were processed using the Human Resources Division system during 2016

Examining Achievement of Objectives

2016 Objectives	Status
In 2016, the bank will add a corporate responsibility appendix to the process of setting up a relationship with a new supplier.	Completed <input checked="" type="checkbox"/>

NIS
1.36
million

In 2016, procurement from "social" suppliers (organizations that mainly employ workers with disabilities) reached NIS 1.36 million

Expansion of the Bank's Sphere of Influence in Israeli Society

The bank conducts dialogue with stakeholders in order to understand their needs, provide accurate and appropriate solutions, and optimize its activity, with the aim of influencing a wide variety of population groups within Israeli society and contributing to the public good. Based on this dialogue, the bank has initiated a broad range of programs and projects, with inter-sector collaboration, to promote various causes in Israeli society and create shared value

In its efforts to promote sustainability and CSR values, the bank works to expand its sphere of influence to Israeli society and the public arena by implementing social and environmental values in ever-widening circles. The bank is guided by two essential principles: dialogue, and the creation of shared value. The bank conducts dialogue with stakeholders in order to understand their needs, provide accurate and appropriate solutions, and optimize its activity, with the aim of influencing a wide variety of population groups within Israeli society and contributing to the public good. Based on this dialogue, the bank has initiated a broad range of programs and projects, with inter-sector collaboration, to promote various causes in Israeli society and create shared value for the bank and for stakeholders in the social, environmental, and economical spheres. Selected initiatives of the bank in 2016 are described below.

Activity for senior citizens in the public domain

As part of a Bank Hapoalim's strategic move to promote the senior citizen population in Israel, the bank launched a package of unique services and products in line with the challenges facing this population. Based on the bank's perception of its role as supporting customers in various financial life milestones, and in line with changes that occur upon retirement (reduced revenues, change in expenses that vary according to the needs, the need to live an active life alongside concern for the long term and support of the family - all result in a new set of considerations). Beyond the financial aspects it promotes for this population (listed in detail in the "Customers" chapter of this report), the bank helps senior citizens meet their (non-

financial aspects of) social challenges. This is part of the Bank's comprehensive view of its role in promoting solutions for this population through various initiatives in the public sphere designed to promote senior citizens' quality of life and their bond with their families. It also stems out of a desire to address newly created social issues which pose a challenge on the national level as well.

The initiatives promoted by the bank in the public sphere are designed to raise awareness and provide practical solutions to social challenges faced by this population. The bank's anchors for consolidating its initiatives in the public sphere are derived from serving as a major junction in the economy, its large market share in the senior citizen sector, its business activity with this population and its relationships with a variety of businesses and stakeholders, as well

as its business capabilities. The bank's activities are carried out in collaboration with a variety of entities (associations, NGOs and businesses), which engage in a variety of issues, such as:

- Third age employment and encouraging entrepreneurship in this sector;
- Promoting business initiatives for the senior citizen market;
- Raising awareness to the needs of "caregivers" (family members caring for the elderly) - the third age;
- Addressing the problem of loneliness in the adult sector.

The following are the key initiatives the bank is promoting in this area:

Promoting employment - the senior citizen sector

Retirement marks a milestone in one's career. When reaching retirement age, they are ousted from the employment market. Many are ousted involuntarily, and a significant portion would like to continue working. For retirees, employment is much more than a place of work (an extra source of income, a sense of belonging, meaning and self-determination, involvement in the community, creating social circles). Beyond the personal benefit for retirees, their work also contributes to the economy as a whole - they become productive and, at the same time, can create demand in various markets.

The challenges regarding retirees' employment are varied:

- **On the demand side:** Employers who do not believe in the abilities of pensioners to be "relevant"; fear of employing senior citizens (issues of

rights, legislation, etc.); fear that retirees will "replace" the younger generation and a sense of obligation towards a generation whose career is still ahead; employers' expectation to pay retirees significantly lower wages.

- **On the supply side:** The desire for flexible work in terms of hours and workload; need for recognition and a sense of community; difficulty in coping with the experience of being screened when absorbed into the labor market; dealing with prejudice by some employers.

The bank's approach to addressing the challenges inherent in promoting senior citizens' employment is innovative. The prevailing attitude of most professional entities in this field focuses on the supply side (in an attempt to produce names of retiree candidates for potential jobs in existing work places). The bank examined the issue and found that there are few work places that are able to offer a significant number of jobs to retirees. As a result, the projects promoted by the bank (in collaboration with its partners) attempt to address the employment of retirees by creating a relevant market: Creating new demand, exposing latent demand and needs. These new markets will serve for specialized employment for retirees. As part of this approach, emphasis is placed on a community model of employment and activities, on fair pay, on a supportive environment for retirees and on understanding their specialized needs, as compared with standard businesses or service providers.

The bank supports projects which focus on creating demand in three key markets:

- The household market;
- The small business Market;

- The market for the elderly living in their own homes (in the fourth age).

Below is an outline of the initiatives and projects by target market:

The household market The Senior Venture

The project is designed to create a market environment which encourages (currently) latent demand for services among households (services which require such flexibility that they are unsuitable for regular service providers for whom this is a main source of income) and to match that demand with a database of retirees qualified to provide services (after they have undergone a professional screening process). The project is aimed at operating as a community model, with emphasis on fair wages, and at creating a supportive environment for retirees and an understanding of their needs. The project was established as part of a dedicated incubator - Hub Tel Aviv - with a business partner, at the bank's initiative and with its support and collaboration.

Creating self-employment resources - encouraging micro-enterprise at retirement age

This is a special-purpose initiative designed to promote capabilities and skills of senior citizens and help them offer products and services to market and sell them as self-employed or as small businesses. The goals of the program are as follows:

- To address the needs of people aged 60 and up who are interested in entrepreneurship;
- To convey an innovative message, whereby people in this age can be active and vital to the economy;
- To further their contribution to the economy - offering retirees to become productive and active consumers in the market - inter alia by creating legitimacy for significant activity even at this age;

To this end, a dedicated program was created for retirees, since entrepreneurs at this age need a different professional environment, for various reasons: Their dilemmas and risk management are different; their pace, objectives and way of measuring success is different; and their considerations and the core needs fulfilled by their small businesses - may differ as well.

In 2016, the program was expanded in cooperation with the Israel Association of Community Centers and a new course on the basics of entrepreneurship for retirees was launched. The course is designed for 15 entrepreneurs, with five to graduate to the incubator level.

Promoting solutions for caregivers

There are about one million caregivers in Israel taking care of elderly family members. The challenge is due to the fact that caregivers are usually thrown

into this situation without prior experience, preparation and knowledge (as to all aspects of the problem from which the elderly family member is suffering). According to market analysis carried out by the bank, it seems that there is significant information on the subject, but the latter is not readily accessible to the public - it is cumbersome, and does not support the natural process of searching for information. Thus, caregivers have no clear and focused real time information as to the individual problem they face.

The bank, in cooperation with NGO Caregivers, is initiating a proactive solution in the form of an online database containing information on all aspects relevant to relative-caregivers. The difference compared to existing information is that it will be sorted by focused problems and offer a workflow for solving them. For each subject, the various stages of handling the problem will be outlined, with a focus on a simple and up-to-date user experience. Starting in 2015, the bank undertook, along with its partners to the project, to map out the knowledge according to content areas and a comprehensive content database was built.

In 2016, the bank developed an online interface, which presented the various content areas, including processes focusing on family members, useful information, forms and FAQs. The website is expected to launch in 2017.

Alleviating loneliness among senior citizens

Many older people experience isolation from the world around them, reflected in extensive time alone at home. In addition, the lack of knowledge required to use available digital technologies (mobile phones, the Internet, tablet computers,

etc.) results in a barrier to use. The bank, in collaboration with entrepreneurs, supports the development of a digital platform where the younger generation in an elderly person's family will be able to assist them by streaming digital content to devices accessible to them (smartphone, tablet computer). The proposed solution includes connecting a device to the elderly person's preferred device, which would allow their family members to stream content from the Internet (according to the elderly person's preferences) directly to the family's Facebook group. The interface will be user friendly, thus allowing to connect the elderly person to content and to the life around them, reducing the technological divide barrier and leveraging it to strengthen intergenerational family relationships. During 2016, the development of the application continued.

Promoting technological social initiatives

The Bank has been accompanying the 8200 alumni association for several years, thus helping to promote social and business entrepreneurship in Israel. The Bank also hosts meetings when the entrepreneurs are presenting their projects to potential investors. The 8200 Alumni Association promotes the vision to preserve the elite unit's heritage, support its alumni in their lives as civilians and leverage the network for the benefit of society and the general public. As part of its activities, the association offers three accelerator tracks for early-stage technology ventures in Israel: The Social Track, the Hybrid Track and the EISP Track. Bank Hapoalim has been a sponsor of this program's various tracks for several years, and hosts sessions presenting projects to potential investors.

■ **The social program of the 8200 Alumni Association** - is Israel's first acceleration program for early stage social technology ventures. The program targets all social-technology entrepreneurs and is not limited to 8200 alumni. The program is five months long, and includes lectures, mentoring, and counseling. It also offers ties with investors and with 8200's exclusive network of alumni. The program promotes projects aiming to resolve social problems by using various technological means: people with disabilities, the elderly, promoting gender equality, education, good parenting, and more. The program, which was established in 2013, is currently underway with the third "class". The program is non-profit, and is sponsored by six leading partners - Bank Hapoalim, ICL, law firm Naschitz Brandes Amir, Amdocs, KPMG, and NGO Nefesh BeNefesh;

■ **The HYBRID track** - targets the Arab community and offers - in addition to the training program, guidance and mentoring - office space in Tel Aviv, Nazareth, Jerusalem, Beer Sheva and other cities. This track is also five months long, and features about 20 leading mentors as well as a network of contacts, and more;

■ **The EISP Track** - strives to promote and empower technological entrepreneurs in various fields in their early stages, offering access to the 8200 alumni program and ongoing support. To date, the bank has sponsored the program, which has trained 120 graduates; about 100 startups were able to receive funding of approximately \$400 million and currently employ about 450 people. The program is highly successful and, to date, has achieved four exits.

Solar Trees Project

Within the drive to expand its environmental and social impact to the general public in Israel, the bank is conducting a joint effort with a range of academic institutions to promote activities that generate shared environmental and social value. This initiative is based on the principle of dialogue with stakeholders, in which the bank maintains ongoing relationships with various academic institutions in the areas of corporate responsibility and sustainability.

Solar Trees are solar-powered stations on academic campuses that allow twelve mobile phones and tablets of various kinds to be charged simultaneously, using energy generated by solar panels. The initiative was created by students at the Novus innovation center, in the College of Management's School of Business Administration. As part of the ongoing collaboration with the college's Corporate Responsibility Center for the promotion of an environmental and social agenda, the project was developed jointly with the bank's CSR Division.

The bank began to install the Solar Trees in 2014. Benches were set up next to the charging stations, which are located in central areas where students congregate during the day. The stations provide a response to the familiar need to charge the batteries of mobile devices, offering a service to students while also promoting an environmental message (use of the solar panel), as well as a technological message, and creating a place for students to meet. Solar Trees were installed at a variety of academic institutions throughout Israel during 2016, as well as in public spaces. As of the date of preparation of this report, a total of 19 stations have been set up.

The Social-Environmental-Economic Project for Collection and Recycling of Electronic Waste, with Employment of Persons with Disabilities

Bank Hapoalim initiated a pioneering social program for systemic treatment of the collection and recycling of electronic waste, metals, and appliances, in collaboration with municipalities throughout Israel. The program includes design and development of collection receptacles made in Israel and supplied by the bank to the municipalities; placement of the receptacles in city centers; organization of collection and recycling processes; and communication of the program to residents of the towns. Collection from the receptacles and disassembly of the waste are performed by Community, which employs disabled workers. The bank thereby creates shared value and responds to both an environmental need and a social need. The program is available to a total of 800,000 residents, through 120 receptacles in their towns. Dozens of tons of waste have been collected for responsible recycling within this project since 2012.

LOOKING AHEAD

Launch new initiatives to promote the senior citizens segment while launching the caregiver's website;

Continue to support the platforms driving technological-social initiatives;

Continue to install additional "solar trees" in academic institutions and urban centers.

Poalim for the community

Committed through Our Strategy and Vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. This involvement is implemented through Poalim for the Community (Registered Non-Profit Organization), as part of an advanced managerial approach. The bank holds that an organization that operates within the community - and draws both its employees and customers from within it - should take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged. In the spirit of this business philosophy, the bank conducts a varied and extensive range of community-oriented activities in the form of social involvement, monetary donations, and large-scale volunteer activities with the participation of both management and employees. Community activity is an important factor in developing employee pride and cohesion. As noted, the bank's community-oriented activity is organized within the Poalim for the Community foundation. Ms. Shelly Amir, head of community relations at the bank, is responsible for this activity.

Creating Strategic Partnerships

Bank Hapoalim exercises its community involvement through nationwide projects, including projects targeted to geographic, economic, and social peripheries, with expert assistance in the understanding of community needs. These projects

strive to realize the underlying philosophy of the principles of socio-community development. The distinction between aid and socio-community development is an important one; such development is based on the following principles:

- Focus on a core issue closely related to the bank's essence and crucial to Israeli society;
- Long-term projects, rather than temporary action;
- measuring the project according to effectiveness in attaining its objectives, with conclusions drawn and implemented throughout the course of the project;
- Strategic partnerships with additional parts of the community, including professional partners, rather than stand-alone projects.

The bank maintains strategic partnerships with a range of leading community organizations. These include collaborations with the ORT network of science and technology schools, Insights Education Association, museums and the National Parks Authority during Passover project, the Batsheva Dance Company, the Israel Philharmonic Orchestra, and the Israel AIDS Task Force. The bank also collaborates with a large number of non-profit organizations on unique projects in their respective fields. Notable organizations include the College of Economic Growth, Hayim, Etgarim (Challenge), Paamonim, Latet - Israeli Humanitarian Aid, Beit Issie Shapiro, ELEM - Youth in Distress in Israel, Beterem - Safe Kids Israel, The Council for a Beautiful Israel, and Be-Atzmi - Employment for Youth at Risk.

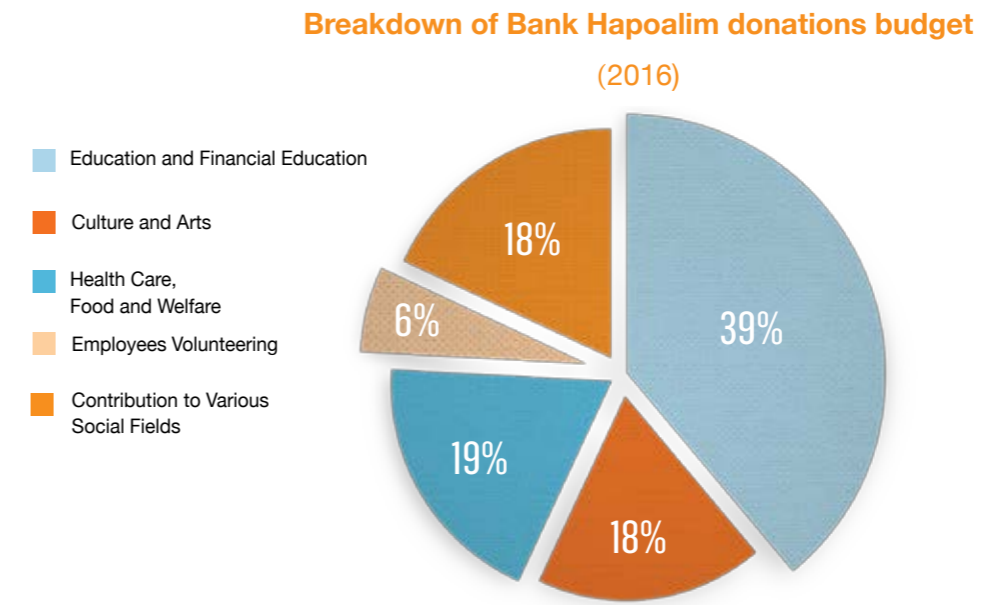
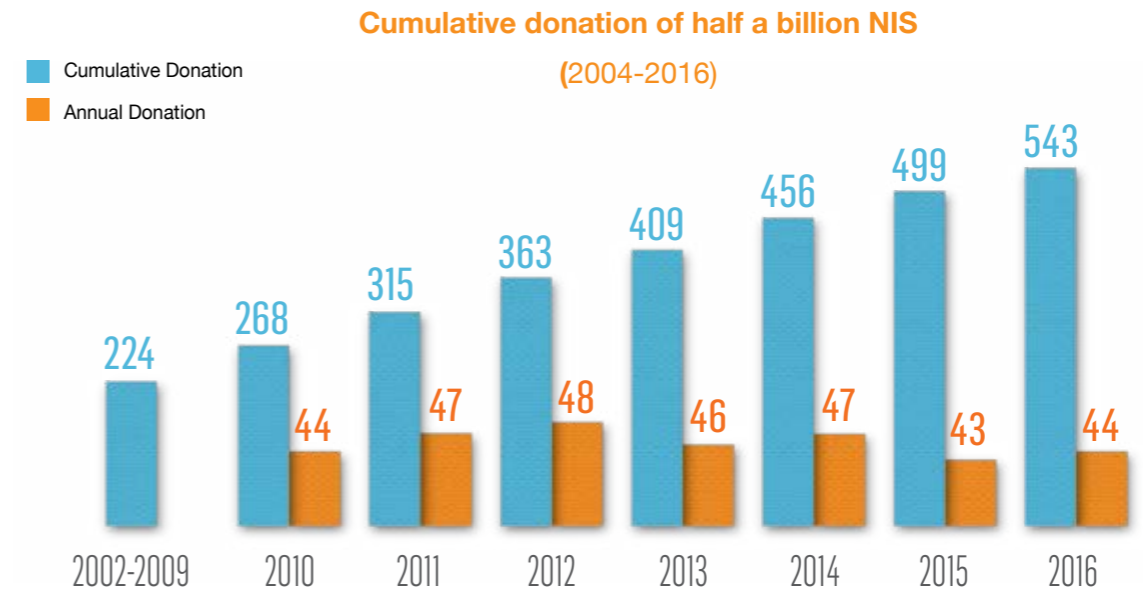
Monetary and Equivalent Community Investments

Assistance to the numerous organizations

supported by the bank is delivered through the Poalim for the Community Forum (there is no donations of other units at the bank). The Forum, which consists of senior executives of the bank, manages all of the bank's donations according to criteria established in the policy of the Poalim for the Community Foundation (Registered Non-Profit Organization). As in previous years, the foundation made contributions in many different areas in 2016, including education in general, and financial education in particular; culture and the arts; welfare and health care; and other social causes. The bank does not donate money or equivalents to political parties, politicians, or political institutions.

Bank Hapoalim exercises its community involvement through nationwide projects, including projects targeted to geographic, economic, and social peripheries, with expert assistance in the understanding of community needs. These projects strive to realize the underlying philosophy of the principles of socio-community development.

NIS **44** million
Bank Hapoalim's investment in the community amounted to NIS 44 million in 2016.



Donations of Computers

Recognizing the great importance of technological investment for the education and advancement of children and youth, the bank donates computers and related equipment each year. Donations of computers are managed by the technological procurement center. In 2016, the bank donated approximately 893 computer systems and auxiliary equipment, at a value of NIS 801 thousand. The monetary value of the donations of computer systems by the bank in 2007-2016 is approximately NIS 7.5 million.

Donations of Computer systems (NIS thousands)

Year	2008-10	2011	2012	2013	2014	2015	2016
Value (NIS thousands)	2,554	921	500	831	361	393	393

Results of Community Investments in 2016

As part of its investment in the community, as in the last couple of years, the bank has continued the process of examining the activity of the non-profit organizations that receive its support. This included an examination of the organizations' areas of activity and goals, their target populations, their methods, and the results of their activities (outcomes and effectiveness). The goal of the process is to obtain a status snapshot of the current field of ongoing influence of the bank on Israel's society and community. The process was performed through a survey and through dialogue with the major foundations, which account for about 65% of the bank's total annual community investment. Main conclusions of the review:

- The decisive majority of the organizations present their area of activity, goals, methods, and participating population in an orderly manner;
- In the context of measuring the outcomes of the organizations supported by the bank, the organizations can be divided into two groups:

(A) Educational activity – Organizations active in this field help participants maximize their individual potential and leverage their abilities for a better future, through education and learning. The review found that all of the organizations operating in this area measure their outputs (the number of participants and the volume of activity), and the large majority also measure the effectiveness of their activities (e.g. improvement in students' scores, dropout prevention, students who continue to college, etc.).

(B) Organizations in the fields of health care, welfare, culture, and the arts – This group consists of two types of organizations: organizations engaged in remedying essential welfare or health-care problems (such as assistance to distressed and disadvantaged population groups), which contribute to society by offering a venue for appropriate treatment of the problems they have chosen to address; and organizations that promote culture and the arts, and would find it difficult to exist without support. The survey found

that organizations in this group primarily measure outcomes, which serve as the key metric for examining the results of their activities.

- Approximately 80% of the foundations surveyed earmarked the bank's contribution for specific projects or programs within their activities;
- Of the activities and projects surveyed, approximately 75% are targeted specifically to participants in geographical and social peripheries (foundations in which 50% or more of activity is targeted to peripheral regions). In about 55% of the foundations surveyed, 70% of activity is targeted to peripheral regions. The other foundations target various population groups, according to the type of activity, encompassing all parts of Israel, including the peripheral regions.

As part of its investment in the community, as in the last couple of years, the bank has continued the process of examining the activity of the non-profit organizations that receive its support. This included an examination of the organizations' areas of activity and goals, their target populations, their methods, and the results of their activities (outcomes and effectiveness). The goal of the process is to obtain a status snapshot of the current field of ongoing influence of the bank on Israel's society and community.

Promoting Education and Financial Education in the Community

The key focus of the community activities of the bank is education. The bank invests in several long-term projects, as well as a variety of other projects aimed at supporting learning in educational institutions, academic institutions, and informal education organizations.

Promoting Education Initiatives and Projects

Main examples of the bank's investment in education are described below:

183,000
people

In 2016, the bank invested in dozens of non-profit organizations and community groups active in the area of education, which helped more than 183,000 people (of which approximately two-thirds were students, children, and adolescents) in hundreds of institutions, in dozens of communities throughout Israel. The bank's contribution helped approximately 85,000 adults, children, and adolescents directly.

A Password for Every Student

As part of its support for the integration of technology into education, in 2011 the bank joined the educational initiative "A Password for Every Student," which combines education and today's technology as a way of acquiring learning and developing abilities. Within its support for this project, the bank has adopted ten schools in communities needing special reinforcement, for several years. The goals of the project are to create a technological infrastructure allowing all users to work and learn using a central portal, from any location; to implement a view of the school as a computerized organization; and to create a computerized educational environment in the school.

79,655
Students

In 2016, 79,655 students and teachers participated in the program in 2016, at 222 schools;

7,760
Students

The direct support of the bank helped the program reach 7,760 students at 19 schools.

Read & Succeed

Starting in 2004, the Poalim for the Community Forum has led a focused initiative aimed at changing the reading habits of Israeli children and youth. This project continued in 2016. The Read & Succeed project includes a public informational campaign, distribution of books, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children's Channel and other media. As in recent years, the bank continued the Read & Succeed project in the Arab-speaking sector and in the Haredi (ultra-orthodox) sector as well, in formats adapted specifically for these communities. Read & Succeed also includes mobile libraries, operated in cooperation with the Key Books Foundation. This project consists of mobile lending libraries housed in trucks that travel throughout Israel, allowing children and youth to enjoy a wealth of children's theater, creative writing workshops, lectures, story hours, and enrichment classes.

5,060
participants

In 2016, 5,060 participants registered for the 9 mobile libraries operating throughout Israel.

Insight in Education

The bank is involved in the initiative Insights in Education, founded with the aim of supporting school principals and enabling them to effect an educational and social transformation in their educational institutions. The initiative focuses on public schools in urban peripheries and in geographical peripheries of Israel, in recognition of their importance. The project helps principals develop a perspective of social leadership and entrepreneurship, in order to provide a comprehensive response to students' academic, social, and emotional needs, building up the schools as a central anchor in the lives of students and the surrounding communities and as a source of inspiration. Action committees have been formed for this project, and collaborations have been established with the Ministry of Education, municipal authorities, industrial companies, the defense industry, the third sector, academia, and a large number of volunteers.

13,912

Students

The number of students participating in the various activities, including students who received emotional therapy, reached 13,912 in 2016.

2,000

Students

The direct support of the bank aided the operation of programs for more than 2,000 students at a range of schools in peripheral region.

The average percentage of students who earned a full matriculation certificate in participating high schools reached 74% in 2016, an increase of more than 10% compared to 2012 (before the launch of the initiative).

Unistream

Unistream was established in 2001 in view of the deepening socio-economic gaps in Israel. The NGO's purpose is to change the face of Israeli society by giving youths from the periphery - who are not part of the environment of success in central Israel - the opportunity to succeed and realize their potential. Unistream aims to develop business and social leadership, which will bring about social change and narrow gaps in Israel, creating a cycle of success, tolerance and self-fulfillment. For the past 15 years, Unistream has been operating an innovative educational program in an effort to reduce gaps by giving opportunity to youths from the periphery to establish startup companies and become part of the business sector, in addition to significant community activity.

1,000

Students

In 2016, about 1,000 youths from across Israel participated in Unistream's program.

3,250

Students

During the year, about 3,250 high school students underwent training as part of the youth entrepreneurship groups.

500

scholarships

The bank provided assistance in funding approximately 500 scholarships for college students from various sectors of Israel in 2016.

Promoting Financial Education in Society and in the Community

The bank's effort to promote education and its financial freedom perception have given rise to several projects, some unique, designed to advance financial education in the community, as described below.

Financial Education in Secondary Schools at the ORT Network

Bank Hapoalim, in collaboration with the ORT Israel Development Center, offers a program of study for secondary-school students designed to provide personal financial education, teach skills that students will need as independent adults, and impart the tools and knowledge necessary to make sound personal financial decisions. The program consists of fifteen hours of instruction, with a blend of face-to-face teaching and virtual learning, in ten self-contained modules covering subjects such as investment, savings, income, smart consumerism, money and means of payment, personal budget management, bank accounts, and the capital market.

4,000

Students

Approximately 4,000 students participated in the program in 2016, in 183 groups, at 42 schools;

20

annual hours

Each participating class received 20 annual hours of instruction on financial education

Dan the Saver – Teaching Savings

Within the drive for financial education for the bank's customers and for the next generation, aimed at making a better economic future possible for them, based on the awareness that childhood habits become the habits of a lifetime, the bank is leading a financial education effort targeted to children and parents. This project is designed to reinforce and promote the value of savings for parents and children. Activities aimed at parent's focus on encouraging savings, by evoking positive nostalgic memories, while maintaining innovation and a value offer to benefit the client. Activities for children focus on creating a positive experience at their first encounter with a bank, and building a beneficial, empowering relationship. The

Over 8,000 children participated in dozens of Dan the Saver day camps, in over 35 towns, during the 2016 summer vacation.

75,900

children

Approximately 75,900 children have participated in Dan the Saver day camps over the last five years.

The bank's effort to promote education and its financial freedom perception have given rise to several projects, some unique, designed to advance financial education in the community.

bank maintained and enhanced the Dan the Saver brand during 2016 through an experience-based online children's club, Dan the Saver World, which includes games and educational activities for children (at www.danpoalim.co.il), and through Dan the Saver summer day camps held in more than 35 towns throughout Israel for children from various sectors.

Enriching Parents

Bank Hapoalim has undertaken a goal of working to promote financial education for young children, preteens, and adolescents. Young children in preschool and elementary school are acquiring their first concepts of

money, savings, and more. It is therefore important to provide them with the tools for future management of their economic lives. The bank created a presentation and a lesson plan for children aged 5-8

regarding basic concepts for prudent financial conduct, as part of the Enriching Parents project, in which parents teach classes at their children's schools.

Paamonim Foundation

The foundation promotes balanced, responsible financial lifestyles for families, and works to strengthen the personal financial responsibility of families and individuals and to boost their ability to conduct a stable, balanced economic life, thereby helping to reinforce Israel's social and economic resilience.

16,000
people

In 2016, the foundation helped approximately 16,000 people through workshops and lectures, and provided individual counseling sessions to 7,080 families.

60% of families that received individual financial guidance over the last few years attained financial balance within three years. More than 10,000 families in Israel have reached financial balance over the last few years, with the help of Paamonim guidance and workshops.

Chasdei Lev

The Chasdei Lev organization has set the goal of creating a better financial and personal present and future for families in the Galilee region, through stronger economic resilience. As a social and professional organization, Chasdei Lev promotes the construction of economic resilience for Israeli households, through three key programs, each designed for a different target group: Positive Family – an economic empowerment program for families caught in a cycle of poverty and financial distress; Economic Growth College – for employed and self-employed people who earn wages that do not allow them to support themselves with dignity, and in many cases may lead to economic collapse; and Shekel – a financial education program supporting education on values, understanding, and clear thinking on these subjects, aimed at raising a new generation with an awareness of the significance and value of prudent economy.

200 students

In 2016 the number of students who participated in the program "Shekel" was approximately 200 students.

60% of families

60% of families participating in the organization's programs will increase their income by approximately 30% within one year.

80% of families that completed the program in 2016 will reduce the gap between their income and expenses by approximately NIS 2,000 within one year.

Promoting Culture and Arts

The perception of Poalim for the Community places special emphasis on culture and the arts. The bank provides assistance to outstanding cultural institutions dedicated to leadership and excellence, focusing on institutions that have initiated community efforts to bring culture and the arts to a wide range of different audiences. The bank also works to make cultural events accessible to underprivileged children and adolescents.

Several examples of the bank's investment in culture and the arts (of the dozens of initiatives and projects in which the bank is involved, are described below):

Poalim for Culture and Nature in Israel

Since 2005, Poalim for the Community has conducted a special project each Passover, in which all Israelis are invited to visit a variety of sites throughout Israel free of charge during the holiday week. Bank Hapoalim believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for parents and children throughout Israel to travel during the holidays and enjoy a variety of sites all over the country at no cost, while promoting culture and the arts.

430,000
people

430,000 people visited dozens museums and other sites free of charge, sponsored by the bank at its initiative, during the Passover holiday in 2016.

2016 Israeli Art Exhibition

The interior of the headquarters' building resembles a museum with open galleries across all floors. For several years, the bank has held exhibitions in this building, with their proceeds donated to social causes. The exhibitions are organized in a professional manner, so that the building becomes a museum of sorts for the duration of the exhibition. The bank also uses its social-business network to engage its stakeholders and donors in these exhibitions.

The exhibition, which was one of the first to support the fight against HIV, was held at the bank's headquarters for the seventeenth consecutive year. The exhibition featured works of hundreds of artists, all of whom contributed their work. All proceeds of the works sold during the event were donated to the Israel AIDS Task Force.

NIS 1.9 million

NIS 1.9 million were collected in the exhibition initiated by the bank and donated to the Israel AIDS Task Force;

18,100
teenagers

The Israel AIDS Task Force held about 90 informational workshops for around 18,100 teenagers.

OVER
64,000 people

In 2016, over 64,000 people attended cultural and artistic events supported by the bank. The bank's contribution directly aided the participation of approximately 21,000 people

Israel Philharmonic Orchestra

The orchestra runs the Maftach (Key) program, in which children and adolescents gain exposure to classical music through in-person meetings with orchestra musicians and in concerts, in various locations in Israel.

Over
20,000
children

Over 20,000 children, adolescents, and people of all ages, with an emphasis on peripheral communities, participated in this program in 2016.

The bank's contribution supported the participation of 1,800 children and adolescents in the program

Cameri Theater

The bank's aid to the theater includes tickets donated to various population groups throughout Israel that are usually unable to attend performances, thereby helping to make culture and the arts accessible to all segments of Israeli society.

As it has done each year, the theater donated 1,000 tickets, inviting people who are not able to attend theater performances routinely, according to target groups selected by the bank.

Promoting Welfare and Health

Poalim for the Community is involved in a wide range of community activities and invests in welfare programs and in aid to health-care institutions.

Ezra Lemarpeh

This non-profit organization, headed by Rabbi Elimelech Firer, has a wide range of activities and services for patients, aimed at enabling both patients and their families to resume their lives and return to work. In addition to medical advice and rehabilitation services, the organization runs activities for children who are sick and for their families, including medical, educational, and emotional support for children and families; the Elder Brother program, which offers home visits and help with schoolwork; birthday celebrations; making wishes come true; and more.

150,000
people

In 2016, the organization helped 150,000 people receive advice, treatment, and medical support. The bank's contribution helped approximately 3,000 people.

Promoting Additional Social Causes

Poalim for the Community also invests in a range of additional areas, fostering various social and environmental values – such as support for organizations that promote equal opportunities, organizations promoting employment in underemployed population sectors, environmental groups, organizations for the empowerment of women, and more.

At least

255,000 people

In 2016, at least 255,000 people received treatment and assistance in the areas of health care and welfare in Israel through organizations supported by the bank. The bank's contribution directly helped approximately 152,000 people

Latet

An Israeli non-profit humanitarian aid organization, founded to help reduce poverty for the creation of a better and more just society, by assisting population groups in distress, encouraging mutual accountability and giving in civil society, and spearheading a change in national priorities. Programs run by the organization include a nutritional security initiative; aid with food and medications for Holocaust survivors; Latet Youth, developing leadership and social initiative in adolescents; Latet Future, for the development of micro-enterprises among populations living on the borderline of poverty; Hunger Free City; and efforts to raise social awareness and change policies.

60,000
families

The foundation serves as an umbrella organization, collaborating with 150 local non-profits and organizations, which helped approximately 60,000 families throughout Israel during 2016. Approximately 7,800 families received assistance from the foundation as a result of the bank's donation.

Key examples of the bank's investment in additional social causes:

■ **Non-Profits Exhibition** – For the tenth year, the bank invited the Israeli public to buy holiday gifts sold by non-profit organizations that offer products handmade by children, adolescents, and adults with disabilities or special needs. The exhibition is used to develop resources for the organizations, as a platform for exposure of the organizations' activity to various

stakeholders and the general public, and as a model that can serve other business organizations seeking to promote community causes. All income from the sale of these products is dedicated to the activity of the foundations. The exhibition was held at the Poalim Campus in Shefayim, with 30 non-profits participating; the proceeds were transferred to the organizations in full;

■ **Etgarim** - In 2016, the Etgarim foundation helped approximately 6,000 adolescents and adults with special needs, such as physical, sensory, and mental disabilities, maximize their individual potential, expand their abilities, and participate in the community through challenging activities in nature;

■ **Promoting employment - Olim Behayad** – A non-profit organization working to reduce unemployment among Ethiopian-Israeli college graduates by offering job opportunities suited to their skills. 100 people participated in this program in 2016. 88% of the program's graduates are currently employed in suitable positions;

■ **Promoting employment-Be-Atzmi**- The Mifne-Massar program for unemployed women from diverse population segments (Arab-Israelis and Jewish Israelis, single parents, and women aged 45+) achieved 64% success in job placement and/or occupational training for its participants, who numbered

327 in 2016. The Employment for Empowerment program for financial guidance and workforce entry as means of emerging from poverty, targeted to families referred by municipal social services, achieved 63% success in placement in jobs and/or occupational training (approximately 3,300 families in the last four years). for unemployed women from diverse population segments (Arab-Israelis and Jewish Israelis, single parents, and women

aged 45+) achieved 71% success in job placement and/or occupational training for its participants, who numbered 333 in 2015. The Employment for Empowerment program for financial guidance and workforce entry as means of emerging from poverty, targeted to families referred by municipal social services, achieved 70% success in placement in jobs and/or occupational training (approximately 2,900 families in the last four years).

at least

76,000 people

In 2016, at least 76,000 people participated in programs and projects related to various community causes in Israel, initiated by the non-profit organizations supported by the bank


LOOKING AHEAD

Poalim for the Community will continue to focus on education, with special emphasis on financial education and teaching smart financial behavior, in addition to the continued promotion of the bank's strategic projects, such as Read & Succeed, the Passover project, the NGOs' exhibition, and more;

As part of "Poalim in the Community", a strategic process to assess the foci and implementation going forward will be conducted, including additional areas of activity and innovative work processes.

A new strategic focal point for "Poalim in the Community" is empowering the Third Sector and providing NGOs and social organizations with business and managerial tools. As part of this activity, the bank has initiated a program named Value to Go, for training business development managers and fundraising for NGOs; the program will be introduced in May 2017.

Examining Achievement of Objectives

2016 Objectives	Status
Poalim for the Community will continue to focus on education, with an emphasis on financial education and education for prudent financial behavior, while also continuing to promote strategic projects of the bank such as Read & Succeed, the Passover project, the Non-Profits Exhibition, and more.	Completed. 

Volunteering

The bank has established a nationwide network of volunteers, encompassing thousands of its employees from various parts of the country. The frequency and type of volunteer work vary widely among the units, including weekly, monthly, or quarterly activities, activities held on holidays, and activities on Good Deeds Day. The bank's broad geographical deployment makes it possible to respond to the needs of local communities and volunteer for a wide range of activities, so that the local branch becomes a center for social improvement and aid during times of distress. Employees and executives volunteer in their spare time, some privately and independently, and some with the leadership of the bank, in collaboration with the various foundations. Volunteer activities are varied, with numerous community partners; employees can choose a continuous activity throughout the year, or specific events where they can contribute according to their abilities. Among other efforts, employees of the bank volunteer with children and adults with special needs; work with Holocaust survivors; mentor soldiers with no family in Israel; mentor women who are victims of violence; provide assistance and training for the promotion of employment; adopt centers for children and for the elderly; assist at group homes for children at risk and at foster homes; package and distribute food to people in need; and give talks throughout Israel on sensible financial behavior for adolescents, families, students, soldiers, and seniors.

Volunteer work is performed through integrative management and an orderly organizational structure, consisting of the following functions:

- **Senior manager** – Appointed within the bank to hold overall responsibility for management of this area;
- **Steering committee** – Provides strategic support for the new structure through the exposure and selection of models and of potential strategic partners in the community; formulates policies for recognition and appreciation of volunteers, marketing of the activities in the organization, and recruitment of volunteers;
- **Core social leaders** – 46 leaders selected by division/region heads, responsible for promotion of the Poalim Volunteers program and its goals and objectives in their division/region, development and management of partnerships and volunteering programs on the regional and local level with community partners, motivation of employees, and management and guidance of the network of social leaders;
- **Social leaders network** – 410 leaders selected by department and branch heads, serving as a direct liaison to all employees and leading the volunteering drive at the level of the units and branches.

Volunteering in 2016

Volunteering to Promote Financial Education

The bank's volunteering efforts emphasize financial education, in alignment with its core activity. Within this effort, bank employees volunteered in several areas in 2016:

- **Lectures on financial education and family budget management** – Given for various target audiences by employees of the bank. In addition, within the activity of the non-profit organization Shiur Acher ("A Different Lesson"), hundreds of employees of the bank taught classes at schools throughout Israel on financial and other subjects; parents and retirees gave lectures to children in the Enriching Parent program;
- **The Children's Bank** – "Children Bank's" were established in 5 villages and boarding schools for young children at risk, which serves hundreds of children. Children who receive an allowance can deposit it at the children's bank, check their balance at any time, buy products at the village store, and pay with a magnetic card issued to them. The bank provides the children with their first banking and financial experience;

- **Promotion of entrepreneurship** – the bank's employees give lectures on writing business plans, with special emphases for teenager entrepreneurs in schools, as part of the Premium Entrepreneurship and Ta'asiyeda programs. In addition, 25 of the bank's managers were trained to serve as mentors for NGO managers, in cooperation with the Matan NGO; mentors were also trained from among the bank's employees to serve as life mentors for discharged soldiers whose families live abroad.

Summer Youth

As part of promoting the values of Doing and Giving, approximately 1,400 employees' children aged 18-15 were employed during the summer vacation (under the Youth Employment Law of 1953), in a variety of community activities, in a wide range of areas. Summer Youth is an initiative of Poalim Volunteers program, in collaboration with the employees' committee, the Human Resources Department and Poalim Campus. It is funded by the bank. The project allows for employees' children to learn about the value of Giving and instill it through various activities to assist different populations in Israeli society. The teenagers become acquainted with the weak links in Israeli society and do volunteer work during a single week. The project included six cycles, of six days each, during the summer vacation. Each "class" began by becoming acquainted with various issues in Israeli society and an enrichment experience (in collaboration with the Academic College of Tel Aviv-Jaffa) to raise awareness to online phenomena such as cyberbullying

and shaming, and their impact on youth and their supportive environment, with the aim of reducing the phenomena and educating youth on informed and safe online conduct. The activity began at Poalim Campus (in which the teenagers were trained on volunteering, learned about the value of Financial Freedom and how to manage their Poalim Young accounts) and ended with hands-on volunteer work. The employees' children were praised and recognized by the NGOs and community partners, which applauded the bank's management proactive activity and the sense of partnership and values shown by the employees' children. Many teenagers expressed their satisfaction with the activity and their desire to continue volunteering later on. Many teenagers volunteered throughout the year with their friends at the same places in which they volunteered during the summer program.

Volunteer Activity Management System

A specialized computer system was set up in 2013 to manage the bank's volunteer system. This system enables employees who volunteer to enter information regarding their activity, making it possible to measure the aggregate volume of employee volunteering. The system also serves as a platform helping employees who wish to volunteer near their homes find an appropriate venue, through a user-friendly search interface. Registration of employees on this system continued in 2016.

Approximately

3,500
employees

Volunteered on a regular,
ongoing basis in 2015.
Overall, 39% of the bank's
employees volunteered on
a regular basis

1,500
students

Within the Shiur Acher program, 60 courses on financial and other subjects were taught at 44 schools, to 1,500 students, by more than 400 bank employee volunteers; 400 bank employee volunteers

More than
100
lectures

More than 100 lectures on financial education and household budget management were given by volunteers from the bank;

120,000
gift packages

Thousands of employees participated in volunteer activities during the holidays, in areas such as childcare centers, elder care, hospitals, and more, and distributed 120,000 gift packages;

Approximately
6,000
employees

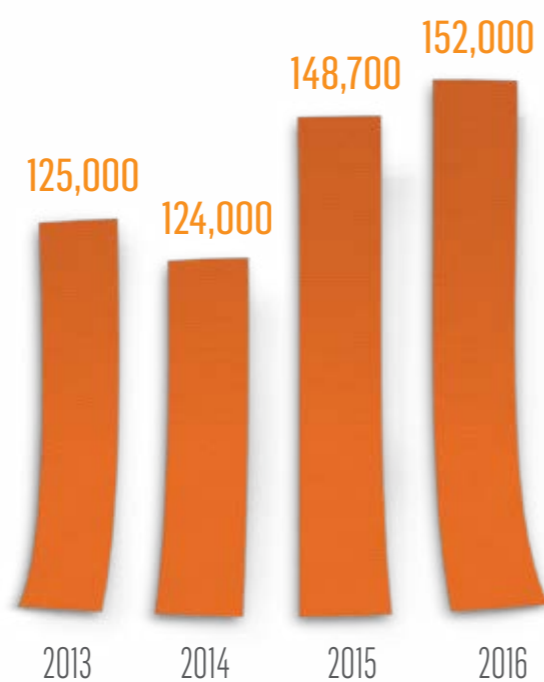
volunteered in a wide range of activities on Good Deeds Day, held for the tenth time in 2016;

Prior to the Passover holiday, the Bank purchased thousands of food packages "Kamcha de pascha" for Israeli families who are in need.

152,000
hours of
community
volunteer work

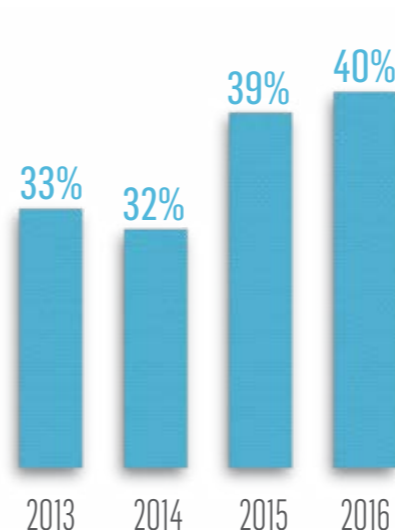
The bank and its employees performed approximately 152,700 hours of community volunteer work in 2016 (this includes approximately 45,000 hours devoted to community activity by employees' children in the summer program). More than 6,000 employees were involved, including in one-time activities. Approximately 25% of the hours volunteered by employees were paid for by the bank

Volunteering Hours*

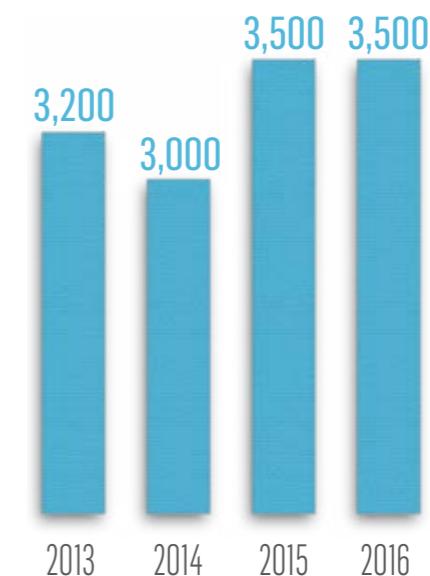


*Volunteer hours include employees' children's activities. Summer Youth - 45,000 hours of activity annually.

Regular volunteers, of total bank employees



Number of regular volunteers



Examining Achievement of Objectives

2016 Objectives	Status
In 2016, the bank will begin measuring the effectiveness of volunteer activities, both for employees who volunteer and for community partners.	Completed. <input checked="" type="checkbox"/>
Talks on sensible financial behavior for seniors, adolescents, and students will be given at the request of non-profit organizations, community centers, companies, and branches of the bank.	Completed. <input checked="" type="checkbox"/>

LOOKING AHEAD

In 2017, the Poalim Volunteers program will focus on expanding the volunteer circles, to include family members and beneficiaries in the various volunteering frameworks;

In 2017, the bank will hold a training program for its social leaders.

HUMAN CAPITAL APPROACH



Human Capital Approach

The bank applies long-term considerations of sustainability and social responsibility to the management of its human capital. For the bank, its employees are key stakeholders; its relationship with them is conducted on a firm foundation of true growth and partnership. The bank promotes a responsible work environment while ensuring compliance with the law regarding the terms of employment of its employees and other workers on its premises. Furthermore, the Bank respects and acts in light of universal norms of securing employment rights listed in the UN Convention (UNGC, UN International Bill of rights, UN International Covenant on Economic, Social and Cultural Rights and UN Guiding Principles on Business and Human rights) and the conventions of the International Labour Organization (ILO), inter alia issues of freedom of association and collective bargaining, prevention of discrimination and inequality and more.

Bank Hapoalim is one of Israel's largest employers, with approximately 8,700 employees as of the end of 2016. The work culture at the bank is characterized by:

- **Equal opportunities and the prevention of discrimination**— as part of its recruitment policy, the bank encourages recruitment and integration of population groups that are under-represented in the job market. The bank also has partnerships with NGOs specializing in empowerment and integration of such populations in the job market;
- **A wide range of opportunities for personal and professional growth and development**—generating shared value for employees and for the bank;
- **Continuous learning**—the bank invests considerable resources in professional

and managerial training and personal development, encouraging, and sharing the cost of, academic studies for its employees;

- **Operational excellence** – The bank aims to link the interests of its employees with its own, while maintaining fair employment as well as encouraging excellence and a culture of operational excellence. The compensation plans are a significant means for tightening labor relations and the employees' sense of partnership. The employees' compensation package combines fixed and variable components designed to incentivize employees to produce outstanding results over the long term. The bank holds recognition events to express its appreciation for the achievements of outstanding employees;

- **Concern for the wellbeing of employees and their families** – the bank's employees enjoy welfare services, which provide proper response to employees' preferences and the widest range of needs: leisure, healthy lifestyle, enrichment activities for employees and their families, professional assistance during personal or family crises, and more;

- **An excellent working relationship, dialogue and partnership** maintained between management and the employee union;

- **Workplace-home flexibility** – the bank cut down its employees' weekly working hours, which are now less than the number prescribed in Israel's labor laws. In addition, the bank does not encourage overtime and ensures its employees do not exceed the overtime allocated to them under law.

Ranked as one of the best companies to work for: In a survey conducted by BDI Code in 2016 to rank the "100 Best Companies to Work For in Israel", Bank Hapoalim placed eighth. The bank has maintained its standing as one of the top ten best workplaces in Israel over recent years. This accomplishment reflects the bank's commitment to its employees and its achievements in the area of social responsibility

65.8%

The percentage of employees who hold academic degrees rose from 64.4% to 65.8% in 2016. Approximately 38.6% of the bank's degree-holding employees have master's degrees or higher. This group constitutes 26% of all employees of the bank. This year more than 300 employees were enrolled in academic degree programs, with tuition financed by the bank through a joint fund of the board of management and the employee union.

Presenting Information on Employees

8,701¹⁰

The number of employees of the bank in 2016 was 8,701

44.8

The average age of employees of the bank is 44.8

18.2

The average duration of service of employees of the bank is 18.2 years

90.5%

Collective agreement

The bank recognizes its employees' right to unionize and conduct collective negotiations. The collective agreement applies to the decisive majority of employees of the bank (90.5%), excluding those employed under personal contracts

93.6%

Internal and external employees

93.6% of employee positions were of the bank, while 6.4% were of Supervised

96%

Full-time and part-time employees: 96% of the bank's employees are employed full time while 4% are employed in part-time positions

474

Maternity leave

474 employees took maternity leave in 2016, while 396 returned to work following maternity leave. Employees returning from maternity leave usually resume their previous positions. Any position change if made, done in coordination with employee

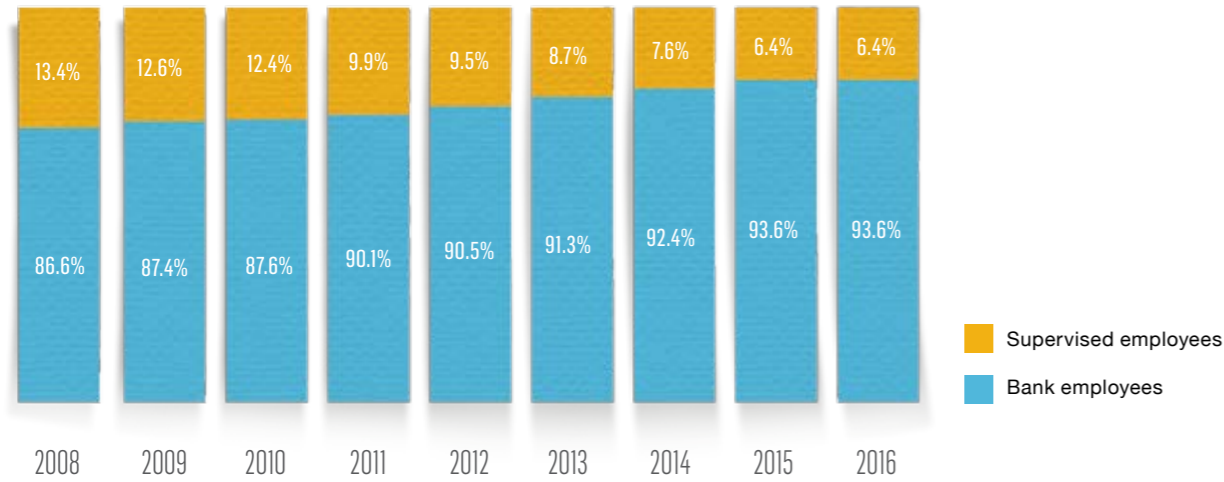
336

Absorbing external employees

In 2016, the bank hired 336 external workers as regular employees, accounting for 66% of all employees hired by the bank during the year. Overall, the bank hired over 4,000 external workers in 2008-2016. The percentage of external workers decreased from 18.8% to 6.4% between 2007 - 2016

10. The number of employees is excluding employees who are on maternity leave and bed rest during pregnancy, external employees and Employees of subsidiaries.

Ratio of bank's employees to Supervised employees at the bank



Distribution of employees by type of employment agreement

Year	Contract Type	Temporary bank employees			Total
		Permanent employees	Temporary employees	Senior employees	
2016	Collective contract	80.5%	10.0%	-	90.5%
	Personal contract	0.1%	8.2%	1.2%	9.5%
2015	Collective contract	81.8%	9.5%	-	91.3%
	Personal contract	0.13%	7.2%	1.3%	8.7%
2014	Collective contract	80.93%	10.82%	-	91.75%
	Personal contract	-	6.98%	1.26%	8.25%

Temporary bank employees

Contract Type	Men	Woman
Personal contract	486	347
Collective contract	258	609

(2016) Total employees of the Bank by age and gender

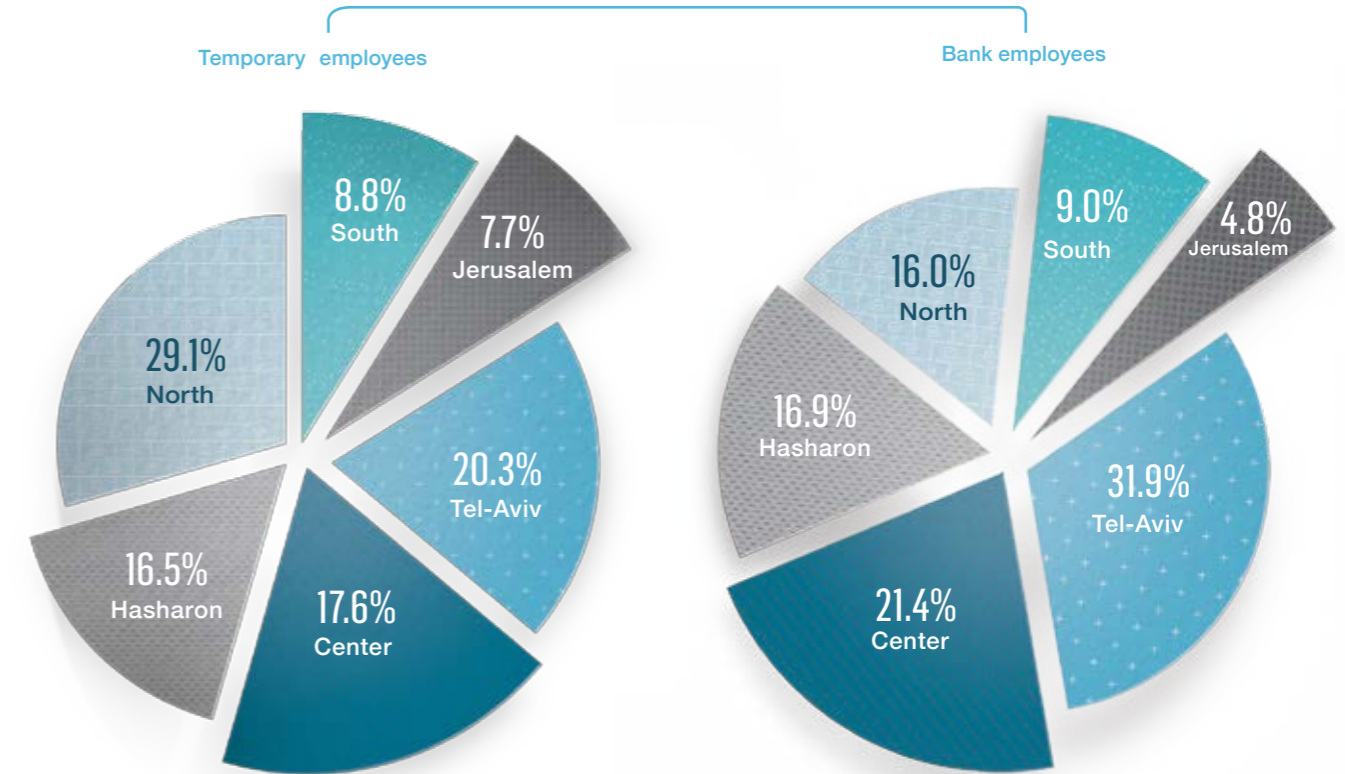
Age	Men	Women	Total	Rate
Under 30	217	658	875	10%
31-50	1,739	3,407	5,146	59%
Over 51	1,137	1,543	2,680	31%
Total	3,093	5,608	8,701	100%

Employee turnover, 2014-2016 (employee departures and hiring's)

Year	Age	Departure				Hiring			
		Female	Male	Total	Rate	Female	Male	Total	Rate
2016	Up to 30	152	46	198	28%	237	132	369	72%
	31-50	106	73	179	25%	53	82	135	27%
	50+	222	116	338	47%	1	4	5	1%
	Total	480	235	715	100%	291	218	509	100%
2015	Up to 30	195	57	252	36%	165	69	234	71%
	31-50	107	70	177	25%	45	49	94	28%
	50+	163	110	273	39%	2	1	3	1%
	Total	465	237	708	100%	212	119	331	100%
2014	Up to 30	55	208	263	29%	238	79	317	71%
	31-50	71	102	173	19%	60	69	129	28%
	50+	300	156	456	51%	3	6	9	1%
	Total	426	466	892	100%	301	154	455	100%

In recent years there is a trend of a reduction in the bank's overall headcount, in view of the restructuring processes carried out by the bank

Segmentation by Area of Residence



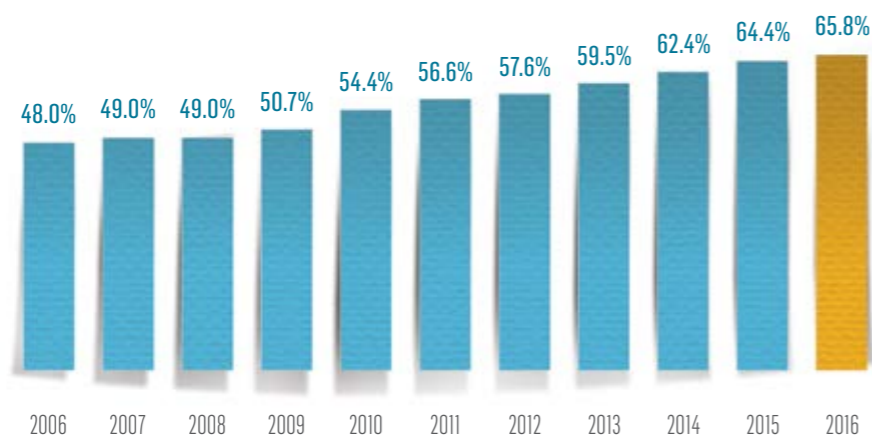
Education and Age

The following table presents a breakdown of the 8,898 employees of the bank in 2016, by age and level of education:

Education \ Age	Academic degree			Total	Age group distribution
	No academic degree	B.A.	M.A.		
18-21	37	1		38	0%
22-30	350	417	70	837	58.2%
31-40	456	1,193	729	2,380	80.8%
41-50	724	1,078	955	2,766	73.8%
51-60	991	563	383	1,942	49.0%
60+	416	216	105	738	43.6%
Total	2,974	3,468	2,242	8,701	65.8%
Education distribution	34.2%	39.9%	25.8%	100%	

The table shows that the percentage of employees who hold academic degrees (segmented by age) is very high in the 22-50 age group, in accordance with the upward trend in higher education in Israel, beginning in the 1990s and through the following decades, in contrast to the percentage for employees over the age of 50. The percentage is lower for employees aged 22-30 than for those aged 30-50, due to the fact that some of the younger employees are still in the process of completing their academic degrees, or have not yet begun their planned studies.

Upward trend in percentage of degree-holding employees at the bank



The upward trend in the percentage of degree-holding employees continued at a greater pace in 2016. This achievement reflects an ongoing long-term positive trend of rising proportions of degree holders at the bank, due to factors including the bank's encouragement of employees to study towards undergraduate and graduate degrees, through tuition aid and added vacation days for examinations. Overall, from 1997 to the end of 2016, the percentage of degree-holding employees at Bank Hapoalim rose from about 26% to 65.8%.

Promoting a Culture of Dialogue and Openness

Bank Hapoalim considers its employees to be full partners who contribute to all business and organizational processes. Employees become partners in promoting the bank's endeavors through organization-wide communication on all levels: dialogue between managers and employees, and direct communication between the various units. Direct dialogue between managers and employees enables employees to feel connected with organizational objectives. Lateral dialogue between units helps organization-wide processes move forward with flexibility and efficiency. The range of methods applied at the bank to achieve these aims includes face-to-face meetings, use of the organizational portal, promotion of a culture of sharing and innovation, and processes of feedback, assessment, and drawing conclusions. The bank also works to encourage "the

wisdom of the crowd" and a culture of social dialogue by providing a comment section for news items posted on the organizational portal, as well as through surveys, webinars, forums, etc.

Strengthening Relationship with Employees at Bank Hapoalim

■ **Employees instill the vision of the bank** – The project of instilling the bank's vision, initiated in 2009, represents a process of renewal and growth as well as a declaration of the bank's commitment to universal social values, towards its business environment and its community. A detailed plan

was constructed for leadership of this process by managers and its application to the bank as a whole, from senior management to each and every employee. Following the official organization-wide launch of the vision in 2011, the process of instilling the vision continued in 2016, through various aspects of the bank's activity: instilling the vision at bank's divisions, integrating the values of the vision into learning and training materials, and communication of the bank's vision to employees and managers. Implementation of the Doing Good Model of the Arison Group at the bank began during 2015, in a small-scale pilot project. In 2016, the model was implemented throughout the bank (for more information see page number 164).

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■ **Beshutaf ("in collaboration")** – a new internal business network launched gradually from the beginning of 2016, to encourage intra-organizational communication and promote business through knowledge sharing and giving back to the community. The network enables employees and managers to receive updates, share information, work in professional teams and promote projects quickly and easily. Similarly, to business-social networks outside the bank, the intra-organizational network allows employees to create blogs and communities, tag according to professional content topics, etc. Using the network will enhance a culture of collaboration, professionalism and personal empowerment in the bank;

■ **The organizational portal** – The portal is a venue for everyday realization of dialogue, transparency, and sharing. Since the launch of the portal in June 2006, it has become a key arena for intra-organizational communication and for conveying messages within the bank. The portal provides the ability to manage and access organizational knowledge (work processes, rights and obligations, information about the employee union, etc.) and professional knowledge (processes, data, and supporting information); a professional desktop – a gateway to business activities through which employees can reach all of the organization's systems and applications; and an infrastructure for organizational sharing and dialogue among employees through forums, surveys, comments, and participatory activities. As a result, the bank has achieved improvement in employees' professional skills, increased synergy between the head office and the units on the ground, stronger organizational identity among

employees, and genuine dialogue through the range of tools available on the portal. The bank's organizational portal has earned recognition in Israel as "best practice" in the areas of knowledge management and intra-organizational communications;

■ **Management-employee meetings** – a series of meetings held between the bank's management and employees, with the aim of enhancing management's knowledge of what is taking place "on the ground";

■ **Innovation processes** - during 2016, the bank continued its internal innovation processes, which have been held in recent years in an effort to encourage a dialogue with the employees and involving them in streamlining processes and innovative thinking;

■ **Feedback and evaluation processes** – Each year, managers provide feedback to employees on their individual performance at their positions. The performance evaluation process takes the form of a dialogue between the manager and the employee, and supports a number of goals, including employee development, coordination of expectations, and improvement of performance. The process helps empower and nurture employees, and promotes excellence. The performance evaluation process consists of an examination of the employee's performance over the last year and formulation of the main objectives for the coming year, including professional as well as personal objectives. Midyear talks to track progress on the objectives and development are held about six months after the feedback sessions. These processes continued to be performed routinely in 2016.

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Feedback and evaluation: 99% of the bank's employees participated in an evaluation process in 2016, based on their performance in 2016. Mid-year follow-up talks to check progress on objectives and choose directions for development were held with 65% of employees

In the "I Care" initiative, introduced as part of the innovation drive, any employee in any position who identifies an activity that can be streamlined is invited to formulate a proposal, which is submitted and processed in an organized procedure. A total of 2,100 proposals were submitted by 980 employees in 2016. From the launch of this program in 2009 to the end of 2016, 21,000 proposals were submitted by 5,000 employees, of which approximately 7% are being implemented

4 million
Number of pages viewed monthly

150,000
Employee queries via the portal

LOOKING AHEAD

Portal home page – launch of a new home page on the organizational portal, with emphasis on user experience;

Internal pages on the organizational and banking portals – gradually improve the user experience, including the use of new and existing views, re-write the content to bring it up to date with the language currently used on the Internet;

Portal To Go App – improve the user experience and the application launch experience, as well as the user experience for new audiences: retirees and employees on unpaid leave, interface with some of the bank's systems and to the bank's internal phonebook;

"Beshutaf" – an internal business network – full implementation across the entire organization. Use the network as a new internal communications platform and to promote projects in the organization;

"Poalim for Good" – continued implementation of the Poalim for Good model for the second year.

2016 Objectives	Status
Continued development and more extensive use of the Portal on the Go – addition of content; development of screens and sub-applications for specific population groups; expansion of usage to all employees of the bank.	Completed. Planned to continue in 2017.
Renewal of the organizational portal, including redesign of the home page and portal UI and UX to improve the user interface, and reorganization of the content and navigation tree on the main portal.	A page characterization has been done. The launch of the new displays is planned for 2017.

500
Content expert employees who manage sites within the portal

4,000
Knowledge items posted on the portal daily

Promoting Diversity, Equal Opportunities, and Transparency

Non-Discrimination

From the Bank Hapoalim ethical code: "The bank treats its employees fairly and without discrimination. The policy of the bank is to employ, promote, and make decisions regarding employees based on pertinent considerations, such as qualifications and performance, with no discrimination due to religion, race, sex, age, political views, sexual orientation, disabilities, etc. The bank does everything in its power to implement this policy." Any claims of discrimination brought before the responsible parties are addressed by the bank immediately, in order to investigate the allegation. No complaints of discrimination found to be justified were filed at the bank in 2016.

Transparency from Step One

The relationship built between an employee and the bank during his or her first days with the organization forms the foundation for their work at the bank over the years to come. The bank accords high importance to employee satisfaction during the orientation period, and emphasizes respectful individual attention and full explanation and information about rights and obligations, as well as a personal gift for the employee's home and a detailed orientation package. The bank provides new employees with information regarding terms and processes related to their work, as well as useful information on all matters connected with the beginning of their employment. New employees are invited to initiation conventions and orientation days, to receive an explanation of their designated position and of what it means to work at the bank, and to gain familiarity with the bank's organizational culture and expectations.

Equality in Wages and Terms

In general, salaries and terms of employment for bank employees are determined

according to a role book. The role book, which is available on the organizational portal, contains information regarding the terms of employment and entitlements granted to employees at each rank and position. The publication of the role book contributes to transparency in wages and allows control over the terms of the wages.

Equal Wages for Men and Women

Basic wages and related terms are established at the bank according to employees' position and rank, based on the role book, regardless of gender. This method is used to construct the wage system and calculation charts. The bank performed a review of remuneration at all levels of the organization, and found that wages were equal for men and women, at all positions and ranks. Obviously, there are certain differences in total wages paid to employees in specific positions, due to individual characteristics such as seniority, added benefits for parents of children, overtime, etc.

Equal Opportunities - Gender and Sector

Data on the employment of women at the bank indicate that the percentage of female managers at the bank as a whole is on an upward trend. The pool of female employees with management potential (at the first tier of management) is large, and has a positive effect on the growth of talented female managers and on the rising proportion of women in senior management. The bank strives to promote workplace diversity and hires employees from a variety of sectors and population groups, as part of its human-resources management policy.

An officer responsible for the prevention of sexual harassment in the workplace has been appointed at the bank. Channels

for communication with her, as well as the bank's regulations on this matter, are posted on a topic page in the organizational portal. This topic is refreshed annually using a specialized tutorial.

Working to Include Population Groups Underrepresented in the Job Market

The bank is leading a diversity initiative, based on an understanding of the advantages of diversity on the level of the business, its values, and the organization. Within the vision of the bank, it is committed to the inclusion of a range of different population groups in congruence with their representation in society. This is justified both in business terms and in terms of the bank's commitment to the society of Israel. The bank encourages recruitment and absorption of employees from population groups underrepresented in the job market (The Arab sector, the ultra-Orthodox sector, Ethiopian Israelis and people with disabilities), as part of its hiring policy; more than 900¹¹ employees from these sectors are currently employed at the bank. As part of the long-term work plan formulated by the bank, several processes are being promoted in this area, including focus and adjustments in the recruitment and absorption process, as necessary: activities designed to instill a diversity approach in the bank's management culture as part of its leadership philosophy; and structuring of work processes and collaborations with non-profits specializing in empowerment and integration of underrepresented population groups in the job market.

Promoting Workplace Diversity

Encouragement of Employment of Male and Female Employees from the Arab-Israeli Community

Within the promotion of diversity at the bank, a systemic effort has been devoted to encouraging the employment of employees from the Arab-Israeli community, encompassing various processes in the employment life cycle:

- **Recruitment** – Available positions are advertised in Arabic on the bank's Arabic-language website. Positions specifically designated for Arabic speakers are also advertised on the careers page of the bank's website (in Hebrew), and on online job boards. Relevant non-profits and organizations in the area of employment, such as Rian Centers, Kav Mashve, and others, are also contacted. A significant element of the recruitment process is the involvement of bank employees from the Arab-Israeli sector, who help through contact with potential employees and with community leaders.
- **Screening** – Evaluation centers targeted to the Arab-Israeli community were held in Northern Israel and in Haifa during the year, for easier access to candidates. The evaluation sessions were led by Arab-Israeli psychologists; branch managers from this sector and human-resources representatives participated. Candidates had the option of taking skills tests in Arabic. Human-resources staff who conducted individual interviews for candidates, as well as all participants in the screening process, were trained in multicultural interviewing. The screening process also includes an interview with an Arab-Israeli branch manager.

- **Training** – The Poalim Campus thinks ahead about adaptations and emphases needed in various professional courses, in cooperation with the head of Arab-Israeli outreach at the bank and external experts who consult on this subject as necessary. A course coordinator from the Arab-Israeli community who is thoroughly familiar with the challenges facing these employees provides continual support according to needs that emerge. A targeted plan was created to gain familiarity with the unique characteristics of the course participants and of their potential customers, with the aim of optimizing future business results. The bankers' training includes workshops on behavior skills adapted to Arab-Israeli society, given by an external consultant from this community. A Hebrew-Arabic dictionary of banking terms is available to course participants and to all employees of the bank. Meetings are held with Arab-Israeli opinion leaders and with business firms that employ large numbers of Arab-Israeli workers, in order to obtain deeper understanding of their needs and respond appropriately.
- **Guidance** – The Human Resources Division provides guidance and conducts meetings with the employees during their training period (at the beginning, middle, and end of the course), and is available for any questions after training is completed. The division also monitors the development of bankers in the Management Training Track over their early years at the bank, including meeting with them at the end of their first year of work.
- **Promotion** – As the bank opened branches serving the Arab-Israeli community, a need emerged for highly qualified and experienced employees

from this community to staff a range of positions at the branches, creating an opportunity for promotions to management positions, such as branch manager and division heads. The new branches opened in Arab-Israeli communities have been staffed in full, in accordance with the requirements, such as an academic degree and the skills necessary for each position.

Targeted Mentoring Program for the Development of Young Arab-Israeli Employees

In 2015, a targeted mentoring program was developed, in collaboration with Tevet – Joint Israel, for young Arab-Israeli academics employed at the bank with the potential for future development. The program's mission is to support empowerment and personal growth, with an emphasis on the adoption of effective practices at the bank for the maximization of individual abilities. Mentors are branch managers motivated to volunteer for the program and willing to guide an employee through a significant development process and serve as a stable, inviting source of advice. When the program opened, two training sessions were held for the mentors, to impart practical coaching skills. The program was launched in early 2016 and continued throughout the year.

6%

Minority employees constitute 6% of the bank's manpower

11. During 2016, the bank carried out a re-measurement of the employees who are included in the Bank's sub-employment populations.

Encouraging Employment of Workers with Disabilities

Over the years, the bank has invested the necessary resources and carried out any adjustments that are called for in the work environment when new employees with physical disabilities are hired, or in the event of changes in employees' health. Thus, the bank provides disabled employees with an appropriate work environment that enables them to function to their full potential. In some cases, the bank assigns employees to a position in which their disability is not an obstacle, in order to enable them to continue to work at full capacity.

An agreement concerning the employment of people with disabilities was signed by the Histadrut labor federation and by employers in June 2014. The agreement establishes two obligations for employers:

- Proper representation of employees with disabilities, as a percentage of the total: at least 3% of the company's employees.
- Appointment of an officer responsible for the employment of people with disabilities.

The Minister of the Economy signed an expansion order in September 2014, applying these directives to the Israeli economy as a whole. In 2016, the bank's Human Resources Committee approved the appointment of the hiring coordinator as the function responsible for the employment of people with disabilities. In addition, a human-resources policy has been approved by the Human Resources Committee and updated on the portal. According to the policy:

- Employment or promotion of people with disabilities who are qualified for the position and who have similar skills to those of other candidates will be granted precedence.

- When recruiting employees from outside the bank, the hiring coordinator will contact at least three different organizations specializing in the placement of people with disabilities.

The bank currently employs hundreds of employees with disabilities, most caused by illness, traffic accidents, or hostile acts. Extensive efforts are also devoted to hiring people with disabilities through relationships with the Rehabilitation Division of the National Insurance Institute; the Ministries of Welfare, Health, and Defense; employer support centers at the Center for Integration of People with Disabilities in the Ministry of the Economy; the Rehabilitation Division; numerous placement organizations that specialize in employees with disabilities; the Service for the Blind; the Accessible Work portal; the Employment Service; Beit Ekstein; Elwyn; Migdal Or; and more.

Workers with Disabilities

the bank made an initial mapping of its workers with disabilities, in line with the criteria in the New Extension Order, and is currently preparing a plan to promote the employment of workers with disabilities

Hiring population groups that are under-represented in the job market in 2016, the bank recruited 90 employees (Arabs, Ultra-Orthodox Jews (Haredim), Jews of Ethiopian descent, and people with disabilities), representing approximately 22% of the newly-hired employees

Comparison of men and women at each rank

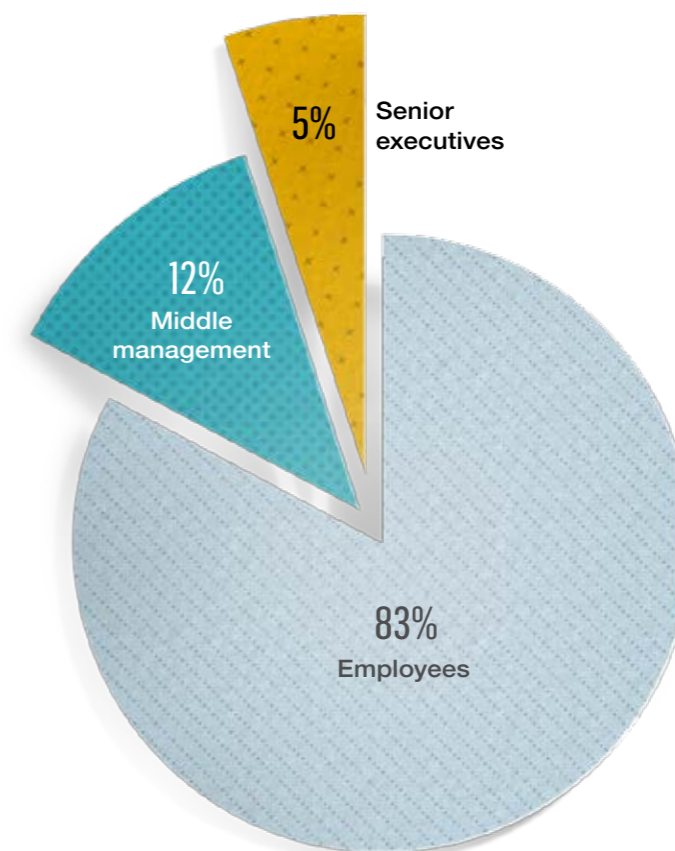
	Female	Male	Total	Rate
Board of directors*	2	9	11	-
Senior executives	29	62	87	1.0%
Middle management	994	788	1,782	20.5%
First tier management	347	270	617	7.1%
Employees	4,315	1,896	6,211	71.4%
Total employees	5,608	3,093	8,701	100%

* Members of the board of directors are not employees of the bank.

Women-men wages:
During 2015, a greater examination was conducted comparing men's wage to women's wage of at all levels in the bank. There was no difference found: the average women's wage rate of employees of the bank stands at 99.91% of men's wage

52.4%
of executives at the bank are female, versus 34% in the labor market

Segmentation of Minority Employees



64.4%

Percentage of female employees at the bank
64.4% of the employees of the bank are women, versus approximately 56.9% in the labor market in Israel¹²

2%

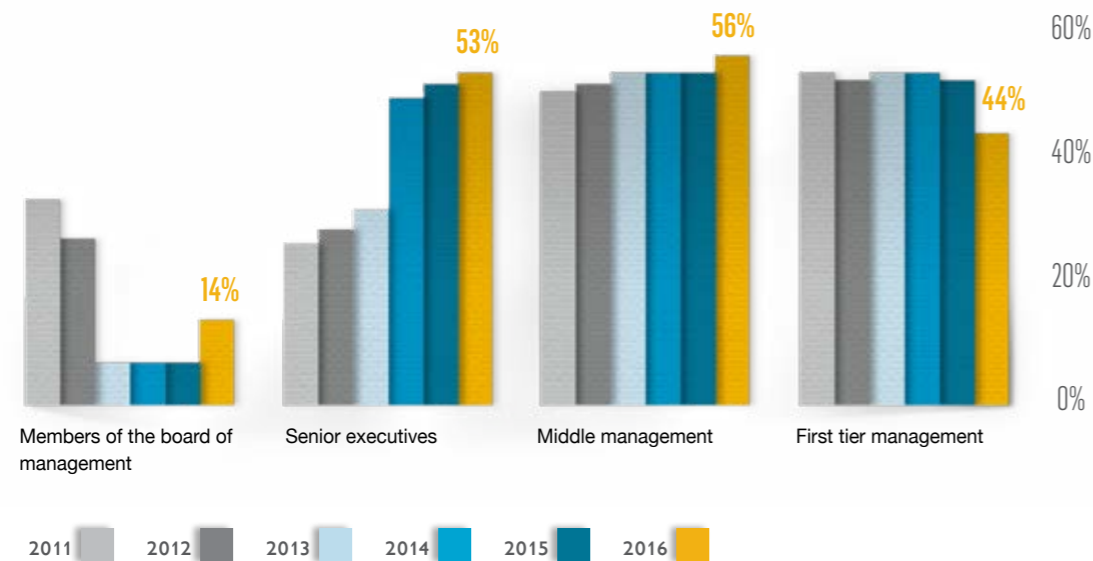
Bank employees from the Ultra-Orthodox sector constitute approximately 2% of the bank's total employees (estimated)

20%

Segmentation of hiring of employees from under-employed population groups -
In 2016, approximately 16% of total employees hired were Arab-Israeli, 3% were Ultra-Orthodox, about 2.5% were of Ethiopian descent, and around 1% were people with disabilities

12. Labor Force Survey (CBS), January 2017.

Proportion of Women in Management Positions 2016-2011



Examining Achievement of Objectives

2016 Objectives

Status

Integration of the diversity philosophy with the Shari Arison Doing Good Model – A drive to communicate and instill diversity is planned for June 2016, within the value "We Are All One," using videos, a quiz game, and more, aimed at creating closeness, tolerance, and a more fair and balanced society.

Completed.

Encouragement of employment of people with disabilities – Development of a program to embed this goal, including writing an internal procedure, publishing information on the portal, holding conferences for executives, public relations, experience-based learning, and additional means of raising organizational awareness, in cooperation with Access Israel and the Center for Integration of People with Disabilities in the Ministry of the Economy.

completed- development of implementation plan, internal procedure.

In process - executive conferences, published information in the portal.

LOOKING AHEAD

Plan to encourage the hiring of people with disabilities – the bank will continue to hire people with disabilities, continuing its cooperation with the various entities related to this issue (as mentioned above); In 2017, awareness to this issue will be further emphasized and communicated through executive conferences and information uploaded to the organizational portal.

Candidates from population groups under-represented in the job market – as part of its employees' diversification policy, the bank set an internal recruitment target of at least 10% of the newly hired employees;

Continued implementation of Shari Arison's Doing Good Model – In August 2017, the bank is scheduled to launch a communication and implementation drive on diversity, under the value All One (a video, quiz, etc.), with an emphasis on coming closer together, tolerance and creating a fairer and more balanced society.

Personal Development and Training

The bank cultivates a culture of learning and invests in professional and management training to empower its employees and managers. Most of the bank's professional and management training is conducted through the Poalim Campus. The Campus serves as the central arena for change-generating learning, leading to personal, organizational, and professional growth, with the goal of ensuring professional and managerial excellence for the bank's employees and managers. The Campus contains the Banking School, the Personal and Managerial Leadership Center, the Learning Solutions Development Unit, the Banking Portal and Intra-organizational Communications Unit, and the Organizational Development Unit.

The Campus serves the combined goals of fulfilling employees' desire to learn and develop and the bank's need for high-quality workers, and promotes an organization-wide culture of ongoing learning. This learning-oriented approach emphasizes the ambition to decentralize learning to the regional administrations, and further, to the branches and to each employee's workstation. The Campus is a key partner in a range of strategic processes at the bank, from the initial stage of examining needs, through the development of training methods, team development, and implementation of changes, to testing their effectiveness after implementation. During process development, the Campus uses all of the tools at its disposal, integrating a range of methods, such as online learning, use of videos and simulations, use of the portal, and frontal instruction.

The Campus routinely assesses the effectiveness of its courses and development programs, field training programs, and training sessions within

systemic projects. The assessments are conducted using questionnaires administered at the midpoint and end of the course, aimed at measuring and evaluating the effectiveness of learning processes. Several key performance indicators (KPIs) are established within this process, such as attainment of objectives, feasibility, satisfaction, personal/professional development, and connection. The average KPI score serves as an index of the general effectiveness of the course. Another measurement is performed sometime after the course, to evaluate absorption and implementation of the knowledge and skills learned in training, and the extent of change in the employee's behavior following participation in the program.

This post-completion evaluation makes it possible to assess the extent of support received by the employee in implementing the skills, tools, and processes learned during training, and the main barriers to such implementation and absorption. This feedback enables the Campus to improve the quality and precision of its training programs. The Campus also works to map employees' knowledge gaps, with the aim of identifying the main areas of missing professional knowledge and designing focused training programs to close the gaps. An ongoing process of mapping knowledge gaps is conducted at the bank.

In addition to the activity of the Poalim Campus, several of the bank's units conduct on-the-job training processes and other internal training activities designed to impart specific professional knowledge relevant to the unit and improve employees' capability and performance. These training activities are conducted at the following units:

■ **Central back offices** – The central back offices conduct basic training for all new employees, to familiarize them

with the range of activities performed at the centers and impart basic knowledge. Advanced training for experienced employees is designed to create specialization in specific knowledge areas. In addition, brief professional training sessions are conducted each year for all employees, to refresh professional content and teach skills needed to work with new software;

■ **Poalim by Telephone** – in 2016, call center team managers who underwent designated training, conducted mentoring and teaching.

Poalim Campus 2016

The activities held at the Campus in 2016 included the following:

■ **Digital Empowerment** – the Retail Division, in collaboration with Poalim Campus and the Poalim for Organizational Excellence unit, initiated a digital empowerment drive for branch workers. The drive included a behavioral workshop with the aim of dispelling employees' fears of the digital domain, emphasis on the role and value provided by bankers to customers in an era in which many transactions are performed digitally. The main aim was to teach and train all employees to perform transactions on the website and app. The employees' familiarity with the direct channels is a means to provide guidance to customers arriving at the branches on how to perform transactions digitally and understand the value of using the digital domain to save time and money to customers;

■ **MOOC (massive open online course)** – during 2016, 278 employees and managers of the Bank studied online courses at prestigious universities abroad - MOOC, the most advanced digital courses in the world. The subjects that were taught are future professions.

235

Course evaluations – Performed in 235 course sessions, with 4,200 employees participating

92%

Participant satisfaction – 92% of participants rated their satisfaction with the training as high or very high

90%

Achievement of KPIs (effectiveness evaluation) – 90% of participants rated achievement of these objectives as high or very high

127

127 computer-based learning modules were given during 2016 to 17 types of professionals at the bank's divisions;

1,200

As part of the Digital Empowerment project, more than 1,200 employees participated in day-long training seminars on digital culture (getting started, finding information on Google, digital culture and online learning) and over 1,400 employees participated in training programs at the branches.

7,000

7,000 employees participated in professional training seminars as part of Campus in the Field – learning kits and workshops in various fields, taught in a regional classroom and/or at a branch, by an expert in the field or a field instructor.

■ **Poalim for Recovery** – after having implemented Poalim for Recovery in the private departments during 2015, training programs were developed in 2016 to continue the move in the business and private departments. The program focuses on the financial recovery of customers using a variety of advanced processes and tools;
■ **Campus in the Field** – 2016 was characterized by the continued transitioning to learning at the units, with full support from the Poalim Campus in the development of learning materials. Computer-based learning on the learning system continues to serve as the key component in maintaining employees'

professional skills. A total number of 100,000 teaching hours – computerized and frontal – were provided;
■ **High-Tech bankers** – This year as well, Poalim Campus developed new courses – in collaboration with the Retail Banking Division – aimed at offering different, innovative service to high-tech customers;
■ **Digital branches** – At these branches, customers are expected to perform all actions available in digital form independently; bankers, on the other hand, are expected to provide added value at significant milestones in the customer's financial life. Bankers carefully selected for the digital branches completed an innovative course involving

extensive digital learning. Most of the training was conducted via tablet, like the work at the branch. In addition to extensive banking knowledge, the bankers also received instruction on financial education, enabling them to hold dialogue with greater added value with their customers;
■ **Investment advisors** – in 2016, several executive courses were held, training employees to serve as investment advisors, in two cycles – a practical advisors' course and preparation for the Securities Authority's exams. A pension advisors' course for retirement planning was held, in which pension advisors were trained to conduct conversations

on retirement planning, with the aim of reviewing the customers' financial resources;

■ **Senior executives' courses** – as part of the professional development of employees, seven courses were held in 2016 in various banking fields

(personal, private, business, Mishkan and headquarters);

■ **Team leadership** – Implementation of this program at the units of the bank continued during 2016. 44 executives participated in the program, with emphasis on team management, the empowerment of

individuals, development, and leveraging team capabilities.

■ **Afternoon Campus** – in 2016, new enrichment courses were launched: coaching, photography, website development and NLP. All courses provide certificates.

Annual training activities - 2016

49,776

Total days of learning (including subsidiaries and external personnel)

590

Number of course sessions at the Campus

72%

Percentage of position-specific training programs* / professional training**

46,276

Days of learning (bank employees only)

28%

Percentage of managerial/behavioral training programs***

42.5

Average hours of learning per employee

37%/63%
men women****

Training programs by gender

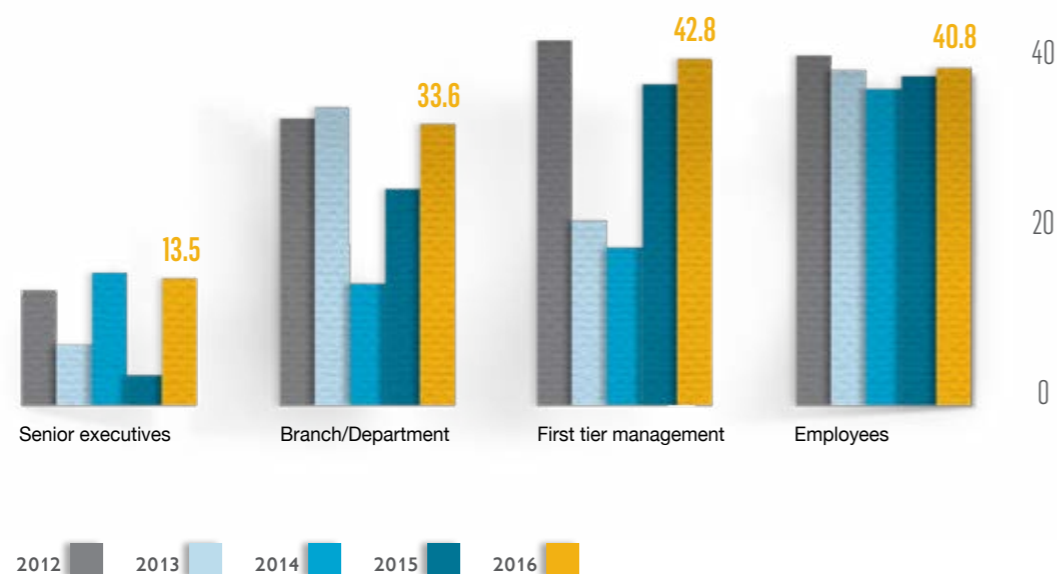
* Including infrastructure courses and senior executives' courses.

** Including training sessions such as banking coaching days, courses on information systems, and professional banking courses that do not constitute job training.

*** Including coaching days, executive development programs, and afternoon Campus courses.

**** The segmentation of training by gender indicates almost full correlation between these data and the general proportions of women and men at the bank.

**Poalim Campus Activity -
Average Number of learning Hours Per Employee**



LOOKING AHEAD

Training center for customers and the public – as part of organizational changes decided on by the bank's management during 2016, a new division was established – a stakeholder relations division, with the campus serving as part of it. Based on the new strategy of 'shared value' – it was decided to establish a training center for educating customers and the public, as part of the Poalim Campus. The purpose of the new center is to provide tools to customers and the public for financially beneficial conduct in significant milestones of life and as a matter of routine. The value propositions will be provided on a variety of platforms – frontal and digital. The new activity is a significant element in establishing the value of Financial Freedom, a key value in the bank's vision.

Instilling values and the concept of Shared Value among the bank's employees and executives through innovative executive management programs, incorporating the topic in Poalim Campus courses and in designated day-long training seminars;

Development of the Branch Managers' Community Leaders' program" – mapping the community in each branch's vicinity, to create shared-value initiatives.

Promoting Appropriate Work Environments

Insurance Policies, Funds, and Benefits for Employees

Bank Hapoalim pays wages to its employees in accordance with personal or collective employment contracts signed with each employee. In addition to wages, employees enjoy a wide range of benefits, under agreements with the employee union and pursuant to their personal contracts, as relevant. Employees receive comprehensive insurance coverage, including pension insurance (starting on the first day of employment at the bank), disability insurance, life insurance, personal accident insurance, health insurance, and dental insurance. In addition to the insurance coverage described above, additional safety nets are available to employees during times of crisis:

- **The Malki Foundation** – A voluntary fund, administered as a non-profit foundation financed by employee donations, which provides financial coverage for employees in the event of serious illness or similar occurrences;
- **The Mutual Assistance Foundation** – This foundation is financed by management's budget, and is designed to assist employees who encounter financial difficulties and family or financial crises;
- **Management and employees' joint fund** – The bank manages the joint fund for management and employees, with the employee union. Employees' and management's resources are used to finance activities related to well-being and assistance for employees and retirees.

Employees are entitled to discounts on bank-account fees, subsidized loans, spreading of debts into installments, and loans tailored to personal milestones:

moving to a new home, buying a vehicle, children's weddings, and more.

Performance Rewards

The bank's remuneration policy is consistent with the directives of Amendment 20 to the Companies Law, 1999 (the "Companies Law") and with Proper Conduct of Banking Business Directive 301A, Compensation Policy at Banking Corporations ("Banking Corporation Compensation Directives"). The remuneration policy reflects the bank's ambition to compensate its employees and managers for their work and for their contribution to the bank, and to retain them over the long term, with appropriate incentives and linkage of their best interests with those of the bank and its stakeholders, in congruence with the bank's long-term goals, work plans, and policies. The remuneration policy is consistent with the bank's vision, strategy, work plans, and risk appetite and its aim is to maximize the bank's value, while emphasizing stability and the interchange between achieving returns and taking risks.

Objectives of Employees' and Executives' Remuneration Policy

- To motivate officers and senior executives to work to create long-term economic value for the bank and its stakeholders, in a manner that strengthens the correlation between remuneration and the creation of value for the bank's stakeholders. In accordance with this objective, wages for officers, executives, and employees are derived from a scale of ranks, which offers the possibility of promotion and reflects the authority and responsibility of each level in the organizational hierarchy. Part of the remuneration will be paid in share-based instruments, which will be blocked long-term. An annual bonus

(if given) based on the bank's cost of capital, and also based on personal, measurable, quantitative and qualitative performance targets, as well as on long-term plans and objectives;

- To promote a remuneration structure that prevents damage to labor relations at the bank;
- To adjust remuneration to the nature of activity, responsibilities, and skills of employees and managers, such that remuneration is determined following consideration of the employee's education, skills, expertise, professional experience, and achievements, as well as the employee's position, areas of responsibility, and previous wage agreements. Remuneration for functions of the organization involved in supervision and control is determined based on standards which take the importance and sensitivity of these roles into consideration.

The bank is committed to providing a setting conducive to its employees' personal and professional development; the HCDC serves this purpose by creating a point of contact between the organization's needs and employees' professional ambitions

Excellence in Service to Employees

The Mashab Personal Service Center serves as the centralized destination for employees' and managers' queries on various matters related to human resources, aimed at improving satisfaction and strengthening connections. Mashab was established with the aim of bringing human-resource services to the next level, and provides service to all employees and managers of the bank. Mashab consists of three functions:

- **A service center for online and telephone queries from employees** and business partners on matters related to human resources, including an operational system to support work processes derived from queries on matters related to human resources, in areas such as attendance, maternity leave, unpaid leave, employee loans, monitoring of missing data on employees, employment certifications, visas, eligibility for mobile phones, cafeteria points, daily expense allowances, and more;
- **Social support center for employees in crisis** – assistance, care, and advice; information, mediation, and help exercising rights within the bank or in the community, for personal or family issues such as care for elderly parents, care for children with special needs, parenting guidance, health problems, bereavement and coping with grief, communicating with occupational doctors, work-related crises, preparation for retirement, coping with emergencies, and more.
- **loans for employee**– The Elah (Bank Employees' Credit) system, available to employees in recent years, offers loans to eligible employees of the bank through a quick, simple, user-friendly procedure on the bank's website. The hotline for contractor workers employed on the premises of the bank operated routinely

(for data on queries by contractor workers, see the "Supply Chain" subsection in the "Community" chapter). Four workshops on financial knowledge for employees and their spouses were held free of charge again in 2016. Options for self-service online applications were expanded in various areas of human resources (such as supplements for work hours missed due to pregnancy, job-related travel reports, and more).

Creating an Organizational Map at the Human Capital Development Center

The bank is committed to providing a setting conducive to its employees' personal and professional development; the HCDC serves this purpose by creating a point of contact between the organization's needs and employees' professional ambitions. To realize this philosophy and foster employee growth, development, and empowerment, the HCDC provides a comprehensive, current operational status snapshot of capabilities and skills, while advancing employees through individual instruction and occupation changes. Hundreds of employee's experience mobility each year at Bank Hapoalim, as they are assigned to new positions or promoted. Employee mobility takes place within a supportive, values-driven work environment that encourages workers to enrich their knowledge and experience, in congruence with the business needs of the bank. In addition to mobility processes, the Human Capital Development Center (HCDC) handles hiring of new employees, through a range of different hiring tracks.

Several processes took place at the Human Capital Development Center (HCDC) during 2016, in the spirit of organizational innovation. In the area of recruitment, innovative screening and diagnostic tools

were used to hire employees, such as upgrading recruitment resources, video interviews, computerized tests within the organization, shortened recruitment process, advertising on social networks, compensation for referrals, sending a digital onboarding brochure, improving the onboarding of bank tellers, bonuses for bankers, improving remuneration more.

In addition, a continued emphasis was placed on diversifying human capital and, so far, about 60 employees from diverse population groups were hired for banking positions at the branches and call center, as well as positions at headquarters. As part of the hiring process, welcome conferences, satisfaction surveys and orientation days were held for new employees, to strengthen their connection with the organization. In the area of employee retention, professional conferences were held for specific target groups: employees receiving tenure at the bank, a conference for graduates of the management training program with one year's experience, and a conference for employees working for ten years at the bank.

A new service launched for employee development and empowerment: Career Tip enables employees to consult with senior executives at the bank on development and career questions. Employees experiencing transitions to different units and positions within the bank were given individual guidance by a staffing coordinator at the HCDC, including face-to-face meetings, individual preparation for professional interviews, interview tracking, support, and advice, until the staffing process was complete, with full absorption at the new unit. Departing employees met face-to-face with a human-resources representative and received an aid package including career advice and job-search guidance.

45,000

Mashab queries

45,000 queries to Mashab were documented in 2016, from 9,800 employees. During the year, Mashab complied with an SLA of responding to 91% of contacts by the end of the following business day. Since the establishment of Mashab in 2010, over 318,000 queries have been made by 16,000 employees and retirees;

An Ergonomic Work Environment

One of the many facets of caring for employees is to ensure a healthy, appropriate work environment. This is achieved through ergonomics. Information on ergonomics is accessible to employees on a page dedicated to this subject in the CSR section of the organizational portal. The page contains professional information and rules for working correctly in an office environment, such as how to sit, how to adjust chairs, how to use accessories, etc., as well as instruction on exercises during work, answers to frequently asked questions, and more.

Promoting Healthy Lifestyles

The bank allocates resources to activities that promote healthy lifestyles, such as subsidized medical testing; lectures on healthy lifestyles, good nutrition, and exercise; organizing and coaching a wide variety of sports teams for employees, and participation in sports competitions for workplaces; workshops on quitting smoking; and more. The bank also offers employees and their families assistance with the cost of membership at sports and fitness clubs, comprehensive health insurance, organized walks, and more.

Poalim Health

This joint effort by the Stakeholders' Division, COO, Human Resources and

Logistics Division and the Employee Union – aimed at promoting healthy lifestyles for employees – is an additional significant step towards expansion of the range of activities at the bank among the employees and their families. This activity continued in 2016. Activities during the year included:

- **TRX workshops** for employees across the country – more than 450 people took part;
- **Subsidies for sporting events** – participation of employees in subsidized sporting events: walks, marathons, cycling events, the Wheels of Hope race;
- **Good nutrition** – a ten-session workshop on good nutrition was held for employees in the Campus;
- **Poalim Health on the international portal** – the Poalim Health zone was launched on the organizational portal for overseas branches and subsidiaries, with relevant content in English, including tips, articles, and recommendations.

Caring for Employees during Organizational Changes

As a dynamic business organization in a competitive environment, the bank carries out organizational changes and adjustments that sometimes take several months. Such changes are communicated to and coordinated with the various stakeholders. In some cases, not only do

units undergo change, but employees are also reassigned to different positions. In these situations, the appropriate training and instruction are provided in order to prepare the employees for their new roles, and support is offered through all stages of the transition and absorption. Under the bank's labor constitution, in all cases of transfer of employees to a different position, the employee must be given at least one month's advance notice. Caring for employees involves ensuring that the conditions of their employment are not impaired as a result of the change.

Employee Union

The Employee Union is first and foremost a strategic partner and a key stakeholder. The work of the management with the Employee Union follows a pattern of ongoing dialogue (updates, feedback, and consultations) and partnership in all key actions and processes in the day-to-day running of the bank. The roles fulfilled by the Employee Union include protecting every employee's rights and obligations; developing cultural, instructional, and social activities; and organizing mutual assistance among employees. The numerous activities of the union for the wellbeing of employees include summer day camps for employees' children across Israel, reduced-price or subsidized tickets to cultural and entertainment events, discounts on hotels and vacations, holiday gifts and gifts for personal occasions, various types of insurance for employees and their families, medical examinations, aid funds, assistance for families in mourning, assistance during crises, and more. The national union heads the pyramid of local unions, which are organized into regional unions. Branch managers in each region have a regional union as well as representation in the national union.

The national union consists of representatives of the regions (including branches and the head office), with representation proportional to the size of the region. The national union operates on the basis of association articles, accessible to all employees in a dedicated section of the organization's web portal.

Outstanding employees
 The selection of outstanding employees expresses management's appreciation for these employees' contribution to the accomplishments of the bank. Outstanding employees are chosen for their skills and for a combination of qualities based on a range of criteria, such as striving for excellence, colleague relationships, teamwork, and more.

Examining Achievement of Objectives

2016 Objectives	Status
The expansion of the Elah system to additional types of loans available to eligible employees will continue during 2016;	In process.
A program for caring for employees who are sick will be implemented during 2016, and the well-being program will be expanded;	Completed.
Medical examinations for employees over the age of 30 are planned to continue during 2016;	Completed.
Workshops on quitting smoking and ergonomic consultations will continue in 2016;	Ergonomics consultation has been provided. The Smoking cessation workshops were postponed to 2017.
Continued encouragement of physical exercise – TRX exercise groups for employees will open throughout Israel;	Over 400 employee's had participated .
Lectures on various health-related subjects will be offered to employees during the year; articles and tips on health will be added to the dedicated page of the portal.	Completed.

LOOKING AHEAD

During 2017, the bank will complete the computing process of further loans to be made available to employees of the bank;

In the next two years, a center of financial counseling will be founded for employees experiencing financial difficulties;

During 2017, the HCDC will launch a new system titled Metro – designed to fill vacancies in the bank's staff. The project will benefit the employees, managers and the organization as a whole, providing employees opportunities for transitioning within the organization and for professional development, thus increasing their satisfaction;

Yoga classes at the branches – in 2017, yoga classes will be held at the branches for employees who choose to participate. The classes will be given by professional and experienced teachers.

Caring for Employees' Whole-Person Wellbeing

Wellbeing Services

Employees of the bank benefit from an extensive array of wellbeing services in many different areas. These services provide appropriate solutions for a broad range of employee needs, from leisure activities and healthy lifestyles to enrichment for employees and their families, professional assistance in times of personal or family crisis, and more. Wellbeing services complement the wages and various benefits given to employees. Services are offered on two levels. Individuals receive improved benefits, guidance and support, and a range of available activities to improve wellbeing, strengthen their sense of belonging, and position the bank as a leading organization and employer. The bank as a whole conducts organization-wide activities, and mobilizes for employees and the community at special events.

A page in the wellbeing services section of the organizational portal, set up in collaboration with the employee union, offers employees of the bank a wide range of special offers and discounts. Employees are also offered discounts and subsidies on leisure activities, such as fitness clubs, swimming pools, subscriptions to cultural institutions, performances, theater, and more.

Another component of wellbeing services is a range of benefits offered through a joint fund of management and the employee union: gifts for holidays and special occasions, insurance plans, financial aid, and tuition aid for employees and their children.

Occupational Wellbeing

The bank supports employees in times of need, and offers assistance in response to personal, financial, and health needs,

as a reflection of the value of humanity and as a practical expression of the bank's vision. The bank's two wellbeing officers assist employees coping with distress, crisis, or change in their personal, family, or occupational life, and help them resume their routines, in situations such as prolonged illness, disability, financial distress, or bereavement. Intervention and assistance are also offered, as necessary, to employees' family members or to the surviving family of deceased employees. Any employee can request assistance directly; the service is confidential.

Work-Life Balance

The bank's management and employee union accord great importance to employees' quality of life and to the balance of work life with family and leisure life, along with employees' enrichment, empowerment, and growth. Most of the bank's employees are entitled to an annual vacation day quota higher than the amount required by law. The bank also grants additional paid leave on holidays and personal occasions, including Purim, Tisha Be'Av, May 1st, weddings, mourning and memorial days, days off to study for examinations, and more. The bank practices a shortened work week of 40.5 hours. In many positions, workday beginning and end times are flexible. Work at the branches ends in the early afternoon three days a week.

Bank employees are offered a wide range of social, cultural, and leisure activities at attractive subsidized prices, including sports-center memberships, fitness clubs, swimming pools, hikes and walks, subscriptions to cultural institutions throughout Israel, theater performances in Tel Aviv, the Good Movie Club, and short vacations.

Life Cycle Workshops

The bank is committed to being a family-friendly employer, and therefore offers employees support in their family roles and duties as parents of children, children of aging parents, spouses, and more. In this context, the bank offers life-cycle workshops, such as a parental authority workshop, defensive driving classes, couples' workshops, language courses, coaching workshops, mediation workshops, Adler method classes for parents of adolescents, and more.

Promotion of Financial Freedom for Employees

The drive to instill the bank's financial freedom philosophy among its stakeholders and the concern for employees across the life cycle encompasses the promotion of financial freedom for employees of the bank as well. This endeavor includes:

- **Coaching days on sensible financial behavior for employees of the bank –**
 The bank has held dozens of coaching days for employees, with the aim of raising awareness of this issue and of its importance, providing knowledge and tools to improve financial conduct, and expanding the circle of employees who participate in activities aimed at promoting financial freedom at the bank. The coaching sessions focus on misguided financial habits, procrastination, responsible family communication, budget management, and the development of personal responsibility and engagement. In 2016, more than 100 employees participated in such coaching days;
- **Financial planning workshops –**
 Financial planning workshops are offered to employees of the bank, consisting of 3 sessions, including two individual guidance sessions and instructional meetings, as well as a lecture on

pensions by the bank's pension advisors. The goal of the workshops is to spark behavioral and financial changes while imparting knowledge and tools for better financial management. The workshops cover content including examination of the existing financial situation and issues to resolve, budget and expense management, identifying and addressing financial threats with the potential to disrupt the process, and more. Over 300 employees of the bank have participated in the workshops. Participants' feedback indicates high levels of satisfaction with the content, the coaches, and the behavioral changes achieved;

Financial Freedom Week campaign on the organizational portal

The Marketing Administration, in collaboration with the Poalim Campus, held a week-long campaign to encourage financial freedom in February 2016, during which extensive information was provided, daily tips were posted, a behavioral survey was conducted, an organizational game – including a 3D Dan The Saver game for the employees was held, special activities were conducted, tools for improving financial conduct were promoted, and training was provided by volunteers from among the bank's employees, and more. The campaign focused on awareness needed to change behavior on the path towards financial freedom, budget management, financial conduct in families and with children, smart consumerism, savings, and pensions. Employees were invited to participate actively by suggesting tips and responding to the surveys. The level of response to the campaign was high.

Learning Hour for employees of the bank

The Poalim Campus produced a one-hour learning kit on financial freedom for bank employees. The Learning Hour presents a series of everyday events that raise questions for discussion and shared thinking about optimal financial conduct. This activity is

supported by a targeted content area on the portal, where learning experiences can be shared.

Proper financial conduct toolkit – a kit that includes a presentation and video offers employees ways to improve their financial conduct, using digital tools and websites, and smart consumerism applications, offered to employees through the enterprise portal;

Communication of activities to employees – The Financial Freedom Newsletter has been distributed on a quarterly basis since the beginning of 2014, in two versions: one for the members of the bank's internal Financial Freedom Forum and the senior management tier of the bank, and a corresponding slightly abridged format for stakeholders in the public, social, and business arenas involved in the bank's efforts to promote financial literacy in Israel. The newsletter provides a venue to communicate the extensive activities conducted by the bank's partners and to transmit important information regarding developments in this field in Israel and worldwide. In addition, pay slips attachments are distributed, and a dedicated content area in the bank portal is updated periodically. In addition, in the past two years, the bank has been distributing to its employees, as attachment to their pay slips, messages and tips for proper financial conduct.

Employee guidance and mentoring – Approximately 30 bank employee volunteers were trained during 2016 to mentor employees who are experiencing difficulties in managing their household budgets, over a six-month period.

Individual training passed on to customers – The Poalim Campus added a financial education learning module to the digital branch banker course, aimed at providing these bankers with the capability to conduct a high-quality session with added value for their customers. Inclusion of this module in

additional courses in the area of personal banking is being considered.

Poalim Service Center

The Poalim Service Center offers a unique package of services to bank employees and their families, 24 hours a day. Among other matters, the center helps employees contact the police in cases of home burglaries, tows cars after accidents, and provides initial assistance and references to the appropriate professionals for malfunctions of household systems.

Preparing for Retirement and Keeping in Touch with Retirees

The bank's obligations in respect of retirement plans, compensation, and pensions are fully covered by pension plan assets. The bank cares for employees and employees' spouses approaching retirement age by offering preparatory courses and workshops regarding retirement, and maintains continuous contact with retirees. This includes support, financing, and cooperation with the retiree union, which organizes trips and leisure activities and arranges monetary assistance in times of need.

As part of a multi-year plan (for 2017-2020), preparations are being made for the voluntary retirement of about 1,500 employees. As part of the implementation of this plan, the bank's management and board of directors – in coordination with the workers' committee – developed and approved an early retirement plan – if agreed on by both the employee and the bank – which provides an opportunity for retirement under exceptionally good terms, including the possibility of retiring three years earlier than the scheduled retirement time, an option that is relevant to employees currently aged 53 to 56. The bank provides professional consulting services to help the employees make a decision that best suits them and their families. Pensions are paid on completion of the work at the bank until the legal retirement age.

Ergonomics training

to preserve the employees' health during their daily work, the bank hired an ergonomic consultant who guides employees on sitting properly at the computer and improving the work environment, thereby reducing neck, back, elbow, head and eyes pain

Caring for aging parents

Caring for aging parents: The CSR Division of the bank and the Occupational Well-Being Unit offer employees comprehensive information to assist with the complex responsibilities involved in caring for aging parents. This information is presented in a dedicated zone of the portal, to help employees gain a better understanding of the subject and suggest practical tools for making the right decisions, saving time and resources, and most importantly, to aid them in providing their parents with the best possible care

Absence data 2016 (Days of absence)

Type	*Sick days	**Vacation	Reserve duty	Sum
Days of absence	116,849	209,167	2,802.5	328,818.5

* Includes reported sick days and illness of a family members.

** Does not include unpaid leave and maternity leave.

Examining Achievement of Objectives

2016 Objectives	Status
A campaign to promote financial freedom will be held for employees in February 2016, including special activities at the Poalim Campus, training sessions, and events.	Completed.
A 3D Dan the Saver game for employees will be launched and installed at central locations in bank buildings, to encourage smart consumerism and to raise awareness.	Completed.

LOOKING AHEAD

Continue distributing the attachments to the employees' pay slips containing tips and targets for each month;

Launch a new and experience-based training kit for elementary school children for the employees' "enriching parent" activity;

A campaign to promote financial freedom will be held for employees in 2017, including special activities at the Poalim Campus, training sessions, and tips on proper financial conduct;

In 2017, the early retirement plan will continue.

LIVING WITH THE ENVIRONMENT



Setting Environmental Policy

In recognition of the bank's social responsibility and the importance of sustainable environmental policies, Bank Hapoalim has formulated a comprehensive, formalized policy in this area. The policy was delineated by professional bodies and constitutes an integral part of the bank's strategy:

- The bank views environmental protection as a social value, managed as an integral component of its social responsibility;
- The bank recognizes that natural resources are an asset belonging to the public, the community, and future generations, in accordance with the principle of sustainable development;
- The bank seeks to achieve the proper balance between economic development and environmental protection in its business decisions;
- The bank complies with environmental regulations and laws, and adheres to the directives of environmental protection organizations;
- The bank diligently endeavors to prevent environmental damage;
- The bank is committed to managing its environmental impact in a manner that ensures continual improvement, by setting measurable targets and monitoring the achievement of its objectives;

- The bank will continually measure its impact on the environment, and will strive to understand ecological consequences and make decisions accordingly;
- The bank will collaborate with other companies and public entities to promote environmental causes;
- The bank will work to assimilate environmental education among its employees, and will initiate and participate in community projects.

The bank recognizes the added value associated with the implementation of this environmental policy, on two main levels:

- The integration of environmental values with the economic values of efficient use of logistical resources, creates shared value for the profit line of the bank's financial statements and for the environment;
- A policy of environmental responsibility makes it possible to improve the work environment, contributing to better quality of life for employees at work and higher workplace satisfaction.

The bank's environmental policy is presented on its website.

From Consumption Management to Resource Management

The bank views consumable materials as resources to be managed from an environmental and business perspective, rather than as an inevitable but undesirable component of its routine expenses. Consequently, key environmental resources consumed by the bank are managed according to the following parameters:

- Creation of a measurement infrastructure allowing monitoring of trends and identification of areas needing improvement;
- Establishment of a multi-year comprehensive work plan;
- Validation of forecasts from the planning stage and analyses of variance in performance for learning purposes;
- Implementation of initiatives aimed at increasing efficiency;
- Partnership with employees, internal professional functions, and external stakeholders in the implementation of localized initiatives and formal work plans;
- Examination of environmental effects throughout the life cycle of the resource, taking all types of impact into consideration (pollution, global warming, resource scarcity, etc.).

The bank involves its employees in this process through internal changes in environmental practices, as well as through the attempt to maximize the impact of all of its environmental efforts in the hope that its employees, who with their families number in the tens of thousands, will become agents of change in their own communities. Towards that end, the bank strives to supply its employees and their families with information and tools designed to able more environment friendly behavior, in driving, recycling, saving energy, and more. This effort expands the bank's sphere of influence, so that its environmental impact expands from the internal environment of the bank to the external public arena.

This section extensively reviews the bank's material environmental impacts (energy consumption and paper use), as well as the reduction of its additional environmental impacts by various means. This approach is implemented through the bank's environmental management system, which was certified under the international management standard ISO 14001 during 2012. Bank Hapoalim is the first financial institution in Israel to attain organization-wide certification under this

standard. In late 2015, the bank renewed its documentation for the standard, so that it is now in effect until 2018. Bank Hapoalim also takes responsibility for the indirect environmental impact of banking products. The Clients chapter discusses these environmental effects, with an emphasis on services and products that promote sustainable development and generate environmental value for the economy and the general public, while also maximizing financial value for the bank's customers.

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Power Consumption Management and Energy Efficiency

Electrical power is a key resource used at the bank. The basic assumption is that in enterprises that operate in an office setting, just as in industrial operations, electricity should not be seen as an uncontrollable expense or as a necessary evil. Electricity should be managed as a resource, with rigorous analysis of power consumption over the course of the day, week, and year, and with comparisons among buildings.

The central principle in efficient management of electricity consumption by offices is coordinated timing of air conditioning and lighting systems and of computer operation, according to employee presence, to the extent possible. The collection and analysis of as much data as possible allows organizations to identify excessive consumption and find the optimal solution. Virtually all of the energy

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consumed at Bank Hapoalim comes in the form of electricity (with the exception of fuel consumption) which is supplied by the Israel Electric Corporation. There are no additional suppliers of energy for the bank which produce energy from renewable sources.

During 2014, the bank began to receive electricity from Dorad, a natural-gas-based power supplier. Dorad supplies electricity to the bank's head-office buildings and large branches. Between the years 2015-2016, the percentage of the bank's power consumption sourced from Dorad increased to over half of the annual total consumption. The transition to Dorad has lowered the bank's energy costs and reduced the environmental impact of its power consumption.

Energy Efficiency

Command and Control Systems

The bank uses computerized command and control systems to monitor and control all of its energy consumption; these systems provide alerts of significant problems, and control consumption of air conditioning and lighting based on the presence of employees and customers in each building. The systems have been installed at all of the bank's facilities, and are operated based on a fixed regime according to work hours at each branch or building. The systems were installed at all new branches opened during 2015.

Installation of Efficient Air Conditioning Systems

The bank is installing new chillers with a higher COP (coefficient of performance), as well as VRF (variable refrigerant flow) air-conditioning systems, which will lead to savings of about 38% on energy and maintenance costs (20% of the savings are in power consumption), relative to other systems, for replacements and

installations. The process of replacing the air-conditioning systems (chillers) at the bank's head-office buildings and the VRF systems at the branches continued during 2016. Every year the bank is installing 15 new VRF systems

Pilot for the installation of sheets with a bio-thermal energy storage solution

In 2015, as part of its efforts to increase efficiency, the bank examined an innovative energy-saving solution by installing energy-saving light-weight sheets on a branch's ceiling. The bio thermal sheets preserve room temperatures at the branch and maintain the cool air-conditioning temperature even when the front doors open and close. Thus, savings of about 20-30% in air-conditioning costs are achieved. The pilot was conducted in 2015 at the Rosh HaAyin branch. As of 2016 year-end, the sheets were installed at six branches. The results of comparing similar periods during the year in terms of the air-conditioning consumption at the same branches show savings of at least 20% in electricity consumption.

Switching to energy-efficient lighting

As part of the ongoing multi-year process for installing energy-efficient lighting in the bank's buildings, the lighting at the six-story Rubinstein Building (the bank's headquarters building) was converted into LED lighting. Each floor is 2,000 square meters in size. The process is expected to continue in 2017.

The bank maintains a power consumption database, which is routinely updated to reflect structural changes in the bank's properties as a result of addition, closure, rental, or change in designation. The database enables the bank to examine the monthly and annual consumption patterns of each property, compare it to buildings of similar size and designation at the bank, and compare multi-year trends in consumption per square meter and per employee

Green IT

The bank also works to achieve energy saving and efficiency by thoroughly examining the possibilities for green information technologies at its branches and offices. Energy efficiency is one of the parameters in the procurement tenders for IT equipment. Equipment with more efficient power usage earns added points in IT tenders, motivating bidders to supply more advanced equipment. In addition, the hardware and communications division does not rely on manufacturers' information only regarding the performance of the various components, and running the necessary tests on server hardware and software, printers, and peripheral equipment at a laboratory set up for that purpose. The tests allow for products to be examined in greater depth, and serve as a preliminary stage to pilots in the field to generate more reliable forecasts. In 2013, the bank completed the project of converting physical servers to servers based on virtual consolidation technology. The servers allow savings on power consumption for cooling, optimal utilization of server resources, reduced maintenance, and savings on physical space. Main activities carried out during 2016 in the area of green IT:

■ **Transition to printing centers and double-sided printers** – The bank is gradually replacing desktop and department printers, fax machines, scanners, and photocopiers with integrated devices, operated using an employee card reader, with double-sided printing capabilities. Printing centers lead to savings of about 40% on paper consumption at the bank's

headquarters units, and reduce toner consumption. The installation will progress over the course of 2014-2015, and is expected to lead to annual savings of approximately 11 million pages (about 40% of current consumption) as well as significant financial savings;

■ **IP telephony** - The bank is gradually transitioning its landline communications to an IPT system. The transition enhances landline communications management by allowing digital management through a centralized computer system. This connection eliminates the need for local switchboards at each branch and allows internal calls between system users to be performed free of charge, without using the Bezeq network. In addition, the phones allow users to dial through their computers and to access a directory of all telephone numbers in the organization. The transition to an IP switchboard improves the bank's control over its communication system and saves power consumption due to the elimination of local switchboards;

Additional savings on power consumption in computer use are achieved at the bank through a system that turns off personal computers at the end of the workday and through the use of a fax-to-mail / mail-to-fax application.

Management and Measurement of Power Consumption

The bank maintains a power consumption database, which is routinely updated to reflect structural changes in the bank's

properties as a result of addition, closure, rental, or change in designation. The database enables the bank to examine the monthly and annual consumption patterns of each property, compare it to buildings of similar size and designation at the bank, and compare multi-year trends in consumption per square meter and per employee. The database also makes it possible to identify trends of improvement and increased efficiency, and to locate properties with a risk of inefficiency or malfunction.

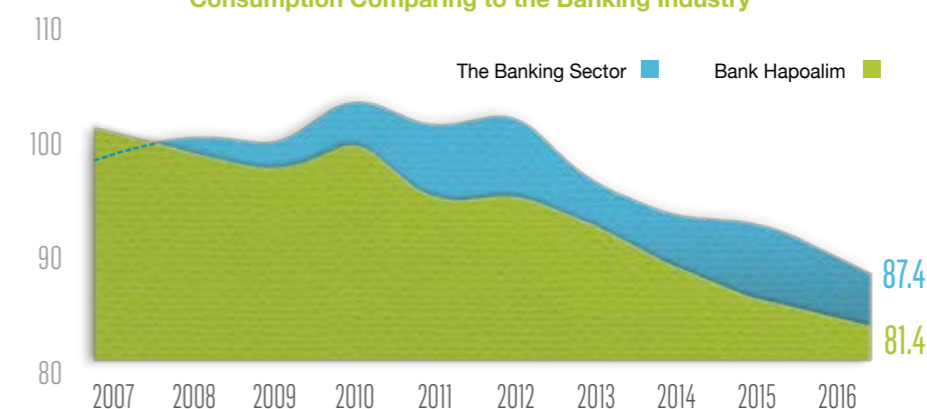
The bank's total consumption data for 2016 shows a year-on-year increase of approximately 2%. The total increase in consumption arises mainly from the power consumption by the Rotem site, where the bank's backup facility is located. The site began operating in 2015, and was partially active throughout the year; its annual consumption was 3.4 million kWh. In 2016, additional parts of the facility became operational and consumption increased significantly, reaching 6.3 million kWh and accounting for the bulk of the increase in the bank's overall consumption. When excluding the Rotem site data, the bank's power consumption decreased from 2015 to 2016 by 1.3%. In 2016, the average consumption per square meter increased by 0.8% compared to the previous year. Beyond the significance of the contribution to the environment, to power consumption, there is economic significance, which is reflected in cost savings.

Power consumption at Bank Hapoalim

	2012	2013	2014	2015	2016	Change vs. 2015
Total (Kwh)	93,600,417	90,616,904	86,567,004	84,579,103	86,388,184	2%
Total (GJ)	336,962	326,221	311,641	304,485	310,997	2%
Bank area in sq. m.	312,316	308,909	304,184	291,512	285,251	-2%
Consumption per square meter (Kwh)	299.7	294.1	284.6	*278.4	*280.7	0.8%

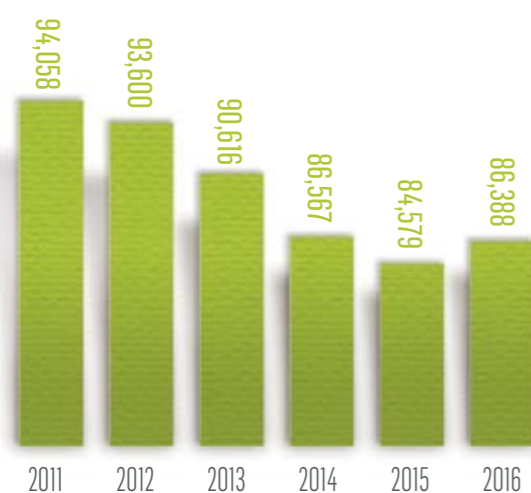
* Power consumption per square meter was calculated based on total consumption of 81,165,743 KWh. This total does not include the bank's consumption at the Rotem site (approximately 6.4 million KWh), as this site is a unique backup facility with unique consumption patterns that are not characteristic of average power usage at the bank.

Bank Hapoalim is More Efficient in Power Consumption Comparing to the Banking Industry

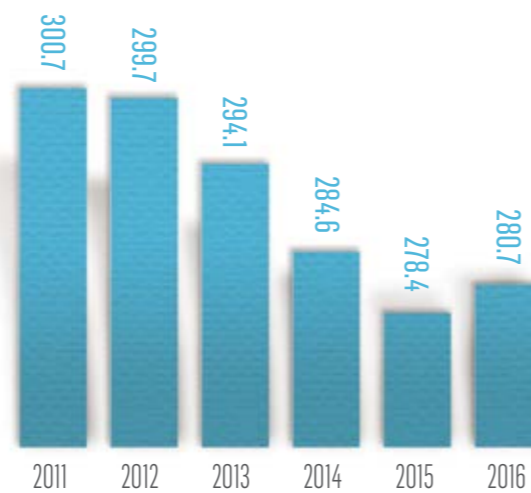


*Gadir Engineering Ltd. analyzes power consumption at business firms, among other activities. Starting in 2006, the company has issued an index of power consumption in the banking sector. The index presents the relative multi-year change in power consumption at Bank Hapoalim and at other banks; the reference point (%100) is the volume of consumption in 2006. As shown in the diagram, power consumption at the bank has grown more efficient over the last ten years. The index does not factor in changes in the area of the banks' properties or power consumption in buildings shared by the banks with other entities (branches located in shopping malls, or premises shared by banks and government agencies, other businesses, etc.).

Bank Hapoalim total power consumption (Kwh)



Power consumption per square meter (Kwh)



Examining Achievement of Objectives

2016 Objectives

Fax2Mail - Expanding the deployment to approximately 650 new users, thus reaching 2,500 users across the bank.

Pilot for the installation of sheets with a bio-thermal energy storage solution - in 2016, the bank is expected to install the sheets in additional branches.

Status

The number of users remained the same - 1,850 (due to the transfer of the application from exiting employees to new ones).

Sheets were installed at 6 branches.

LOOKING AHEAD

The Bank intends to reduce its power consumption by at least 0.5% annually, reducing its power consumption in the next five years by approximately 3%;

In 2017, the replacement of existing lighting with energy-efficient lighting at headquarters (the Rubinstein Building) is expected to be completed.

Reduction of Energy Consumption in Transportation

The direct and indirect environmental impact of Bank Hapoalim in the area of transportation is primarily fuel consumption and emissions resulting from fuel burning, derive from the bank's vehicle fleet and the internal system for transportation between branches and facilities of the bank. The bank is working to reduce its fuel consumption, and consequently to cut back air pollution, by various means. These include:

- **Limiting the vehicles chosen for the vehicle fleet to those with a pollution rating of 8** - most of the vehicles at the bank, have lower pollution ratings;
- **Conducting a dialogue with employees through the organizational portal** – publication of articles and recommendations concerning safe, efficient, careful driving;

- **Encouraging employees to commute by bicycle** – The bank encourages employees at the head office to ride bicycles to work, by providing showers and bicycle parking spots.

In 2016, the bank's fuel consumption decreased by 16%. The main reason for the decrease in consumption was the bank's use of energy-efficient vehicles (with turbocharged fuel stratified injection (TFSI) that significantly improves fuel savings. As at the writing of this report, over 50% of the bank's vehicle fleets are equipped with such engines.

16%

In 2016, the bank's fuel consumption decreased by 16%.

Bank Hapoalim vehicles Data

	2011	2012	2013	2014	2015	2016
Number of vehicles in leasing fleet	1,329	1,288	1,238	1,188	1,106	1,155
Annual fuel consumption (in liters)	3,574,235	3,440,152	3,448,047	3,537,444	3,599,730	3,021,768
Mileage in kilometers per liter (based on manufacturer data)	10.1	10.5	11	11.8	10	9.5
Number of hybrid vehicles in the fleet	23	27	22	19	22	18

Management of Paper Resources

Paper is one of the main raw materials consumed during the routine operations of the bank; as such, this resource is managed in an effort to cut back consumption and increase recycling. The drive to reduce paper consumption at the bank continued during 2016. Special attention has been devoted to fully maximizing the potential for automation of formerly paper-consuming processes. This important achievement has primarily been made possible by the Paperless Branch strategic project. The project, which has been led by the LEAN Unit at the Corporate Strategy Area since 2009, entails analysis of the bank's paper consumption and of the possibilities for reduction or elimination of forms and reports, both for internal needs and in mail to customers.

In 2016, digital signatures were further implemented in teller transactions at all of the bank's retail branches, to include most of the transactions carried out by bankers in these branches. The process saves time in terms of document filing, enables quick retrieval of documents and contributes to savings of 57.4 million pieces of paper per year

Paperless Branch

The following is an overview of the main activities carried out during 2016, as part of the project:

- **Digital signature and customer service using touch screens** - in 2016, digital signatures were further implemented in teller transactions at all of the bank's retail branches, to include most of the transactions carried out by bankers in these branches, including transactions in current accounts, administrative transactions and credit activity. When receiving face-to-face service from a banker, the customer will be presented with the details of the transaction on a touch screen and will digitally sign the form. After the transaction has been completed, the customer will receive a printed approval that the transaction has been performed or a copy will be sent to the customer's bank email box (Doar-Net/Poalim by Email). At the same time, the documents will be digitally saved in the bank's computer, rather than

saving hard copies, as was the case so far. The process saves time in terms of document filing, enables quick retrieval of documents and contributes to savings of 57.4 million pieces of paper per year (15 million in teller transactions, 34 million in additional banking transactions, and 8.4 million in electronic emailing of a copy to the transaction to the customer). The quick retrieval capability will also enable faster response times to customer inquiries that require document searches. As of the end of the year, the system was deployed at about 100 of the 240 retail branches.

- **Printing centers** - the imaging array at headquarters was reorganized - printers, photocopiers, fax machines and scanners, switching from each employee having his own individual printer to central printers in an effort to save paper, electricity, maintenance costs and toners, through secure and controlled printing. Savings of approximately 2.5 million pieces of paper per year.

196

million pages
and NIS 41 million

The various initiatives within the framework of the Paperless Branch unit result in savings of about 196 million pieces of paper, which translate to NIS 41 million annually

Mail Net

Bank Hapoalim aims to streamline and reduce mailings to customers. Under various regulatory consumer protection directives, the bank is required to send mail to its customers, at specified times, containing the details specified by law. Within this requirement, the bank is working to reduce its paper consumption. This effort includes consolidation of messages, reduction of mailings where possible, and environmental mail initiatives such as Mail Net. The Mail Net service enables registered customers to receive account notifications through the bank's website, in a mailbox linked to their online account. Every customer registered for this service contributes to average savings of 45 mailed pages annually.

Increase in Rate of Mail Net Users and Active Users of the Bank's Website



The slight decrease (about %1.7) in the number of Doar Net users in 2016 was mainly due to the opening of an additional service channel for the bank's customers - email, which enables customers to read their mail using e-mail as well.

579 thousand customers

Mail Net: 579,000 customers use this service. The number of users slightly decreased by 1.7% in 2016, relative to the end of 2015

Examining Achievement of Objectives

2016 Objectives	Status
Complete deployment of digital signature in all new areas added during the year, in all of the bank's branches;	The service was expended to approximately 90% of the branches' activities Deployment was completed in 100 out of 240 branches
Implementation of Green Accounts in the ATMs, which allow the customer to send print-outs and receipts from the transactions he carried out in the ATMs to his own email account/Doar-Net;	Consider integrating the capability into advanced devices and according to customers' needs

LOOKING AHEAD

- Complete deployment of digital signatures at all retail branches;
- Expanding digital signatures into business accounts that require a stamp;
- Automating borrowers' files - scanning and retrieving digital information about loans and collaterals for business customers;
- Reducing the amount of paper produced in the pension advice process.

42 tons

Paper consumption

Consumption at the bank decreased by 42 tons in 2016 relative to 2015, an annual decrease of 3%

9.3 tons

Cardboard recycling

9.3 tons were collected by the bank and transferred for recycling in 2016

60%

Paper consumption for internal use at the bank was down by 60% in 2016 as compared to 2007 (the baseline year); paper consumption for mail to customers decreased by 39% in the same comparison

138,000

Trees saved

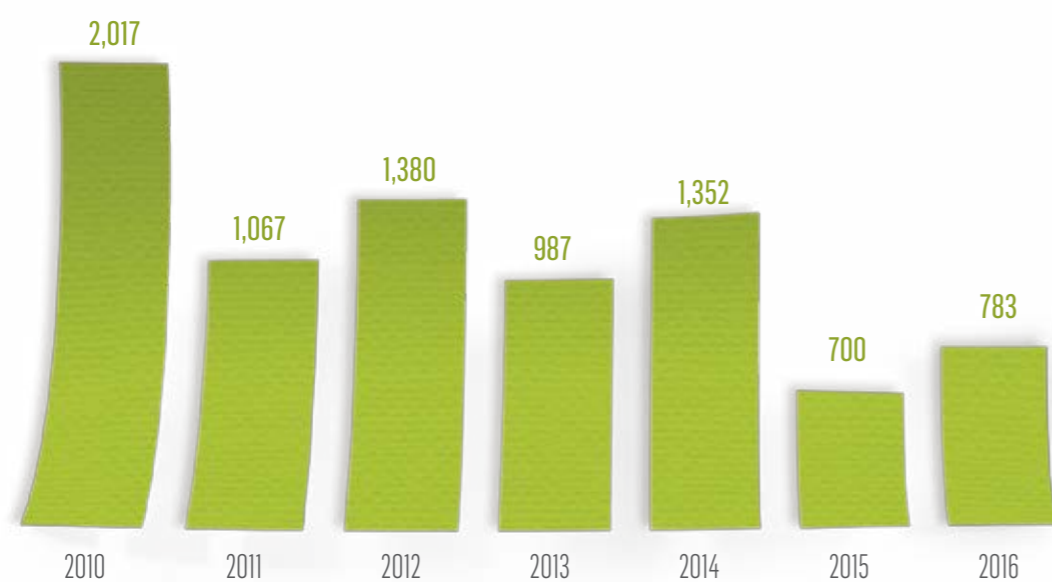
Cumulative savings in paper consumption, measured since 2007 (the baseline year), reached 9,017 tons. This figure is equivalent to preventing approximately 138,000 trees from being cut down for the paper industry



Paper Consumption at the Bank (in tons)



Collection of Paper Recycling (in tons)



Reducing Additional Environmental Impact

Production and service processes in banking have a minor direct environmental impact, as the bank's activity is essentially administrative and the service it provides to its customers is digital by nature. Nonetheless, Bank Hapoalim strives to minimize the additional environmental impact of its activity. The bank manages environmental issues systemically, based on the international standard ISO 14001. The system formalizes organized work processes in the various interfaces used at the bank for environmental management, addressing all milestones and the completion of processes. Controls are applied to ensure compliance with the requirements of the law as well as with norms in this area.

The bank involves its employees in this process both through internal changes in environmental practices and through the attempt to maximize the impact of its overall environmental activities, in the hope that its employees will become agents for change in their own right. In accordance with this worldview, the bank aspires to rigorously manage its direct environmental impact, with employee involvement whenever necessary, after the infrastructure for appropriate environmental conduct has been established. The bank engages employees in these processes, based on the philosophy that their participation is essential for success. In addition, the bank seeks to extend its influence on environmental conduct to employees' communities; with their families, the bank's employees are a force for change numbering in the tens of thousands. Towards that end, the bank strives to supply its employees and their families with information and tools to enable them to be greener, in driving, recycling, saving energy, and more.

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Promoting Green Construction

The bank has adjusted all of the purchasing specifications used for the construction of its office buildings and branches to align with green construction principles. It is important to note that a significant number of branches are located in shopping malls and commercial centers not owned by the bank, where the bank cannot alter the infrastructures of the buildings. However, the bank intends to bring as many as possible of the elements of green construction to these sites, although the properties involved may not meet accepted green construction standards. As part of this process, the bank has started to install environment-friendly carpets in several buildings. The carpets are manufactured in compliance with international environmental standards. The bank has made a decision to use environment friendly carpets in all future installations at its properties.

Construction projects carried out by the bank in 2016 used environment-friendly elements such as efficient air-conditioning units, energy-efficient lighting, shading to save energy used for air conditioning, and acoustic ceilings to prevent noise pollution.

Turning Waste into a Resource and Preventing Pollution

Environmental trends of recent years have highlighted the fact that one person's waste is another's resource. Population growth creates pressure on ecological systems, making it difficult to meet demands for natural resources such as metals, wood, water, fossil fuels, and more. In addition, without proper treatment, waste pollutes the environment and damages soil, water, and the air, while contributing to global warming. These and other insights highlight the importance of a methodical approach to the future of the materials and products that we consume, after they have been used. Bank Hapoalim mapped the types of waste generated by its operations, and subsequently examined the most environmentally beneficial methods of treating such waste:

- Reuse of a resource or of its components (either in its existing condition, or after improvement);
- Recycling of the resource by external parties, who convert it into raw material and then reinsert it into the production process;
- Responsible disposal through collection and transfer to a licensed site (prevention of environmental pollution).

The bank promotes the collection and responsible disposal of waste through the following activities, among others:

■ **Collection of electronic waste** – Bank Hapoalim strictly maintains responsible, orderly disposal of disused computer equipment. Computer equipment not suitable for donation is transferred for responsible recycling and disposal each year. All mobile devices no longer in use are returned to the supplier for responsible disposal. All other disused electronic equipment is transferred to Ecommunity, which specializes in electronic waste recycling and employs workers with disabilities. Head-office employees can bring electronic waste from their homes to the collection center at Rubinstein Towers in Tel Aviv;

■ **Responsible disposal of construction waste** – The bank includes a contract clause in its agreements with construction and renovation contractors working at its branches and buildings requiring the responsible removal of waste to a licensed facility. The aim is to fully prevent construction waste originating with the organization from reaching unlicensed sites or open fields;

■ **Collection of bottles and cans** – Systematic recycling in collaboration with the ELA recycling corporation. Refunded deposits are transferred to the unit's employee union and used to finance various social activities, donations, etc.

Instilling the Habit of Recycling at the Bank

The bank has developed a series of receptacles for waste collection and recycling at its buildings, with an emphasis on high quality and design. This effort is based on the concept of turning waste into a resource, and on the idea that design sells. The process is being conveyed to employees through intra-organizational communication, in which the bank encourages its employees to collect and recycle waste. The receptacles offer a convenient, accessible destination for removal of waste in the workplace, contributing to manufacturing and reuse processes, in addition to the reduction of environmental damage. Recycling receptacles are available for paper, electronic waste, fluorescent bulbs, bottles and cans, batteries, used clothes, and medication. The waste is collected and treated by licensed operators.

2,112

Construction waste

2,112 cubic meters of waste were removed from construction sites

2,340

Fluorescent bulbs

2,340 bulbs were collected

16,643

Ink and toner cartridges

The bank's printers and fax machines used 16,643 ink and toner cartridges

38 tons

Electronic waste

38 tons were collected and removed from the recycling receptacles at the bank

765

Batteries

765 kg were collected and removed from the bank's buildings for safe burial

104 thousand

bottles and cans

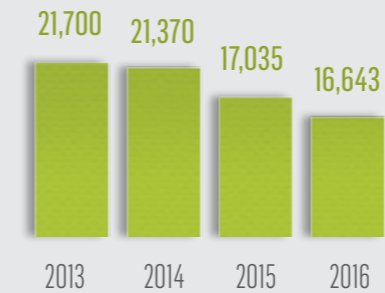
104,690 bottles and cans were collected at the bank for recycling

21

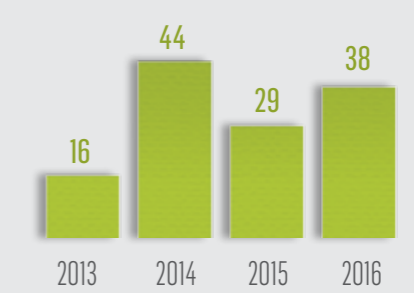
Medications sacks

21 sacks of expired medications were collected from the receptacles at the bank for proper disposal

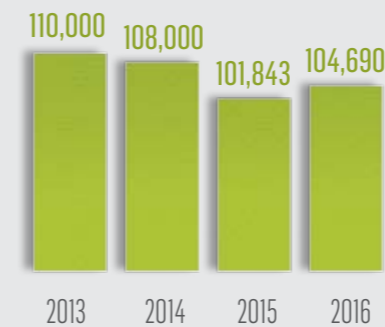
Ink and toner cartridges (units)



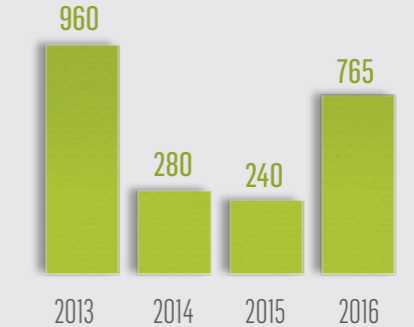
Electronic waste recycling (tons)



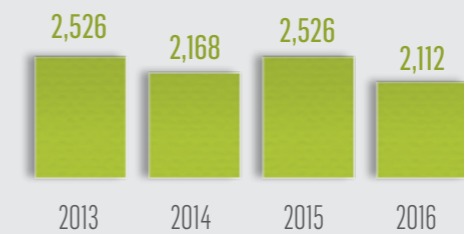
Recycling of bottles and beverage containers (units)



Battery collection (KG)



Construction waste collection (m³)



Measuring the Carbon Footprint

Bank Hapoalim recognizes the phenomenon of global climate change, and therefore monitors the key elements that contribute to greenhouse-gas emissions. In 2010, Bank Hapoalim joined the voluntary greenhouse-gas reporting system of the Ministry of Environmental Protection. Since that time the bank has reported to the recording system in accordance with the established methodology. In addition to energy consumption (electricity and transportation), the bank monitors indirect sources of emissions, such as paper production, branch construction, waste treatment, air travel by employees, and more. For a control report on annual carbon footprint data, see page 176.

Emission of Substances that Damage the Ozone Layer

The bank uses five main types of air-conditioning systems: split air conditioners, central air conditioners, VRF systems, cooling towers, and chillers. The older systems use Freon gas, which is permitted by law, but may be harmful to the ozone layer. The bank is working to replace these existing air conditioning systems with systems that use only environment-friendly gases. The air-conditioning systems of all of the bank's properties in aggregate contain between 20-30 tons of coolant gas, of which more than 85% is the environment friendly R-410a. During leak repairs and routine maintenance in 2016, the coolant gas in the air-conditioning systems was supplemented by approximately 35 kg.

61,082

Total carbon footprint of Bank Hapoalim in 2016
61,082 tons CO₂eq (including all three aggregates), a decrease of 0.7% from 2015

The carbon footprint for 2016 (61,082) tons CO₂eq) indicates a significant decrease of approximately %35 over the last two years (from 94,324 tons CO₂eq in 2013), mainly as a result of the transition to Dorad electricity, which is produced from a cleaner fuel mix, in environmental terms.

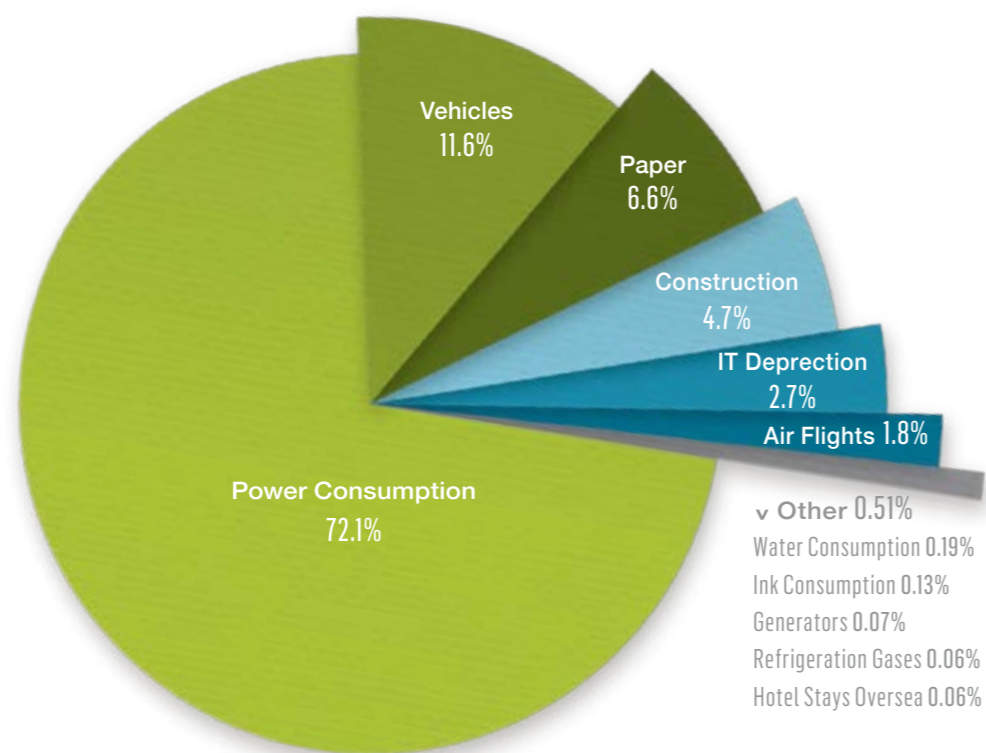
43.1%

Multi-year reduction of carbon footprint:
From 2010 to 2016, the bank reduced its carbon footprint by 43.1%

Carbon Footprint Measurement Scopes



Carbon Footprint and Relative Contribution of Elements to the Total Value



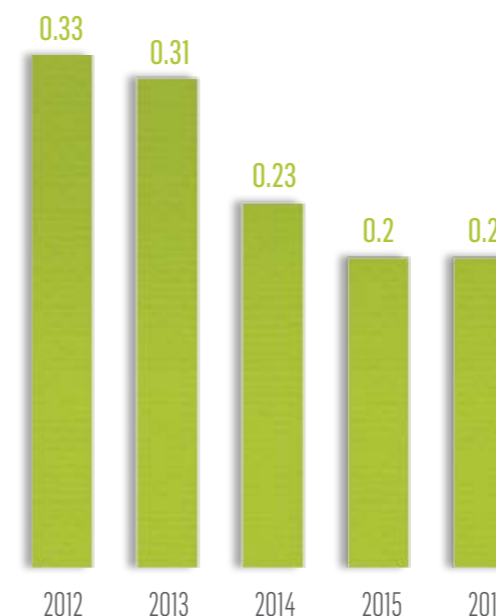
Carbon footprint data (in tons of CO2eq)

Year	2011	2012	2013	2014	2015	2016	Change vs. 2015
Total	106,593	101,696	94,362	70,632	61,511	61,082	-7.0%
Per employee	10.44	10.05	9.68	7.61	6.91	7.02	6.1%
Per square meter	0.34	0.33	0.31	0.23	*0.20	*0.20	-

*The carbon footprint per square meter does not include the bank's consumption of electricity at the Rotem site, as this site is a unique backup facility with unique consumption patterns that are not characteristic of average power usage at the bank.

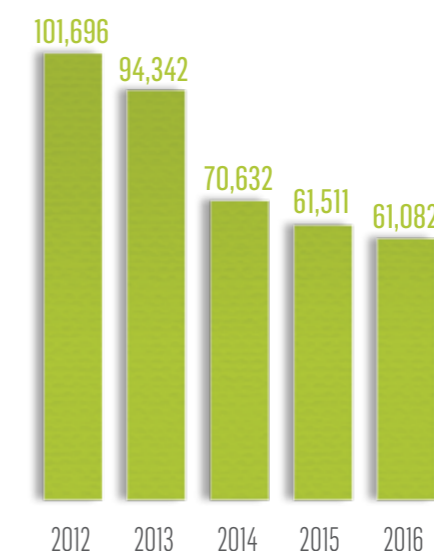
Carbon Footprint Per Square Meter

(in tons CO2eq)



Bank Hapoalim Total Carbon Footprint

(in tons CO2eq)



Examining Achievement of Objectives

2016 Objectives

The bank strives to reduce the intensity of greenhouse gas emissions resulting from its activity and has set an annual target of a 1% reduction in emissions intensity over the next four years. Furthermore, the bank strives to maintain a 0% increase in the intensity of greenhouse gas emissions resulting from its activity.

Status

The bank reduced the emissions intensity relative to the number of employees. The intensity per square meter remained the same as last year.

LOOKING AHEAD

The bank strives to reduce the intensity of its greenhouse gas emissions and has set an annual target of a 1% reduction in emissions intensity over the next five years for a total of 5%. Furthermore, the bank strives to maintain a 0% increase in the intensity of greenhouse gas emissions resulting from its activity.

CORPORATE
GOVERNANCE,
ETHICS AND
COMPLIANCE

THE BANK'S PROFILE

The bank was founded in 1921 and constitutes a "banking corporation" with a "bank" license under the provisions of the Banking Law. In 1983, as part of an arrangement between the State of Israel and the banks, the bank's shares were transferred to the control of the State. In 1997, the bank was privatized and its control was transferred to the current controlling shareholders and others.

Bank Hapoalim Group Activity in Israel

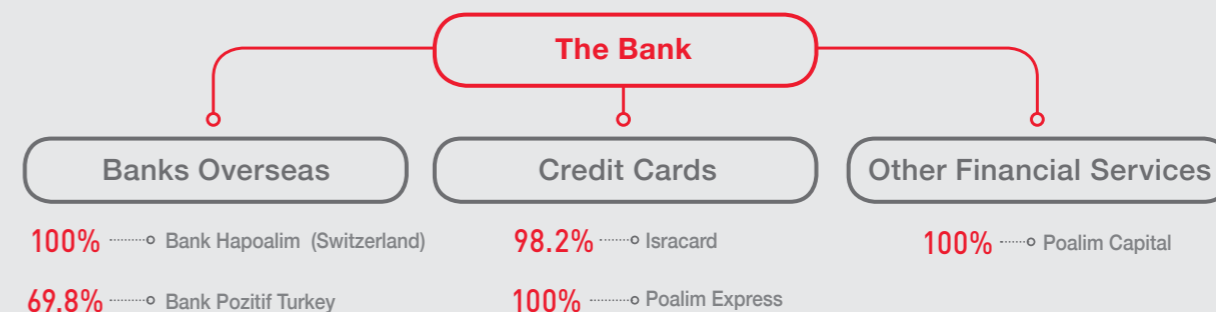
In Israel, the bank group is active in all areas of banking, through two main divisions: The Business Division serves most business customers, while the Corporate Division

operates through segments with industry expertise; in the middle market segment, the Division operates through business centers across Israel and the bank's branches, which provide operational services to the Division's customers. The Retail Division serves households, private customers, nonresidents and small businesses, among others, through 235 branches, including traditional branches and advanced digital ones - which provide the full range of banking services, along with various direct channels: Internet, mobile, Poalim by phone and widely deployed self-service machines.

In addition to its banking business, the Bank Group also engages in related activities,

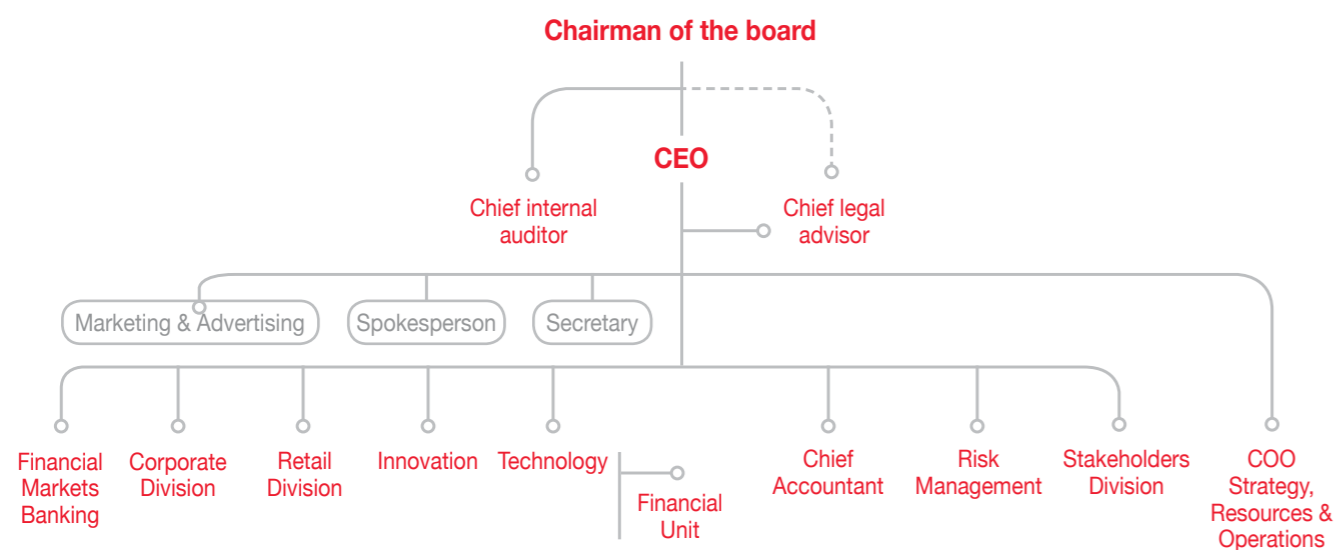
mainly in the areas of credit cards and the capital market. In the credit card sector, the Bank Group - through a subsidiary (the "Isracard Group") - issues, operates, and markets credit cards, within and outside the Bank, for use in Israel and overseas, and clears transactions executed using its credit cards as well as externally-issued cards. The Bank Group's capital-market activity includes providing services for the execution of trading transactions in securities (brokerage), securities custody services, currency trading and derivatives services, research and consulting, services for financial asset managers, investment portfolio management, investment banking and issuance underwriting and management.

Chart of the Bank's main holdings*



The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net operating profit (loss) attributed to shareholders of the Bank exceeds 5% of the net operating profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive No. 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

Organizational Structure of the Bank



The bank group's activity overseas

In addition to its activity in Israel, the bank group operates overseas - in the private and business segments - with offices across Israel, Europe and the United States. In addition, the bank group is active in the commercial domain in Turkey. As part of its private banking activity, the bank group provides its high net worth customers overseas with advanced professional services and products, which include investment products and global asset management. The bank's foreign business segment activity includes granting credit to local and foreign borrowers, inter alia, by granting credit to its customers' business operations. For some time, the bank has been reviewing its international private

banking operations, in order to adapt them to recent changes in the business and regulatory environment. As a result, the bank decided to sell its international private banking operations at the Miami branch and close its representative offices in Latin America by the end of the first half of 2017. In addition, the bank has decided to close its subsidiary in Uruguay, Hapoalim Latin America S.A, which will cease operation and is expected to close by the end of 2017. Hapoalim Switzerland will continue its private banking activities, focusing on target markets in Israel and the European Union. During the first half of 2017, Hapoalim-Switzerland's activity with customers from Latin America and Russia will be substantially reduced and the bank's Geneva branch will close. In addition, Poalim Switzerland's representative office in Moscow will close.

Ownership format and legal form

As of the date of the publication of the financial statements, the bank's controlling shareholder is Ms. Shari Arison. She holds the bank through Arison Holdings (1998), which holds, as of the date of the publication of the financial statements, approximately 20.01% of the bank's share capital, which constitute the bank's controlling core (as defined in the control permit issued by the Governor of the Bank of Israel).

The Functions of the Board of Directors and the Board Committees

Governance

As a part of the banking system in Israel, Bank Hapoalim operates in a broad legislative environment including primary legislation, standards, and regulations with which the bank is obligated to comply: the Banking Ordinance, the Bank of Israel Law, the banking laws concerning licensing and customer service, the rules of the governor of the Bank of Israel, directives of the Supervisor of Banks, and more. These factors regulate the bank's activities on various levels, including requirements with respect to its capital and ways of managing capital, exercise of internal and external auditing, and the areas in which the bank is permitted to engage. According to the Companies Act, shareholders can suggest discussion issues for the next general meeting. Employees are able to appeal to the board according to the bank's procedures and legal requirements.

The Board of Directors: Composition, Activity, and Committees

The bank's Board of Directors follows the corporate governance provisions prescribed by law, including the Bank of Israel's Proper Conduct of Banking Business Directives, SOX, etc. In addition, the bank implements all of the provisions set in legislation, standards, and regulations with regard to the prevention of conflict of interests by the directors. As part of the mandatory separation of duties between actual management and policy direction and supervision, the Chairman of the Board of Directors does not serve as a member of management. The bank's directors are elected in accordance with

the provisions of Israeli law, including the Companies Law, the Banking Ordinance and the Bank of Israel's Proper Conduct of Banking Business Directives, as well as under the provisions of the bank's articles of association. Under law, the obligations of all types of directors are the same. The basic obligation is to act for the benefit of the company. These obligations include, among other things: the duty of care, the fiduciary duty, the obligation to uphold corporate governance, the avoidance of conflicts of interests and other obligations that apply to directors in accordance with the law and the Bank of Israel's directives.

A director at Bank Hapoalim in accordance with the provisions of the law, the Proper Conduct of Banking Business Directives of the Bank of Israel and with the approval of the Bank of Israel, including:

- The Companies Law (Section 57) provides that the appointment of external directors be approved by the general meeting;
- Regulation 16 of the bank's Articles of Association (approved by the bank's general meeting of shareholders (the "Bank's Articles of Association") prescribes the process of appointing directors, according to which directors shall be appointed pursuant to a general meeting resolution; however, under the conditions prescribed in this regulation (Regulation 16.C of the Bank's Articles of Association), the Board of Directors may also appoint directors. Under the provisions of the Banking Ordinance, a vote on the appointment of directors is held at the general meeting, separately for each candidate. In addition, an advance notice should be issued at least 21 days prior to the publication of

a notice on convening a general meeting on whose agenda is the appointment of directors or termination of their term of office. The composition of the Board of Directors is subject to the provisions of the Companies Law, the Proper Conduct of Banking Business Directive No. 301, the Bank's Articles of Association, and the Board of Directors' work procedure.

The Board assesses the candidates' financial expertise and professional competence, taking into account the candidate's education, experience and knowledge on topics and issues related to the bank's activity, as detailed in the Companies (Conditions and Criteria for Directors with Accounting and Financial Expertise and Directors with Professional Expertise) Regulations, 5766-2005. The request to appoint a director is sent, along with the declaration of the director in accordance with Proper Conduct of Banking Business Directive No. 301, to the Supervisor of Banks for review, and the appointment of the director is subject to prior approval by the Supervisor of Banks.

The Board's performance is evaluated in accordance with Section 59 of Directive 301 and the provisions of the Board of Directors' work procedure. The effectiveness of the Board's work is evaluated every two years, for the Board's internal needs, in order to examine the efficacy of Board of Directors' work. In the past, the Board appointed an external attorney, who coordinated - together with the bank's secretary - the process and analysis of the findings to assess the effectiveness of the Board of Directors' work. The Board discussed the evaluation's findings.

The Board of Directors and its committees

In 2016, the bank's Board of Directors continued to direct the bank's strategy, policy and main principles of activity in Israel and abroad, while setting guidelines on various topics in accordance with legislative revisions and the Bank of Israel's Directive 301. Within this framework, the Board directed the policy underlying the activity of the bank's subsidiaries in Israel and abroad, created frameworks to address exposure to various types of risks, oversaw the issue of shares, implementation and disposal of fixed investments. The Board of Directors approved the quarterly and annual financial statements, handled the distribution of dividends, determined the bank's organizational structure, set policies on human resources, salaries, retirement terms and remuneration of employees and senior executives, and exercised oversight and control over the ongoing business activity by management and its compliance with the bank's policies.

The Board of Directors receives ongoing reports and discusses the bank's plans, results and reporting on sustainability and corporate responsibility, such as: bank products that promote sustainability, customer service, responsible employment, investment in the community and reduction of environmental impacts, including climate change. The bank's Chairman of the Board serves as a director in charge of sustainability and corporate responsibility, and is responsible for promoting the field, including all issues involved. At the strategic level, the field is managed by the bank under a shared value center by a senior manager,

who is in contact with all the relevant entities in the organization and reports to management and the Board of Directors.

The reports and discussions include status reports on the bank's progress in this field, within the framework of the CSR programs, as well as discussion and approval of future action plans in this field. In addition to discussions by the Board of Directors' plenum, the members of the bank's Board of Directors are involved in CSR activities through the various committees. Each year, as part of the ICAAP process, the bank reviews and evaluates the quality of its risk management. In addition, as part of the ICAAP process, the bank continually strives to implement and improve the risk management process. Select corporate responsibility measures form part of the bank's risk management approach. This is reflected in the inclusion of controls and ongoing reporting, such as: BSC, SOX, and more. The Board's Risk Management and Control Committee receives annual and quarterly reports for the purpose of monitoring, controlling and estimating the risks, as required in the Proper Conduct of Banking Business Directives. Among the members of the Board of Directors are experts on risk management, including credit risk. On July 19, 2007, the bank's Board of Directors decided to establish a board committee on risk management and control. The Committee has four members, who have undergone training and have accumulated extensive experience in the Committee. The members of the Board undergo occasional training on risk management. In addition, the directors are free to contact the executive in charge of a certain field in order to enhance their knowledge in that field. At the same time, the bank is working to improve

and implement corporate governance processes in the bank group.

Control over implementation of proper corporate governance practices at the bank is discussed by the Corporate Governance Committee and stakeholders in quarterly meetings. The Committee discusses and advises the Board on policies, procedures and guidelines for implementing corporate governance principles in the work of the Board of Directors and its committees, as well as to ensure the bank's compliance with the principles of proper corporate governance and their compatibility with the provisions of the law, including setting the bank's policy and management's supervision over the subsidiaries, as required by the Bank of Israel's Proper Conduct of Banking Business directives.

The board usually meets twice a month. Between these meetings, the board's committees also meet, some - every week or two. Any urgent and/or significant issue may be discussed at any time. In addition, members of the Board may also raise issues for discussion with the approval of the Chairman of the Board. In particularly urgent cases, the Board of Directors convenes to discuss an issue that had been raised and, as the procedures of the Board allow, the Board of Directors holds, if necessary, an urgent meeting using the means of communication necessary in order to discuss the issue as soon as possible. In accordance with Sections 98-99 of the Companies Law, 5759-1999, members of the board may demand that a specific issue be discussed by the board. In accordance with Section 99 of the Companies Law, these issues shall be included in the board's agenda. In accordance with the provisions of the

Companies Law, Proper Conduct of Banking Business Directive No. 301 and the bank's Articles of Association, the Board's agenda shall include, inter alia, any issue a member of the board or the CEO have asked the chairman to discuss. Decisions made in an urgent meeting conducted by means of communication shall be submitted for re-approval in the following Board of Directors meeting.

The board of directors usually meets twice per month. In addition, meetings of the board's committees are held. Urgent issues are raised according to need and/or requests by the Chairman of the Board / Board members / CEO, according to need and the importance of the issue. Important and urgent issues are discussed regularly in accordance with the provisions of the law and the Bank's procedures as stated, and there is no separate enumeration of these matters.

A director's right to receive information and consult with various parties as part of his duties were determined in accordance with the provisions of the law, including the Companies Law, Proper Conduct of Banking Business Regulations Directive No. 301, and the Board of Directors' work procedure, which was recently approved by the bank's Board of Directors, on January 10, 2017. This relates to any material involving the bank's activity, the bank's assets, and to all the bank's documents required for the purpose of fulfilling its obligations.

In accordance with the instructions included in Directive 301, the directors do not have an executive function at the Bank. These include participation in the day-to-day management of the Bank and restrictions regarding their requests to Bank employees (on business matters outside the Board of Directors and its committees).

A director is also entitled, under special circumstances, to receive external professional advice and/or external professional assistance, at the bank's expense, if the board has approved the expense coverage. The board's plenum or appropriate board committee shall discuss and decide whether to contact an external consultant to obtain professional assistance. In such discussions, reference shall be made to whether the consulting can be provided by internal entities at the bank, the purpose of the consulting, the scope of the work and timetables.

Officeholder Remuneration

On March 28, 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 Limit Law"). On November 8, 2016, the bank published its new remuneration policy for officers pursuant to the Remuneration Limit Law, the Companies Law and the Remuneration Policy of a Banking Corporation Directive, in its version dated September 29, 2016 (the "New Remuneration Policy"). On December 19, 2016, the new remuneration policy was adopted by the bank's general meeting of shareholders. On November 29, 2016, the bank adopted a new comprehensive remuneration policy for its senior executives (this policy shall be called below, along with the remuneration policy, the "New Remuneration Policy"), as well as a remuneration plan thereunder (the "2016 Plan"), which was amended on December 22, 2016. The main objectives of the New Remuneration Policy are as follows:

- To motivate the officeholders to work to create long-term economic value

for the bank and its stakeholders, in a manner that strengthens the correlation between remuneration and the creation of value for the bank's stakeholders. In accordance with this objective, employee wages shall be derived from a scale of ranks, which offers the possibility of promotion and reflects the authority and responsibility of each level in the organizational hierarchy. Part of the remuneration will be paid in share-based instruments, which will be blocked long-term. An annual bonus (if given) based on the bank's cost of capital, and also based on personal, measurable, quantitative and qualitative performance targets, as well as on long-term plans and objectives;

- Adapting the remuneration to the bank's vision, to the general strategic plan of the bank its sub-divisions and to the work plans derived from them.
- Adapting the overall remuneration to the bank's risk appetite. The annual and multi-year work plans are prepared, inter alia, in line with the extent and various types of risks the bank is willing to undertake. Achieving the objectives of the work plan - including the capital adequacy targets, as well as achieving excess return on the cost of capital - set the threshold for the performance-related component of the annual bonus.

In accordance with the bank's new Remuneration Policy, as of the date of adoption of its officeholder remuneration policy, the ratio between the CEO's total remuneration and the total median remuneration of all other bank employees shall not exceed 11 (the calculation was made according to the principles of the remuneration policy, pursuant to the return on capital according to the 2016 work plan and bank's employee data for 2015).

As at the end of 2016, 11 members of the Board have "accounting and financial expertise" and two have "professional qualifications" according to their education, qualifications and experience, pursuant to the requirements of the Companies Regulations. Four directors with "accounting and financial expertise" are members of the Board's Audit Committee. At the end of 2016, there were 2 female members and 11 male members on the Board of Directors (for further information about the members of the Board - please see the Financial Statements, p. 275)

On November 2, 2016, immediately following media reports on the matter, the bank's Board of Directors authorized the Corporate Governance Committee and stakeholders to review issues related to the bank's handling of a complaint of sexual harassment by a person who had previously served as the bank's CEO. As part of its handling of the matter, the Bank appointed the former President of the National Labor Court, Retired Judge Steve Adler, as supervisor under the Prevention of Sexual Harassment Law to examine the complaint. On resuming his review, President Adler determined that no sexual harassment had been committed. The Supervisor of Banks Department also informed the bank it was conducting

13
members of the board
As of the end of 2016, Bank Hapoalim's Board of Directors had 13 members (As at the publication date of the report, there are 10 members), including two external directors, as defined in Section 240 to the Companies Law, and four external directors, as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel

a review on the bank's handling of the complaint. Subsequently, the Supervisor of Banks Department announced that in order not to jeopardize the procedure being carried out by the Israel Police in aspects under its jurisdiction, the Supervisor's review would be completed only after the police procedure had been completed. On November 8, 2016 and November 10, 2016, two shareholders contacted the bank, asking that it consider filing claims against the bank's former CEO, officeholders and said employee to recover the amounts paid to that employee.

When handling the case, the bank's Chairman of the Board did not report the process to the Supervisor of Banks, who

52
meetings of the board
During 2016, 52 plenum meetings of the Board of Directors and 273 meetings of the Board of Directors' committees were held (for further information on the Board of Directors' activity and changes in the committees' structure - please see the Financial Statements, pp. 271-274)

therefore decided to abort his term as Chairman of the bank. On November 29, 2016, the Board of Directors accepted Mr. Yair Seroussi resignation, effective December 31, 2016. The Board discussed the proposal to appoint Mr. Oded Eran as Chairman of the Board and decided to appoint Mr. Oded Eran as the bank's Chairman of the Board, as of January 1, 2017. On December 22, 2016, the Supervisor of Banks approved the Mr. Oded Eran's appointment as Chairman of the Board of Directors.

Instilling the ethical code of conduct

In 2004, Bank Hapoalim adopted a code of ethics that comprises the entire range of values of responsibility, trust, integrity and respect for human dignity. This code of ethics defines the relationship between the employee and his environment - the bank, other employees, customers and the community. The ethical guidelines underscore the employee's respectful treatment of his environment, and the bank's duty to treat him fairly and respectfully.

Over the years, the code has undergone changes and adaptations to the changing needs of the banking industry, customers and employees.

The code is global and includes several domains:

- **My work at the bank** - the chapter defines the relationship between the bank and its employees;
- **Customer relationships** - the chapter defines the relationship with the bank's customers;
- **Relationships with external parties, suppliers, and competitors** - this chapter defines the relationship between the bank and external parties, suppliers, and competitors;
- **Promoting the environment, society and community in Israel** - this chapter deals with the bank's social involvement, environmental responsibility, employee quality of life and welfare services and its customers' wellbeing.

Responsibility for this area was given to the chief risk officer of the bank, in order to allow a single independent function to oversee all of the reports. So as to have a single, independent party handling all inquiries. Bank employees who suspect any violation of the bank's values and norms by any other employee can use several methods to discuss and report their thoughts: telephone, e-mail, written

letters, or the anonymous channel on the organizational portal, which is available during all hours of activity. To ensure that employees who submit reports are protected and do not suffer any harm as a result of the report, a process and procedure have been developed and approved by the board of directors in order to safeguard these employees and maintain their anonymity. The employees may also contact their direct manager, indirect manager, Human Resources Department or Audit Committee. In certain cases, the Chairman of the Board's Audit Committee may also be contacted.

In order to increase the effectiveness of the response to any ethical issues that arise during the course of the bank's operations, a shared interface is routinely operated during the year for audit staff, risk management staff, and the head of the ethical code. The interface is aimed at learning and applying lessons learned, and optimizing the response to various issues, the relevant procedures at the bank, and the content of the code, and is maintained in addition to routine audit activities and the lines of defense at the bank.

Anti-Bribery and Anti-Corruption

As a banking organization at the heart of Israel's business and economic community and as a player in the international business arena, Bank Hapoalim is committed to an active role in the international fight against corruption.

Bank Hapoalim recognizes that corruption and bribery are a harmful threat. The bank strongly rejects corruption and bribery. The bank is committed to implementing its policy in this area, from the level of its board of directors and management to the level of each individual employee, including

the adjustment of existing mechanisms and work processes.

The bank has been proactive in preventing corruption and bribery for many years, in a variety of contexts. The bank has a system comprising content, processes, controls, and procedures designed to prevent corruption and bribery. Key sections on this subject have been added to the bank's ethical code, reflecting its position on the prohibition of corruption and bribery and on receiving or giving gifts or benefits, with the aim of making a clear and unequivocal statement to all of the bank's internal and external stakeholders regarding its policy in this area. (From the bank's policy on corruption. For details on the prevention of corruption at the bank, see section 3.6 of the bank's ethical code, on the bank's website. Also see further details about lines of defense at the bank later in this section, under the heading "Compliance").

Bank Hapoalim recognizes that corruption and bribery are a harmful threat. The bank strongly rejects corruption and bribery. The bank is committed to implementing its policy in this area, from the level of its board of directors and management to the level of each individual employee, including the adjustment of existing mechanisms and work processes

The following actions were taken in respect of these incidents: lessons were drawn by the audit array on three cases of embezzlement / suspected embezzlement; complaints were filed with the police in respect of three embezzlement / suspected embezzlement cases and a report was submitted to the Bank of Israel regarding four cases of embezzlement pursuant to the Proper Conduct of Banking Business Directive No. 351.

At the same time, disciplinary action was taken against 18 employees, including termination of employment - dismissal / voluntary retirement / resignation (8 employees), dismissal from a managerial position (one employee), warning letter (4 employees) and clarification meeting (2 cases). In addition, in some cases, lessons were drawn by the audited units / headquarters units.

93%

Two learning clusters have been developed on the code of ethics / conflict of interest - one for the branch network and the other for management, due to the difference in the nature of the dilemmas. 93% of the bank's employees completed the clusters;

Games and discussions on aspects of conflict of interest were incorporated into various banking courses

As part of the ongoing updates for bank employees on the organizational portal, special emphasis was placed on rules of conduct when receiving gifts in the workplace and points of contact to submit inquiries on ethical issues

Employees' inquiries on ethical issues were addressed and handled on an ongoing basis. In 2016, 11 inquiries were submitted by employees and managers, mainly on issues of receiving gifts and benefits. Two of the inquiries were submitted anonymously

In 2016, in accordance with the bank's procedures, 19 cases were handled in which there was a suspicion of harm to the integrity of the bank. The cases were classified according to the following breakdown: conflict of interests / potential for conflict of interests (11), embezzlement/ suspected embezzlement (5), false reporting (2) and suspected assistance in money laundering (1)

Examining Achievement of Objectives

2016 Objectives	Status
Developing a new ethics study designed for all bank employees;	Completed ✓
Incorporate training on conflict of interests into most banking courses;	Completed ✓
Developing a "kit" ethics discussions by managers;	In a developing process ✓
Update and refresh the Ethics page in the portal.	Completed ✓

LOOKING
AHEAD 

In 2017, the bank's code of ethics will be updated.

Compliance and Prevention of Money Laundering and Terrorist Activities

The responsibilities of Bank Hapoalim's chief compliance officer are derived from Proper Conduct of Banking Business Directive No. 308, the Prohibition of Money Laundering and Terrorism Financing Law, and Proper Conduct of Banking Business Directive No. 411. The chief compliance officer unit encompasses the anti-money laundering department, the securities compliance and enforcement department, as well as three additional units. The first is the international compliance unit, which is responsible for ensuring compliance and the prohibition of money laundering at the bank's offices outside Israel. Compliance staff at the bank's overseas branches now report directly to this unit, on both the professional and the managerial level. The second unit is an administrative unit (operations, coordination, and control), which assists the chief compliance officer with the execution of systemic and operational assignments. The third handles the adoption of tax treaties to which the State of Israel is a party and under which the bank is required to adopt and implement an identification and reporting policy.

The Chief Compliance Officer Unit's activity is supervised through three channels:

- The Board of Directors' committee on risk management and control;
- The Board of Management committee on compliance, headed by the CEO;
- Quarterly and annual reports to the bank's Board of Directors, the CEO, and management. The reports include updates on the main exposures and risk

areas in the group; progress on work plans and activities executed, including controls, mapping of knowledge gaps, organizational learning, technological and other projects in this field, reports submitted to the Israel Money Laundering Prohibition Authority, violations, and reports of exceptional events.

Upon the establishment of the Chief Compliance Officer Unit, the bank's Board of Directors established a new group-level compliance policy for the bank. The new policy sets forth rules regarding all of the component areas of the prohibition of money laundering and compliance with consumer protection directives, including the declared money policy for nonresidents. The policy emphasizes corporate control and the interaction with subsidiaries and branches outside Israel, based on Proper Conduct of Banking Business Directive No. 308, the Money Laundering Prohibition Law, the Terrorism Financing Prohibition Law, and Proper Conduct of Banking Business Directive No. 411. This policy took effect at the end of December 2010, and was expanded recently, in January 2016, and adjusted to the requirements of the new directive.

In order to comply with the directives of the law and with the group-level compliance policy, the Chief Compliance Officer Unit conducts activities including identification of main exposures and risk areas; procedural, qualitative, and quantitative controls applied to compliance with directives that regulate the relationship between the bank and its

customers and to the prohibition of money laundering and financing of terrorism; operation of a structured system of controls applied to compliance with securities law; development of training and knowledge management systems on the organizational portal; infrastructure surveys; analysis of new products and services; and system development.

Monitoring and Control Processes

The control system at the bank group consists of three lines of defense, some of which encompass more than one component of control, as detailed below:

- **The first line of defense** consists of the controls applied by the units themselves. These controls are applied on two levels:
 - A.** Controls by business functions, according to the relevant issue and process. Other controls executed by the units are controls of processes related to existing customers and these customers' activity, as well as internal processes at the bank;
 - B.** Controls by compliance officers and enforcement trustees at the business units;
- **The second line of defense** consists of controls applied by regional, divisional, and area compliance officers and enforcement trustees at the business areas;
- **The third line of defense** consists of controls applied by the Chief Compliance Officer and Securities Enforcement Unit, and controls applied by the Control Unit in the Advising Division.

Compliance Training

An internalized understanding of the need for fair business conduct and the need to identify any unusual activity by customers is critical to compliance risk; a range of measures are therefore used to promote this awareness, including instructional content and tools integrated into bankers' training and work processes.

The following resources are available to employees who wish to consult or report on relevant matters:

- The network of branch/regional/divisional/area compliance officers;
- The Subjective Reporting System;
- The compliance site on the banking portal;

- A call center for American clients and foreign residents;
- A regulatory issues support center;
- A system for queries and feedback on the banking portal;
- Communication with the professional units by E-mail or telephone;
- A system for anonymous queries.

97%

managers and employees

As part of the annual learning process of the tutorials on prohibition of money laundering, in accordance with the changes required under the legislation, 97% of the managers and employees completed the learning and test

No significant monetary sanctions were imposed on the bank in 2016 for non-compliance with laws and regulations in the area of products and services (consumer directives). (For details on material legal proceedings to which the bank is a party - see Note 26 C, p. 189, of the 2016 Financial Statements)

In 2016, the Chief Compliance Officer Unit conducted visits to 24 branches and relevant units at the bank. During the visits, the chief compliance officer reviewed activities relevant to these branches, which constitute compliance risks. In addition, these tours focused on teaching new material, exposing knowledge gaps, legislative amendments, and presenting exceptional events

Poalim for Good: assimilating the Doing Good Model for a company driven by vision and values

Bank Hapoalim operates according to its vision's values, which are in line with the Doing Good Model initiated by Shari Arison and the Arison Group, as part of its Doing Good is Good Business philosophy.

The Doing Good Model is a value-based model for positive doing in the world. It is a daily practical tool for instilling values in the core of businesses, organizations, communities and people, featuring 13 basic human values for every activity, for the benefit of society, the economy and the environment. Over the years, the Company has been instilling these values among its employees and promoting business activities, which incorporate and advance these values.

The model's values in the bank's activity

The bank integrates the Doing Good Model in its ongoing business activities, both by moves that create environmental or social value alongside the business value and by instilling the model among managers and employees as well as integrating it into special-purpose projects that form an integral part of the bank's operations. The values of the model are integrated according to bank's vision, strategy and sustainability policies. As a result, the following values have been promoted in recent years:

The Value of Financial Freedom

Financial Freedom is a leading value in the bank's vision. This value is implemented through multi-year strategic in-depth processes that differentiate the bank from

the competition, based on the perception that the bank is the customer's financial partner and its supporter throughout life. As part of the implementation, the bank promotes a variety of services, processes, initiatives and activities for various audiences (customers, employees, the community and the general public), in line with the various milestones in the life of an individual and his family. This is based on the understanding that there is a growing need among the public to have financial knowledge and understanding and in order to enable each person to realize his full financial potential and become the customer's partner in terms of responding to the various financial needs by: increasing awareness, providing knowledge and information, developing tools, services and financial products to form an overall informed view of his financial world, changing his financial conduct and creating an economic balance in the short and long term.

For more information about the implementation of the Financial Freedom Value, see the introductory chapter p.9, the customer's benefit p.39, and the society and community empowerment chapter, p.97.

The Value of Sustainability

The bank continuously integrates sustainability aspects into its activities while assisting in responding to social and environmental challenges, based on the perception that this combination creates long-term value for both the company and the environment, as well as for the bank's

growth. As part of its business activity, the bank assists in promoting sustainability by financing projects that benefit the environment: renewable energy, energy efficiency, water purification, recycling facilities, and more. At the same time, the bank strives to reduce its environmental impacts. In addition, the bank integrates social considerations into its business activities, and assists in providing solutions to the social challenges facing Israeli society.

For more information about the bank's initiatives and activities to promote the value of sustainability, please see the Living with the Environment chapter and the customer's benefit chapter, p. 72.

The Value of Giving

Bank Hapoalim regards itself as an integral part of the community and is therefore committed to promoting and empowering it by investing in diverse and extensive social community activities, including in Israel's geographic, economic and social periphery, through donations and sponsorships and volunteering by Bank employees over the years. The bank promotes diverse social activities in the public sphere, based on dialogue and numerous collaborations with entities from various sectors, which specialize in identifying the needs of the community. The bank's main area of community activity is education, with an emphasis on financial education. However, the bank also supports and assists in additional areas: cultural and artistic activities, support of welfare programs and assistance to health institutions, and investment in various other fields that promote a variety of social and environmental values.

For more information about the bank's initiatives and activities to promote the value of giving, please see the Empowering Society and the Community chapter, p. 92.

The Value of Volunteering

The bank has a national volunteer network that includes thousands of employees who volunteer throughout the year, in a variety of activities, both privately and independently, or as part of projects led by the bank and in cooperation with various NGOs. Bank employees who volunteer assist organizations in their efforts to resolve various challenges and social issues faced by Israeli society. The system of volunteers is assisted by an organizational structure that supports this domain within the bank. On Good Deeds Day 2016, approximately 6,000 employees of the bank participated in a wide range of activities in around 450 locations across Israel.

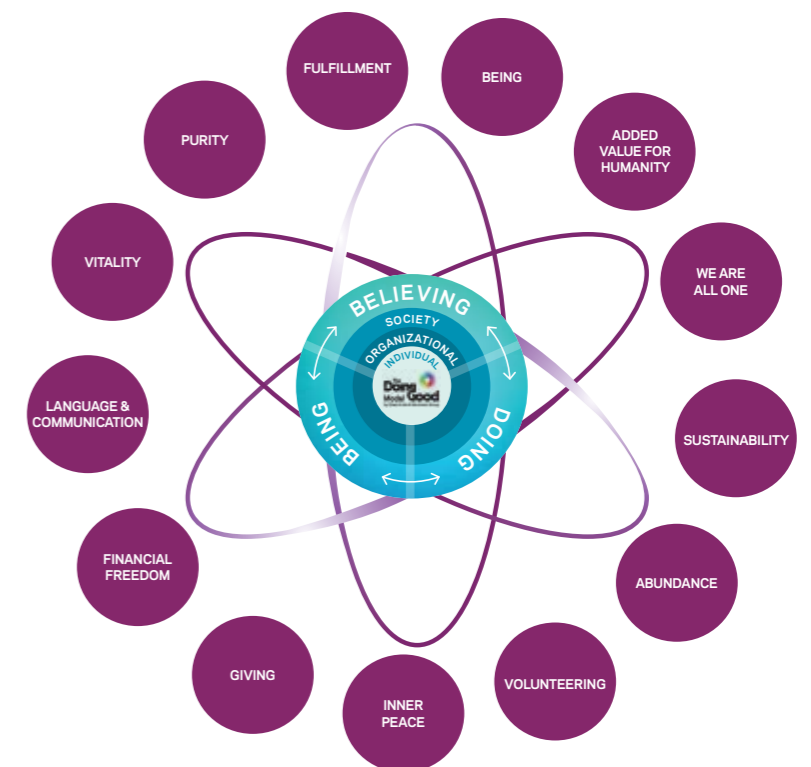
For more information about the bank's initiatives and activities to promote the value of Volunteering, please see the Empowering Society and the Community chapter, p. 102.

Assimilating the Doing Good Model

In 2016, a program to implement the Doing Good Model was launched, under the title Poalim for Good, in order to familiarize the employees with the Model and its values, and specialized activities were carried to instill and promote positive action on each of the values in its designated month during the year. The various activities were accompanied by online tutorials, which were intended to help assimilate

the Model and its values, so as to allow employees to become deeply familiar with each of the Model's values. Thousands of bank employees took part in the various monthly activities on the Model; as part of these activities, NIS 120,000 was donated, according to the choice of 24 units at the branches and headquarters, which won competitions that accompanied the drive. The instilment activity and development of projects to promote the values in the bank's business activity will continue in 2017.

The Doing Good Model



GRI- SRS Content Index and Global Compact COP Report

UNGC¹³:

The UN Global Compact initiative anchors international and corporate partnerships, therefore promoting developing markets, commerce, technology and finance in a beneficiary way for economies, communities and future generations around the world. Joining the initiative is a statement of commitment to promote and implement the ten principles of the UN universal act on human rights, labor, environment and anti-corruption. Below is a list of the 10 principles:

Human Rights

1. Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
2. Principle 2: make sure that they are not complicit in human rights abuses.

Labour

3. Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. Principle 4: the elimination of all forms of forced and compulsory labour;
5. Principle 5: the effective abolition of child labour; and
6. Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

7. Principle 7: Businesses should support a precautionary approach to environmental challenges;
8. Principle 8: undertake initiatives to promote greater environmental responsibility; and
9. Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

An organization that joins the initiative, agrees to act in accordance to the above principles. So far, business organizations from more than 130 countries around the world have joined the initiative. Participating companies are required to report annually on the progress made in promoting the universal principles in its operations.

13. Link to the official UNGC site: <http://www.unglobalcompact.org/>



GRI Standard	Disclosure	Page number	UNGC-cop
GRI 102: General disclosure 2016	102-1	Name of the organization	154-155 NR
	102-2	Activities, brands, products, and services	154-155
	102-3	Location of headquarters	154
	102-4	Location of operations	154-155
	102-5	Ownership and legal form	155
	102-6	Markets served	154-155
	102-7	Scale of the organization	45:80-81, 110-111
	102-8	Information on employees and other workers	110-111
	102-9	Supply chain	83-86
	102-10	Significant changes to the organization and its supply chain	7
	102-11	Precautionary Principle or approach	134-135 7
	102-12	External initiatives	25-27 1-10
	102-13	Membership of associations	25-27 1-10
	102-14	Statement from senior decision-maker	4-5 NR Presented in the CEO statement
	102-15	Key impacts, risks, and opportunities	20-21 NR
	102-16	Values, principles, standards, and norms of behavior	7-8,160-161, 164-165 1-10
	102-17	Mechanisms for advice and concerns about ethics	160-163 NR
	102-18	Governance structure	154
	102-19	Delegating authority	157
	102-20	Executive-level responsibility for economic, environmental, and social topics	157
	102-21	Consulting stakeholders on economic, environmental, and social topics	157
	102-22	Composition of the highest governance body and its committees	159
	102-23	Chair of the highest governance body	159
	102-24	Nominating and selecting the highest governance body	159
	102-25	Conflicts of interest	156
	102-26	Role of highest governance body in setting purpose, values, and strategy	157
	102-27	Collective knowledge of highest governance body	157
	102-28	Evaluating the highest governance body's performance	156
	102-29	Identifying and managing economic, environmental, and social impacts	157
	102-30	Effectiveness of risk management processes	156
	102-31	Review of economic, environmental, and social topics	157-158
	102-32	Highest governance body's role in sustainability reporting	5
	102-33	Communicating critical concerns	157-158
	102-34	Nature and total number of critical concerns	158-159
	102-35	Remuneration policies	158
	102-36	Process for determining remuneration	158
	102-37	Stakeholders' involvement in remuneration	158
	102-38	Annual total compensation ratio	158
	102-39	Percentage increase in annual total compensation ratio	158
	102-40	List of stakeholder groups	16
	102-41	Collective bargaining agreements	23 1,2,6
	102-42	Identifying and selecting stakeholders	13 NR

	GRI Standard	Disclosure	Page number	UNGC-cop
GRI 102: General disclosure 2016	102-43	Approach to stakeholder engagement	16	
	102-44	Key topics and concerns raised	16	
	102-45	Entities included in the consolidated financial statements	6	
	102-46	Defining report content and topic Boundaries	18	
	102-47	List of material topics	20	
	102-48	Restatements of information ¹⁴	No changes were made ¹⁴	
	102-49	Changes in reporting	18	
	102-50	Reporting period	6	
	102-51	Date of most recent report	Quarter 3, 2016	
	102-52	Reporting cycle	Annual	
	102-53	Contact point for questions regarding the report	6	
	102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Comprehensive option	
	102-55	GRI content index	167-170	
	102-56	External assurance	174-175. The Board of directors and executive managers are not involved in this process	
GRI 201: Economic Performance 2016	103-1	Explanation of the material topic and its Boundary	80	NR
	103-2	The management approach and its components	80	
	103-3	Evaluation of the management approach	80	
	201-1	Direct economic value generated and distributed	80	
	201-2	Financial implications and other risks and opportunities due to climate change	76-77	7
GRI 203: Indirect Economic Impacts 2016	103-1	Explanation of the material topic and its Boundary	81	NR
	103-2	The management approach and its components	81	
	103-3	Evaluation of the management approach	81	
GRI 204: Procurement Practices 2016	203-1	Infrastructure investments and services supported	49-51, 88-91,92-93	
	203-2	Significant indirect economic impacts	46,49-50,81	
	103-1	Explanation of the material topic and its Boundary	83	NR
	103-2	The management approach and its components	83	
GRI 205: Anti-corruption 2016	103-3	Evaluation of the management approach	83	
	204-1	Proportion of spending on local suppliers	83	
	205-1	Operations assessed for risks related to corruption	160-161	
GRI 301: Materials 2016	205-2	Communication and training about anti-corruption policies and procedures	161,163	
	205-3	Confirmed incidents of corruption and actions taken	163	
	103-1	Explanation of the material topic and its Boundary	134-135	7,8
	103-2	The management approach and its components	134-135	
	103-3	Evaluation of the management approach	134-135	
	301-1	Materials used by weight or volume	140,143-144,146-147	
	301-2	Recycled input materials used	143-144	8,9

14. 102-48

	GRI Standard	Disclosure	Page number	UNGC-cop	
GRI 302: Energy 2016	103-1	Explanation of the material topic and its Boundary	136	7,8,9	
	103-2	The management approach and its components	136		
	103-3	Evaluation of the management approach	136		
	302-1	Energy consumption within the organization	138		
	302-2	Energy consumption outside of the organization	Energy consumption outside is not material		
	302-3	Energy intensity	138		
	302-4	Reduction of energy consumption	138		
	302-5	Reductions in energy requirements of products and services	42-46,69,72, 145-146		
	GRI 305: Emissions 2016	103-1	Explanation of the material topic and its Boundary	148	7,8
		103-2	The management approach and its components	148	7,8
103-3		Evaluation of the management approach	148	7,8	
305-1		Direct (Scope 1) GHG emissions	149	7,8	
305-2		Energy indirect (Scope 2) GHG emissions	149	7,8	
305-3		Other indirect (Scope 3) GHG emissions	149	7,8	
305-4		GHG emissions intensity	150	7,8	
305-5		Reduction of GHG emissions	150	7,8,9	
GRI 401: Employment 2016	305-6	Emissions of ozone-depleting substances (ODS)	148	7,8	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Those emissions are not relevant	7,8	
	103-1	Explanation of the material topic and its Boundary	108	1,2,6	
	103-2	The management approach and its components	108		
	103-3	Evaluation of the management approach	108		
	401-1	New employee hires and employee turnover	110	6	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	121-123,125, 127,129-130	NR	
GRI 402: Labor/ Management Relations 2016	401-3	Parental leave	109	1,2,6	
	103-1	Explanation of the material topic and its Boundary	113-114,127	2,3	
	103-2	The management approach and its components	113-114,127		
GRI 404: Training and Education 2016	103-3	Evaluation of the management approach	113-114,127		
	402-1	Minimum notice periods regarding operational changes	127		
	103-1	Explanation of the material topic and its Boundary	121	6	
	103-2	The management approach and its components	121		
	103-3	Evaluation of the management approach	123		
GRI 405: Diversity and Equal Opportunity 2016	404-1	Average hours of training per year per employee	123		
	404-2	Programs for upgrading employee skills and transition assistance programs	121-123		
	404-3	Percentage of employees receiving regular performance and career development reviews	114-115		
	103-1	Explanation of the material topic and its Boundary	116	1,6	
	103-2	The management approach and its components	116		
	103-3	Evaluation of the management approach	116		
	405-1	Diversity of governance bodies and employees	111,116-120		
	405-2	Ratio of basic salary and remuneration of women to men	116,118		

	GRI Standard	Disclosure	Page number	UNGC-cop
GRI 406: Non-discrimination 2016	103-1	Explanation of the material topic and its Boundary	116	1,2,6
	103-2	The management approach and its components	116	
	103-3	Evaluation of the management approach	116	
	406-1	Incidents of discrimination and corrective actions taken	116	
GRI:407 Freedom of Association and Collective Bargaining 2016	103-1	Explanation of the material topic and its Boundary	127-128	1,2,3
	103-2	The management approach and its components	127-128	
	103-3	Evaluation of the management approach	127-128	
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	127-128	
GRI 413: Local Communities 2016	103-1	Explanation of the material topic and its Boundary	88,92,102	NR
	103-2	The management approach and its components	88,92,102	
	103-3	Evaluation of the management approach	88,92,102	
	413-1	Operations with local community engagement, impact assessments, and development programs	88,92-93,102	
	413-2	Operations with significant actual and potential negative impacts on local communities	73	
	FS13	Access points in low – populated or economically disadvantaged areas by type	52,82	
	FS14	Initiatives to improve access financial services for disadvantaged people	52-53	
GRI 414: Supplier Social Assessment 2016	103-1	Explanation of the material topic and its Boundary	87	NR
	103-2	The management approach and its components	87	
	103-3	Evaluation of the management approach	87	
	414-1	New suppliers that were screened using social criteria	87	1,2,6
	414-2	Negative social impacts in the supply chain and actions taken	87	
GRI 417: Marketing and Labeling 2016	103-1	Explanation of the material topic and its Boundary	10-11,14,46,61	8
	103-2	The management approach and its components	10-11,14,46,61	
	103-3	Evaluation of the management approach	10-11,14,46,61	
	417-1	Requirements for product and service information and labeling	61	8
	417-2	Incidents of non-compliance concerning product and service information and labeling	There were no incidents in 2016.	NR
	417-3	Incidents of non-compliance concerning marketing communications	There were no incidents in 2016.	
GRI 418: Customer Privacy 2016	103-1	Explanation of the material topic and its Boundary	62	NR
	103-2	The management approach and its components	62	
	103-3	Evaluation of the management approach	62	
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	62	
GRI 419: Socioeconomic Compliance 2016	103-1	Explanation of the material topic and its Boundary	162	1
	103-2	The management approach and its components	162	
	103-3	Evaluation of the management approach	162	
	419-1	Non-compliance with laws and regulations in the social and economic area	163	1
Product profile (Sector supplement) 2016	103-1	Explanation of the material topic and its Boundary	10-11,12, 37, 38, 47, 49,66,73-75	NR
	103-2	The management approach and its components	10-11,12, 37, 38, 47, 49,66,73-75	
	103-3	Evaluation of the management approach	10-11,12, 37, 38, 47, 49,66,73-75	
	FS6	Percentage of the portfolio for business lines by specific region, size (E.G. micro/ SME/large) and by sector	45	
	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	46	
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	75	

Process Audit for Implementation of the CSR Plan at Bank Hapoalim

An external assurance process allows readers of this report to verify the bank's self-reporting, based on independent opinions from professionals. The bank has decided to expand the control process with regard to the fairness of the report on sustainability and CSR. The expansion of these processes and the involvement of additional sources of assurance enable the bank to learn from the feedback received from those conducting the process and provide validation of the reliability of the report for stakeholders. The current report underwent four assurance processes, each focusing on a different aspect of the report:

- The CSR and Sustainability Group at BDO Ziv Haft performed routine process controls and examined the CSR implementation process at the bank¹⁵;
- The Quality Assurance Center for Corporate Responsibility Reports who operates within the Corporate Social Responsibility Institute at the Academic Center of Law and Business, carried out a due diligence report on the reporting;
- The quality of the reporting of the bank carbon footprint - an assurance was carried out by the Corporate Social Responsibility and Sustainability Department of the BDO Ziv Haft Consulting and Management Group;
- The report has been examined by the GRI and found to be in compliance with the requirements for presenting the GRI's materiality process. The report was prepared in accordance with the guidelines of the new GRI standard, the Sustainability Reporting Standards (SRS).

15. Consultants in the group collected the data processed for this report. This opinion therefore focuses on the work process at the bank. In order to maintain independence, the examination for the purposes of assurance of the report in compliance with GRI requirements was performed by an independent third party, The Quality Assurance Center for Corporate Responsibility Reports.

BDO Ziv Haft: Process Control for CSR Plan Implementation at Bank Hapoalim

This is the eleventh year in which the Corporate Social Responsibility and Sustainability Department of the BDO Consulting and Management Group has accompanied Bank Hapoalim in implementing its sustainability and CSR program. The group's activities focus on monitoring the process and progress of the program for sustainability and social, economic, and environmental responsibility. BDO consultants' close work with the bank allows a professional opinion to be provided based on an examination of the processes performed by the bank throughout 2016 (and during 2017 up until publishing this report). During this period, the bank continued the implementation and absorption of sustainability and CSR values.

Description of the Process

The group performed process controls with regard to the areas of activity of the bank, designed to ascertain that progress is being made in the implementation of the CSR and sustainability plan. As part of these controls, the bank's progress in three strata of activity was examined, as the basis for feedback on the implementation of the plan:

(A) Update and optimization of the information infrastructure and metrics for corporate social responsibility management – Consultants in the department examined the CSR management system at the bank, as an area in which integrative management is essential. We examined the feedback and learning of the CSR Administration in connection with the activity of the various units, the summarization of results, collection of information, and process optimization. In addition, we reviewed the processes of deriving information and processing the information into current metrics for the examination of the bank's performance in the various areas and in comparison to the goals and objectives set by the bank.

(B) Instilling CSR and sustainability values in core activities and in the various units – We examined the process of organizational change emerging as part of the implementation of CSR at the bank. In this context, we examined the relevance and added value of the various issues for the activity of the units. We also examined the manner in which these issues were being absorbed into the activity of the units of the bank, and whether an ongoing learning process was occurring as a result. The control process also encompassed an examination of the method of development and implementation of new issues arising from reports by the various units.

(C) Examination of the results of implementation of the program (effectiveness of absorption) – In this stage, we examined the ways in which the bank had improved its performance on the various metrics, led new initiatives at the various units for activity in this area, developed new banking products, and created dialogue with stakeholders, while broadening its influence to the Israeli public. The examination we conducted at this stage enables us to complete the circle of process controls, in that it examined the relevance of the information and metrics generated during the CSR program for each of the issues implemented at the units of the bank, and the effectiveness of the implementation relative to the goals set in advance.

Findings, Conclusion, and Recommendations

The assurance process encompassed an examination of the bank's conduct in the implementation and absorption of its sustainability and CSR plan. The process controls allow the bank to receive feedback and evaluation of its practices, and to delineate future objectives accordingly. The results measured in these activities reflect this progress. However, we would suggest four areas for the bank to maintain and reinforce:

■ **Strengthening dialogue with stakeholders** – Following the founding of the Stakeholder Relations Unit, the bank launched activities and processes to create a stronger, systematic dialogue with its stakeholders. It is recommended that the bank implement this as a routine part of its work. At the same time, the bank continued to hold regular forums with various stakeholders (corporations, NGOs, public entities) on various topics such as financial freedom, small businesses, accessibility, entrepreneurship that promotes social goals, etc.;

■ **Achieving shared value** – In 2016, the bank continued to integrate social or environmental aspects into banking products and services. Following the multi-year processes that the bank has driven in recent years on various topics - such as financial freedom, advancing small businesses, driving growth in the Arab community, and extending its services to senior citizens, both prior to, and after, retirement, and financing the promotion of sustainable and environmentally-friendly products - the bank's shared value center created a platform and developed new products to create shared value. This is a positive trend that is expected to grow in the coming years, and its first manifestations are expected to be implemented during 2017;

■ **Corporate governance** - due to the bank's problematic corporate governance conduct in the 2016 case, it is expected that the bank will inform its stakeholders of the processes to draw lessons, implement controls and corrective actions it has initiated following the case, in order to increase trust and strengthen relations with its stakeholders;

■ **Expanding and enhancing the objectives in the bank's corporate responsibility reports** - As a corporate governance leader in Israel, and following continuous annual reporting over the past ten years, it is recommended that the bank expand its reporting on targets and objectives in the field of corporate responsibility, in terms of longer-term objectives (mid-term) as well, in addition to the annual objectives presented in the report.

The above remarks contain a number of points that in our opinion should be preserved and enhanced in order to improve the program's implementation and maintain the bank's status as a leader in its field.



The Corporate Social Responsibility Department
BDO Consulting Group
May 2017

Quality Assurance Declaration: Bank Hapoalim Sustainability Report 2016

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, accounting 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, Bank Hapoalim asked the Center to perform a quality assurance process on its 2016 corporate social responsibility report.

The quality assurance process is conducted by Mr. Liad Ortar, who is Director of the Institute. In addition to this role, Mr. Ortar is a researcher who publishes papers on sustainability reporting, a lecturer at universities in Israel and around the world, and a major figure in the area of corporate social responsibility and transparency in Israel.

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 Bank Hapoalim 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, and some may be incorporated into future reports.

Methodology

The aim of the quality assurance process for corporate responsibility reports is, first and foremost, to improve the final reporting product

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. The assurance process for this report was carried out in accordance with the principles of quality assurance standard AA1000 of the AccountAbility organization. Liad Ortar is a certified assurance provider of this organization. According to the standard, 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.



This report was found to be in line with these principles. It should be noted that the report is a comprehensive, impressive, in-depth report that is on a par with the world's leading banks' reports. This report marks a decade of deep corporate commitment to the field and presents several noteworthy developments. Some of these developments are reflected in comments and insights that have emerged from the quality assurance processes conducted in previous years, which we welcome. First, the report's publication date closely follows the date of publication of the financial statements at the end of the first quarter of the calendar year. The closer we bring the publication date of these reports, the better. In addition, this report is the first to present the Stakeholder Relations Division as a body responsible for managing the entire activity, reflecting the higher level of importance the Bank attributes to this issue. This is a strategic move that incorporates the values of corporate responsibility into the bank's core business, which is the very purpose of CSR. Finally, for the first time, we see a leading financial institution presenting its credit portfolio in terms of its borrowers' environmental risk. Despite the limited details provided by the bank, it is clear that the latter has in place a complex system for identifying and managing environmental risks.

Main comments

As noted, this is Bank Hapoalim's Group's tenth published CSR report. It is in line with the entire local banking industry's adoption of CSR reporting, as required by the Supervisor of Banks. The company has adopted the GRI Sustainability Reporting Standards, complying with the Comprehensive option. I hereby declare that the Bank Hapoalim does comply with the in accordance Comprehensive option.

Here are the main recommendations for the continued improvement of the Bank Hapoalim's reporting:

- **Further updating the materiality process** - in recent years, Bank Hapoalim has presented a complex and in-depth process of identifying material issues for reporting. Indeed, social changes do not occur overnight, but three years after presenting a certain materiality process, it is time to examine whether it is in line with the economic and social issues that are currently on Israeli society's agenda in general, and on the agenda of the banking industry in particular.
- **Incorporating the UN's Sustainable Development Goals (SDGs)** - in this GRI report and its commitment to the Global Compact goals, Bank Hapoalim is committed to the global agenda of sustainable development. One of the key documents approved by the United Nations in late 2015 was the UN's Sustainable Development Goals, also known as the SDGs. They include 17 global, social and environmental goals. It would be worthwhile if the Bank Hapoalim address these key significant goals in its future reporting processes.

Sincerely yours,

Liad Ortar, Director
Corporate Social Responsibility Institute
College of Law and Business

The Corporate
Social Responsibility Institute

Carbon Footprint

Work Method

Our work is based on accepted principles for calculating and marking carbon developed by the UK Government's Technical Working Group. The data was adjusted to Israel as part of a system for recording greenhouse gas emissions in Israel, Operating Rules and Reporting Guidelines, the Samuel Neaman Institute and the Ministry of Environmental Protection, March 2016. The emission coefficients used for the calculation are the national emission coefficients published by professional entities, such as the Public Utilities Authority - Electricity, the Central Bureau of Statistics and the Samuel Neaman Institute at the Technion. The consumption data was provided by the bank and are its responsibility. As at the date of preparing the report, the Ministry of Environmental Protection has not published the emission coefficients for 2017, and therefore, the bank's carbon footprint calculation is based on the emission coefficients for 2016.

Calculation and Reporting of the Carbon Footprint of Bank Hapoalim

In 2016, the bank continued the ongoing measurement of its carbon footprint. This follows the transition to characterizing the carbon footprint in accordance with accepted international standards in 2008-2015 and reporting to the Israel Greenhouse Gas Registry that opened in 2010. In 2016, Bank Hapoalim's total carbon footprint was 61,082 tons CO₂eq. Greenhouse gas emissions from the bank's current activities derive mainly from power consumption by headquarters, the branches and other facilities (72.1%), the bank's vehicle fleet (11.6%), paper consumption (6.6%) and construction (4.7%). It should be noted that out of the total carbon footprint of the bank for 2016, 9,891 tons CO₂eq are included in Complex 3 (voluntary reporting). Excluding Complex 3, the total footprint would have been 51,191 tons CO₂eq. The bank's reduced carbon footprint in 2016 compared with 2015, is minor - 430 tons CO₂eq, which represents a 0.7% decrease. This annual reduction is mainly due to a 16% decrease in the bank's fuel consumption and a 25% reduction in its construction work. Notably, of the total carbon footprint data of the bank for 2015, 10,980 tons CO₂eq are classified as Scope 3 (voluntary reporting). Excluding Scope 3, the carbon footprint would stand at 50,531 tons CO₂eq.

Summary of Findings

The following are the most significant changes in the emissions composition:

- **Power consumption:** The bank's total consumption data for 2016 shows a year-on-year increase of approximately 2%. The total increase in consumption arises mainly from the power consumption by the Rotem site, where the bank's backup facility is located. The site began operating in 2015, and was partially active throughout the year; its annual consumption was 3.4 million kWh. In 2016, additional parts of the facility became operational and consumption increased significantly, reaching 6.3 million kWh and accounting for the bulk of the increase in the bank's overall consumption. When excluding the Rotem site data, the bank's power consumption decreased from 2015 to 2016 by 1.3%.
- **Fuel consumption:** In 2016, the bank's fuel consumption decreased by 16%. The main reason for the decrease in consumption was the bank's use of energy-efficient vehicles (with turbocharged fuel stratified injection (TFSI) that significantly improves fuel savings;
- **New construction:** A 25% year-on-year decrease of emissions was the result of a decrease in the bank's construction work compared to 2015;
- **Paper consumption:** there was an additional reduction (in addition to the trend recorded in recent years) of approximately 3% in the volume of emissions as a result of paper savings compared to 2015;
- **Cooling gases:** There was no significant change in the use of air-conditioning gas in 2016 compared to 2015;
- **Sewage:** Emissions from the treatment of sewage generated by the bank's employees are now under the responsibility of purification facilities - according to the Emissions Reporting System guidelines.

Components in the Calculation of the Carbon Footprint of the Bank

- The bank monitors and calculates greenhouse-gas emissions caused by electricity consumption, use of the vehicle fleet, consumption of paper and ink, emission of coolant gases, purchases of electronic equipment, new construction and renovations, employee flights and hotel stays, and water consumption.
- The bank monitors and measures the reduction of greenhouse-gas emissions at source achieved by recycling paper, cardboard, ink, electronic waste, and soft-drink bottles.
- The preceding reports of the bank presented the reduction of greenhouse-gas emissions at source as a result of direct banking; however, a decision was made not to include this information in the presentation of the bank's carbon footprint in this report. This component is difficult to quantify, due to the lack of thorough research on this subject and the inability to measure and assess the true savings in paper consumption, transporting of paper through the entire supply chain to the online-banking customer, emissions resulting from customers' use of the Internet, and in particular the reduced number of visits to the bank using private vehicles. Furthermore, emission cutbacks are based on the principle of additionally – i.e., an addition relative to the business as usual scenario. Given that the use of electronic banking today is considered as "business as usual" scenario, this aspect is not considered as incremental datum.
- It should be noted that extensive activities with environmental and social significance described in this report are not reflected in quantitative terms in the calculation of the reduction of the bank's carbon footprint. The collection of fluorescent light bulbs, including mercury removal and safe disposal, as well as the separate collection and disposal of batteries, contribute to the reduction of various pollutants and toxins in employees' environment, in waste-disposal facilities, and in the environment in general, but do not reduce the emission of greenhouse gases.
- The bank does not measure greenhouse-gas emissions from employees' travel in private vehicles, production of solid waste, advertising, travel by suppliers and customers, consumption of disposable plastic, gardening services, and cleaning services.
- Beyond the activities within the bank, a noteworthy effort is the significant expansion of the project for separation of electronic waste, initiated and operated by the bank, to additional Israeli towns; there is no doubt that this worthwhile project contributed to higher public awareness and more accessible recycling in this area.

The Corporate Social Responsibility Department

BDO Consulting Group
May 2017

