BANK HAPOALIM SUSTAINABILITY REPORT 2015

Economic, Social & Environmental Responsibility







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Message from Bank Hapoalim Chairman Mr. Yair Seroussi and CEO Mr. Arik Pinto

We are proud to present the annual sustainability and corporate social responsibility report of Bank Happalim for 2015. The work presented in the ninth corporate responsibility report published by the bank is an expression of our commitment to broad circles of stakeholders, and to our relationship with them: our shareholders; our customers – the households and businesses that drive the economy; our employees and suppliers across Israel; and Israel's community and society, in which we operate, from which we draw our strength, and to which we continue to contribute by promoting a wide range of financial, social, and environmental causes, as part of the realization of the bank's vision and leadership in the area of sustainability and social responsibility in Israel.

In 2015, the bank continued to implement its strategic outline for 2013-2015, while formulating its strategic plan for the coming years, aimed at further reinforcing the bank's standing as Israel's leading financial institution. The structural change

carried out by the bank within this process included the creation of new areas: the Innovation Area, and an area dedicated to relationships with the public and with stakeholders. These are not semantic changes. We are approaching this move from a position of strength, but with a sense of urgency, in the understanding that it is vital for us to prepare and change at this moment in time. Excellence in business and technological innovation are not enough to maintain our leadership; we must also be dedicated to social responsibility and to values-driven, human dialogue with the bank's stakeholders.

As the largest bank in Israel, in 2015 we continued to serve our customer base through our branches and a range of technological channels. Every element of the service provided to our customers is focused and customized according to the needs of the various target groups within the population. This year, we demonstrated our commitment to growth drivers. by focusing on population segments whose

economic activity is growing faster than the average pace of growth of the economy, with an emphasis on strengthening technological infrastructures, innovation, and creativity.

Bank Hapoalim is a leader of the digital revolution, investing immense resources in the development of technological infrastructures and in outstanding professional personnel. The rapid technological changes have presented opportunities to improve service and to strengthen and empower our customers. In recognition of the changes in many of our customers' habits, the network of services offered by the bank has been adapted to their needs and preferences. For this reason, in 2015, we launched our digital branches, which are among the most advanced in the world. For the same reason, over the last few years we have introduced an extensive range of smart digital tools, designed to help our customers attain better control over their finances. These tools enable customers to receive personalized, processed information and recommendations. Within this process and the promotion of fintech in general, we are creating collaborations with various stakeholders and organizations for the continued development and application of advanced digital technologies in the future.

We accord high importance to the promotion of financial freedom for our customers, and we act in many areas, using a range of means, to assist our customers in gaining better control over their future. Towards that end, we process the relevant information for our customers and offer them the tools necessary in order to access and use this information. Access to financial information is insufficient in itself: it is our role as a bank to serve as the customer's financial guide, to equip customers with the proper tools in order to cope with this information, and to help them make decisions. Accordingly, we are continuing the strategic drive for the population group of adults nearing or after retirement, the "New Seniors." Over the last year, we continued

to promote a specialized package of services targeted to this group, including pension and financial advice, targeted products, and products and solutions designed for families, in order to help New Seniors orient and adapt to their new reality. Concurrently, the bank is engaged in working to alleviate the social challenges faced by the senior-citizen population in Israel, through establishing joint initiatives in the public sphere with several organizations (non-profits. social organizations, and business organizations) active in this field.

The bank has also continued to deepen its activity in the small-business segment, in recognition of the importance of this sector to the Israeli economy and the revenue potential inherent in strengthening small businesses. The bank held the leading market share in credit for small businesses in Israel in 2015, at 32.3%. Our commitment also takes the form of a stronger value offer, the creation of new products, and continually available guidance and advice for this customer segment. The Small Business Day tradition has become an integral part of our activity, involving tens of thousands of Israeli businesses in an initiative that benefits them both financially and in terms of marketing.

The bank has continued to act to promote growth in the Arab-Israeli sector. Economic development in this sector has attendant social consequences with a positive effect on the economy and on society. Over the last few years, we have doubled the number of branches of the bank in Arab-Israeli towns; three new branches targeted to this sector were opened over the last year. We offer the most extensive

from

Yair Seroussi Chairman of the board of directors

The achievements mentioned here, and described in detail in this report, are realized thanks to the devoted efforts of the employees and managers of the bank. Our emphasis on the promotion of technological innovation in our interaction with customers is accompanied by extensive investment in quality of life for the employees of the bank. Our management tier, more than 50% of which is composed of women, is a source of pride for us and an example to other businesses in Israel. Another aspect of the excellence of the bank's employees is the high percentage of employees who hold academic degrees, which soared by approximately 40% over the last two decades. The bank encourages

network of banking services for the Arabicspeaking population in Israel. In addition to business solutions adapted to this sector's needs, we have met with various parties within the Arab-Israeli community, and we continue to promote initiatives for the benefit of this community, as part of the strengthening of the bank's relationship with the Arab-Israeli sector.

Bank Hapoalim led the market in financing projects that promote environmental sustainability this year, as we have done consistently over the last few years. Alongside our ongoing activity in areas such as solar energy, desalination, and the construction of power plants fueled by natural gas, in 2015 we expanded into additional areas, as the bank financed the largest project in Israel for the production of wind energy. We are currently considering financing additional projects in this field. The practical significance of infrastructure projects in these areas is to achieve a cleaner environment in the future, for all of us.

its employees to study, and grants tuition aid to employees. These are among the factors that create the unique work environment at the bank.

The bank dedicates great energy to nurturing and strengthening its relationship with the community in Israel, viewing its significant investment in community causes each year as a privilege and an opportunity to contribute to the resolution of social challenges. In 2015, the bank promoted and supported hundreds of social initiatives and organizations active in Israel. The focus of these activities is education, as the means for the promotion of equal opportunities, and financial education, in line with the core activity of the bank, although a range of other causes were also addressed. Part of the contribution and assistance given to the various organizations is the volunteer work conducted by employees of the bank in the community throughout the year, as an integral part of the fabric of Israeli society.

The bank's wide-ranging activity in the area of sustainability and corporate social responsibility has led to business achievements, and has earned recognition from analysis firms and in local and international ratings. This recognition has positioned the bank at the forefront of the global banking industry in this field. The bank is also committed to the ten principles of the UNGC (United Nations Global Compact), which promotes economic development that is beneficial to the community and to future generations. Within the bank's leadership, in future years we will continue to work to promote and deepen sustainability and social responsibility at the bank.



Arik Pinto CEO



Message from the Head of Corporate Social Responsibility

This is the ninth report to be published by Bank Hapoalim for its stakeholders. Each report surveyed a full year of activity within our overall sustainability and corporate social responsibility plan. The annual reports published since 2007 reflect varied, thorough, systemic, 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 2015, as part of the strategy of the bank, 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 2015, 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 calendar year 2015, and is current as of the end of the first quarter of 2016. During the reported period, there were no significant changes in the type of ownership,

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 fairness of our reporting, on four levels: the corporate social responsibility implementation process; the fairness of the report pursuant to GRI guidelines; the completeness of the report on our carbon footprint; and compliance with GRI guidelines for reporting on substantial subjects. The

structure, or size of the bank. This report was prepared in accordance with the GRI:G4 Guidelines, at the most advanced level of transparency (In Accordance -Comprehensive). 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 reported period. The information is organized in a comprehensive database encompassing data on the reported period as well as multi-year data (see p. 12-13). All of the information in the report is presented through 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. Estimates and evaluations, where used, were diligently checked and validated, and are clearly noted in the report. The report does not address CSR impacts of Isracard Ltd¹. Isracard is preparing to publish an independent CSR report, according to the schedule delineated by

report was submitted for the GRI Materiality Disclosures Service, and GRI confirmed the correctness of the locations of the G4 materiality disclosures (G4-17 - G4-27).

In this edition, we have chosen to include photographs by Israeli artists that portray various aspects of the composition and texture of Israel's society and community.

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. 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.

I 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.

Avraham Bar-Ilan

Head of Corporate Social Responsibility avraham.barilan@mailpoalim.co.il

The best interests of the customer





Supporting the peri-retirement segment **Tens of**

thousands

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

(J))

Poalim Recovery

Over

50,000

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

Credit for environmental products in the sustainability sector



NIS 6.63 billion for projects in solar energy, desalination, natural gas, and more



NI

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





Empowerment of society and the community



Economic value for the bank's stakeholders

s10.7



Promoting equal opportunities in the community

over 85,000

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



Community donations

NIS 500 billion

invested by the bank in various community causes since 2004



Embedding corporate responsibility considerations in purchasing



of the bank's suppliers are small or micro-business

Volunteering by employees of the bank

3,500 employees volunteered regularly nationwide

Employees' quality of life and well-being



Promoting workplace diversity

employees of the bank come from underemployed population segments



College-educated employees



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

| <u> </u> |
|----------|

Hiring new employees

external agency workers were hired as employees of the bank in 2007-2015





Paperless branch

million pages



Carbon footprint



reduction of carbon activities aimed at cutting footprint from 2010 to 2015; down on paper use, saving carbon footprint in 2015: 61,511 tons CO2eq





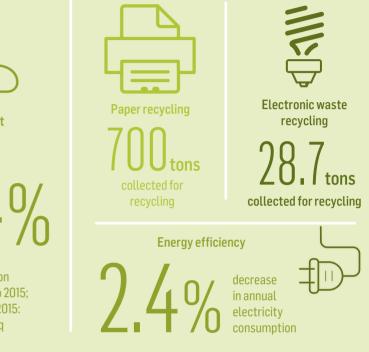
women



Training and development of human capital

days of study for employees of the bank

Living with the environment



Bank Hapoalim CSR performance

| Field | Metric | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|-----------|-----------|------------------|------------------|------------------|
| General data | | | | | | |
| Bank profile | Total revenues (NIS M.) | 13,088 | 13,637 | 13,664 | 14,022 | 14,362 |
| | Number of employees of the bank | 10,206 | 10,124 | 9,745 | 9,283 | 8,898 |
| | Number of branches of the bank | 298 | 298 | 286 | 277 | 267 |
| Best interests | of the customer | | | | | |
| Credit | Total credit for small businesses (NIS B.) | 22.8 | 24.3 | 26.2 | 29.3 | 32.4 |
| granted for promotion | Additional credit earmarked for small businesses beyond the ordinary course of business (NIS B.) | - | 2 | 2.15 | 3.5 | 3.5 |
| of social/ environmental causes | Cumulative credit for environmental projects and products (NIS B.) | - | - | 8.15 | 6.66 | 6.63 |
| Promotion of small | Number of businesses participating in Small Business Day | - | - | 35,000 | 37,000 | Not measured |
| ousinesses | Number of businesses in the CashBack Club | - | 1,000 | 5,000 | 7,000 | 8,000 |
| Financial freedom | Number of users of budget management application (cumulative) | 240,000 | 260,000 | 400,000 | ~500,000 | ~500,000 |
| | Number of active online accounts | 1,000,000 | 1,000,000 | 1,200,000 | 1,200,000 | 1,300,000 |
| Service in a | Number of users of mobile banking services | 600,000 | 600,000 | 650,000 | 650,000 | 735,000 |
| nulti-channel | Number of users of the bank's applications | - | - | 500,000 | 610,000 | |
| world | Number of active accounts at the call center | 700,000 | 700,000 | 750,000 | 700,000 | 1,000,000 |
| | General percentage of justified queries – Bank of Israel data (%) | 23% | 26.6% | 27.3% | 14.4% | 9.2% |
| Processing customer | Percentage of justified queries concerning privacy and banking confidentiality (%) | 12% | 13% | 10% | 0% | 7% |
| queries | Number of branches serving the Arab-Israeli sector | 37 | 36 | 36 | 38 | 41 |
| Accessibility of service | Number of branches in towns with extensive religious and ultra-orthodox populations | 22 | 22 | 23 | 23 | 20 |
| to a diverse | Number of accessible branches | 20 | 22 | 22 | 23 | 23 |
| range of customers | * Branches with an Accessibility Seal from the Access Israel organization | 110* | 107 | 116 | 155 | 226 |
| | Number of ATMs accessible to blind users | 70 | 65 | 316 | 316 | 316 |
| - | Percentage of branches outside central Israel (beyond the area from Gedera to Hadera; in %) | 45% | 45% | 45% | 40% | 35% |
| Empowerment | t 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) | 8,689 | 9,310 | 9,800 | 10,231 | 10,226 |
| Promotion of | Percentage of purchasing from Israeli sources | - | - | 98% | 98% | 93% |
| responsible purchasing | Percentage of purchasing from small and micro- businesses | - | - | 30% | 21% | 15% |
| Investment | Community donations and investments (NIS M) | 47 | 48 | 46 | 47 | 43 |
| n the | Donations of computer systems (NIS M) | 0.92 | 0.5 | 0.83 | 0.32 | 0.39 |
| community | 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 |

* A retroactively amended figure is presented, based on a revision of 2014 data.

| Field | Metric | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|---|------------|------------|---------------------|---------------------|---------------------|
| Investment in the | 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 |
| community | 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 |
| | Number of participants in activities of organizations supported by the bank in other social areas | - | - | At least 75,000 | At least 58,000 | At least 65,000 |
| Employee | Number of employees of the bank who volunteer | 2,700 | 3,000 | 3,200 | 3,000 | 3,500 |
| volunteering | Annual volunteering hours | 160,000 | 110,000 | 125,000 | 124,000 | 148,700 |
| Employees' qu | uality of life and well-being | | | | | |
| Employment profile | Employees under a collective agreement (%) | 93.5% | 93.2% | 93.1% | 91.7% | 91.3% |
| Diverse | Percentage of women at the bank (%) | 64.6% | 64.6% | 65% | 65% | 64.6% |
| employment | Percentage of female executives at the bank (%) | 49.6% | 50.7% | 51.7% | 51.5% | 52.1% |
| | Percentage of women on the board of directors of the bank (%) | 33% | 33% | 33% | 33% | 33% |
| | Percentage of minorities at the bank (%) | 5.9% | 5.2% | 5.3% | 5.1% | 5.4% |
| | Percentage of hires from under-employed sectors, of total annual hiring | - | 17% | 20% | 17% | 20.5% |
| Training and development of human capital | Percentage of academic degree holders at the bank (%) | 56.6% | 57.6% | 59.5% | 62.4% | 64.4% |
| | Number of learning days at the bank | 74,300 | 68,000 | 56,200 | 61,400 | 49,600 |
| | Average hours of learning per employee | 54.6 | 54.1 | 46.1 | 43 | 38.1 |
| Channels for dialogue for | Dialogue sessions for employees with the CEO and members of management of the bank | 57 | 45 | 44 | 43 | 28 |
| employees | Percentage of employees who received feedback (%) | 99% | 99% | 99% | 99% | 99% |
| Living with the | e environment | | | | | |
| Energy | Total electricity consumption (kWh) | 94,058,465 | 93,600,417 | 90,616,904 | 86,567,004 | 84,579,10 |
| consumption | Electricity consumption per m2 (kWh) | 300.7 | 299.7 | 294.1 | 284.6 | 278.4 |
| and efficiency | Percent annual change in electricity consumption (year on year, %) | -3.0% | -0.49% | -3.2% | -4.5% | -2.3% |
| | Diesel fuel consumption (L) | 3,516 | 15,000 | 11,752 | 10,840 | 102,275 |
| | Gasoline consumption (L) | 3,574,235 | 3,440,152 | 3,448,047 | 3,537,444 | 3,599,730 |
| Consumption | Paper consumption (tons) | 1,919 | 1,791 | 1,668 | 1,458 | 1,421 |
| of materials | Annual savings in paper consumption (tons) | 168 | 128 | 123 | 210 | 37 |
| | Consumption of ink and toner cartridges | 23,399 | 28,003 | 21,700 | 21,370 | 17,035 |
| Recycling | Paper recycling (tons) | 1,067 | 1,380 | 987 | 1,352 | 700 |
| and | Cardboard recycling (tons) | 14 | 20 | 18 | 40 | 13 |
| esponsible emoval of | Recycling of electronic waste at the bank (tons) | - | 17 | 15.8 | 44 | 28.7 |
| waste | Recycling of bottles and beverage containers (units) | 130,000 | 150,000 | 110,000 | 108,000 | 101,843 |
| | Collection of construction waste (m3) | 3,820 | 3,298 | 2,526 | 2,168 | 2,526 |
| | Collection of batteries (kg) | 470 | 800 | 960 | 280 | 240 |
| | Collection of fluorescent bulbs (units) | 8,000 | 14,000 | 18,560 | 6,740 | 2,680 |
| Carbon | Total emission of greenhouse gases (tons CO2eq) | 106,593 | 101,696 | 94,342 | *70,623 | 61,511 |
| footprint | Percent annual change in greenhouse-gas emissions (year on year, %) | -0.2% | -4.6% | -7.2% | *-25.1% | -12.9% |

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 indepth 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.

THE CLIENT'S WELLBEING **IS IN OUR HANDS**

CLIENTS, PRODUCTS AND SERVICES

- Value creation for customers:
- Answering the client's needs throughout the life cycle
- · Providing accessibility to a variety of services regardless of time and place
- · Service, complaint management and customer satisfaction
- Green products and services
- Credit based on environmental considerations
- Designated service for special populations Enriching the financial knowledge
- of the customers

EMPLOYEES' WELLBEING IS IN OUR HANDS

RESPONSIBILITY TOWARDS THE EMPLOYEES

- Dialogue, sharing and transparency
- An arena for personal and professional development
- Solidarity and friendship
- Wellbeing of the employees and their family Equal opportunity

EMPOWERING THE SOCIETY AND COMMUNITY **IS IN OUR HANDS**

CREATING VALUE FOR THE

ECONOMY AND SOCIETY Value creation in distant circles of influence

- Suppliers
- Community
- Local economy

LIVING WITH THE **ENVIRONMENT IS IN OUR HANDS**

RESPONSIBLE ENVIRONMENTAL

Managing logistical resources while considering the environment: Energy efficiency, paper consumption, recycling and waste management, water, green building, transportation, working environment, ergonomics etc.

RESOURCE

MANAGEMENT

TIER

VALUE CREATION TIER

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 for the various issues, 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 bottomup 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, nonprofit 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 guarterly 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.



Stakeholder Relations division

The Stakeholder Relations division was established at the bank in early 2016. The division was founded in order to lead an advanced business philosophy based on the creation of shared value for the bank and its stakeholders, with the aim of building sustainable business success rooted in social, human, and environmental values. The guiding principle of the division is "Creating Shared Value – Making a Positive Impact!" It emphasizes action with a meaningful influence on the environment and on society as a whole, intended to exert a positive effect.

Bank Hapoalim has joined leading global organizations in adopting advanced business models with a multidimensional perspective that measure additional parameters beyond the profit line, in order to give expression to the organization's impact on all stakeholders.

Selected examples of key stakeholder groups are listed below, with the ways in which the bank promoted dialogue and cooperation with them during 2015, of the hundreds of channels with the bank's extensive range of stakeholders:

| Stakeholder | Selected dialogue channels in 2015 ³ |
|-------------|---|
| Customers | Promotion of financial freedom and deeper relationships - All of the bank's branches hold customer conferences several times a year, in various content areas; training content and practical tools are developed, for budget management, financial planning, and investments, and made accessible through the website and in meetings with customers; |

- Customer conferences provide added value for customers. 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 on communications, innovation, p ersonal empowerment, and more. A total of 1,100 conferences were held in the bank's branch network during 2015;
- 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;
- 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; 50% of sampled clients are also contacted via telephone by a manager at the branch for further learning and improvement;
- Focus groups Designed to obtain clarity regarding customers' needs and examine solutions on various matters connected to customer relationships.

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| ceholder | Selected dialogue channels in 20 |
|-----------------|--|
| ployees | Feedback sessions with all employees of value of individual development was in th into objectives and development session |
| | Regular roundtable meetings with employ for dialogue and feedback, throughout the feedback is the feedback |
| | Employee union – The union's work wit (updates, feedback, and consultation) ar |
| | Mobility and transfer processes – The p staffing and full absorption at the new un |
| | Dialogue with managers – Regarding n bonuses, etc.), and more; |
| | CSR zone of the organizational portal – request help from various content exper credit given to the employees who sugge |
| | Dialogue with new employees of the ban closing sessions for introductions, mutual |
| pliers | Conferences for the bank's suppliers, transportation, construction, printing, off emphasis on purchasing, as well as con and sales promotion; |
| | Communication of the bank's CSR value letters and the ethical code for suppliers |
| ernment | Meetings and lectures for the exchange of second second |

| nment | Ivieeurigs and iec |
|----------|--------------------|
| unicipal | agencies. Joint p |
| ies | |



2015³

of the bank, and midterm objectives tracking sessions with employees – The n the spotlight in 2015, and objectives tracking sessions were transformed ions;

ployees are held by the CEO and by members of the board of management, t the year;

with management and employees is characterized by continual dialogue and partnership in all key initiatives and everyday processes;

e process includes preparation, support, and personal consultation until unit are complete, through ongoing contact;

g manpower needs, organizational changes, annual processes (ranking,

II – Employees are invited to suggest ideas and tips, ask questions, and berts. Some of the ideas and tips are posted in the content sections, with ggested them. The ideas are considered, and some are implemented;

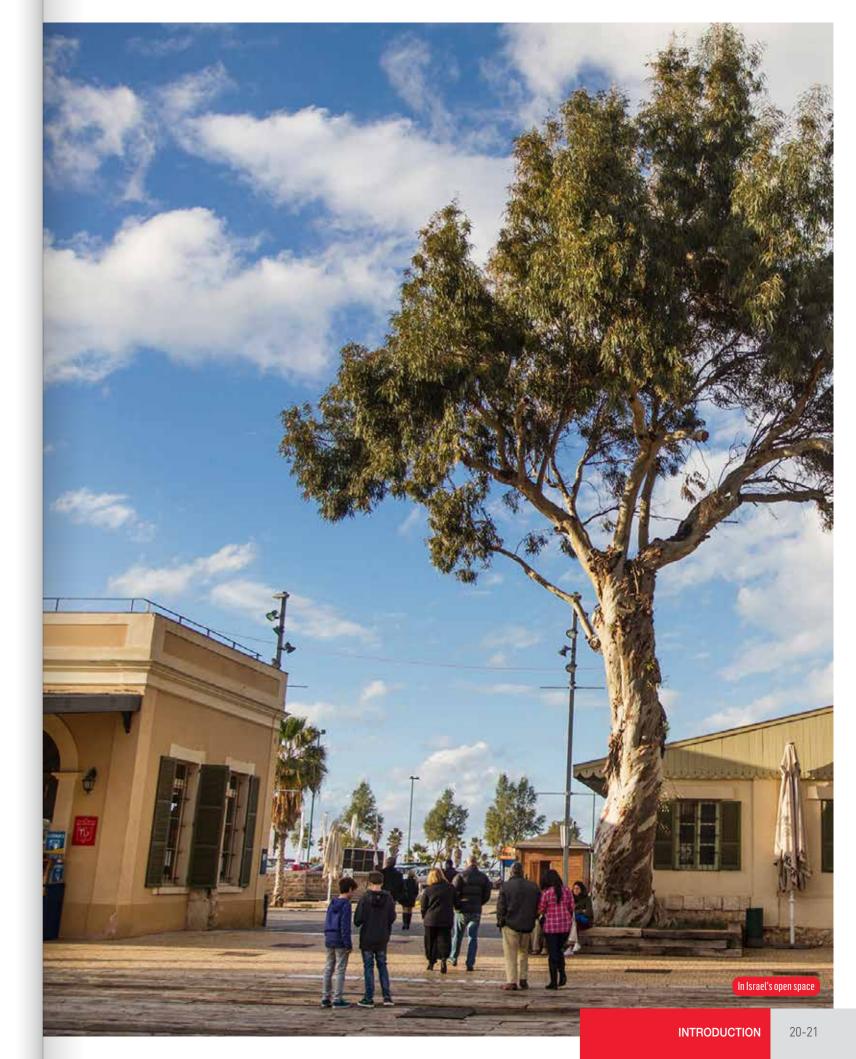
ank – Welcome meetings; orientation days; course opening, midterm, and tual coordination of expectations, feedback, etc.

rs, attended by hundreds of suppliers from various fields (consulting, office supplies, food, and more). Professional content is imparted, with an content with added value for suppliers in the areas of banking, marketing,

alues to the general population of suppliers of the bank through periodic ers.

ctures for the exchange of knowledge and insights with representatives of government and municipal projects aimed at addressing environmental and social issues are promoted in this context.

| Stakeholder | Selected dialogue channels in 2015 |
|--|--|
| Community and environmental organizations | New Seniors – As part of the bank's efforts to promote these issues in the public sphere, it conducted dialogue with many stakeholders engaged in this area, including the organization Joint Israel; the Israel Association of Community Centers; the Israeli Forum for Diversity Hiring; the non-profit organizations Vehadarta, Milbat, Matav, and Caregivers; the Equal Employment Opportunity Commissioner; business organizations that work with senior citizens; academics; government ministries; representatives of the corporate social responsibility community; and professionals and entrepreneurs in this field; |
| | Relationships with non-profit organizations including Adam Teva V'Din - the Israel Union for Environmental Defense, Life & Environment – The Israeli Union of Environmental NGOs, Olim Beyahad – Leadership and Employment Excellence for Ethiopian-Israeli University Graduates, Tevet, and others active in the content areas relevant to CSR, in order to receive feedback, exchange knowledge, and offer mutual assistance; |
| | 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, IT Works – Empowering People, 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 | 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; |
| | Individual meetings with students for assistance, study, and enrichment on CSR topics; |
| | Project for installing recycling facilities and instilling environmental conduct at the College of Management campus and at Bar Ilan University (see details in the "Community" section); |
| CSR | Contact and professional dialogue with Israel's leading business organizations and CSR managers; |
| community | Maala – Shared discussion and mutual assistance in facing professional problems and challenges; |
| | Lectures on CSR at relevant venues (courses, conferences, etc.). |



Defining Material Aspects - GRI:G4

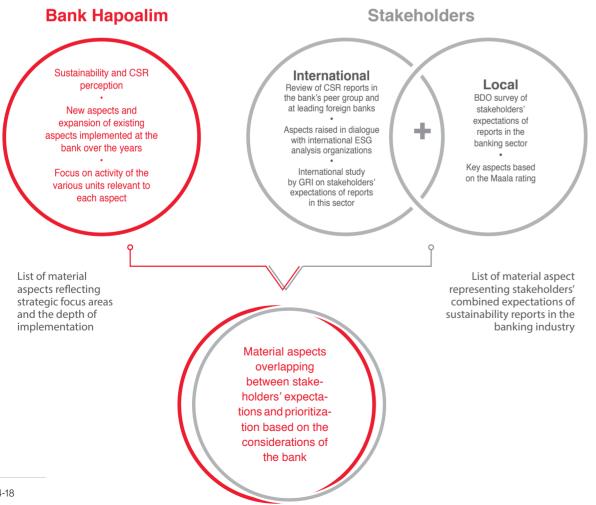
Since 2008, the bank has reported on its activities and impact in the area of sustainability and CSR in compliance with the recognized GRI international reporting guidelines. All of the bank's sustainability reports were prepared according to the highest transparency level, in compliance with the various guidelines. The bank complies with the current GRI:G4 reporting guidelines, at the most advanced level of transparency: "In Accordance - Comprehensive,"

The reporting framework require the bank to focus its report on the aspect most material to its activity, in accordance with

its strategic approach, while addressing the expectations of its various stakeholders. Material aspects 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 aspect 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 aspects determined in an integrated internal and

external process⁴, with guidance from the BDO Ziv Haft Sustainability and CSR Group. A summary of this process is presented in the diagram below. For further details, see the bank's two preceding reports. In advance of the preparation of the current report, the material aspects and the content areas presented in the report were updated, relative to the bank's last report, based on feedback from external stakeholders of the bank. This process is presented on the following page.

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



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

During the bank's dialogue with external stakeholders throughout the year, the bank receives feedback on its sustainability and CSR reporting from various parties. After the publication of its previous report, the bank focused on stakeholder feedback from two main sources for the preparation of the current report:

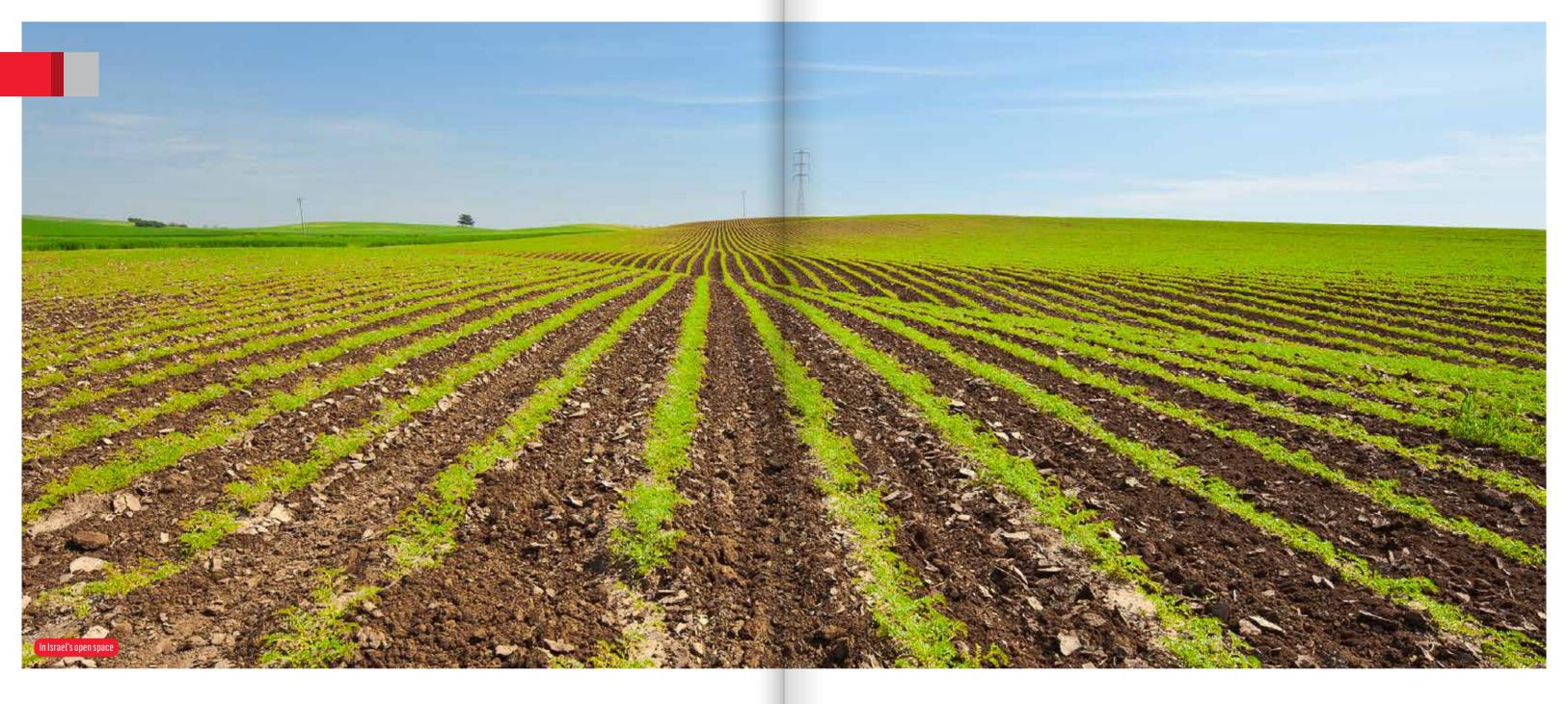
International analysis and rating firms - Dialogue with international analysts who are in routine contact with corporations all over the world offers the bank valuable insights

| | | | | Fign in | iportance top | DIC | | |
|--|---|--------------------------|-------------------------------|--|--|-------------------------|---|--|
| Diversity of customers and sectors | Customer privacy | рор | vantaged pulation roups | Ethics and prevention of corruption | Inclusion of environmental and social considerations in credit granting and financing | | Accessibility to people with disabilities | Fairness in products an services |
| | | | | Medium i | mportance to | opic | | |
| Quality of service | Complia | ance | Supply chain | Diverse employment | Appropriate work environment | Corporate governance | Advancement of the local economy | Promotion of financial literacy and knowledge |
| | | | | Low im | portance top | ic | | |
| Innovation in products and services | Environm aspects improve of operat efficien | in the ment tional | | yee training evelopment | Marketing communication | Community investment | Employee volunteering | Business continuity |

regarding current trends in the global CSR field and material issues for the banking sector.

Round table with external stakeholders - A targeted dialogue focused on feedback on the CSR reports of Israeli banks. This process included discussions with stakeholders external to the bank who represent various parts of the economy and society of Israel. Moderated by the BDO Sustainability and CSR Group in the first quarter of 2016, this dialogue focused on examining and establishing the boundaries of the material topics in the area of CSR on which Israeli banks should report. Fifteen representatives of academia the capital market, the Israeli CSR community, organizations representing businesses, private customers, and social and environmental organizations participated. At the end of the process the stakeholders established the following list of reporting topics:

High importance topic



After the various aspects that emerged from both sources were reviewed and considered at the bank, a high degree of congruence was found between the information presented in the bank's sustainability and CSR report and in the relevant area of the bank's website, and most of the topics in the stakeholder feedback. A comparison of the table above to the list of material topics established by the bank, presented on the following page, illustrates this consistency. The bank updated and expanded several of the topics in the report based on the feedback it received:

The topic of information security and customer privacy was classified as a material topic. This topic had already been presented in earlier reports, and is a material topic at a high level of importance, in view of the critical importance of cyber threats and information-security risks, which are progressively occupying a more significant place in the financial organization management space.

Community investment – The bank determined that investment in the community (Poalim for the Community) and employee volunteering (Poalim Volunteers) constitute a single topic, rather than two.

- Increase in various aspects of transparency in the report - The bank is expanding the following topics in the report, in certain new respects:
- **Fairness to customers –** Presentation of the specialized treatment of customers experiencing financial difficulties (Poalim Recovery) and various initiatives for fairness in the promotion of customers' financial knowledge.

- Wage gaps between men and women - A comprehensive effort was directed at equalizing wages; a summary is presented in the report.
- Information security and customer privacy - The presentation of this topic was expanded, with an emphasis on the principles for protecting customers' privacy.
- Environmental risk management in financing - Detailed and quantitative presentation of this activity over the reported year.

Diverse employment – Presentation of additional quantitative data about the diversity of the employees of the bank, not shown in previous reports.

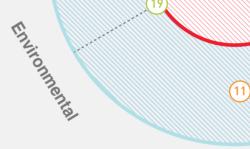
Ethics in marketing and advertising - Description of the work performed to establish ethical rules for marketing and advertising activities, a process conducted during the reported period.

List of Material Aspects for Sustainability Reporting at Bank Hapoalim⁵

In accordance with the CSR Flower model, the material aspects 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. The material topics for the CSR and sustainability report are listed below:

- 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 periretirement ("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 financina.
- 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 intraorganizational 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.



(7

Economic

(9)

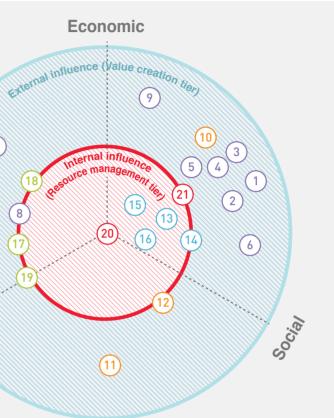
CUSTOMERS

- 1. Promotion of customers' financial freedom
- 2. Customer diversity and promotion of specific sectors of the economy
- 3. Leading financial freedom in a multichannel world
- 4. Service for a wide variety of customers
- 5. Information security and privacy
- 6. Accessibility 7. Development of products and services for the promotion of environmental sustainability
- 8. Examination of environmental risks in financing
- 9. Business continuity

COMMUNITY

- 10. Responsible supply-chain management
- 11. Expansion of spheres of influence
- 12. Investment in the community
- **ETHICS** laundering

5.G4-19



WORKERS

13. Promotion of a culture of dialogue and openness with employees 14. Promotion of diversity, equal opportunities, and transparency 15. Individual development and training 16. Promotion of an appropriate work environment

ENVIRONMENT

17. Management of electricity consumption and energy efficiency 18. Management of paper resources 19. Reduction of environmental impacts

20. Corporate governance and ethics 21. Prevention of corruption and money

Presentation of material topics for the report in terms of social, economic, and environmental impacts ⁶

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?

Working to Promote Financial Freedom for All Stakeholders

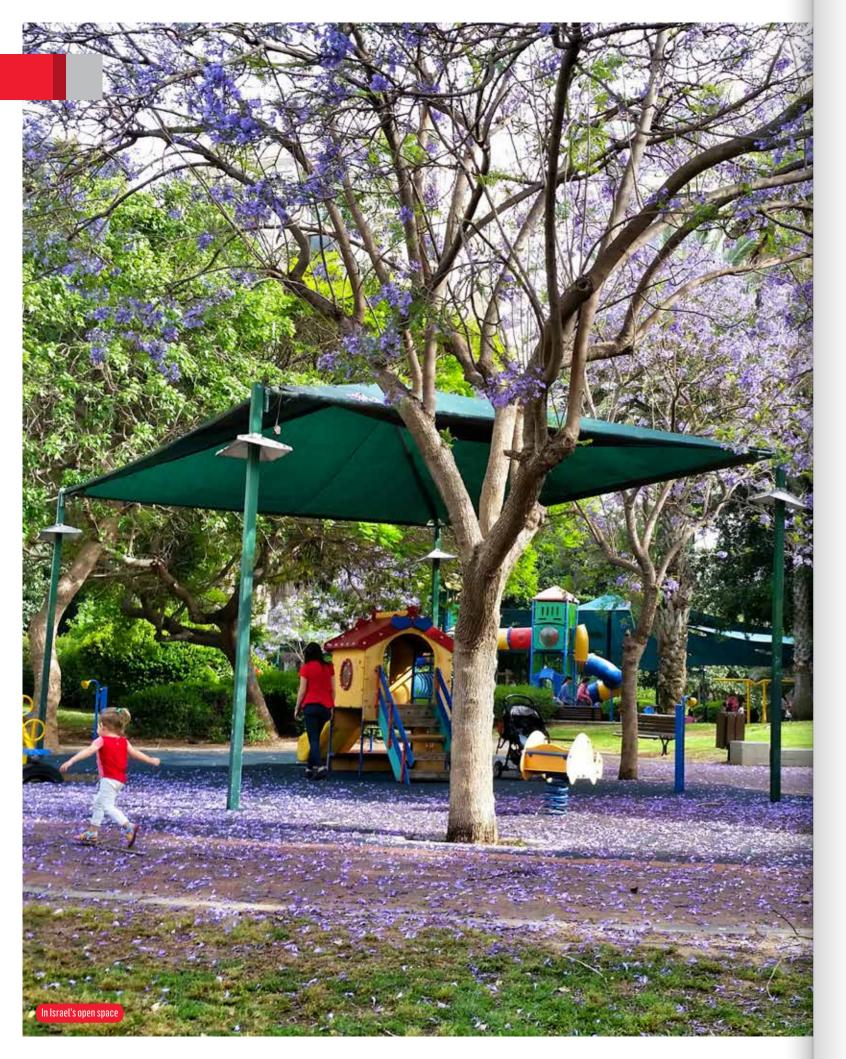
As a business leader, Bank Hapoalim has the responsibility to promote equal economic opportunities in Israeli society and economic sustainability among its customers. The bank welcomes this duty, and believes in its mission to contribute to the empowerment of the society from which it draws its strength. Every 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 in several areas of its activity, for various stakeholders: by providing financial information, raising awareness, and promoting financial knowledge for customers, employees, and the community; promoting the growth of different segments and groups in Israel, such as small businesses, the Arab-Israeli sector, and the Haredi sector; through customer clubs for various target groups at the bank; through multi-channel banking services, via telephone, Internet, mobile, tablet, etc., offering customers tools and products for prudent financial conduct; and through increased physical and virtual access to banking services. On this foundation, customers' relationships with financial institutions become more balanced and more aligned with their expectations, and they become 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 unites many participants from the government, community, and business sectors seeking a shared platform for conversation, identification of opportunities, and initiation of ventures for the promotion of financial education in Israel. The forum enables different stakeholders to join forces in order to consult, discuss, and think about solutions in this area.





Promoting **Financial**

The bank promotes financial freedom in five areas. Extensive details of the financial freedom perception are presented in the "Customers" section and in the "Community" section:

Freedom

Applications for advanced banking services.

current accounts.

Pension advice

Credit advice

Poalim Recovery | Enriching Parents | Growing Families | Wise Living | Growth Opportunities | Educational programs at the ORT network of schools | Poalim Young | Dan the Saver summer camps | Bankopedia | Professional training conferences for clients Employee and retiree volunteers – financial education lessons in the community | Financial planning course for bank employees | Coaching days for employees of the bank.

Specialized credit through various funds.

Provision of a marketing platform: Small Business Day, the CashBack Club, the Small Business Fair, the Small Business Competition, collaborations with content sites.

Information on financial subjects through the direct banking channels (website, telephone, smartphones, and tablets)

Investment advice

Savings advice



Poalim UP – tools for increased control and flexibility in managing New website – a financial partner for customers. Budget management tools, including Poalim Like Me, Budget Management Tool, setting objectives.

Savings tools and products: Dan the Saver, Save & Go, the CashBack Club, and the Poalim Gold club for senior-citizen customers.



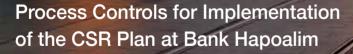


Customized professional consulting: Business Branches, the Poalim Business club for small and mid-sized businesses at the bank, professional consulting (investments, credit, foreign trade, etc.).



Information from bankers at the bank's branches and from the bank's experts on various financial subjects





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. 236).

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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 guarter of 2016.

The Corporate

In Israel's open space

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.

Social Responsibility Institute

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.

GRI-G4 (In Accordance -**Comprehensive**)

The report was submitted for the GRI Materiality Disclosures Service, and GRI confirmed the correctness of the locations of the G4 materiality disclosures (G4-17 - G4-27). The report is 'In Accordance' with the GRI G4 Guidelines - Comprehensive option.

Assimilating the Bank Hapoalim vision

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 Happalim Vision is: Leading Growth Together.

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.

The vision consists of ten values. Practical applications of these values are demonstrated throughout the sections of this report.

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

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 Innovation

Excellence

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

value for the long term.

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

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.

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.

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.

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

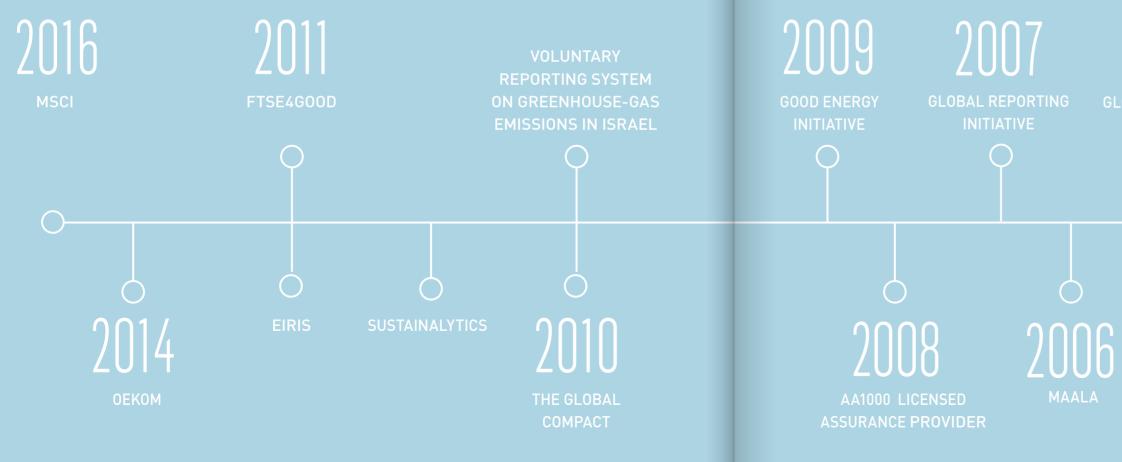
The bank adopted these principles as early as 2004, in the belief that the implementation of the principles would help achieve greater tolerance and understanding among peoples and promote a culture of peace.

Maala

Bank Hapoalim joined Maala in 2006 as a member of the organization's business leadership. In ratings assigned by Maala for 2015, based on reported data for 2014, 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. 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.



Voluntary reporting system on greenhouse-gas emissions in Israel



















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:

 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 each of the last three years, on average (2013-2015, based on the official GRI database).

The major analyst reviews and international indices that include the bank (Sustainalytics, FTES4Good, 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 1.4%-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).



Percentage of banks (including Bank Hapoalim) covered by each international index/rating, Of the banks in the peer group from "The Banker" magazine (~5,000 banks)



FTSE4Good MCSI ESG Sustainalytics OEKOM 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 sustainability and corporate social responsibility program continues to be a part of the strategic core of Bank Hapoalim. 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 economical 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:

Stakeholder Relations Area

The bank established the dedicated area due to the importance it accords to this subject, in order to work with stakeholders and create shared value for them and for the bank. 2016 will be devoted to building this area and its work plans.

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 in Israel, as a strategic effort of the bank.
- New Seniors Increased activity with this population segment. This effort includes services, products, and unique benefits for the peri-retirement 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 this sector, as part of the integration of this community with Israeli society.

- 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.
- 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.
- Innovation Area The Innovation Area began to operate at the bank in 2016. In the coming years, it is expected to collaborate with technology, cyber, and fintech companies on designing infrastructures necessary for the improvement and planning of the future of banking, based on the customer experience both using digital media and in face-to-face interactions.
- Promotion of excellence in service, by instilling the bank's service philosophy, 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 multiyear plan, including adaptation of the buildings and branches of the bank for accessibility and accessible service.

With suppliers -

Social responsibility in purchasing – 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 Cisco on research and action to promote clusters of communities in Israel, with an emphasis on peripheral areas.
- Investment in the community, through educational projects and expansion of activities aimed at promoting financial freedom in the community.

In the bank's work environment -

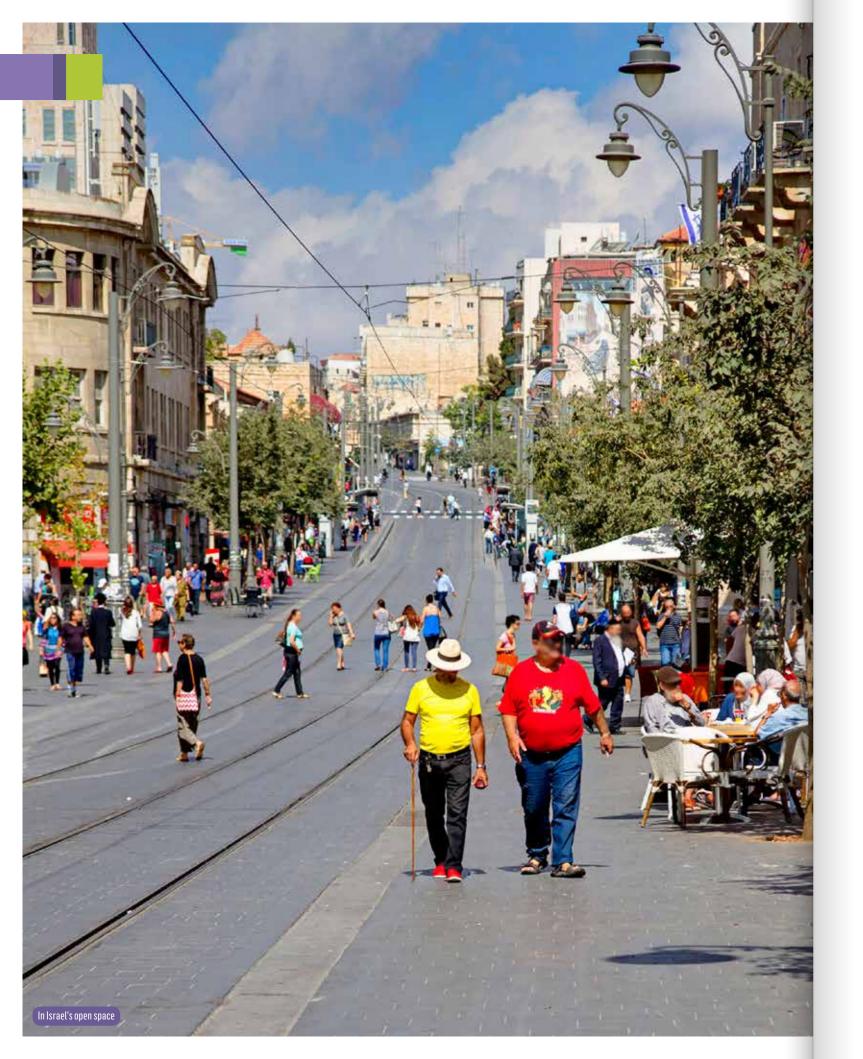
- Diverse employment Implementation of the multi-year plan for promotion of the employment of population groups underrepresented in the job market.
- Cultivation and promotion of the quality of human capital, with a focus on the employee. This includes the advancement of women in general, and in management positions in particular; encouragement of academic studies; and support for employees' whole-person well-being.

Minimization of the bank's environmental impact –

- Cutting paper consumption -Implementation of the long-term 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.







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.

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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 lowcarbon 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.

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 2015 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.

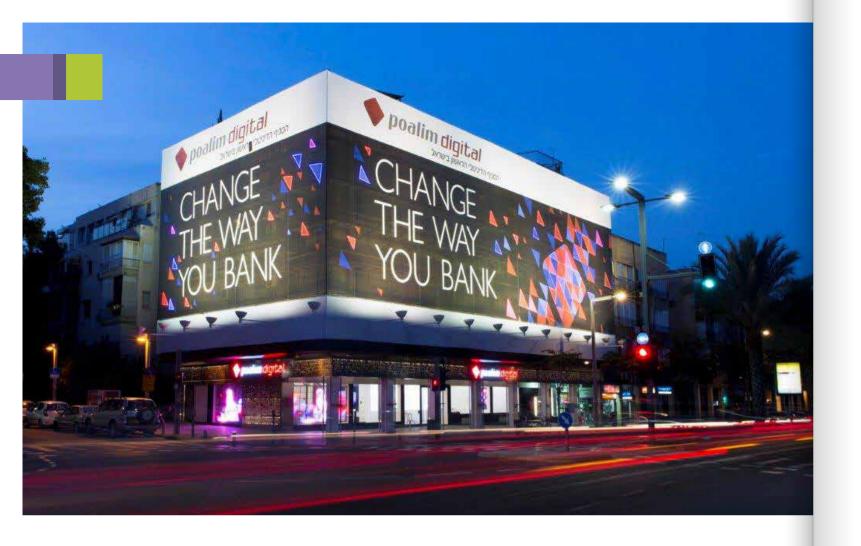
The use of bank branches also carries relatively low environmental impact, due to the broad distribution of the branches of Bank Hapoalim and the extensive network of ATMs, self-service stations, and self-service information stations located adjacent to and outside of branches. Customers can visit a branch or use a selfservice station conveniently, with minimal travel and environmental impact.





In 2015, Bank Hapoalim was selected as "the best bank in Israel" by three magazines: Global Finance, Euromoney, and The Banker.

> THE BEST INTERESTS OF THE CLIENT



The Bank's Strategic Deployment of the Network and Services

The basis of the policy is the deep realization that customers are the foundation of the bank's existence and that added value, customer satisfaction, and the provision of adequate services are the main considerations behind every decision. Therefore, the bank constantly examines their needs and adapts its distribution network, in all its diversity, accordingly.

As part of this effort, the bank makes available to households and small businesses the widest network of branches in the Israeli banking system – 245 retail branches nationwide – from city centers to the distant periphery – and provides to the vast diversity of our customers the most advanced and customized banking services for their various needs, allowing them to choose the physical location and appropriate technology platform to manage their banking activity.

A range of formats

The bank offers its customers a variety of branches adapted to the character of the region and the needs of the customers, such as boutique branches for savings and investment oriented customers, central manpower-rich branches for account transaction customers, digital branches that create an advanced banking experience for customers assisted by professional bankers, mobile branches that provide focused geographical solutions with special approval, and commercial branches that meet the needs of mid-sized and large business customers. The bank is also expanding the services provided by the branch network, such as opening pension advice centers, foreign resident centers, and a nationwide network of high-tech centers. The bank allows fast and easy transition between branches in the network in line

with customers' changing residential or job circumstances.

Customer relations

The bank branch is an anchor for managing relations with some of the customers. The network of branches is the heart of the bank's distribution system and is the point of service for customers seeking face-to-face service along with an entirety of advanced tools for carrying out selfservice transactions during and after bank hours. At the same time, the bank offers its customers digital tools for solving all their banking needs online from their homes or anywhere else with the help of mobile devices and advanced apps for managing accounts, payments, and investments. The bank also operates call centers, which make it possible to obtain banking services by telephone for customers who prefer direct contact with

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. The bank is also considering the continued deployment of branches based on an innovative digital concept, in line with the development of customer needs

a banker, but who choose not to go to the nearest bank branch.

Adapting services and service deployment

The bank's plans for the branch network include the development of new and unique formats, expanding banking services, and adapting the deployment locations. These measures are intended to create a dynamic, efficient, and flexible network that is adapted to the developing customer needs and market conditions. As a result, in the past few years, the bank has purchased and developed self-service tools based on the decision to significantly enhance the number of ATMs at the branches. Thus, in the past year, the bank purchased almost 150 self-service stations of various kinds to improve customer service, and intends to purchase many more such stations over the coming year. The bank is meticulously examining the deployment of existing selfservice stations and installs additional stations inside and outside branches, as needed and in line with their increased use.

The main principles guiding the bank's network deployment

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.

As mentioned, the bank's distribution network is dynamic, and the bank continues to review the opening of branches based on market needs and with the help of an in-house professional body, which is responsible for researching customer tastes and needs, which the bank regularly reviews and tests. The bank is also closely assisted by a top international firm, which helps with segmentation of the bank's diverse customers and with adapting of banking services and the character of branches to the needs of the various customer segments. It is important to note that the competitive dynamics in the Israeli banking market are intensifying daily, requiring the bank to be flexible and change guickly 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 brancl 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

Main branch mergers and services

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's believes is 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.

Working to Promote Financial **Freedom for Customers**

In line with the financial freedom philosophy presented in the introduction to this report, the bank promotes its customers' financial freedom on five key axes:

- Financial information Highly detailed and extensive information is available to the bank's customers, through every channel and at all times, regarding their financial assets, liabilities, transactions, and more. This information helps customers to be aware of their financial condition and of the options available to them; it serves as the infrastructure for control, consultation, and prudent life decisions in this area;
- Products and tools to promote financial freedom - Over the last few years, the bank has developed a series of products and tools designed to help its customers make prudent 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;

Personalized consulting and service - In accordance with Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law-1995, the bank provides clients that signed a consulting agreement, with a consulting service, personalized to the client's needs. This based on earlier familiarity with the client's needs, preferences and goals;

- Financial education and literacy As part of the promotion of financial freedom for its customers and for the general public, the bank has initiated efforts designed for a range of target audiences (children and adolescents, young adults, households, and seniors), according to life stage, aimed at raising awareness and enhancing financial education. 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;
- Promotion of financial freedom for small businesses - The bank works to empower and promote the financial freedom of its customers in the smallbusiness sector by developing financial

tools and knowledge adapted to their unique needs. The bank's numerous initiatives in this arena create value for businesses in three main areas: credit. expert consultation and service tailored to this sector, and the creation of marketing platforms for businesses.

Providing Financial Information

As part of the bank's effort to enhance financial freedom, it provides its customers with extensive information in various financial areas. This in order to give 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

About people have entered the Young Poalim parents' portal



More than customers use the UP Control service and tablet applications), bankers at the branches, and the bank's experts in each financial area.

Products and Tools to Promote Financial Freedom

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. The advanced user-friendly interface, the simple and clear language, and the new and clear design helps customers focus on what is most important to them. The new website offers new tools for smart money management and longterm planning:

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

My Investments and My Loans: a convenient display that concentrates

partners in the Israel Financial Freedom Forum meet regularly

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 add them to the calculation. My Objectives and Targets: the customer can set savings targets and see how close they are to meeting them.

families have participated to date in the Growth **Opportunities program**

the investments in the account and clearly shows the monthly loan payments, so customers can efficiently plan their expenditures.

The new homepage also provides a full picture of the account, allowing the customer to understand more, including: a snapshot of the account situation with the latest transactions and credit cards, deposits and savings, loans, and more; the account balance appears prominently 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 allows the setting of monthly targets. At the end of each month, customers can obtain an up-to-date snapshot of whether they met or missed the 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.

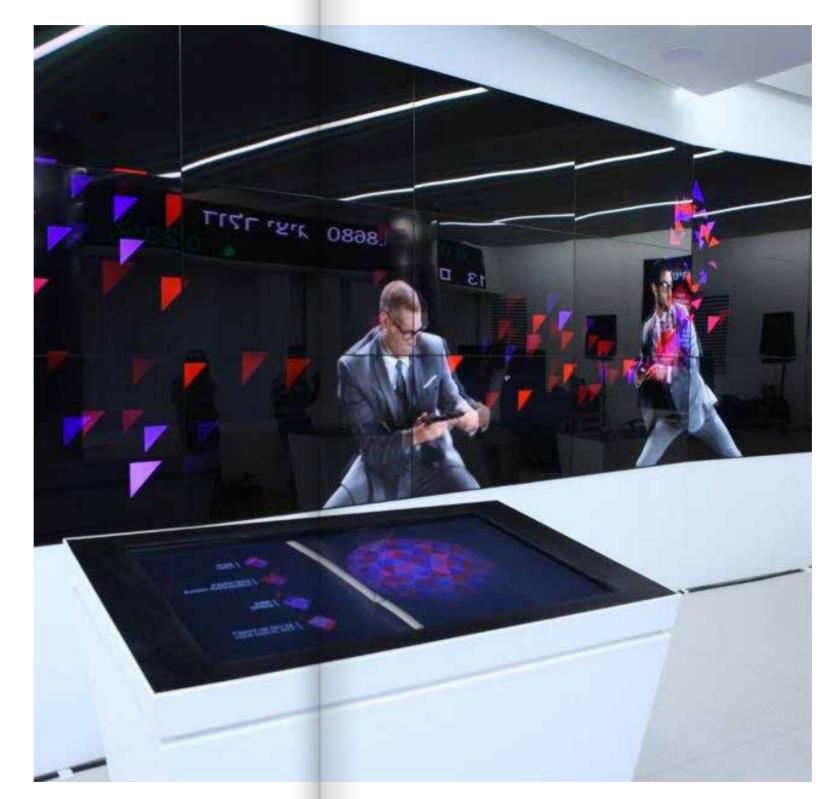
families families participated in the

fourth year of the Growing Families venture

- 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;
- 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 actions, without monitoring their account status daily. Customers set up a series of actions in advance; the actions 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 you 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 in March 2015, the bank launched a service which assists customers in monitoring current charges on their credit card 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 for 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 entering the account (the Quick Glance service). In addition, as a bank that encourages smart financial conduct, it developed Save & Go, a special savings plan for smartphones. The service makes savings accessible for 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.

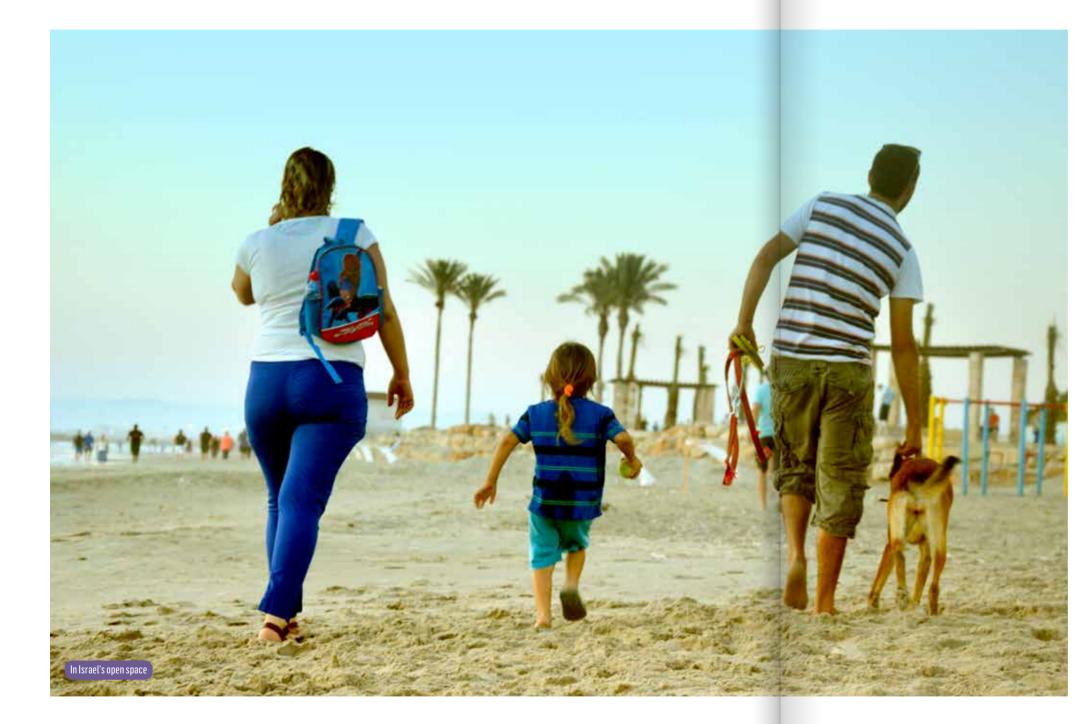


More than 500,000 customers

use the budget management tool. During 2015, 90,000 clients joined the service

Personalized Consulting and Service

- Pension advice 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;
- Specialized, personalized financial advice - the bank makes available to its private and business customers a wide range of expert advisers in different fields, such as investments, credit, and savings, in order to help them make more informed decisions about various financial aspects of their lives.



consecutive year;

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 about financial and personal crises. During 2015, the project continued in different geographic areas for the benefit of households; Professional training conferences

Financial Education and Literacy

The Growing Family – a joint project 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 areas such as personal financial conduct and financial growth, real estate and mortgages, pensions, and investments. 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. The project was held in 2015 for the fourth

for 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; this year, a group of volunteers from among the bank's retirees was trained to give training and morning conferences to senior citizens.

- **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 on Reshet's website will show the changes the families underwent and were invited to enter the Taking CTRL on "Reshet" website, where tools and aids for proper family financial conduct will be uploaded.
- **Young Poalim -** a broad move to recruit youths and draftees as customers, including contacting their parents. As part of the project, a minisite - 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. poalimparents.bankhapoalim.co.il

Poalim for Recovery

The Poalim for Recovery program is designed to meet the needs of customers struggling to repay their bank debts. In contrast to accepted collection methods, Poalim for Recovery is a conceptual change in relations with customers who fail to meet their commitments. To implement the change, a special new unit was established to handle customers struggling to repay their debts, using regular dialogue, clarifying needs and difficulties, providing tools, empowerment, and support. The goal is to find a suitable solution, with the customer, through common and respectful dialogue, according to the customer's banking profile and financial wherewithal. In this way, the bank helps its customers to promote a consensual and structured solution for handling debt and reduces the number of customers handled by the collection unit - all carried out in an atmosphere of patience and mutual trust.

The Poalim for Recovery unit is responsible for managing and monitoring the entire work process with struggling customers. The bank's activity on this matter is undertaken both by the branches and by the unit in full cooperation with the branches, with a clear division roles and roles and responsibilities. Expert and experienced bankers, who underwent special training to respond to customers' needs, work at both the branches and the unit with an emphasis on commitment to solving the problem and a broad perspective of the customer's needs.

The unit employs a range of the bank's tools and service channels. The solution that the unit provides includes innovative aspects – it uses a specially-built system for its operations. The system is based on technology that allows all the parties at the bank handling a customer to uniformly see the relevant data across all the stages of the process. The system provides information at the customer's account level, reflecting his/her situation, and allowing to manage and control the relevant data. The customer has the option of directly contacting the banker at the unit who is personally handling his case. The unit is readily available even outside regular banking hours.

In 2014-2015, the unit greatly expanded its activity, and by the end of 2015, it was cooperating with all the bank's retail branches. The program handled more than 50,000 customers during the year. The results of the program to date indicate significant success for the process, and positive feedback from participating customers about the option of a customized solution for their needs and the stabilization of their banking activity, in contrast to the exclusive focus on debt, along with a substantial 45% reduction in the number of customers handled by the collection unit (and an even higher proportion among young customers). In view of these figures, there is no doubt that the program has proven itself and brings great value to both customers and the bank.

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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;

Expanding training presentations to promote proper financial conduct for additional target audiences such as senior citizens, soldiers, students and others.

More than 500,000 customers have participated in the Poalim for Recovery program

| Examining Achievement of Objectives | | | | | | |
|---|------------|--|--|--|--|--|
| 2015 Objectives | Status | | | | | |
| Poalim Restructuring is gradually expanding through the bank's branches, and is expected to roll out to all branches by the end of 2015; | Completed. | | | | | |
| Additional videos are being produced to provide access to information and increase financial literacy, for different target audiences at various life stages. | Completed | | | | | |

THE BEST INTERESTS OF THE CLIENT



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 900,000. 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 seniors 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 living 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



Hundreds of advisers were trained to provide pension and financial advice for people nearing retirement age and retirees. Thousands of specialized training days were invested in this program

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 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 preretirement 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.

for retirement:

More than of customers

As part of this effort. the bank held tens of thousands of pension- and financial consultations with customers, free of charge. More than 80% of customers who participated in both types of conversations expressed high satisfaction

Financial Advice Centers

The deployment of 12 Pension and **Financial Advice** Centers was completed in 2015

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 Post retirement - sessions for longterm 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 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, a customer club, and benefits

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;
- 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;
- **Poalim "Gold Club" -** benefits for the bank's "new seniors" customers. The customers' club offers discounts and sales in retail, leisure, recreation, and entertainment. The bank is also seeking to create special insurance for club members - travel insurance without medical underwriting in most cases and a cancellation option, as well as personal accident insurance. Customers will 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 seniors" population in all geographic areas;
- Specialized customer conferences for the "new seniors" population, including lectures on planning financials upon retirement;
- Wide marketing measures in March, the bank initiated a campaign to raise awareness about seniors in general, with reference to the bank's business measures and various social aspects related to senior citizens. The program launched a month-long digital campaign with Google that included customer surveys, newspaper ads, and the opening of a senior customers' hotline. In June, the campaign was launched across a range of media channels;
- Entrepreneurship competition for seniors to help retirees achieve their ambition to found new ventures;
- Encouraging start-ups to develop products and services for seniors out of a wish to encourage businesses and entrepreneurs to enter this highpotential 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.



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

Examining Achievement of Objectives

2015 Objectives Status

 \bigtriangledown





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. The recognition of the importance of small businesses has led to the creation of special programs, over the last four 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

Working to Promote Financial Freedom for Small Businesses

The small-business sector, which contributes about half of Israel's gross domestic product and provides jobs for 43% 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 four 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:

Establishment of targeted aid funds for businesses - the bank operates a number of funds: the state-backed Small and Mid-Sized Businesses Fund, which has granted more than NIS 2.5 billion in credit to date; the Poalim for

Growth fund, a specialized fund for small businesses, which has granted NIS 1 billion in credit with special terms to date; a joint NIS 250 million fund with the Manufacturers Association of Israel for bank customers and association members; and cooperation with the Koret Foundation to provide special loans to micro-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 and without 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. The bank has granted NIS 1.9 billion through this service to date.

Credit to small businesses:



in 2015, the bank granted a total of NIS 32.4 billion in credit to the small business sector, including approximately NIS 20.8 billion in consumer credit and approximately NIS 4.6 billion for construction and real estate by small businesses

32.3% **Credit to small** businesses:

Bank Hapoalim is the largest lender to small businesses in Israel, with a 32.3% market share. In the past year, Bank Hapoalim increased its credit reserves for small businesses by approximately 10%

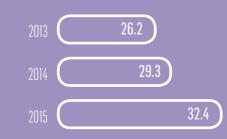
the bank has granted

In order to provide financial assistance to Women-Owned Businesses, the bank has granted them NIS 30 million in credit through the Poalim for Growth fund

> the bank has extended approximately

Over the past three years, the bank has extended approximately NIS 3.5 billion in credit through a range of special funds in addition to its regular course of business

Total Credit to Small Bussinesses



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 which provide wide range of solutions to small businesses, and has designated expert business bankers at 240 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;

Current-account benefits for small

trade - in June 2015, Bank Hapoalim, in a special collaboration with FedEx Express Israel, launched an exclusive package of benefits for the bank's small business customers. The bank's small import-export business customers receive a 15% discount on FedEx rates and other special benefits.;

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 fourth 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:

Special delivery and distribution benefits for businesses in foreign

Benefits for Women-Owned Businesses - in August 2015, in cooperation with Jasmine, an NGO that promotes businesses owned by Jewish and Arab women, the bank initiated a special offer and credit at special terms for members of WE Connect International, an organization that promotes women in business;

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 in the Public Sphere

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. Over 8,000 small and mid-sized businesses nationwide participate in the program, 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;

Promoting women in business - in August 2015, as part of Bank Hapoalim's focus on promoting women in business, the bank and Channel 10 jointly launched Women, a new series, in which the bank was a main sponsor, promoting women in business. The bank also sponsors a special section on Nana10 website. Additional joint ventures for promoting women in business: In July 2015, the bank also promoted a series of articles in cooperation with the Saloona website to encourage women to found businesses and successfully manage them;

Israel Small Business Forum - the forum's goal is to reinforce the small business sector in Israel by creating a meeting place for stakeholders in the business, community, and public sectors. The forum held quarterly meetings in 2015.





In May 2016, the bank and Clal Insurance will launch 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.

Serving a Diverse Clientele

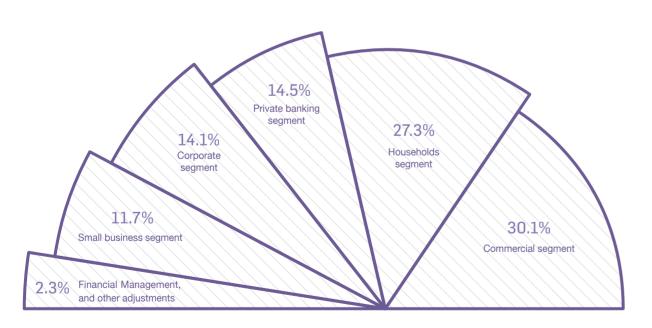
Markets Served by the Bank

The activity of the Bank Group is conducted via six principal operating segments. The division into operating segments is based on the types of products and services or on the types of customers included in each of the segments. The board of management of the bank uses this division to make decisions and to analyze the group's business results. The operating segments are presented according to characteristics stipulated by the Supervisor of Banks: the Households Segment, the Private Banking Segment, the Small Business Segment, the Commercial Segment, the Corporate Segment, and the Financial Management Segment (for segment definitions and details, see the bank's financial statements for 2015)

Segmentation of Borrowers

In 2015, total credit to the public amounted to approximately NIS 278.5 billion, a 5.5% increase over 2014 (For a summary of the development of balancesheet balances of credit to the public by operating segment, see p. 55 of the financial statement for 2015).

Credit to the public by segment of activity, 2015





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 labor market and economy, and the development of the periphery.

Working With the Ultra-Orthodox and Arab-Israeli Sectors

Bank Hapoalim accords high importance to cultivating a stronger relationship with its customers in the 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 labor market and economy, and the development of the peripheral areas. An Arabic-language website is available to the bank's customers, which provides changing information about the bank's current and new products and services: www.bankhapoalim.co.il/arabic In 2015, the bank launched its Always with You message with several special added-value initiatives, products, and services for the sector, including:

- Customized activity to promote small businesses on Small Business Day - on Small Business Day, the bank organized workshops for small businesses and gave these businesses adapted material in Arabic to promote their businesses;
- A plan to expand the consulting network at branches and to encourage savings and investment portfolio management has been drawn up.
- A special solution for housing credit has been developed, which offers a response to the barriers to obtaining mortgages in the Arab-Israeli community;
- Activities to further strengthen and deepen relations with the **community** - workshops on family budget management for households were organized and sponsorship was given conferences and committees for: women, physicians, and architects; donations were made to numerous NGOs that support the handicapped, organize holiday meals for customers (Ramadan and Christmas) with the participation of bank executives;
- Youth activity special activity was held to encourage youths to join Poalim Young, which offers benefits to youths. Hundreds of computers have been donated to schools, scholarships have been awarded, and Dan the Saver summer camps were arranged in towns;
- In addition, Bank Hapoalim, in cooperation with ORT Israel, supported creating a financial education program for youths. In 2015, the plan was translated into Arabic and is being taught in Arab-Israeli schools.

new customers

The bank won about 8,500 new customers and opened three new branches in Kafr Yasif, Ar'ara, and Dir el-Assad

branches

The bank has 26 Branches in Arab-Israeli towns and an additional 15 branches are located in mixed towns or adjacent to Arab towns. During the first guarter of 2016, two more branches will be opened

The ultra-orthodox sector

The bank has 20 branches in towns with large religious and ultra-orthodox 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 ultraorthodox way of life: a range of loans suited to customers' needs, matching our observant customers' life stages,

various transactions.

LOOKING AHEAD

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;

In the ultra-orthodox community, the bank is planning digital empowerment activity and the promotion of special added-value products and services;

In 2016, the Read & Succeed program and the adapted website for the ultra-orthodox community will move forward.

including loans for yeshiva students, engagement loans, wedding loans, home purchasing loans, loans for children's weddings, and holiday loans. The bank operates a website targeted at ultra-orthodox clientele at www. bankhapoalim.co.il/bsd. The site serves ultra-orthodox and observant customers and is adapted to the norms of these communities. Customers can use the website to access their accounts, receive routine banking information, and execute

In 2015, the Read & Succeed program for the ultra-orthodox sector operated successfully for the sixth consecutive year. In addition, the financial education program for youths, in collaboration with ORT Israel, which the bank has supported in recent years, was adapted to the ultra-orthodox sector in 2015 and taught at schools in the community.

Living Wisely

a project held for a third consecutive year, providing guidance to ultra-orthodox families on prudent economic habits and sensible management of household budgets. The bank collaborates with HaModi'ah, the leading daily newspaper in the ultra-orthodox community, on the project. The five participating families receive guidance from branch managers and from a team of expert advisors from the bank and from the newspaper, who provide them with tools and knowledge for prudent financial behavior. This effort was covered extensively in weekend editions of HaModi'ah, and garnered a high level of success and publicity in the ultra-orthodox community.

| Examining Achievement of Objectives | | | | |
|---|--|--|--|--|
| 2015 Objectives | Status | | | |
| 5 new branches are planned to open in Arab-Israeli towns and villages in 2015; | In 2015, the bank opened three new branches in Arab towns and villages: Kfar Yossef, Ar'Ara and Deir al -Assad. Two more branches will be opened during the first quarter of 2016. | | | |
| Over the coming year, conferences on financial conduct and other topics will be held routinely for Arab-Israeli customers. The bank will also sponsor various professional conferences in this sector. | During the year, there were dozens of conferences and sponsorships for professional conferences for physicians, architects, management and leadership conferences and women's employment. In addition, there were holiday dinners (Iftar on Ramadan and Christmas), which were attended by hundreds of customers and senior bank officials. | | | |

Committed to Customer Satisfaction

Customer service approach at Bank Hapoalim is an expression of 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.

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

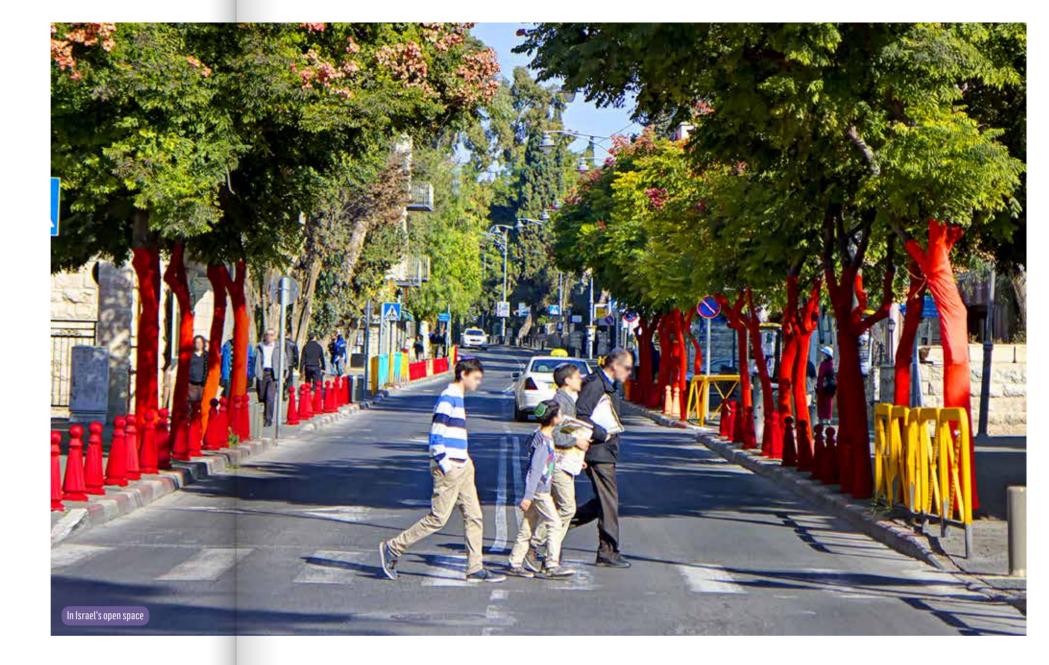






Customer Satisfaction Survey - 2015

| Banke | r civility and | politeness | | 9.3 | 4 |
|---------|----------------|----------------|-------------|------|----|
| Profes | sional know | ledge | | 9.18 |) |
| Unders | standing Cu | stomer Needs | ; | 8.61 | |
| Satisfa | action from t | he branch atn | nosphere | 8.55 | |
| Dedica | ating time ar | d attention fo | r customers | 8.72 | |
| 0 | 2 | 4 | 6 | 8 | 10 |



Customer surveys at branches: tens of thousands of customers who received service at the bank's branches were sampled in 2015

Direct channel customer surveys: thousands of customers who use the direct channels offered by the bank are sampled each year

Service activities at Bank Hapoalim are centered on the following three elements:1. The service philosophy, which sets a uniform standard for internal and external service processes;

- Lateral and vertical implementation of service processes based on uniform standards designed to realize the bank's service philosophy;
- 3. Service performance measurement, which allows the bank to collect detailed information from its internal and external customers and use this information to improve service.

Service Philosophy

As part of the construction of the bank's service strategy and commitment to improve customer service, an intraorganizational service philosophy was formulated. This effort involved the construction of processes for instilling the philosophy, creating infrastructure for management in this area, and promoting the formation of a supportive organizational culture. Internal service is being absorbed into the annual work plans of the divisions of the bank, on 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** - 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.

The following main processes were carried out during 2015:

Gemba: managers share closely headquarter division managers 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. Hosting units - during 2015, the project continued, with the aim of improving inter-organizational service, by enhancing familiarity among employees and various headquarter units, and in order to improve internal dialogue;

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

Each bank division receives close support to improve the service it offers internal and external customers. In 2015, the service headquarters and the divisions coped with restructuring, changes on the internal customer side, and the necessary changes that resulted.

In addition, routine processes continued during the year, such as the internal service review, various measurement processes, and the internal service campaign.

> this year, the bank held conferences at the branches

and regional conferences

more than customers participated



Measuring service

- contact with customers:
- throughout the year;

- feedback:

Poalim Host - value-adding customer conferences year

All bank branches hold customer conferences several times a year. A regional conference is held annually for business customers and for new senior customers Lectures are given on a range of issues: pensions, mortgages, and the family budget, along with external enrichment lectures on communications, innovation, personal empowerment, and other topics.

During 2015, comprehensive and extensive measurement was undertaken on several channels and points of

The service experience is measured based on various parameters customers at branches and in the various service channels are uniformly sampled daily, on a regular basis,

Customers' feedback is regularly provided, on a weekly basis, directly to the branch, including the ability to contact the customer for learning and improvement purposes. About 50% of sampled customers receive a phone call from the branch manager for continued learning and improvement; Feedback studies are also conducted, based on the type of service and service channel used by bank customers, in order to continue to create customized value;

The sampling of customers by text message surveys, shortly after their visit to a branch, was expanded this year. The guestionnaires allow for rapid personal feedback about the service

experience. The branch management teams receive a daily summary of the

In 2015, for the first time, an individual / specialized satisfaction measurement was carried out on consulting conversations at the branch;

Satisfaction measurement was also conducted among Platinum bank customers.

Instilling service

In 2015, Bank employees and managers were provided with practical tools across a range of methods and channels, designed to instill an organizational culture reflecting the bank's customer value.

- Hundreds of training days were conducted at branches;
- Service metrics and service language were integrated into branch work routines;
- Service workshops were held at selected branches:
- Managers were trained to motivate and mentor employees during meetings with customers:
- In line with the instructions of the Bank of Israel, training was carried out on creating value in sales meetings;
- Staff officers advised on improving service at branches;
- The head and senior team of Retail Banking routinely hold quarterly meetings with customers at branches, and top service bankers were honored;
- Outstanding service employees at branches and headquarter units are periodically rewarded, in order to promote instilling service values and emphasize the service aspect of everyday activities.



Responding to 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 2015 ,1. 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 parts 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 learned.

Processing of Inquiries -From Localized Resolution to **Organizational Learning**

Processing of customer inquiries -Every contact, whether it is a request or a complaint, is addressed in consultation with the business functions relevant to the issue raised by the customer. Some inquiries are transferred to a branch for

processing, when it is found that the branch has the ability to provide the best and quickest solution. Others are processed by the center, which replies to the customer when its investigation is complete. If necessary, the branch or the business function is also issued with recommendations for improvement and instructions for action aimed at avoiding similar incidents in the future.

Organizational learning - Occasionally, the processing of an inquiry reveals implications beyond the individual customer, such as recurring events at various units, problems in organizationwide procedures or work processes, and more. These inquiries are presented to the business functions at the bank for learning and improvement of the relevant procedures and processes. When an inquiry is classified as systemic, the process and progress of resolution is monitored in a formal procedure.



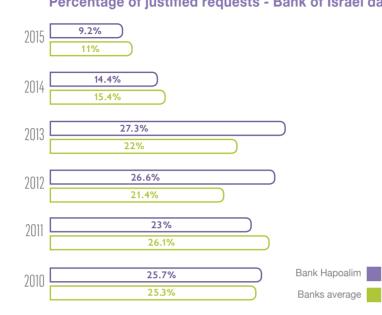
decrease in complaints The customer contact center* processed 7,871 inquiries in 2015, of which approximately 5,947 complaints. The number of complaints decreased by approximately 3% for the year, in comparison to the preceding year

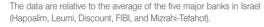


24,700 Inquiries from law-enforcement agencies: The customer contact center processed approximately 24,700 inquiries from lawenforcement agencies in 2015

* A decision was made to classify data on inquiries differently in 2015. Customer inquires and inquiries by law-enforcement agencies are therefore presented separately in the report.

Percentage of justified complaints: Of the total number of complaints recorded at the bank, only 8.4% 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 (9.5%)





| Examining Achievement of Objectives | |
|--|------------|
| 2015 Objectives | Status |
| Customer survey via text message: A new measurement channel will be introduced in 2015 in order to monitor customer satisfaction in the retail-banking network. Within half an hour of the end of the customer's interaction with a branch banker, a brief satisfaction survey will be sent to the customer by text message; | Completed. |
| Organizational analysis: In 2015, the various service surveys will be cross-referenced with the organizational climate survey, in order to allow analysis from a broad perspective of all intra- organizational bottlenecks. This process will serve as a diagnostic tool in two key areas for managers: the satisfaction of their internal customers, and the level of commitment of their employees to various aspects of service. The diagnosis will enable managers to prioritize intra-organizational and external service processes in which their units need to improve; | Completed. |
| Service incident investigation: As part of the continual process of learning and improving service, incidents related to service will be investigated, including in supportive areas of the bank. During the year, each area of the bank will focus on several significant negative service incidents in the value chain and will draw conclusions based on a structured process. These lessons will subsequently be integrated into a work plan or improved process. The conclusions in aggregate will also be examined from a broad perspective by the service unit, in order to learn about applicable systemic improvements; | Completed. |
| Service coaches: A team of service coaches for each area will be established in 2015, as another intra-organizational tool for the improvement of service. The service coaches representing each area of the bank were selected meticulously and received relevant professional training in service. The service coaches will be available to all units of the bank to give lectures and run activities on service. | Completed. |

Percentage of justified requests - Bank of Israel data



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.

In 2015, the bank drew up a statement of ethical principles in marketing and

In 2015, 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. The statement includes ethical principles, such as responsibility, fairness, transparency, customer confidentiality, accessibility, and customization to different clienteles and sectors

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.

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 informationsecurity 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 informationsecurity 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 continually works to enhance privacy, to the extent possible, including through regular surveys by neutral third parties and case-by-case monitoring of each project and system. As a large and complex organization, the bank maintains tens of thousands of databases, in different locations and technologies. Business and/or technological actions are recorded and documented in the organization's databases. The bank strictly maintains a large number of physical, administrative, and technological controls (such as encryption, limited authorizations, monitoring tools, protective tools, and more) in order to protect all aspects of information, including its confidentiality, completeness, and availability. The information collected is in accordance with the requirements in the regulatory directives governing face-to-face and electronic contact with customers, as well as information required for customer verification when executing transactions via electronic means. Information is retrieved by electronic applications, as required for the customer's business with the bank's systems. Most information is accessible to customers for viewing only, with the exception of specific instances of management of account beneficiaries, in transfers via the bank's website.

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 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.

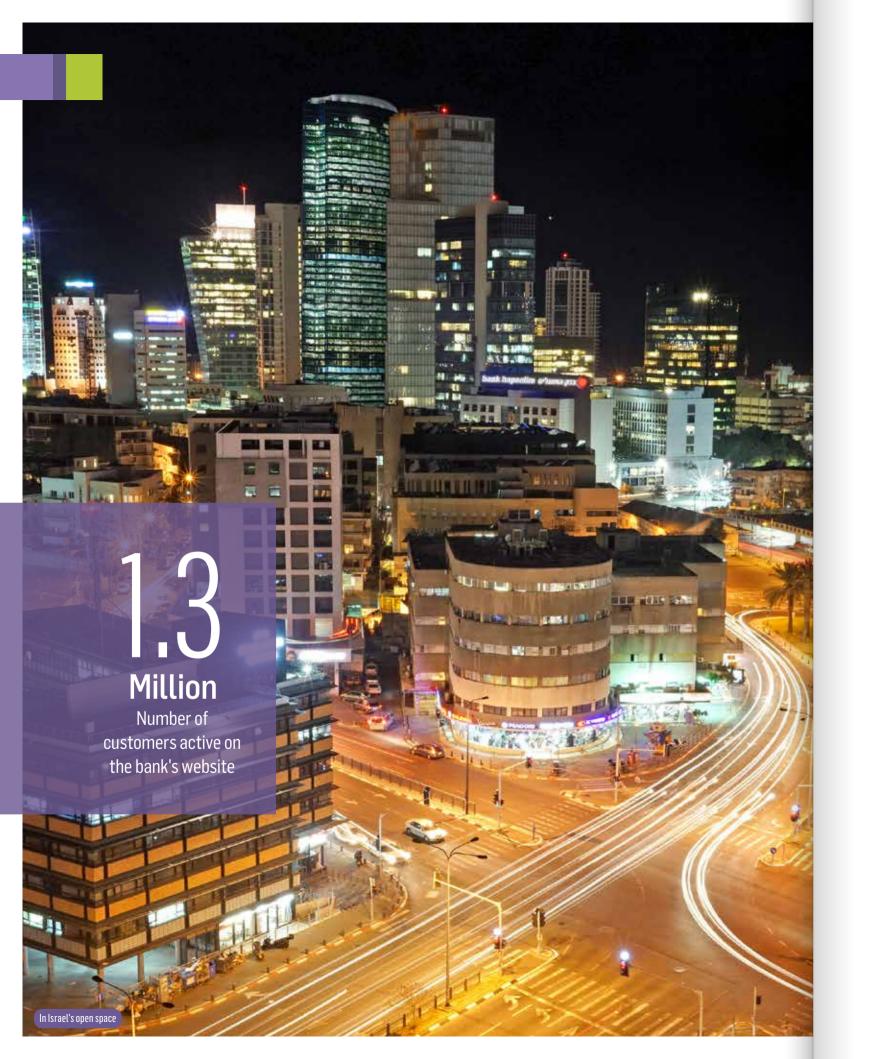
The bank's obligation to keeping banking confidentiality is not limited to the period when ties or legal relations exist between the bank and the customer, but also apply to the unlimited period following the closing of the customer's account or his/her decease. Access to information about the bank's 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.



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 informationsecurity standard is in addition to the older certification under the leading information-security standard ISO 27001.

Inquiries concerning privacy and confidentiality

| Marken . | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------------|------|------|------|------|------|------|
| Number of requests | 92 | 77 | 78 | 30 | 18 | 43 |
| Number of justified requests | 14 | 9 | 10 | 3 | 0 | 3 |
| Percentage of justified requests | 15% | 12% | 13% | 10% | 0% | 7% |





Leading Financial Freedom in a Multi-Channel World

Bank Hapoalim is dedicated to assisting its customers with the full range of financial aspects of their lives. In view of this commitment, the bank offers its customers full availability and accessibility of banking information and financial services, through a variety of service interfaces: an extensive network of branches and a range of direct channels available at any place and time. Activity in the various service channels is based on the bank's strategic philosophy of promoting innovative banking services while examining and responding to customers' evolving needs, with an emphasis on an advanced customer experience. Beyond the advantages of convenience and time savings, these services also save travel and fuel, thereby preventing pollution. In 2015, the bank continued to lead the Israeli banking industry in direct services and channels meeting international standards.

Hapoalim Online

The bank's website offers a comprehensive package of services for its customers. The financial freedom philosophy is the foundation for construction of these services, which include extensive information and self-service options, designed to provide customers with full control and prudent choices in their banking activity. Services are offered through a uniform, convenient, userfriendly interface, at www.bankhapoalim. co.il. The bank also offers a range of secondary sites tailored to the needs

- and services;

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



of different customer groups: a site for private clients; a site for retail business clients and clients of the corporate banking area; an English-language site for business clients; a mortgage site; an English-language international site designed for non-residents; a site for global private banking (BHI) clients in English, Spanish, Russian, and French; a marketing site in Russian and Arabic for residents of Israel; and a site designed for the ultra-orthodox sector.

Bank Hapoalim's Internet activity is based on the principle of customer advocacy. Customer advocacy is part of an advanced philosophy centered on customers' needs and financial freedom, with the following foundations:

Full transparency regarding the terms, prices, and properties of products

■ Thinking from the customer's perspective and offering solutions tailored to unique customer needs; Granting customers complete, easy

control in managing their financial activity on the bank's website.

Accessible Website

computers and the Internet, to access the website comfortably and to gain the benefits of online banking, saving the inconvenience of visiting a branch The new website, is aimed at providing a response to the accessibility needs of people with disabilities.

> This year, the new website was launched for private customers, bringing a new level of customer experience, depth of information, and a range of tools for proper financial conduct. The new site is the customers' smart financial partner: it uses interactive tools to offer personal advice, insights, and customized solutions that enable them to obtain a snapshot and take smart decisions about their financial situation

Hapoalim Online in 2015

The bank launched the following services as part of its innovations in 2015:

The new website - this year, the new website was launched for private customers, bringing a new level of customer experience, depth of information, and a range of tools for proper financial conduct. The new website offers immediate and accessible banking, helps customers manager their money quickly and easily on an advanced user-friendly interface, in simple and clear language with a new and clear design. The new site is the customers' smart financial partner: it uses interactive tools to offer personal advice, insights, and customized solutions that enable them to obtain a snapshot and take smart decisions about their financial situation;

Pensions on the bank's website

- the service enables customers in the relevant segments to obtain a snapshot of all the pension information on the website – balances in pension funds, provident funds, advanced study funds, and managers insurance. It also provides an accumulation forecast for retirement: up-to-date balance, capital savings, and the expected monthly annuity. The service also allows customers to schedule a meeting with a pension adviser for the smart planning of pension savings based on the customer's needs;

- ROLUP CONT the service sends text messages about unusual bill amounts and debit orders, such as double billing on a credit card, or an unusually large cable television or internet bill;
- Application for a loan from the credit line on Internet for Businesses understanding the needs of business customers, they have been given the option of independently applying for a loan from their approved credit line through Poalim Internet for Businesses or by mobile phone, without the need to go to the branch and sign documents;

BE Online

This year, the bank launched BE Online, a value offering which allows customers to exclusively manage their bank accounts online or via mobile, without current account fees. This value offering is suitable for customers interested on basic banking services (current account transactions without capital market services or Mishkan) at reduced rates. BE Online customers carry out banking transactions, including the opening of the account, on digital channels, such as self-service stations. Customers may also deposit checks, order credit cards, open deposits and savings plans, and obtain loans via direct digital channels – without the need to go to the branch. BE Online customers can obtain banking service by email and technical support service from a human responder at a specialized call center.



Examining Achievement of Objectives

2015 Objectives

Status

As part of its leadership in online banking, in 2015 the bank will begin implementation of a large-scale project to build a new website, on a new Internet platform. The Bank Hapoalim website will serve as a smart financial partner for customers, guiding them in everyday decisions and in planning for the future. Innovations on the new website will include:

- A new home page, allowing each customer to focus on the content important to him or her;
- A variety of new displays, helping customers easily understand their financial position;
- A personal profile summarizing all of the information important for customers to remember: passwords, areas of activity, registration for banking services, and more;
- Reminders payments waiting, arrival of checkbooks, loan status, etc;
- Tasks important tasks can be set up to help with account management, such as payment reminders, scheduling appointments with bankers, and more;
- New tools for smart money management;

The new website, built with the assistance of an accessibility consulting firm.

Completed.

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Bank Hapoalim is the leader in digital innovation, and represents the cutting edge in digital account management solutions in Israel. The bank offers its customers the most extensive range of mobile applications

Hapoalim Mobile and Tablet

In a dynamic competitive environment that shapes customers' expectations, Bank Hapoalim is committed to offering its clients the most advance banking service, on every platform and through any channel they choose. The bank aspires to serve as the customer's smart financial partner and to offer added value in a wide range of financial and consumer arenas. The bank accords extremely high importance to products that can accompany customers continuously, and can be used at any time and place - primarily smartphones today, and other products and formats in the future.

Bank Hapoalim is the leader in digital innovation, and represents the cutting edge in digital account management solutions in Israel. The bank offers its customers the most extensive range of mobile applications - applications that make life easier, for purposes such as account management: rapid trading on the capital market via smartphone and iPad; a digital wallet that saves valuable time; an application for managing business accounts from anywhere; and an application that allows customers to maintain sound financial conduct while traveling abroad. The bank's initiatives of recent years have made advanced technological solutions available to customers, helping them manage their accounts on the go using innovative applications that make financial management easier and simpler.

Poalim on Mobile and Tablet in 2015 The smartphone account

management app - In 2015, the bank continued to upgrade and expand its mobile account management app, which offers a unique personalized banking experience and includes rich and diverse information and a range of banking activity, such as loan application, deposit in a deposit account, and depositing checks. New applications have been launched:

Upgrade of the account management app - an advanced version of the account management app has been launched, which organizes in a single place a range of services for the customer's dayto-day activity. All the services and transactions are accessible on a one place, on a smartphoneadapted display. Even before entering the account, customers can

view their account balance, credit card debt, and amount available for immediate credit. Customers can also receive updates on their investment portfolios in the capital market and even save while on the go in a digital savings fund - without the need to input passwords or switch screens. These services are in addition to the geographicalbased information - nearby branches and ATMs, and so forth.

- Foreign currency transactions by the account management app - at the end of the year, the bank launched a service that allows its customers to obtain detailed information about their foreign currency accounts and use the app to carry out conversion transactions between currencies. Thus, customers can constantly track movements and balances in their accounts, easily buy foreign currency when they are overseas, and convert foreign currency back into shekels upon their return from vacation;
- The identification revolution for entering online accounts - the bank has launched a series of advanced innovative means for fast identification for entering an account using fingerprint only. Voice identification will become available in 2016.

Special password-free services

Special password-free services have been launched in order to expand the value proposition for mobile access on the go: Save & Go on the account management app - a digital savings account that allows customers to save small amounts of money in a special mobile savings plan while on the go, through a fast and simple process

orders by smartphone; At a Glance - allows to see information about the account without entering it; ■ "Poalim Wallet" app - a package of payment, transfer, and purchase services by smartphone. In 2015, the apps services were expanded to include the following innovations:

- without cash;

without inputting identification details. The service makes savings more accessible: it is possible to put aside an amount from NIS 1 to NIS 500, similarly to the familiar piggy bank.

"Look at My File" widget - the widget allows investors in securities to get updates on changes in their personal portfolios without inputting identification details or entering the bank app. If necessary, customers can go directly to trade (which requires identification) and give buy and sell

UP Card charging - charging the card directly from the app;

HopOn - use of a simple and convenient solution for paying the bus fare directly by smartphone,

■Wearable's - the Poalim SmartWatch app was launched for Apple Watches and Samsung Gear watches. The new app allows bank customers with Apple-supported smartphones to see their up-todate account balance and pending expenses through the end of the month on the watch screen on their wrist, without inputting their account identification details

> The bank won three titles from "Global Finance": Digital Banking Leader in Israel: "Best Direct **Banking Value** Proposition" in the Middle East; and "SMS Banking Leader" in the Middle East

735,000 No. of customers using the bank's mobile services and apps

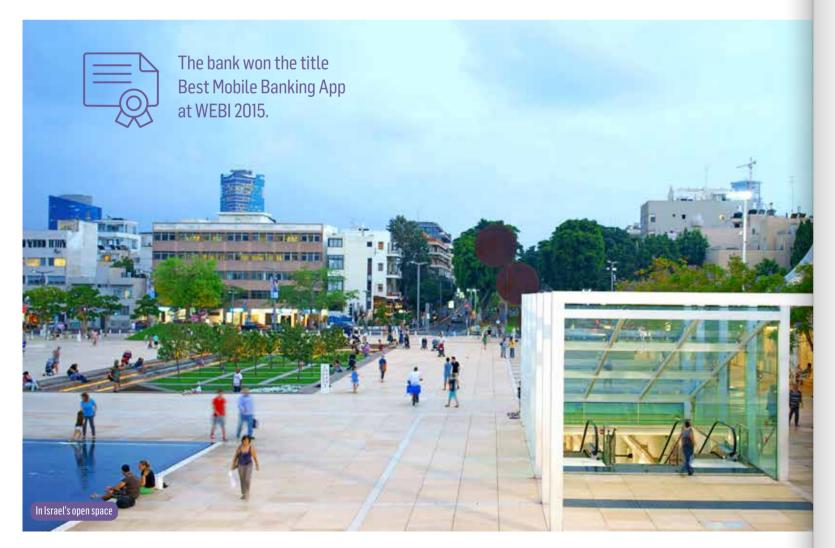
A variety of special apps

- App for the young the bank launched a special app for youth as part of its accompaniment of future generations entering the world of banking;
- UP Overseas app a special smartphone app, which organizes overseas travelers' expenses, helping them properly manage their finances. It provides overseas travelers an interface where they can create a list of purchases, set a budget for the trip, and document all expenditures during the trip in real time, including the amount of the purchase, the place, and a photo. The app allows overseas travelers to know at any given moment where they stand with respect to the

budget and how much they have left to spend through the end of the trip;

Poalim for Business app - a

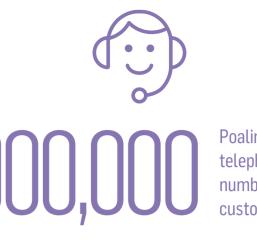
special app for the bank's business customers, enabling them to manage their business account anywhere, anytime. The app allows the approval of transactions awaiting approval, trading in the capital market, and obtaining extensive information about the business account. The app allows company officers to immediately respond to the company or business's day-to-day operations, even if they are out of the office and offline, turning mobile into a real work tool; **Capital market app -** the app allows to issue trading orders quickly and easily, and offers a great deal of capital market information, including graphs, up-todate information on indices and stocks, decision-making support tools and market analysis, and a display of the portfolio by investment instrument. The app uses touch screen capability. The app also offers investors intuitive and convenient trading in foreign securities along with extensive information about the world's major stock exchanges and decision-making support tools - smart graphs and comparative capabilities between foreign securities and various indices.



Poalim by Telephone

Poalim by Telephone is a service channel offering a wide range of account transactions. The service is accessible around the clock, allowing all customers, including those 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, until the banker returns the call, thereby saving time for the customer;
- Voice response in Arabic and Russian - The Arabic-language and Russian-language voice system provides account information to customers;



Poalim by telephone – number of active customers

No. of annual conversations – Poalim by telephone

Examining Achievement of Objectives

2015 C

to enc

| bjectives | St |
|--|----|
| plans to launch another mobile feature designed irage savings in 2015. In order to encourage inancial conduct, the bank intends to offer this sponse to customers' need to save even small , including when the cost of living is high. The on will make savings accessible to as many rs as possible, and will encourage customers mall sums on the go, in a unique savings plan obile app, without logging in to their accounts. | |
| | |

Status

Branches

The branch channel offers customers of the bank 267 branches, in the most broadly deployed nationwide network of the Israeli banking system. Bank Hapoalim has branches throughout Israel, from city centers to remote regions. Although most of the services provided by the branches are also available through other means of communication with the bank, the physical encounter between the customer and the bank has a meaningful contribution, mainly in the following areas: **The human dimension -** Fostering

a relationship of trust between the banker and the customer, and allowing listening and support for the customer's needs at the highest level; Clarification of needs and addressing complex information and execution - Meeting in person supports an orderly, indepth discussion to understand the customer's needs and present appropriate solutions, with the assistance of the bank's information systems and experts;

to the following principles: development

of the branches network in line with

customers' developing needs; the

opening of three digital branches - a

significant breakthrough in the bank's

leadership in digital channels; expansion

of branches in the Arab-Israeli sector and

expansion of the scale of transactions

and services which can be carried out

at self-service stations and the transfer

of technical activities that do not require

the customer's presence at a banking

operations center.

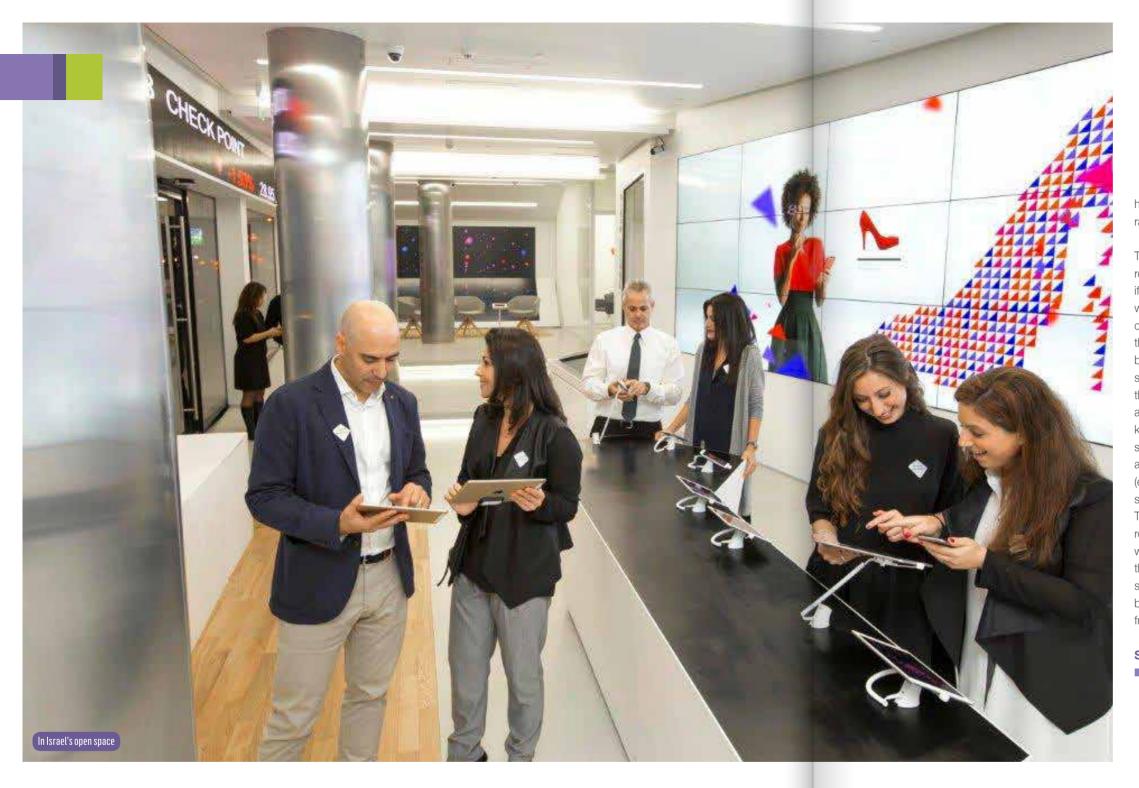
Customer relationships - Face-toface meetings help nurture bonds with customers by maintaining the continuity of the relationship and improving the level of service.

Network deployment

During 2015, the bank continued to manage its branch network according

Distribution of the 4 21 22 22 branches of the bank 14 10 6 6 11 15 15 Central back offices 20 17 22 22 17 Business branches 14 Boutique branches 246 247 244 249 Hapoalim Express branches 245 241 Traditional branches 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 since 2013. The same applies to Boutique 2011 2012 2014 2015 2010 2013 branches since 2015.





Poalim Digital – the digital branch

In 2015, Bank Hapoalim launched the first digital branch in Israel, as part of its multichannel service concept, which is intended to improve the service experience and make banking services accessible to customers, giving them a simple and convenient interface with the bank. The launch was part of Bank Hapoalim's comprehensive move to be the leader in Israeli banking in the new digital age by offering a wide range of new direct banking transaction that do not currently exist.

In contrast to brick-and-mortar branches, the digital branch is characterized by the use of digital self-service stations and tablet computers carried by the branch's bankers for paperless banking activity. The first branch was opened in Tel Aviv, the second in Haifa, and the third in Rehovot. As part of the characterization process and construction of the new branches, the bank carried out a study to obtain an in-depth understanding of the main advantages that digital customers expect from their bank branch. The main items found were efficiency, the saving of time, a stronger human response, and better banking experience. The study also found that even the "most digital" customers still choose to go to a bank branch when they seek professional financial advice or need to carry out complex banking transactions. However, in most cases, they expect an advanced digital environment, which will provide them the banking experience they expect. On the basis of these needs, digital branches were built to support stateof-the-art digital systems and an expert banking team which will be available to

Foreign resident centers - service for foreign residents has been concentrated at eight expert centers/ main branches to improve the service offered them and the professionalism of the employees in this area;

help customers get acquainted with the range of new products.

The digital branches were also designed to reduce the use paper. Thus, for example, if it is necessary to sign a document, it will be shown to the customer on a tablet computer, allowing a digital signature, and the signed copy will be sent by email. The bank appointment scheduling app should save time spent waiting in line, and when the customer is identified by smartphone as entering the branch, the bankers will know to approach him and offer him service. The digital branches will provide all banking services to private customers (except for mortgages), some through self-service and other by expert bankers. The branches also offer customers private rooms for consultancy meetings, during which customer can see the financial data that the adviser is mentioning on a large screen in the room. A video call with the bank's financial advisers can also be made from the customer's home.

Specializations

Pension advice centers - in 2015, the bank opened five pension advice centers nationwide providing pension advice, as part of the effort to strengthen its customers' financial future. The centers offer professional pension advice;

High-tech units - in 2015, the bank established eight high-tech units to expand the services offered to start-ups and established technology companies; **Business branches -** Specialized branches have been established exclusively for mid-sized and large business customers, 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 customer 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 customer'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.



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 bank's ongoing activity in the area of accessibility, an orderly plan is in operation for gradual implementation of the new accessibility regulations, in compliance with the timeline established in these regulations, including at the branches and buildings of the bank as well as on its website. This process will be completed by November 1, 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.

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 wheelchairaccessible service station, comfortable

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

Accessibilization at Bank Hapoalim Accessibilization of branches and

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.

> 226 accessible branches

as of the date this report was written, there are 226 branches with the new accessibility standard from NGO Access Israel. These branches have Step Hear, Call Hear, inductive loopsets, and other aids. A total of 84% of the bank's branches are accessible

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.

P



Every accessible station has an inductive loopset; every branch has several accessible stations



An elevator, escalator, or lift platform at every branch where they need to be installed



Accessible and convenient entry (about 70% of branches are accessible)



Call Hear / Step Hear system at the branch



Suitable signs

as required by

pHear Accessible pranch toilets



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

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 loopset – a device to improve the dialogue with an auditory impaired customer, enabling him to hear through his hearing aid only the banker providing him service, 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.



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.



Accessible ATM's

- Percentage of branches with accessible ATMs
- Percentage of branches without accessible ATMs

300 **Accessible ATMs**

as of the date this report was written, there are more than 300 accessible ATMs at 98% of the branches

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 2015. 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

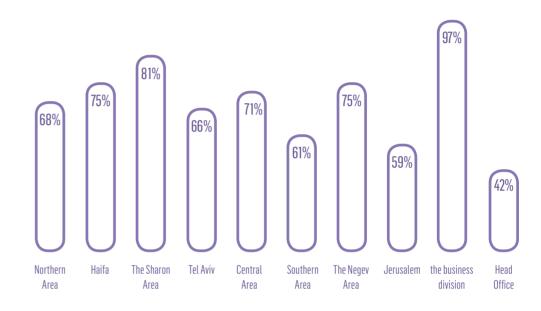
provide them with suitable and adequate services. The tutorial is mandatory for all bank employees.

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.



LOOKING AHEAD

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

Precentage of Accessible Branches by Geographic Area

| amining Achievement of Objectives | | | | | |
|--|--|--|--|--|--|
| 5 Objectives | Status | | | | |
| branches of the bank (including onal administrations), or about of the total, are planned to be essible by the end of 2015; | Completed. 226 branches have been turned accessible. | | | | |
| buildings of the bank, or about of the total, are planned to be essible by the end of 2015. | Completed. Over 226 structures have been turned accessible, but because of reduction in branches, they stand for 70% of the bank structures. | | | | |
| | | | | | |

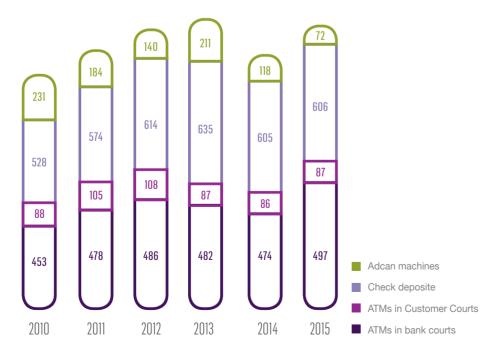
THE BEST INTERESTS OF THE CLIENT



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.

Distribution of self-service devices

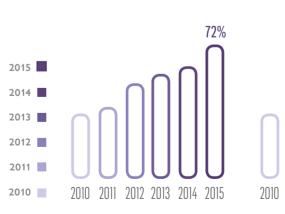


Adaptation of Self-Service Stations for Additional Uses

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 ATMs' interfaces in four languages - Hebrew, Arabic, English, and Russian.

The bank has the most extensive distribution of ATMs in the Israeli banking system, with 584 ATMs -497 at the bank's branches and 87 in Customer Courts

Check deposites



Cash deposites

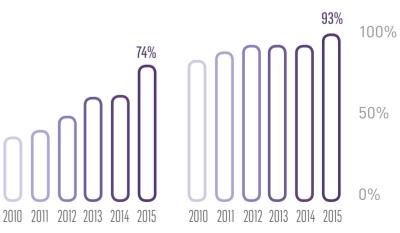
ATMs

Envelope-free cash deposits:

During the year, approximately 30 older ATMs were replaced and new 20 ATM's were added. The new ATM's allow direct deposits of cash into accounts, without the need to use an envelope

Cash withdrawls





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 of the challenging of producing and supplying food to a growing population while reducing wastage in the process, and more.

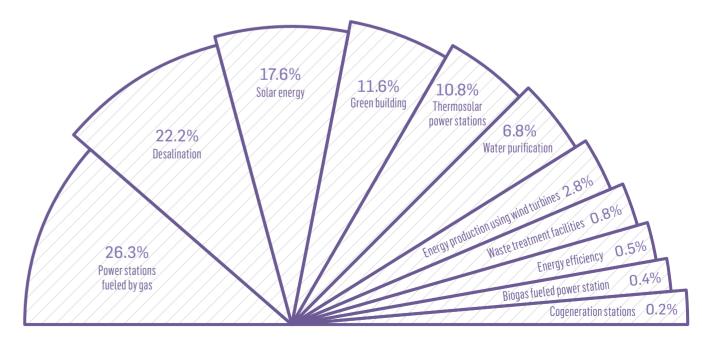
Bank Hapoalim recognizes the strategic inevitability of the necessary change, and the resulting opportunities. Action is therefore being taken on all levels of the activity, both internally and externally. In its outward-oriented activities, the bank is working to impart knowledge to its customers and 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 storage, cogeneration stations, wind turbines, transition to natural gas etc.), energy efficiency, water and more. The new activity follows the accumulation of the necessary professional knowledge and an in-depth examination of goals and consequences.

NIS 6.63 billion

As of the end of 2015, the bank has granted credit in a cumulative amount of NIS 6.63 billion for environmental projects and products.





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.

Breakdown of credit for environmental products

Promoting wind energy

In Israel's open space

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 102-megawatt Emek Habacha wind farm project, and it is in talks with top developers in the industry to draw up a financing package for additional wind farms.

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, and half of the project was completed by the end of the year;

Natural gas power stations -Bank Hapoalim is the largest credit aggregator for the 840 megawatt Dorad independent natural gas power station, built south of Ashkelon, which delivers

power to Israel Electric Corporation. The bank is also financing the 140 megawatt combined cycle cogeneration natural gas and diesel power station, next to the Soreq desalination plant, and the 120 megawatt natural gas Nesharim power station at the Nesher cement factory in Ramla;

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 **Biogas power stations** LOOKING



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 Soreg desalination plants;

Green construction - Bank Hapoalim is financing numerous green construction

the Hiriya landfill outside Tel Aviv. RDF is solid 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 domestic waste 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 operating 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.

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 24-hours a day for 20 years from the start of operations and obtaining a permanent license.

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.

Examining environmental risks in financing

Pursuant to the directives of the Supervisor 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 specialists 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 and to the Bank. 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 currently 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

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.

thresholds; procedures for transaction

All of the relevant personnel of the bank were given training in this area (a total of 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 realestate projects over NIS 50 million, and to credit above NIS 200 million. This activity continued in 2015.

> In 2015, the bank examined and analyzed the environmental risk of credit totaling approximately NIS 124 billion (a rate of 46% of the bank analyzed relevant credit requests)



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.

As part of its emergency preparedness, the bank performed a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required to ensure such processes during

of the bank.

emergencies, and update action plans based on globally prevalent methodologies.

In addition, the bank conducts annual emergency drills covering both operational scenarios and complex business scenarios, with the participation of the various units, from the level of branches, administrations, units, and divisions to the level of the board of management

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 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.





As Israel's largest bank, Bank Hapoalim is a powerful economic institution with a strong influence on Israel's economy and society. 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, employment and empowering the community

Influencing the State and Society of Israel

As Israel's largest 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.

on the bank's consolidated financial statements, in millions of NIS):

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------|--------|--------|--------|--------|--------|
| Profit from financing activities | 7,496 | 7,884 | 8,415 | 8,423 | 8,684 | 8,929 |
| Total income (financing profit + operating income) | 12,827 | 13,083 | 13,637 | 13,664 | 14,022 | 14,362 |
| Operating costs | 8,333 | 8,410 | 8,886 | 9,024 | 9,140 | 8,790 |
| Wages and related expenses | 4,709 | 4,847 | 5,130 | 5,434 | 5,300 | 4,934 |
| Donations and investments in the community | 44 | 47 | 48 | 46 | 47 | 43 |
| Shareholders' equity | 22,406 | 23,662 | 26,561 | 28,834 | 31,361 | 33,032 |
| Dividends paid to shareholders of the bank | - | 270 | - | 276 | 448 | 569 |
| Interest to debt or bond holders | 1,627 | 1,956 | 1,925 | 2,065 | 1,361 | 1,058 |
| Provision for taxes (tax benefit) on operating profit | 1,328 | 792 | 1,230 | 1,271 | 1,729 | 2,097 |
| Provision for doubtful debts | 1,030 | 1,202 | 987 | 874 | 425 | 475 |
| | | | | | | |

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.

Economic Impacts

The direct economic impacts of the bank are reflected in its annual earnings, as well as in its contribution to the national economy through taxes, local procurement, employment, and community donations.

The following table presents key data regarding the bank's financial performance and the added value it generates (based

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.

11.19 billion \$

The total economic value that was restored to the various stakeholders of the bank, stood at \$10.79 billion

Economic value of the Bank Hapoalim Group, in NIS millions

| | Breakdown | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--|--------|--------|--------|--------|--------|--------|
| Economic value created by the group | Total income (including extraordinary income) | 12,827 | 13,088 | 13,637 | 13,664 | 14,022 | 14,362 |
| 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) | 7,654 | 7,735 | 8,174 | 8,350 | 8,502 | 8,129 |
| | Wages and related expenses (within operating and other expenses) | 4,709 | 4,847 | 5,130 | 5,434 | 5,300 | 4,934 |
| | Donations and sponsorships (within operating and other expenses) | 44 | 47 | 48 | 46 | 47 | 43 |
| | Provision for taxes (tax benefit) | 1,328 | 792 | 1,230 | 1,271 | 1,729 | 2,097 |
| | Dividends declared | 0 | 270 | - | 276 | 448 | 569 |
| | Total ⁷ | 8,982 | 8,527 | 9,404 | 9,621 | 10,231 | 10,795 |
| Economic value retained | Difference between the group's income and its operating and other expenses, provisions for taxes, and dividends | 3,845 | 4,556 | 4,233 | 4,043 | 3,791 | 3,567 |

* Of expenses, in the component of salary expenses, the bank paid the state a total of NIS 736.8 million in taxes on wages and employer contributions in 2015. In addition, the component paid by employees to the state out of their wages totaled NIS 751.6 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 1.48 billion. This is in addition to corporation tax paid by the bank in 2015, in the amount of NIS 2.09 billion. In 2015, the Bank paid property taxes for its buildings throughout the country, the amount stood at NIS 242 million.

7. G4-22 - In previous reports, the bank reported dividends declared. Beginning with the current report, the bank reports actual "dividends paid"; this figure is therefore included in the total economic value paid by the bank to stakeholders (in contrast to the "dividends declared" figure, which was not included in this amount). The change also affects data regarding the economic value distributed by the group, and consequently also data regarding the economic value retained. These are restated retrospectively in this report, for the relevant years in which dividends were distributed by the bank.



of the brunches

A Nationwide Employer

Bank Hapoalim maintains a network of 267 branches (as of the end of 2015), distributed throughout Israel. About 30% of the branches are located in National Priority Areas, and approximately 35% 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 from peripheral and central regions.

Bank Hapoalim maintains a network of 267 branches (as of the end of 2015), distributed throughout Israel.

are located in National Priority Areas, and approximately 35% of the branches are outside the Gedera-to-Hadera central region (as of the end of 2015)

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 Nesher. 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, Nesher, Givat Olga, Hatzor Haglilit, and Jerusalem.

Approximately **0 0 0 0 0**

at Bank Hapoalim is from suppliers who are located in Israel and employ workers here

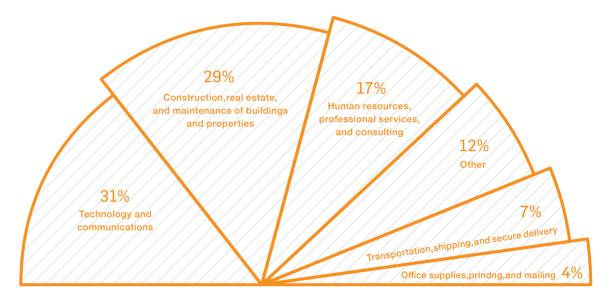
Responsible Supply Chain Management

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 1,100 suppliers from this pool during 2015. The bank's supplier pool contains suppliers of varying sizes (large, midsized, small, and micro businesses), operating throughout Israel and in additional countries. Approximately 93% of procurement at Bank Hapoalim is from suppliers who are located in Israel and employ workers here.



Breakdown of Bank Hapoalim procurment in 2015 (financial expenditure)



The five main categories in the bank's supply chain, which in aggregate account for 88% of its total annual procurement, are:

- 1. Construction, real estate, and maintenance of buildings and properties;
- Projects, acquisition, and maintenance of technological and telecommunication infrastructures;
- Human resources, professional services, and consulting;
- 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.

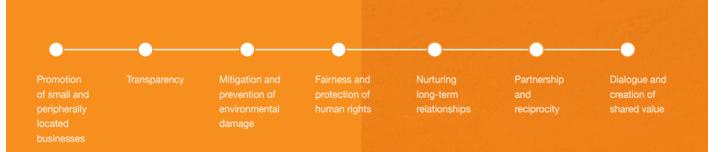
Procurement at Bank Hapoalim is managed by the corporate procurement unit, which serves as the integrative administrator of all procurement activities and manages interfaces with the bank's supply chain. The complete procurement process consists of the following stages: specification of requirements, 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.

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.

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





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

Responsible procurement policy

Mandatory

Mandatory criteria adapted to the unique nature of each procurement category Mandatory criteria for all suppliers (required norms of responsible conduct) Preference criteria (additional quality parameters) used to evaluate bids in significant contracts

Voluntary

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. 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.

As part of the assistance provided to small businesses in 2015, the Purchasing Division participated in the bank's drive to support small and micro-suppliers in the area affected by construction work on the light rail system in Tel Aviv. Within the bank's Small Businesses Project, in collaboration with the CEO's office, the Retail Banking Area, the Purchasing Division, and the Employee Union, approximately 8,000 small businesses in the light rail construction zone that

are clients of the bank were mapped. The bank proactively contacted these businesses, and posted a survey on its website targeted to them, in order to promote consumption from the suppliers through special offers for employees of the bank. Businesses participating in this project include restaurants, clothes shops,

photography shops, advertising firms, production studios, and more.

In practice, approximately 15% of the bank's purchasing in 2015 was from small and micro-businesses: they constitute approximately 50% of all of the suppliers engaged by the bank in 2015.

As part of the assistance provided to small businesses in 2015, the Purchasing Division participated in the bank's drive to support small and micro-suppliers in the area affected by construction work on the light rail system in Tel Aviv

During 2015, the Purchasing Division worked to raise awareness of the inclusion of corporate responsibility considerations in purchasing, within and outside the bank

Green Procurement

In 2015, 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 social 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 atrisk youth, assistance to people in need,

Raising Awareness of Responsible Purchasing







Micro







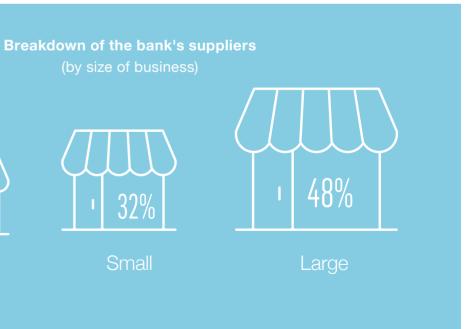
Micro

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 activity with the suppliers continued on the basis of this database during 2015.

During 2015, the Purchasing Division worked to raise awareness of the inclusion of corporate responsibility considerations in purchasing, within and outside the bank. As part of this process, a video about purchasing was produced and distributed to the employees of the bank. and the bank's responsible purchasing policy was publicized on the bank's website, in Hebrew and English. One of the subjects raised during visits to suppliers is the supplier's social contribution and involvement.

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,

enquiries

of external contractor

employees were

processed using the

Human Resources

Division system

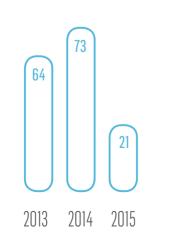
during 2015

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 2015, 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.



In 2016, the bank will add a corporate responsibility appendix to the process of setting up a relationship with a new supplier.

Examining

2015 Obje

The proce requirement suppliers wil

A pilot proje criteria in a during 2015 examining t in this RFQ, the method into RFQs.

| g Achievement of Objective | 25 |
|---|--|
| ectives | Status |
| ss of integrating mandatory s into contracts with the bank's continue in 2015; | Completed |
| ct for the integration of voluntary significant RFQ will be completed . After drawing conclusions and he implementation of the process a decision will be made regarding of laterally integrating these criteria | Completed A decision was made to include social responsibility criteria in major RFQs, where relevant. |

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

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 2015 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 (nonfinancial 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' guality 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 roll 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;
- Preventing falls in the fourth age (the fourth age is the period in which health begins to deteriorate);
- Preventive health in the third and fourth ages;
- In-home services for fourth-age senior citizens;
- Promoting business initiatives for the senior citizen market;
- Raising awareness to the needs of "caregivers" (family members caring for the elderly) - in the third age;
- Reducing the digital barrier among senior citizens.

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

Dialogue with stakeholders -**Senior Citizens Forum**

In 2015, the bank held a meeting with numerous stakeholders as part of its activities in the public sphere aimed at promoting selected issues for the benefit of the senior citizen population - in order to improve the quality of life for people in the third and fourth age (and for their relative-caregivers) while benefitting the entire economy.

The forum was attended by representatives of local authorities, the Local Government Center, the Joint Distribution Committee. Israel Association of Community Centers. businesses addressing senior citizens as a target audience, academia and government agencies, NGOs working in various areas concerning senior citizens, representatives of the corporate responsibility community, professionals and entrepreneurs in the field. As part of the forum, a roundtable discussion was held on the main issues preoccupying this population. The forum held a discussion on mapping the key challenges in these contexts.

Promoting employment - the senior citizen sector

Retirement marks a milestone in one's career. When reaching retirement age, they are discharged from the employment market. Many are discharged 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.

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

Beyond the financial aspects it promotes for this population, 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 which pose a challenge on the national level as well

The challenges regarding retirees' employment are varied:

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.

The bank's approach to addressing the challenges inherent in promoting senior citizens' employment is innovative. 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.

The project currently operates in the Hod Hasharon and Kfar Saba area as a local pilot experiment; if it develops, it will be expanded to other areas. After an initial period of several months, dozens of retirees have already been assigned jobs at households, which were found to be in demand for such services.

Creating self-employment resourcesencouraging 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 selfemployed or as small businesses. The goals of the program are:

- 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 - among other things, 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 is different; their pace, objectives and way of measuring success is different; and their considerations and the core needs fulfilled by their small businessesmay differ as well.

The program began as a pilot experiment with dozens of participants, and was held in cooperation with the media - Mako website, Keshet and the Israel Association of Community Centers, garnering extensive media coverage. With the conclusion of the

entrepreneurial program, five projects were selected for further activity. These ventures advanced into the incubator stage. This stage allows to provide continued individual support to entrepreneurs, in order to launch the product / service in its respective area. At this stage, they received further guidance, which was based on a combination of practical group work and individual support. Out of these five participants, four have launched active businesses. The four businesses received additional individual guidance, which mainly includes marketing support to increase their ability to reach target audiences and expand the businesses according to the goals they set themselves. The program will be expanded in 2016 as part of a School for Entrepreneurs and in collaboration with the Israel Association of Community Centers.

The small business market

Due to its size, a small business does not have the necessary resources to employ workers on a regular basis (in fields such as: accounting, marketing, legal counseling, etc.). The bank is supporting the promotion of a platform which would create a marketplace where professional retirees will offer a range of services to small businesses in areas that are needed by small businesses but which they are unable to fulfill on their own. The project is currently at the stage of mapping the needs of small businesses through dozens of depth interviews, to understand the services required by small businesses.

The Elderly Market -The Fourth Age -The Home Care Project

The vast majority of elderly in the fourth age (over 90%), are cared for by others and live alone in their homes. One of the main areas in which the elderly have different needs at this age is the medical field, including the paramedical field. At the same time, there are many retirees who have worked in these fields their entire lives, and have the necessary professional skills but are now outside the labor force. In order to address these two aspects, the bank is examining the idea - currently in its initial stages - of matching the needs of the elderly with professional retirees in the same community who can provide them with in-home paramedical services.

Preventing Falls Among the Elderly

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).

Falling among the elderly may be critical and cause faster deterioration in their physical condition - at a high cost to the economy, due to the significant treatment and rehabilitation expenses. The bank, in collaboration with MATAV (an association for care and welfare services) and other professional entities, is promoting an initiative to reduce and prevent falls through two courses of action. The first is to strengthen balance and posture among the elderly in their homes, through professional training of the elderly's caregivers and directing them how to prevent falls. The second direction is ergonomic in-house care, for fall prevention - by handling the obstacles in the home and removing them with the assistance of relative-caregivers. The project is in the planning stages.

According to market analysis carried out by the bank, it seems that there is significant information on the subject, but it's not sufficiently accessible to the public - it is inconvenient, 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 relativecaregivers. 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 expects to advance and develop an online work interface, to allow the information system to be accessible to the general public.

Reducing the Digital Barrier 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 advancement 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 their TV screen at home. The proposed solution includes connecting a device to the elderly person's home TV screen which would allow their family members to stream content from the Internet (according to the elderly person's preferences) directly to the TV screen using the family's Facebook group. The interface will be simple to operate. In this manner, the enterprise could help 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. The project is in its pilot stage - creation of an easy-to-use prototype.

Below are a series of additional initiatives and social projects promoted by the bank in the public sphere:

Cooperation with the TOM Project-The Development of Creative and Affordable Solutions for Older People

The TOM project (initiated by the Reut Institute) develops creative solutions for everyday challenges, with which people are faced constantly (e.g., an ironing board that would allow an elderly person to iron while sitting down or a solution to ease the pressure on fingers when using the phone or a computer keyboard). TOM's uniqueness is its ability to bring together the "need knowers", the ones who have these needs, and those who care for them and help them, and volunteers with technical skills and creative thinking, who dedicate their time to help.

The bank collaborated with TOM in an event attended by more than one hundred volunteers - engineers, programmers, graphic designers, caregivers, physical therapists and people with special needs. The event was held in the format of Makathon - a development marathon lasting 72 hours focused on products for people with special needs and the elderly. Makathon participants focused on 14 challenges; the event included a special development track for products for older people, supported by Bank Hapoalim.

Medicine for the People Venture

The project was established with the aim of increasing access to higher education studies for the general population, so as to provide access to preparatory courses for academic programs even to those who cannot afford them (such as: psychometric tests, preparatory tests for medical school, improving matriculation exam scores, etc.). Currently, applicants for higher education are forced to pay thousands of shekels for psychometric exam preparatory courses. The project enables candidates to take the psychometric course at a fee that is hundreds of precents lower than market prices for such courses.

Bank Hapoalim, in collaboration with HUB Tel Aviv, has provided the association's founder with a comprehensive support environment. This support included a thorough financial plan, the conclusions of which have helped in setting a minimum tuition that allows the enterprise to continue its activity from a business standpoint; a comprehensive marketing plan including assistance in campaigns and in the characterization and recruitment of staff for the project. So far, hundreds of people have signed up for courses offered by Medicine for the People.

SSO k residents

The program for Collection and Recycling of Electronic Waste is available to a total of 850,000 residents, through 130 receptacles in their towns

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 Ecommunity, 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 850,000 residents, through 130 receptacles in their towns. Dozens of tons of waste have been collected for responsible recycling within

Solar Trees Project

this project since 2012.

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 bank's CSR Division.

sustainability.

areas of corporate responsibility and

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 2015, as well as in public spaces in the city of Holon. As of the date of preparation of this report, a total of 15 stations have been set up.



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

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 sociocommunity development. The distinction between aid and sociocommunity 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;

alone projects.

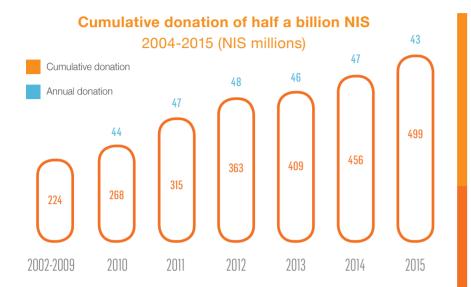
The bank maintains strategic partnerships with a range of leading community organizations. These include collaborations with the ORT network of science and



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 standtechnology 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 2015, including education in general, and financial education in particular; culture and 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's investment in the community amounted to NIS 43 million in 2015. NIS

million

Cumulative donation

of half a billion NIS.

2004-2015

million

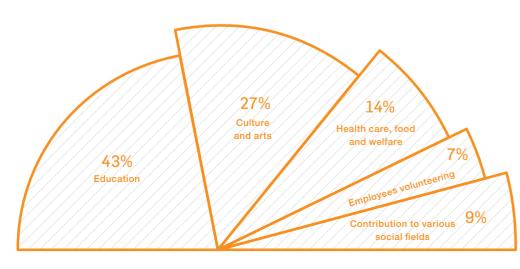
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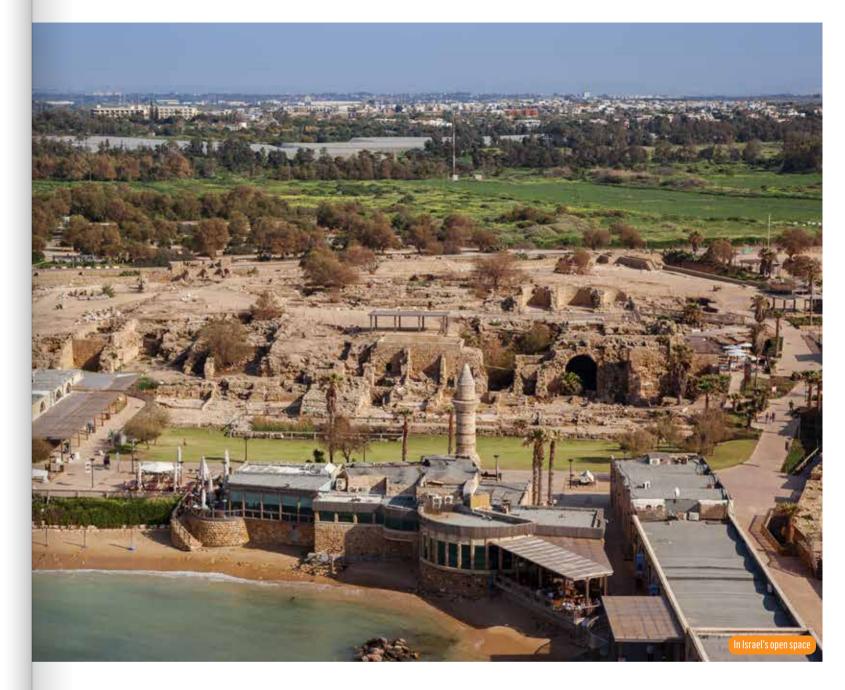
investment in the

community in 2015

NIS







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 2015, the bank donated approximately 655 computer systems and auxiliary equipment, at a value of NIS 393 thousand.
 Donations of

 2008-10
 2

 2,554
 92

 NIS
 92

| f Computer systems (NIS thousands) | | | | | | |
|------------------------------------|------|------|------|------|--|--|
| 2011 | 2012 | 2013 | 2014 | 2015 | | |
| 921 | 500 | 831 | 361 | 393 | | |



million

The monetary value of the donations of computer systems by the bank in 2007-2015 is approximately NIS 6.7 million

Results of Community Investments in 2015

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 50% 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:
- 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.).

Organizations in the fields of health care, welfare, culture, and

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 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

 Approximately 80% of the foundations surveyed earmarked the bank's contribution for specific projects or programs within their activities;

their activities.

Of the activities and projects surveyed, approximately 65% 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 45% 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.



EMPOWERING SOCIETY AND THE 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.

In 2015, the bank invested in dozens of non-profit organizations and community groups active in the area of education, which helped more than 185,000 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 60.000 adults, children, and adolescents directly.

Promoting Education Initiatives and Projects

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

From Three to Five

Bank Hapoalim, through the ORT Alumni Association, is participating in the effort to help students with lower socioeconomic backgrounds improve their academic achievements in scientific and technological subjects. Poalim from Three to Five is designed to promote a vision of social change, in which geographically remote communities in northern and southern Israel are brought closer to academic centers, with a substantial increase in the number of students from these areas who take matriculation examinations in mathematics and sciences. The aim of this effort is to help reduce social inequalities. The project includes students in grades 9 through 12 from Israel's Jewish, Arab, Bedouin, and Druze communities.

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participated in this activity, at 20 schools throughout Israel

About 53% of the program's students who were given support before a matriculation examination achieved an average improvement in their scores, relative to scores prior to the program

Students Since the launch of the

project, 10,189 students have participated, in 1,260 groups

About 25% of the program's students began the school year at risk of demotion to a lowerlevel academic grouping. Thanks to the program, demotion was prevented for 32% of the students, and they remained in the higher groupings.



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, throughout Israel, for a period of three 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.

Students and teachers participated in the program in 2015, at 206 schools

Students

The direct support of the bank helped the program reach more than 7,700 students at 19 schools

185,000 people

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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 2015. 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.

participants In 2015, 2,110

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.

11.488 **Students** The number of students participating in the various activities, including students who received emotional therapy, reached

11,488 in 2015.

Students

The bank supports

children aged 9-14

(grades 4-9), which

reached over 4.000

students in 2015

a project targeted to

Students

The direct support of the bank aided the operation of programs for more than 1,200 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 73% in 2015, an increase of more than 10% compared to 2012 (before the launch of the initiative).

Students

Children aged 6-18 participate in this program. Over the last 10 years, the number of students involved in FIRST activities grew from 360 to 12,000

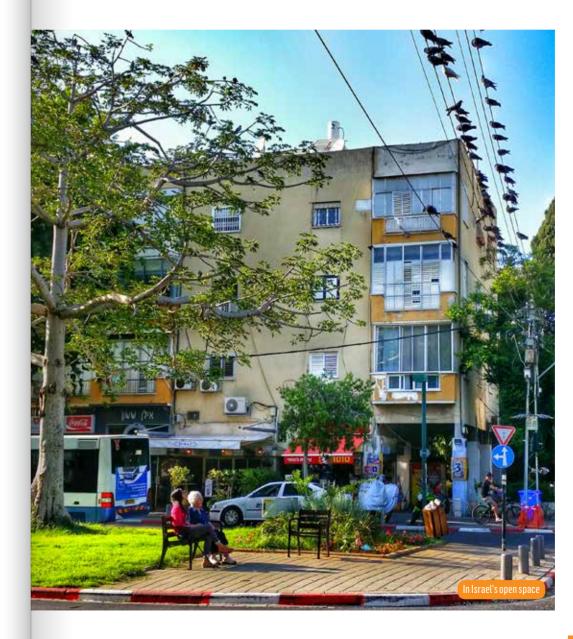
FIRST

FIRST is an international non-profit organization dedicated to encouraging adolescents to study science and technology. The organization's flagship event is an annual competition in which participants from all over the world present technological projects created by teenagers, with the guidance of a team of instructors and volunteers from the local community. This is the sixth year in which the bank has supported this initiative, within its ambition to promote technological education in Israel.

Ben Gurion Heritage Institute

An educational institution dedicated to communicating the heritage of David Ben Gurion. The institute works in many areas derived from this heritage: Zionism and Jewish identity, sovereignty, excellence in society, leadership, development of the Negev region, and more. The institute has several units that operate specialized programs for various groups: children and youth, teachers, defense industry employees, new immigrants, tourists, and the general public.

Students



The institute conducted a wide range of educational programs for approximately 21.000 students in 2015

77,000 Visitors Over 77,000

visitors came to the site in 2015



scholarships

The bank provided assistance in funding approximately 280 scholarships for college students from various sectors of Israel in 2015

Promoting Financial Education in Society and in the Community

In an effort to promote education, and accordingly to its financial freedom perception, the bank have given rise to several projects, some unique, designed to advance financial education in the community:

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.

Students participated in the program in 2015, in 208 groups, at 47 schools

Approx.

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 parents 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 bank maintained and enhanced the Dan the Saver brand during 2015 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 30 towns throughout Israel for children from various sectors.

Approx. children

have participated in Dan the Saver day camps over the last five years

Over 8,000 children participated in dozens of Dan the Saver day camps, in over 30 towns, during the 2015 summer vacation

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

 $4^{0/}_{0}$ of families

one year

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

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.

people

Approx.

In 2015, the foundation helped approximately 20,000 people through workshops and lectures, and provided individual counseling sessions to 6.800 families

that completed the program in 2015 will reduce the gap between their income and expenses by approximately NIS 2,000 within

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,

35% of families

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

and clear thinking on these subjects, aimed at raising a new generation with an awareness of the significance and value of prudent economy.

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.

60% of families that received individual financial quidance 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

Promoting Culture and Arts

The perception of Poalim for the Community places special emphasis on culture and 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 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 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 arts.

480,000

visited dozens museums and other sites free of charge, sponsored by the bank at its initiative, during the Passover holiday in 2015

Batsheva Dance Company

The dance company runs a project for morning performances at schools, holding approximately 50 performances each year for students across the country. The performances are organized jointly with the National Culture Program, an arts education program in which all students in grades 1-12 are exposed to each of the canonical art forms – an inspiring model for bringing a young audience closer to the arts.

20,000 students

Within the effort to promote culture throughout Israel, for a wide range of audiences, the Batsheva Ensemble held 32 performances for approximately 20,000 students in 2015

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 arts accessible to all segments of Israeli society.

1,000 tickets

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



At least **25,000** people

In 2015, at least 25,000 people attended cultural and artistic events supported by the bank. The bank's contribution directly aided the participation of approximately 23,000 people

Israel Philharmonic Orchestra

The orchestra runs the Mafteach (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.

20,000 children

Over 20,000 children, adolescents, and people of all ages, with an emphasis on peripheral communities, participated in this program in 2015

The bank's contribution supported the participation of more than 2,000 children and adolescents in the program



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.

Israeli Art Exhibition for the Israel **AIDS Task Force**

The inner space of the bank's head-office building is reminiscent of a museum, with open galleries on every floor. For several years, the bank has organized art exhibitions in this building in order to raise funds for important causes. The exhibitions are professionally curated, so that the building is transformed into a museum for the duration of the show. The bank leverages its network of community and business relationships to draw stakeholders and contributors to the exhibitions.

This exhibition, in memory of Leah Rabin, one of the earliest supporters of the battle against AIDS, was held for the seventeenth year at the bank's head-office building. Artwork donated by hundreds of artists was displayed. All of the funds raised through the sale of the artwork at this event are devoted to the Israel AIDS Task Force.

A sum of NIS 2.7 million was collected at the exhibition held by the bank in support of the Israel **AIDS Task Force**

The Israel AIDS Task Force held more than 90 workshops for approximately 17,550 adolescents Atleast

Ezra Lemarpeh

Latet

An Israeli non-profit humanitarian aid organization, founded to help reduce poverty for the creation of a better and more justice 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.

268,000 people

In 2015, at least 268,000 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 11,000 people

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

145,000 people

In 2015, the organization helped 145,000 people receive advice, treatment, and medical support. The bank's contribution helped approximately 1,800 people.

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 2015. Approximately 5.400 families received assistance from the foundation as a result of the bank's donation.

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 65,000 people

In 2015, at least 65,000 people participated in programs and projects related to various community causes in Israel, initiated by the non-profit organizations supported by the bank.

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

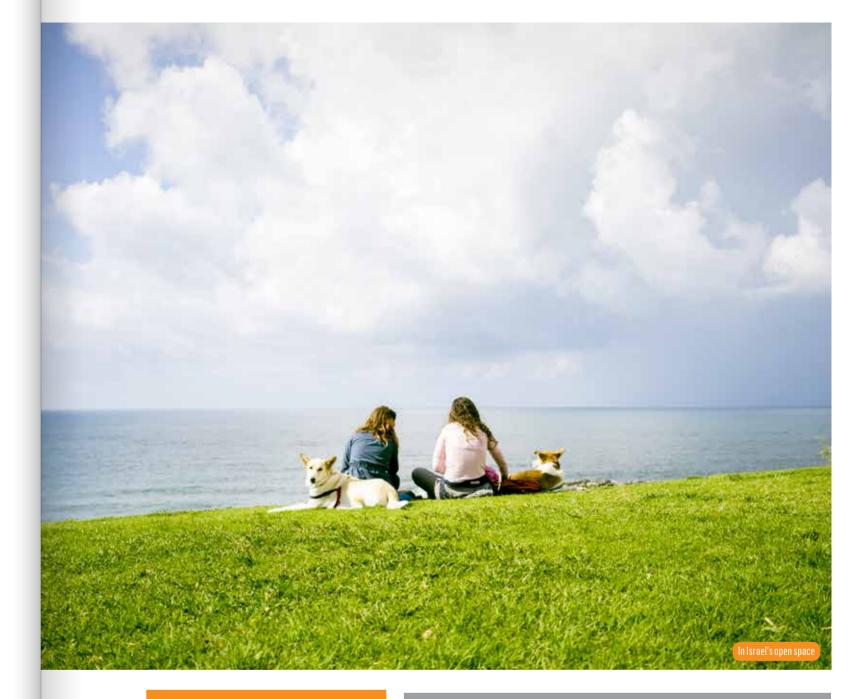
■ Non-Profits Exhibition – For the tenth year, the bank invited the Israeli public to buy holiday gifts sold by non-profit organizations that offer products handmade by children, adolescents, and adults with disabilities or special needs. The exhibition is used to develop resources for the organizations, 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 35 nonprofits participating; the proceeds were transferred to the organizations in full;

Etgarim - In 2015, the Etgarim foundation helped approximately 5,700 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. 128 people participated in this program in 2015. 86% 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 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).



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.

Examining Achievement of Objectives

2015 Objectives

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.

Status

Completed

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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,

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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 2015

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 2015:

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 – "The Children's Bank's" were established in 4 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 –

Employees of the bank give lectures on writing a business plan and advise teenagers on business ventures at schools, within the Premium Entrepreneur and Taasiyeda projects.

Summer Youth As part of the promotion of the values of doing and giving, 1,400 children of bank employees aged 15-18 participated in a wide range of community activities during the summer vacation (in accordance with the Youth Employment Law, 1953). Summer Youth is an initiative of Poalim Volunteers in collaboration with the employee union, the human resources division, and the Poalim Campus, funded by the bank. The project enables employees' children to learn about and absorb the value of giving, through activities aimed at helping various population groups in Israeli society. The participants learn about the underprivileged parts of Israeli society and experience volunteering for one week. Six six-day sessions of this project were held during the summer. Each session opened at Poalim Campus with an introduction to content areas related to Israeli society and experiencebased enrichment, including instruction on volunteering, and learning about the value of financial freedom and about managing youth bank accounts, and later progressed to practical volunteer activities.

The employees' children were praised and honored by the foundations and community partners, who welcomed the activity and initiative of the bank's management and the sense of partnership and values demonstrated by the participants. Many of the adolescents expressed satisfaction with the experience and a desire to continue volunteering after completing the program.

Realization of Holocaust survivors' rights

In recent years, employees of the bank

have participated in a project promoting the realization of Holocaust survivors' rights Employees in the Jerusalem area worked on this project, visiting survivors' homes, explaining their rights to them, and filling out forms on their behalf. Participating employees received certificates at a ceremony held during the year.

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 2015.

Approximately

employees

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



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

Bank employees were trained to instruct new drivers, as part

of the Or Yarok program

employees

On Good Deeds Day, held for the eighth time in 2015, more than 4,700 employees volunteered in a wide range of activities

lectures on financial education and household budget management were given by volunteers

from the bank

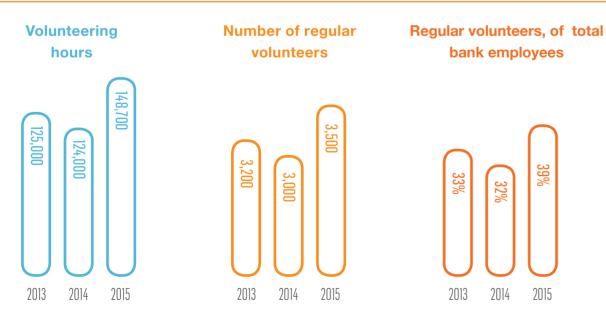
2015

More than

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

Approx. hours of community volunteer work

The bank and its employees performed 148,700 hours of community volunteer work in 2015 (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





LOOKING AHEAD

In 2016, the bank will begin measuring the effectiveness of volunteer activities, both for employees who volunteer and for community partners;

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.

Volunteer hours include employees' children's activities.

Summer Youth - 30,000-45,000 hours of activity annually

Examining Achievement of Objectives

| 2015 Objectives | Status |
|---|------------|
| Volunteer activities in the area of financial freedom for a range of target audiences will be expanded during the year, and will include various non-profit organizations. | Completed. |
| The Children's bank - The Children's banks will be set up at three group homes for at-risk children during 2015. | Completed. |
| Activity to benefit Holocaust survivors will continue in 2015, through participation in the project for realization of rights, as well as volunteering on an individual basis and at activity centers. | Completed. |





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 int 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.

According to long-standing tradition, the work environment at the bank is characterized by:

- Equal opportunities and the prevention of discrimination;
- A wide range of opportunities for personal and professional growth and development, generating shared value for employees and for the bank;
- Concern for the wellbeing of employees and their families, including aid and support during times of change or crisis;
- An excellent working relationship, dialogue and partnership maintained between management and the employee union.

The bank's philosophy is that the most successful way to manage human capital, in the best interests of the organization and its employees, is through genuine partnership. The bank recognizes that as an employer, it must consider its employees' wellbeing and wellness, as well as their enrichment, growth, and empowerment, and works to achieve the optimal synergy between each employee's individual development and the needs of the organization, across all stages of the work cycle: from recruitment, to training, promotion, and orderly and

attentive preparation for retirement, as well as ongoing relationships with retirees, who remain part of the family of employees of the bank.

The bank applies longterm 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

Responsiveness, flexibility, assistance, and support, from a broad perspective on employees' lives, are vital elements in fostering the desired relationship between the bank and its employees. This includes a balance between work hours and leisure time. The work week at the bank consists of fewer hours than the number of weekly work hours established in Israeli

labor laws. The bank also ensures that its employees do not exceed the amount of overtime permitted by law. The bank asks its employees to use the full amount of vacation days owed to them each year. This approach helps the bank achieve the goal of satisfied employees who are able to function to their full potential and who view the bank as a desirable, preferred workplace where they seek to remain.

Presenting Information on Employees

employees

of the bank in 2015



The average age of employees of the bank

18.5

The average duration of service of employees of the bank is 18.5 years

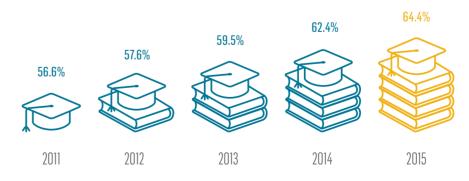
| Education Age | No academic deg | ree | Academic degree | | | Age group |
|------------------------|-----------------|-------|-----------------|-------|-------|--------------|
| | | B.A. | M.A. | Ph.D. | | distribution |
| 18-21 | 14 | | | | 14 | 0.2% |
| 22-30 | 355 | 422 | 82 | | 1108 | 9.7% |
| 31-40 | 522 | 1,275 | 745 | 3 | 2,545 | 28.6% |
| 41-50 | 737 | 1,039 | 910 | 8 | 2,694 | 30.3% |
| 51-60 | 1,247 | 605 | 371 | 5 | 2,228 | 25% |
| 60+ | 296 | 177 | 83 | 2 | 558 | 6.2% |
| Total | 3,171 | 3,518 | 2,191 | 18 | 8,898 | 100% |
| Education distribution | 35.6% | 39.5% | 24.6% | 0.2% | 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.

⁸. The number of employees is excluding employees who are on maternity leave and bed rest during pregnancy, external employees and Employees of subsidiaries.



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 2015. 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 2015, the percentage of degree-holding employees at Bank Hapoalim rose from about 26% to 64.4%.

64440/ of employees who hold academic degree

The percentage of employees who hold academic degrees rose from 62.4% to 64.4% in 2015. 479 employees were enrolled in academic degree programs this year, with tuition financed by the bank through a joint fund of the board of management and the employee union. Approximately 38.6% of the bank's degree-holding employees have master's degrees or higher. This group constitutes 24.8% of all employees of the bank

EMPLOYEES - QUALITY OF LIFE AND WELL-BEING



469 employees took maternity leave in 2015, while 463 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





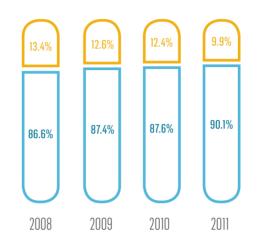
Collective agreement The bank recognizes its employees' right to unionize and conduct collective negotiations. The collective agreement applies to the decisive majority of employees of the bank (91.3%), excluding those employed under personal contracts



Y5.9%

of the bank's employees are employed full time' while 4.1% are employed in part-time positions





93.6% Internal and external employees: were of the bank, while 6.4%



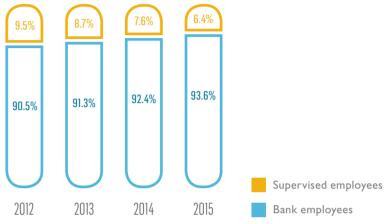
Distribution of employees by type of employment agreement

| | | Permanent employees | Temporary employees | Senior employees | Total |
|------|--|---------------------|---------------------|------------------|-----------------|
| 2015 | Collective contract | 81.8% | 9.5% | - | 91.3% |
| | Personal contract | 0.13% | 7.2% | 1.3% | 8.7% |
| 2014 | Collective contract Personal contract | 80.93% - | 10.82% 6.98% | 1.26% | 91.75% 8.25% |
| 2013 | Collective contract | 80.7% | 12.4% | - | 93.1% |
| | Personal contract | 0.2% | 5.5% | 1.2% | 6.9% |

Employee turnover, 2013-2015 (employee departures and hiring's)

| Year | Age | Departure | Departure Hiring | | | | | |
|------|----------|-----------|------------------|-------|--------|------|-------|--|
| | | Female | Male | Total | Female | Male | Total | |
| 2015 | Up to 30 | 195 | 57 | 252 | 165 | 69 | 234 | |
| | 31-50 | 107 | 70 | 177 | 45 | 49 | 94 | |
| | 50+ | 163 | | 273 | | | | |
| | Total | 465 | 237 | 708 | 212 | 119 | 331 | |
| 2014 | Up to 30 | 55 | 208 | 263 | 238 | 79 | 317 | |
| | 31-50 | 71 | 102 | 173 | 60 | 69 | 129 | |
| | 50+ | 300 | 156 | 456 | 3 | 6 | 9 | |
| | Total | 426 | 466 | 892 | 301 | 154 | 455 | |
| 2013 | Up to 30 | 198 | 72 | 270 | 245 | 97 | 342 | |
| | 31-50 | 119 | 81 | 200 | 40 | 26 | 66 | |
| | 50+ | 212 | 134 | 346 | - | - | - | |
| | Total | 529 | 287 | 816 | 285 | 123 | 408 | |





external workers

Absorbing external employees

In 2015, the bank hired 219 external workers as regular employees, accounting for 66% of all employees hired by the bank during the year. Overall, the bank hired approximately 4,000 external workers in 2008-2015. The percentage of external workers decreased from 18.8% to 6.4% between 2007 and 2015

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 organizationwide 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

Management-employee encounters – A series of different types of meetings have been held between the bank's management and employees: breakfast meetings with CEO Zion Kenan, aimed at forging closer relationships with employees and giving management a stronger connection to events on the ground; and Executive Chats - open talks held by members of the board of management with groups of employees from different units of the bank, in a variety of positions, representing a range of the bank's units. These meetings continued during 2015;

Employees instill the vision of the bank -

The project of instilling the bank's vision, initiated in 2010, 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 2015, through various aspects of the bank's activity: instilling the vision at the areas of the bank, 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. The model will be implemented

throughout the bank in 2016;



Activity of the Organizational Portal in 2015

> **4** million Number of pages viewed monthly

74,000 Employee queries via the portal

5000 Content expert employees who manage sites within the portal

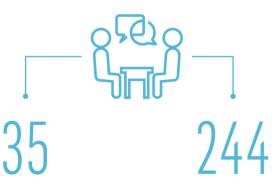
250

Knowledge items posted on the portal daily



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. 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





Employee-CEO encounters 35 breakfast meetings with CEO Zion Kenan have been held (4 in 2015). Approximately 1,150 employees participated these meetings

Employee-management encounters

From the launch of this initiative to December 2015, 244 "One Hour Executive Chat Meetings" were held by members of the board of management with groups of bank employees (24 meetings in 2015). Approximately 2,575 employees participated these meetings;

Feedback and evaluation 99% of the bank's employees participated in an evaluation process in 2015, based on their performance in 2014. Mid-year follow-up talks to check progress on objectives and choose directions for development were held with 70% of employees

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

communications;

Feedback and evaluation processes –

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

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 2015. The value emphasized in 2015 was individual development - followup sessions on objectives were changed to "objectives and development meetings;

Organizational innovation – Innovation is one of the most significant values promoted at the bank. The wide range of activities related to innovation is aimed, first and foremost, at creating value for customers through innovative thinking originating both within and outside the organization. The benefits reaped from these processes are reflected continually in the launch of services and products that grow from within the organization or through collaboration with external parties. Innovation processes are led by the Strategic Management Center in the Corporate Strategy Area, in congruence with the objectives and values of the bank, with a future-oriented perspective.



The sixth consecutive Annual Innovation Conference was held in 2015, as part of the ongoing efforts to instill a culture of innovation. This year's conference focused on promotion of the Open Banking approach, which encourages the development of innovative services offering high added value to customers through collaborations with entities outside the organization that combine the advantages of all of the involved parties. The two-day event at the bank's Shefayim campus was attended by 250 managers and employees from a range of bank units. Participants experienced a wide variety of content, including the bank's view of its pivotal role in the promotion of the start-up community in Israel.

In 2015, the Fintech Unit of the bank's Strategic Management Center continued to collaborate with the Information Technology Area and with Poalim Capital Markets on an initiative to promote, adopt, and invest in promising financial technology companies. The goal of this activity is to expose the bank to innovative technologies in the financial industry being developed outside the bank, and to gain a competitive advantage by absorbing these technologies, as part of the value offer for the bank's customers. Representatives of the bank meet with financial technology start-ups and examine the innovativeness of their ideas and their potential added value for the bank. Companies offering an interesting product are examined in depth, on the business and technology dimensions, and some are selected for practical testing at the bank. Since the foundation of the bank's Fintech Unit, new technologies from ten Israeli start-up companies have been

implemented in various areas, including customer experience enhancement, the capital market, and payments; the bank has invested in six early-stage companies; and collaboration agreements have been signed with leading accelerators with the aim of promoting fintech companies.

In another significant effort dedicated to the promotion and development of the Israeli start-up community, the bank held the BankApp competition for the development of financial applications using banking information, for the second time, during the fourth quarter of 2015. The bank offered access to an unprecedented, rich variety of banking information to entrepreneurs and developers from various fields for the invention of new services and products, or improvement of existing ones. The competition was based on Open API, a unique interface developed by the bank for the development of applications based on banking information. BankApp provides fertile soil for the invention of groundbreaking financial applications, thanks to the confluence of information and banking capabilities with the creativity and speed of start-up entrepreneurs. Participants in the competition were granted professional guidance by senior employees of the bank and of the investment and high-tech industries in Israel, aimed at responding to all of the needs of a start-up taking its first steps.

Another drive for the promotion of a culture of innovation within and outside the bank is the Inter-Organizational Innovation Forum, led by the bank for the fourth year. This initiative, generated by the Innovation Unit in the Corporate Strategy Area,



creates a space for the exchange of ideas, knowledge sharing, consultation, mutual learning, and collaboration with numerous organizations from a wide range of sectors of the Israeli economy. Most participants are senior managers who are innovation leaders at their organizations; they come to the forum to share the challenges and successes they have experienced in embedding innovation processes within their organizations with the other members, and to learn efficient ways of promoting innovation that benefit the goals of the organization. The forum, which has drawn strong demand and a continuous stream of new participants, held two meetings in 2015.

Poalim for Good

The goal of the Poalim for Good drive, which is based on the Arison Group's Doing Good Model, is to instill practice-based values for positive action at the level of the individual, the environment, and the community. An ongoing, organization-wide, experienceoriented process was conducted at the bank during 2015-2016 to increase all bank employees' exposure to and awareness of the Poalim for Good values and to increase positive action within and outside the bank, by creating motivation to take action, in various forms. During the many months of the project, a selected value was highlighted each month, according to the organizational calendar. Values included financial freedom. sustainability, and volunteering.

for this project.

The effort to instill each month's value included activities expressing that value, such as the Non-Profits Fair during the month of the value of giving, Good Deeds Day during the month of the value of volunteering, etc., as well as communication through videos and interactive games in which the prize was a monetary amount donated by the winning units to the causes of their choice, all produced specifically

For example, during the month devoted to the value of sustainability, the emphasis was on informing and connecting employees to the systemic management of sustainability issues at the bank, as well as on employees'

influence and ability to take an active part in the bank's sustainability efforts. At the bank's initiative, electronic waste and unneeded clothing from employees' homes were collected and recycled during the period of the traditional spring cleaning before the holiday of Passover. Within this project, 2 tons of electronic waste were collected at branches throughout Israel and transferred for responsible recycling, and 1.2 tons of clothes were given to the nonprofit organization Pitchon Lev. Thousands of employees of the bank participated in the project.

19,000 proposals

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 1,876 proposals were submitted by 900 employees in 2015. From the launch of this program in 2009 to the end of 2015, 19,000 proposals were submitted by 6,000 employees, of which approximately 7% are being implemented.

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;

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.

Examining Achievement of Objectives

| 2015 Objectives | Status |
|---|--|
| Launch and implementation of the Portal on the Go (with a new name) – The mobile application will contain news and useful content for employees, including for access from home, such as information regarding employees' rights during pregnancy and maternity leave, rights of employees on prolonged sick leave, information for parents of children with special needs, information about support for aging parents, and more. The portal also contains benefits for social and leisure activities, and the Poalim Travel forum, where employees can share experiences and tips; | Launched in August 2015. 4,500 employees of the bank have re- the service to date. Employees can use the application to suggestions through the I Care featur recommend new customers to the b see who is celebrating a birthday, and obituaries. Planned: An organization and information about branches' pro- sales activities. |
| Specifications and setup of the Colleague Portal – The portal will enable groups of employees with shared interests to discuss them and share content and knowledge. This solution, managed using Connections by IBM, will be fully integrated with the portal and will serve small knowledge communities as a space to promote dialogue among members, in order to learn from each other's experience and thereby improve work processes, improve customer response times, and promote the business. The Colleague Portal will eventually replace outdated tools, such as the Staff Rooms and Forums; | Specifications for adaptation to the to infrastructure are still in progress. |
| Deeper and broader intra-organizational dialogue through new tools and channels – An online news program, uniform message sheets, recruitment of mid-level executives as communication agents, and more; | A digital news program was launche September 2015, and is broadcast to every two weeks through the portal a Portal on the Go. |
| The effort to promote innovative initiatives that create value for the bank's customers will continue; | Completed |
| The drive to promote and instill an organizational culture of in-house and external | Completed |

istered for

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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 2015.

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.

and Terms

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

Equality in Wages

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. The bank raised the minimum monthly wage for its employees, in one step, to NIS 5,000, beginning in April 2015.

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.

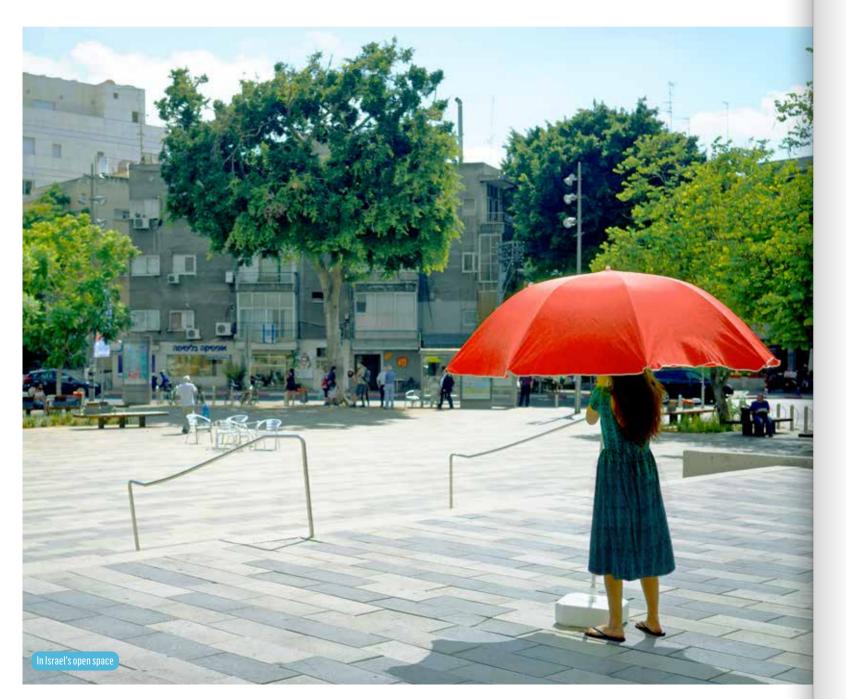
The bank is leading a diversity initiative, based on an understanding of the advantages of diversity on the level of the business, its values, and the organization. Within the vision of the bank, it is committed to the inclusion of a range of different population groups in congruence with their representation in society. This is justified both in business terms and in terms of the bank's commitment to the society of Israel. More than 1,200 employees from sectors underrepresented in the job market are currently employed at the bank

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, as part of its hiring policy; more than 1,200 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 iob market.



Women-men wages

Greater examination was conducted comparing men's wage to women's wage of at all levels in the bank. There was no difference: the average women's wage rate of employees of the bank stands at 99.91 % of men's wage

bb%

Percentage of female employees at the bank 65% of the employees of the bank are women, versus approximately 47% in the labor market in Israel

5.4% Minority employees constitute 5.4% of the bank's manpower

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

The bank won the Dov Lautman Diversity in Business Award in 2015, in the main category. The award was given for the bank's initiative to include Arab-Israeli employees with academic degrees. The initiative is aimed at the creation of infrastructures, opportunities, training, tools, and the general development of this population group, as part of the bank's strategic plan for growth in the Arab-Israeli community.

52.1%

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

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

underrepresented groups were hired by the bank in 2015

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 humanresources 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 will continue through July 2016.

Encouraging Employment of Ultra-Orthodox Workers

As part of the drive to encourage hiring from the Ultra-Orthodox (Haredi) sector, the bank collaborates with a range of stakeholders and helps to promote this issue in the public sphere of the Ultra-Orthodox community and in the community's media outlets. For example, the story of an employee hired by the bank's Me'ah She'arim branch in Jerusalem was published in the Haredi newspaper Mishpacha ("Family"). The employee was hired for the Banking Management Training Track in January 2015, through the Kivun Center, which supports Haredi employment in Jerusalem. In his interview for the newspaper, he said: "The screening process is certainly not easy, and requires a lot of patience, but in my experience it is always worthwhile to try. It is also important to know that the fact that you are Ultra-Orthodox not only does not hurt your chances of success - the opposite is true, often it actually increases them, because in the end when you meet one-on-one for a job interview you discover that stereotypes are only stereotypes."

Segmentation of hiring of employees from underemployed population groups In 2015, approximately 14% of total employees hired were Arab-Israeli, 2% were Ultra-Orthodox, 2% were of Ethiopian descent, and 2% were people with disabilities

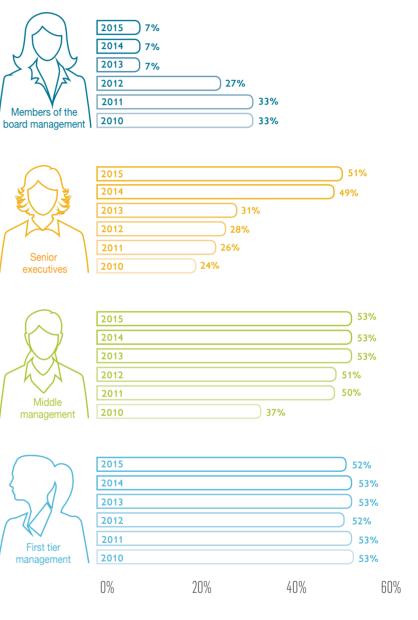
Hiring of employees from the Arab-Israeli community

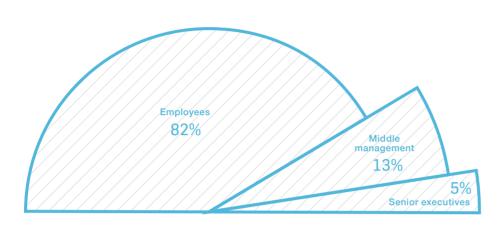
Over the last few years, the percentage of Arab-Israeli employees hired, of the total employees hired by the bank, has risen significantly, particularly in the leading professional tracks offered by the bank. In 2014-2015, 20% of employees hired in the bank's flagship Management Training Track were Arab-Israelis, as well as 47% of employees hired in the Banker Training Track (personal bankers).

| Female | Male | Total |
|--------|---------------------------|--|
| | | 15 |
| 24 | 63 | 87 |
| 1,304 | 1,156 | 2,460 |
| 4,423 | 1,928 | 6,351 |
| 5,751 | 3,147 | 8,898 |
| | 4 24 1,304 4,423 | 4 11 24 63 1,304 1,156 4,423 1,928 |

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







Segmentation of minority employees

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 2015, 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 gualified 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.

Employees with disabilities

The bank has conducted an initial mapping of employees with disabilities, according to the criteria in the new expansion order, and is formulating a plan for promoting the employment of workers with disabilities

LOOKING AHEAD

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;

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.



Examining Achievement of Objectives

2015 Objectives

Continued implementation of the diversity approach at the bank – The In House Art exhibition

Promotion, integration, and acceptance and training programs; continuing the series of different sectors; forming a mentoring program; publishing information and useful tips on the

(Refers to an objective from the 2013 report) Completed. Formulation of an outline for a mentoring program – For selected employees, to support range of positions in the long term.

Status

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 \bigtriangledown

program for Arab-Israeli

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 changegenerating 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 Intraorganizational 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.

The Campus routinely assesses the effectiveness of its courses and development programs, field training programs, and training sessions within systemic projects. 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 feedback enables the Campus to improve the quality and precision of its training programs 230 Course evaluations – Performed in 230 course sessions, with 3,000 employees participating

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

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

Over 100 computer-based learning

modules were developed during 2015

203

203 branches joined the Poalim Restructuring effort in 2015 and participated in professional training in this area

100

More than 100 units and managers attended training on the Team Leadership approach



Annual training activities - 2015



and external personnel)

43.521 Days of learning (bank employees only)

Average hours of learning per employee

The data on average annual learning hours per employee (38.1 in 2015 versus 43 in 2014) stems from improved measurement, rather than a true decrease in training volumes. The figure for 2014 included data for employees of subsidiaries and external workers, whereas the figure for 2015 includes data for bank employees only. Average learning hours including employees of subsidiaries and external workers stood at 46.9 in 2015.

* 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.

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 – The Poalim by Telephone call center also maintained a training center until the end of 2015, which took in new bankers after they completed their basic training at the Poalim Campus. At the unit, the employees received additional internal training aimed at imparting knowledge about business processes and new banking products (mortgages, loans, etc.) and refreshing their existing knowledge. In addition, as part of the process of developing human capital at the call centers, training sessions were conducted to improve employees' individual skills and service skills. As of 2016, responsibility for support and learning at the call centers has been transferred to team managers, who have been given the appropriate training. In

Poalim Campus 2015

and credit sale skills;

process - Absorption among bankers in personal banking at the retail branches continues. This process refers to a change in bankers' approach to the collection of customers' debts, with a focus on rehabilitation of the customer instead of on debt collection. 203 branches joined this effort in 2015, with



591

Number of course

sessions at the Campus

X7%

Percentage of position-specific training

programs* / professional training**

X%

Percentage of managerial/

behavioral training programs***

addition, a new position with the title of "Integrator" has been added at the call centers, to oversee the maintenance of call-center employees' knowledge.

The activities held at the Campus in 2015 included the following:

Campus in the Field – The transition to learning at the units continued during 2015, with full support from the Poalim Campus in the development of learning materials. A new instrument was introduced this year, for mapping individual knowledge gaps. Each employee receives a personalized knowledge supplementation program, based on the results of the mapping. New lesson plans on a range of subjects were written during the year and made available for use by the regions in training their employees, in order to expand their knowledge and eliminate any knowledge gaps. Computer-based learning on the learning system continues to serve as the key component in maintaining employees' professional skills. A new learning tool was introduced this year: telephone seminars. All employees of the Retail Banking Division participated in conference calls accompanied by a presentation to explain new procedures

Embedding the Poalim Restructuring

staff attending professional training sessions at their branch given by managers of other branches where the new approach had already been implemented. All of the bankers also attended a workshop designed to help them internalize the necessary behavior changes;

- High-Tech Bankers The Poalim Campus developed new courses this year, in collaboration with the Retail Banking Division, aimed at offering different, innovative service to hightech customers. Eight retail branches were designated as branches serving high-tech companies during 2015. In the training process, bankers from the business departments of each branch were presented with professional content aimed at building extensive knowledge relevant to high-tech customers, in order to improve the quality of the banking response in this sector:
- Digital branch Two digital branches of the bank opened in the last guarter of 2015. The branches are designed to serve customers who primarily conduct their banking activity via digital means. At these branches, customers perform all actions available in digital form independently; bankers are expected to provide added value at each significant nexus 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;

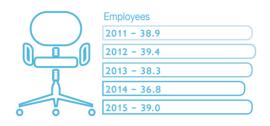
- Consultation for senior-citizen customers Within the decision to offer more in-depth services to customers aged 55 and older, the bank invited these customers to pension and financial advising sessions focused on the post-retirement period. All of the bank's 620 advisors were trained for this process, including strengthening of their skills in interacting with customers in this group, in order to provide significant added value for sensible financial conduct;
- **Team Leadership –** Implementation of this program at the units of the bank continued during 2015. 40

retail branches, 20 business branches, and 15 head-office department heads joined the program. The program stresses team management, the empowerment of individuals, development, and leveraging team capabilities;

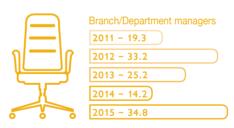
Afternoon Campus – A survey of bank employees, conducted for the first time in 2015, asked them to choose the subjects they were interested in studying in the afternoon. 20 different courses opened in response to the survey, on subjects including language studies (English, Spanish, Arabic, and Chinese), interior design, and nutrition.

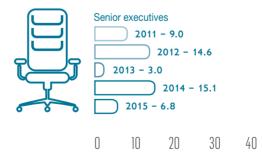


Poalim Campus activity average number of learning hours per employee









Examining Achievement of Objectives

| | <u></u> |
|--|---------------|
| 2015 Objectives | Status |
| The execution of several projects at the F will begin during 2015: | Poalim Campus |
| Poalim Restructuring – Nationwide roll-out of this effort through behavioral change at 230 branches within six months; | Completed |
| Advising older customers – Based on the board of management's decision to provide more in-depth service to customers of the bank aged 55 or older, the bank plans to reach out to these customers to offer pension and financial advisory sessions focused on planning for retirement. In advance of this process, training days have been planned to strengthen pension advisors, as well as behavioral training days designed to enhance financial advisors' ability to communicate with this customer segment; | Completed |
| Mapping knowledge gaps – The process of mapping knowledge gaps in the Retail Banking Area using the learning system launched during the last quarter of 2014. The goal of this process is to map gaps in various areas among branch workers, and provide an immediate response to close any gaps discovered. | Completed |

EMPLOYEES - QUALITY OF LIFE AND WELL-BEING

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. The policy is designed 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 connection between remuneration and the creation of value for the stakeholders

in general and for shareholders of the Bank in particular. 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. Variable remuneration for senior executives consists of components including an annual bonus contingent on the financial performance of the bank, based on profit adjusted for risk, and the bank's cost of capital: the bonus is also determined based on achievement of quantitative and qualitative measurable personal performance 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.

53,000

Mashab queries

53,000 gueries to Mashab were documented in 2015, from 9,900 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 273,000 queries have been made by 16,000 employees and retirees

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:
- 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;

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 2015. Options



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

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.

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



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 Human Capital Development Center -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 employees 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 2015, in the spirit of organizational innovation. In the area of recruitment, innovative screening and diagnostic tools were used to staff positions. In addition, a continued emphasis was placed on diverse human capital. As part of the hiring process, welcome conferences and orientation days were held for new employees, to strengthen their connection with the organization. In the area of employee retention, professional

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

conferences were held for specific target groups; examples include employees receiving tenure at the bank and graduates of the management training program with one year's experience 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 faceto-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 humanresources representative and received an aid package including career advice and job-search guidance.

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

Poalim Health This joint effort by the Human Resources, Advising, and Resources Area and the Employee Union, aimed at promoting healthy lifestyles for employees, is a significant new step towards expansion of the range of activities at the bank helping to encourage health for employees and their families. This activity continued in 2015. Activities during the year:

employees;

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 guestions, and more.

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 guitting 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.

Promoting Healthy Lifestyles

Quitting smoking – Workshops on quitting smoking were held for

- **Healthy lifestyles -** Individual consultation sessions were held for employees who chose to participate regarding transitions to a healthy lifestyle and healthy nutrition, using the Body Reset method;
- Ergonomic guidance and consultation - Interested employees were given ergonomic guidance and consultation by experts, at their workstations:
- Subsidies for sporting events Employees participated in subsidized sporting events, such as walks, marathons, biking events, and the Wheels of Hope race;
- **Good nutrition –** A ten-session workshop on good nutrition was held for employees within the afternoon Campus classes:
- 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.

Part of the drive to encourage good health was an effort to rebrand the stairwells in the Rubinstein Tower head-office building. All of the stairwells in the building were redesigned, beginning with the lobby, using visual motifs from various sports. The design also included elements aimed at inviting employees into the stairwells. The goal of this project is to encourage employees to use the stairs and to exercise, within the creation of a healthy work environment: to create an unconventional atmosphere of innovation and creativity

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 crisis, 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.

Examining Achievement of Objectives

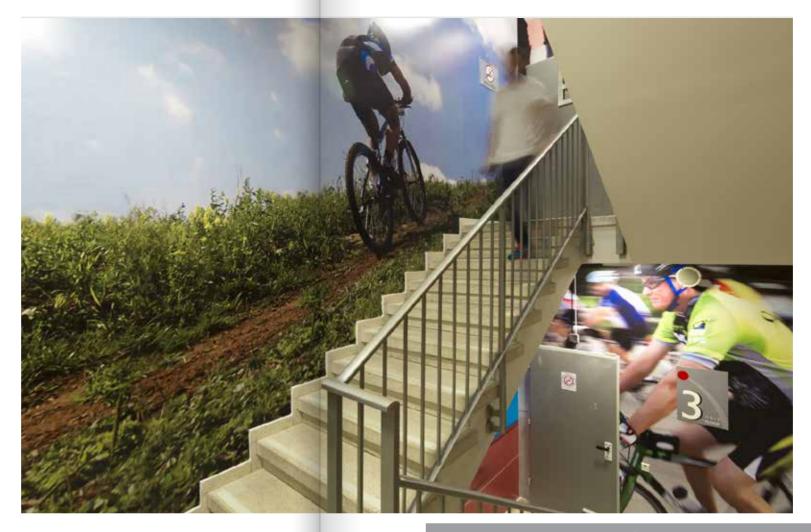
2015 Objectives

care for employees who suffer prolonged illnesses or

Workshops on guitting smoking and ergonomic co

on moving towards healthy lifestyles and healthy ni

Frontal and online lectures on various health-relation be offered to employees during the year; articles an



The expansion of the Elah system to additional types of loans available to eligible employees will continue during 2016;

A program for caring for employees who are sick will be implemented during 2016, and the well-being program will be expanded;

Medical examinations for employees over the age of 30 are planned to continue during 2016;

Workshops on quitting smoking and ergonomic consultations will continue in 2016;

Continued encouragement of physical exercise – TRX exercise groups for employees will open throughout Israel;

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.

| | Status |
|-------------------------------------|--|
| loans available | Development continues, following legal approval. |
| ted, in order to vork accidents, | A program for caring for employees suffering from prolonged illnesses has been developed, and is in advanced stages of implementation. |
| 30 are planned | Completed |
| nsultations will | Completed |
| ulting sessions trition; | Completed |
| d subjects will I tips on health | Completed |

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 organizationwide 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.

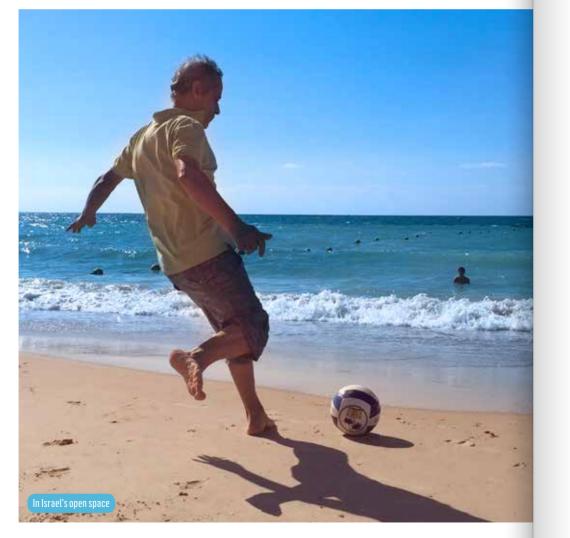
Occupational Wellbeing

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



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

amount required by law. The bank also grants additional paid leave on holidays and personal occasions, including Purim, Tisha Be'Av, May 1st, weddings, weddings of sons and daughters, birth of a child, 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 sportscenter 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 familyfriendly 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'

and more.

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 -

workshops, language courses, coaching workshops, mediation workshops, Adler method classes for parents of adolescents,

Promotion of Financial Freedom for

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;

Financial planning workshops -Financial planning workshops are offered to employees of the bank, consisting of six 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 200 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 weeklong campaign to encourage financial freedom in December 2014, during which extensive information was provided, daily tips were posted, and a behavioral survey was conducted each day. A different topic was selected as a focus for each day of the week, including the need 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 surveys. A virtual discussion with Alon Gal (a famous israeli life coach) was held in the middle of the week. The level of response to the campaign was high. Another campaign is planned for 2016;

Learning Hour for employees of the

bank - The Poalim Campus produced a onehour learning module 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;

Communication of activities to employees - The Financial Freedom Newsletter has been distributed on a



The In House Art annual exhibition

was held for the tenth time. to display a wide range of artwork by employees and retirees of the bank



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

guarterly 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



Event for bank retirees As part of the continuing relationship between the bank and its retirees. a gala event was held in their honor, to show appreciation for their many years of contribution to the bank. The event was attended by approximately 500 retired employees of the branch network and the head office, whose service at the bank ended during the preceding two years

The bank's support structure

The support provided by the bank in the event of death or catastrophe experienced by bank employees includes an extensive range of services to aid and accompany the employee's family over the long term (assistance for bereaved family members, psychological or socialwork help if necessary, help in realizing benefits and insurance policies, and more). Managers have been appointed and trained as casualty officers, for each area and region of the bank

and to transmit important information regarding developments in this field in Israel and worldwide;

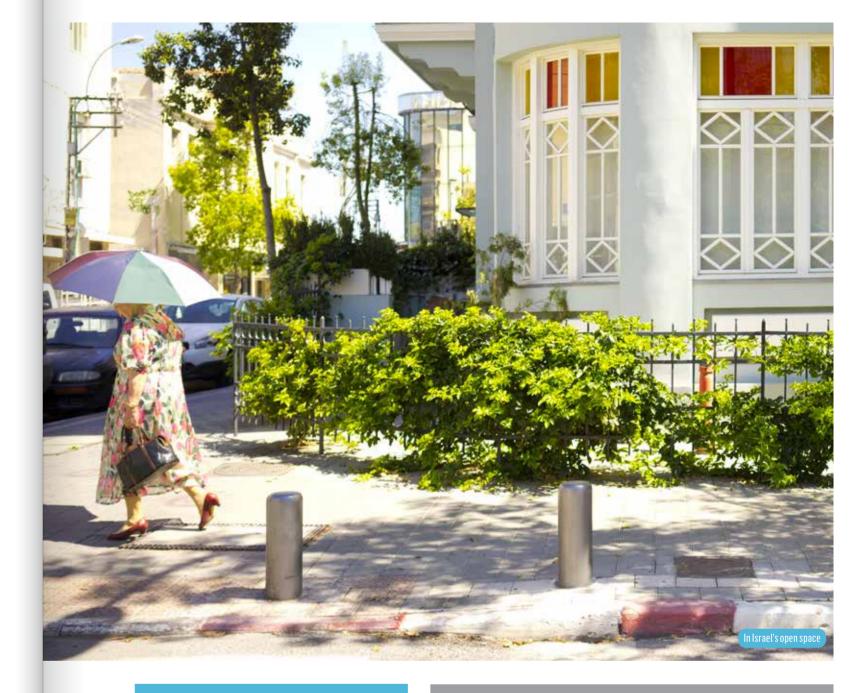
- Employee guidance and mentoring - Approximately 30 bank employee volunteers were trained during 2015 to mentor employees who are experiencing difficulties in managing their household budgets, over a sixmonth period;
- Individual training passed on to customers - The Poalim Campus added a financial education learning module to the digital branch banker course, aimed at providing these bankers with the capability to conduct a high-guality 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.



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;

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.

Examining Achievement of Objectives

2015 Objectives

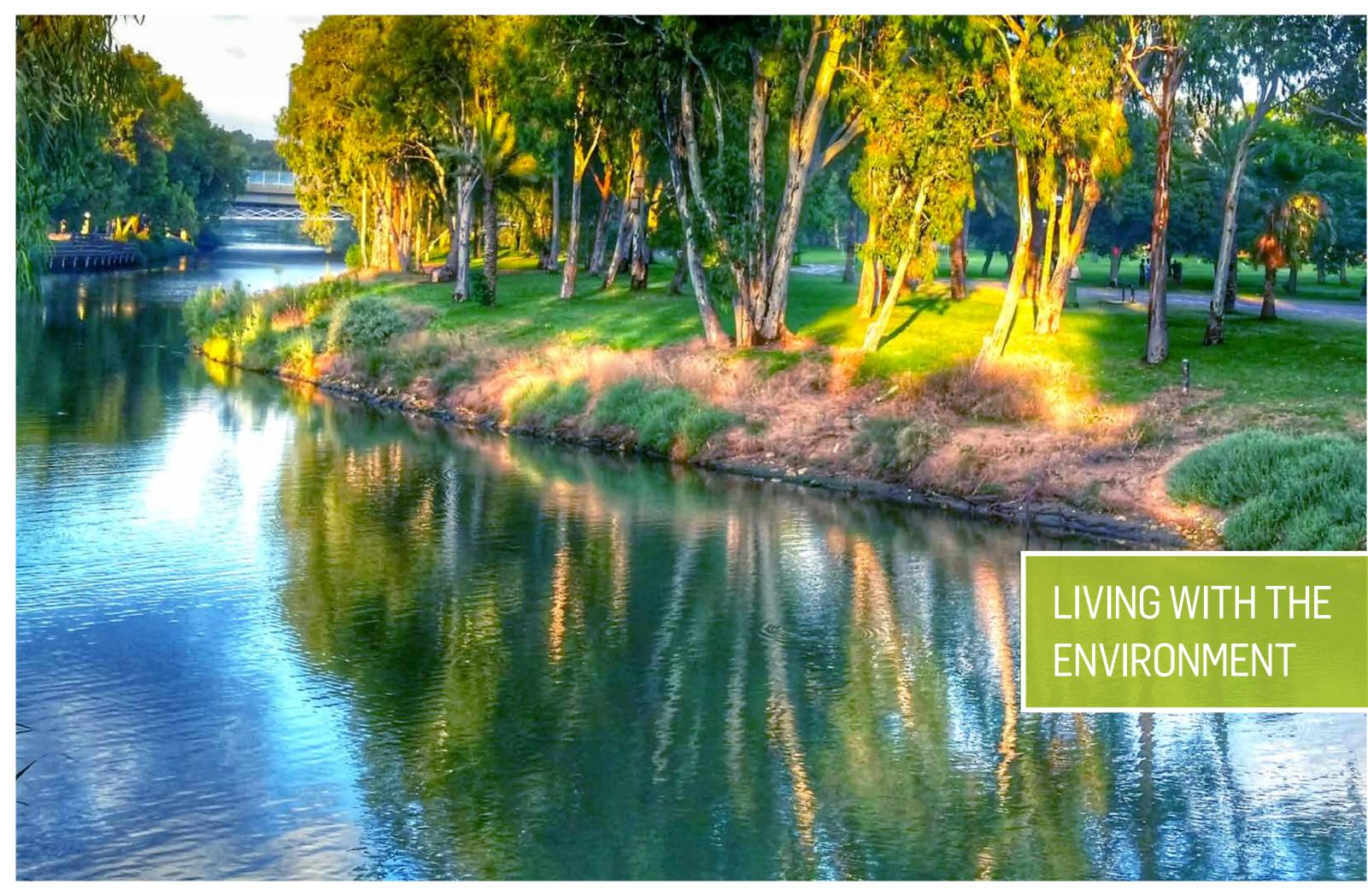
Budget management tips enclosed with pay slips -The bank is promoting an initiative in which several tips on sensible financial conduct in various areas will be enclosed with employees' pay slips. For example, pensions, imparting good financial habits to children,

Continued efforts to raise awareness, make knowledge Ongoing.

Status

Planned to

EMPLOYEES - QUALITY OF LIFE AND WELL-BEING



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.

Obeying the Law

The bank is aware of its legal duties in connection with environmental protection and prevention of environmental damage, and acts accordingly. No substantial fines or sanctions have been imposed upon the bank for violations of environmental laws or regulations during 2015. 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;

Bank Hapoalim was certified under the international management standard ISO 14001 during 2012. In late 2015, the bank renewed its documentation for the standard, so that it is now in effect until 2018

•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.



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 consumed at Bank Hapoalim comes in the form of electricity (with the exception of fuel consumption) which supplied by the Israel Electric Corporation. There are no additional suppliers of energy for the bank which produce energy renewable sources.

During 2014, the bank began to receive electricity from Dorad, a natural-gas-based power supplier. Dorad supplies electricity to

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

the bank's head-office buildings and large branches. In 2015, the percentage of the bank's power consumption sourced from Dorad increased to over half of the annual total (approximately 52%). The transition to Dorad has lowered the bank's energy costs and reduced the environmental impact of

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

systems (chillers) at the bank's head-office buildings and the VRF systems at the branches continued during 2015.

Biothermal Energy Retention Sheeting Installation Pilot

In 2015, within the process of improving energy efficiency, the bank examined an innovative energy-saving solution in which lightweight biothermal sheets are installed on branch ceilings. The sheets help maintain a constant temperature in the branch and retain coolness from the air-conditioning system even when the building doors are opened and closed, leading to savings of

In 2015, the percentage of the bank's power consumption sourced from Dorad increased to over half of the annual total (approximately 52%). The transition to Dorad has lowered the bank's energy costs and reduced the environmental impact of its power consumption

controls 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

Installation of Efficient Air **Conditioning Systems**

20-30% on air-conditioning costs. The pilot project in 2015 was conducted at the Rosh Haayin branch. Installation of the energysaving sheets at additional branches is planned in the future.

Transition to Efficient Lighting

As part of the ongoing long-term process of installing efficient lighting in the bank's buildings, all lighting fixtures in the parking garage at the head office on Yehuda Halevi Street in Tel Aviv were replaced, in a move from fluorescent lighting to efficient LED lights. This followed a similar replacement at the Rubinstein Tower in 2014, where a profitable return on the investment has been demonstrated. Both parking garages have sensors that turn the lights on only when cars are entering or exiting, generating additional savings beyond the 70% saved by the LED lights.



11,000 telephones

Printing centers A total of 101 printing centers have been installed at the bank; the project of transitioning to the printing centers has been completed **IPT switches:** Installed at 333 branches and sites to manage telephony through a centralized computer system, saving employee travel. 11,000 telephones are currently covered by the new technology. The project is completed. 1.850

Fax2Mail The application is accessible to approximately 1,850 users throughout the bank

* 555

10

New air-conditioning systems: The bank continued to install the most power-efficient systems to replace older airconditioning systems in its buildings during 2015. The bank has installed approximately 10 VRF systems each year

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 earn 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 2015 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 phone 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-tofax application.





Transition to printing centers and double-sided 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

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.

Data on the bank's total power consumption in 2015 indicate a 2.3% decrease compared with 2014. Average consumption per square meter decreased by 2.2% compared with 2014. The decrease in 2015 mainly resulted from the ongoing energy efficiency processes undertaken by the bank. In addition to the contribution to the environment, the downward trend in electricity consumption has financial implications in the form of cost savings.

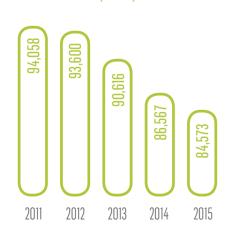
Power consumption at Bank Hapoalim

| | 2011 | 2012 | 2013 | 2014 | 2015 | Change vs. 2014 |
|---------------------------------------|------------|------------|------------|------------|------------|-----------------|
| Total (KwH) | 94,058,465 | 93,600,417 | 90,616,904 | 86,567,004 | 84,579,103 | -2.3% |
| Total (GJ) | 338,610 | 336,962 | 326,221 | 311,641 | 304,485 | -2.3% |
| Bank area in sq. m. | 312,787 | 312,316 | 308,909 | 304,184 | 291,512 | -4.2% |
| Consumption per square meter (KwH) | 300.71 | 299.7 | 294.1 | 284.6 | *278.4 | -2.2% |

* 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 3.4 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.

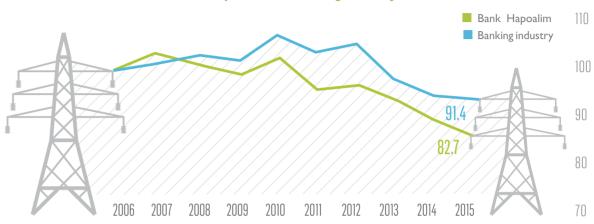
Bank Hapoalim total power consumption (KwH)

Power consumption per square meter (KwH)



2011 2012 2013 2014 2015

Bank Hapoalim is more efficient in power consumption in comparison to banking industry*



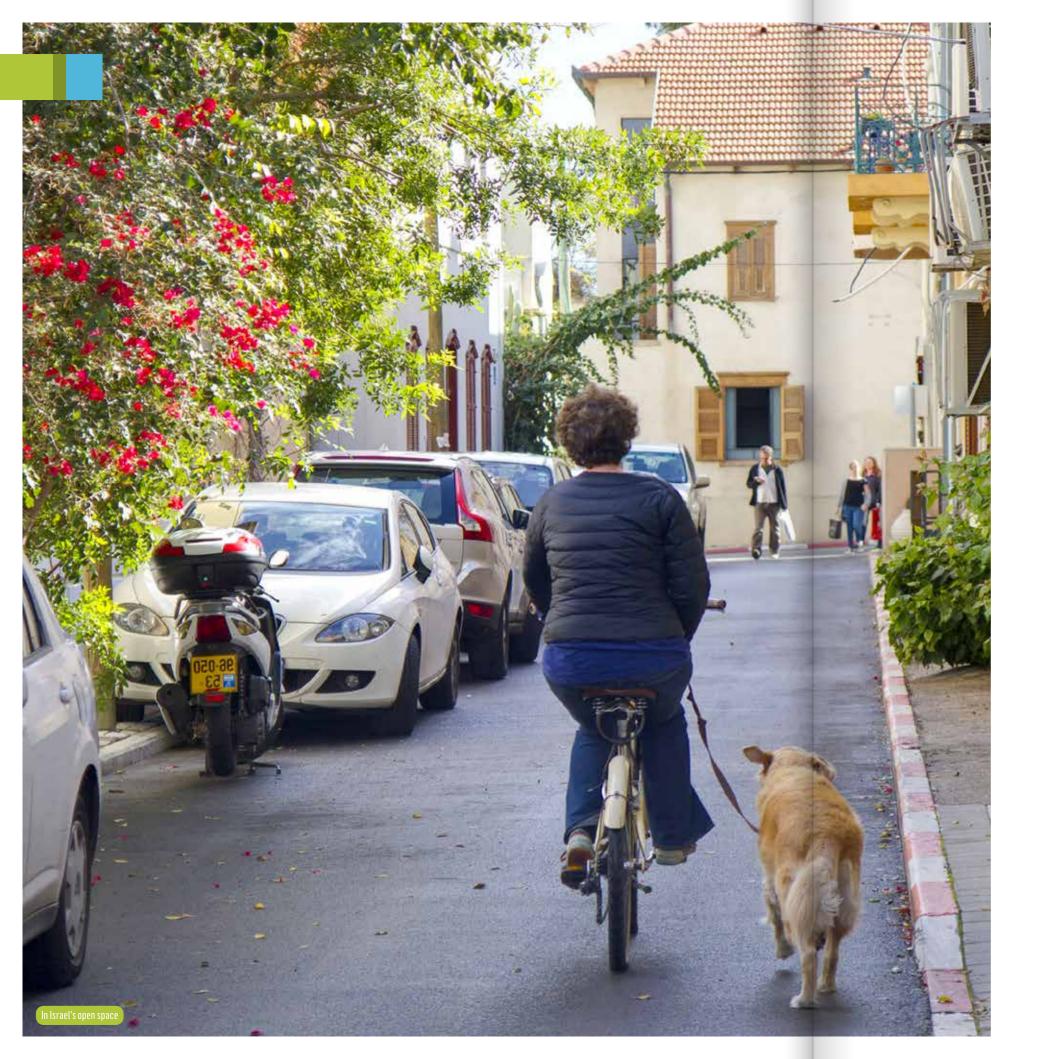
* Gadir Engineering Ltd. analyzes power consumption at business firms, among other activities. Starting in 2006, the company has issued an index of power consumption in the banking sector. The index presents the relative multi-year change in power consumption at Bank Hapoalim and at other banks; the 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 eight 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.).

LOOKING AHEAD

Fax2Mail - Expanded to approximately 650 new users, for a total of 2,500 users throughout the bank;

Installation of biothermal energy retention sheeting – The bank plans to expand this project to additional branches during 2016. Exa 201 Outco of the Street Fluor on se Towe

| amining Achievement of Objectives | | | | | |
|---|--|--|--|--|--|
| Status | | | | | |
| Completed. | | | | | |
| The project was postponed to the beginning of 2016. | | | | | |
| Completed. | | | | | |
| | | | | | |



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:

In addition, a large proportion of banking services are consumed digitally or over the telephone, eliminating the need for customers to visit a branch, which leads to reduced travel and air pollution.

Data on Bank Hapoalim vehicles

| Number of vehicles in leasing fleet | |
|--|---|
| Annual fuel consumption (in liters) | ć |
| Mileage in kilometers per liter (based on manufacturer data) | |
| Number of hybrid vehicles in the fleet | |

Reduction of Energy Consumption in Transportation

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.

| 2011 | 2012 | 2013 | 2014 | 2015 |
|----------|-----------|-----------|-----------|-----------|
| 1,329 | 1,288 | 1,238 | 1,188 | 1,106 |
| ,574,235 | 3,440,152 | 3,448,047 | 3,537,444 | 3,599,730 |
| 10.1 | 10.5 | 11 | 11.8 | 10 |
| 23 | 27 | 22 | 19 | 22 |

Management of Paper Resources

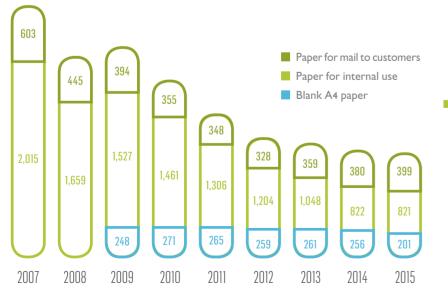
Paper is one of the main raw materials consumed during the routine operations of the bank; as such, this resource is managed in an effort to cut back consumption and increase recycling. The drive to reduce paper consumption at the bank continued during 2015. Special attention has been devoted to fully 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.

Paperless Branch The main activities conducted within the

Paperless Branch project in 2015 are reviewed below: Digital signatures and use of touch

screens in customer service - The implementation of digital signatures for teller transactions was completed during 2015 at all of the bank's retail branches. The transactions included in this effort are cash deposits and withdrawals, check deposits and withdrawals, addition to or withdrawal from a deposit, bank transfers, payment of bills, and orders and delivery of checkbooks. Customers who receive face-to-face service from bankers are shown details of the transaction on a touch screen, and they sign the form digitally. At the conclusion of the transaction, the customer receives a printed confirmation and the documents are saved digitally on the bank's computer system, instead of the previous practice of retaining hard copies of documents. This transition saves time on document filing, allows rapid retrieval of documents,

Paper consumption at the bank (in tons)

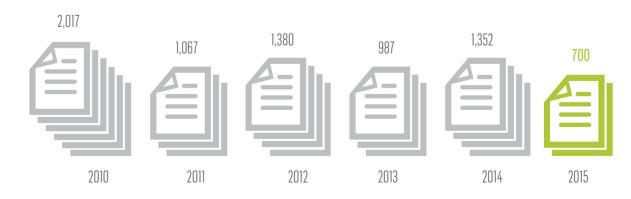


and contributes to savings of some 15 million pages per year. The rapid retrieval capabilities will also make it possible to respond more promptly to customers' queries requiring a search for documents;

- **Digital branch** Transactions that can be signed digitally have been expanded to additional content areas, covering 90% of private customers' activity. The expansion has been applied initially at the digital branches, but is also planned at all retail branches. The annual paper savings are expected to reach approximately 17 million pages;
- Green accounts This initiative has been expanded to face-to-face transactions signed digitally. When customers execute a transaction with a banker and sign digitally, a copy of the transaction is sent to them via direct channels (Mail Net, e-mail, or a printout), according to the preferences in their accounts;
- Transactions not in the presence of the customer – Automatic printing of a customer copy of transactions executed by bankers without the presence of the customer has been canceled. This change is expected to eliminate unnecessary printing of double copies for transactions executed when the customer is not present, usually at the initiative of the branch;
- Printing centers has been reorganized, with better efficiency. The process encompassed printers, photocopiers, fax machines, and scanners, with a transition from personal printers for each employee to central printers, aimed at achieving savings in paper, electricity, maintenance costs, and toner cartridges, as well as secure, controlled printing. Paper savings at the head office have reached approximately 45%, or NIS 1.3 million annually.



Collection of paper for recycling (in tons)







Paper consumption Consumption at the bank decreased by 37 tons in 2015 relative to 2014, an annual decrease of 2.5% Paper consumption for internal use at the bank was down by 50% in 2015 as compared to 2007 (the baseline year); paper consumption for mail to customers decreased by 34% in the same comparison



Cardboard recycling 13 tons were collected by the bank and transferred for recycling in 2015



589 thousand customers

Mail Net: 589,000 customers use this service. The number of users grew by 13.5% in 2015, relative to the end of 2014

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.

Paper and Cardboard Recycling

The bank collects and transfers paper waste for recycling: paper no longer in use (documents, forms, etc.) is regularly and systematically collected and transferred for recycling by a specialist external company. As part of this effort, each employee has a bin designated for paper collection. Cardboard containers are also collected at the head-office buildings (Rubinstein, Yehuda Halevy, and Rothschild). Cardboard is collected and compressed, and then transferred for recycling.

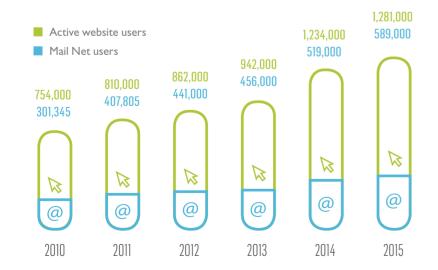
Transition to Recycled Paper

At the beginning of 2011, the bank made the transition to green A4 paper for its printers and copiers. The green paper is made in Israel, using a combination of 50% recycled fibers and 50% ordinary fibers (original cellulose).



Expansion of digital signatures into content areas added during the year will be completed at all branches of the bank;

Green accounts will be implemented in a selfservice format allowing customers to send themselves printouts and receipts from machineaided transactions, via e-mail or Mail Net.



Increase in rate of Mail Net users and active users

of the bank's website

123,000 trees saved Cumulative savings in paper consumption,

measured since 2007 (the baseline year), reached 8,088 tons. This figure is equivalent to preventing approximately 123,000 trees from being cut down for the paper industry

| 2015 Objectives | Status |
|---|------------|
| Establishment of a paperless digital branch, allowing customers to sign all documents using touch screens. | Completed. |
| Sending a copy of a transaction performed with a banker to the customer's personal e-mail address (instead of handing them a hard copy). | Completed. |
| Completion of the installation of printing centers at all headquarters units of the bank. | Completed. |



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.

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 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

Green Construction: Construction projects carried out by the bank in 2015 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

possible 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 environmentfriendly 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.

Turning Waste into a Resource and **Preventing Pollution**

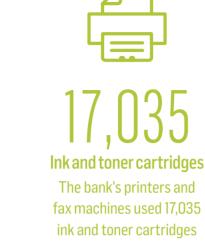
Environmental trends of recent years have highlighted the fact that one person's waste is another's resource. Population growth creates pressure on ecological systems, making it difficult to meet demands for

Electronic waste 28.7 tons were collected and removed from the recycling receptacles at the bank



2.526 Cubic meters of **Construction waste** 2,526 cubic meters of waste were removed from construction sites





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 intraorganizational 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.

740 kg of Batteries 240 kg were collected and removed from the bank's buildings for safe burial

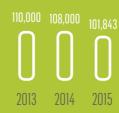
Electronic waste

2013 2014 2015

Ink and toner



containers (units)





101,843 Beverage bottles and cans 101.843 bottles and cans were collected at the bank for recycling



sacks of Medications

19 sacks of expired medications were collected from the receptacles at the bank for proper disposal



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 240. a significant decrease of approximately

$35\%^{of the}_{carbon}_{footprint}$

The carbon footprint for 2015 (61,511 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

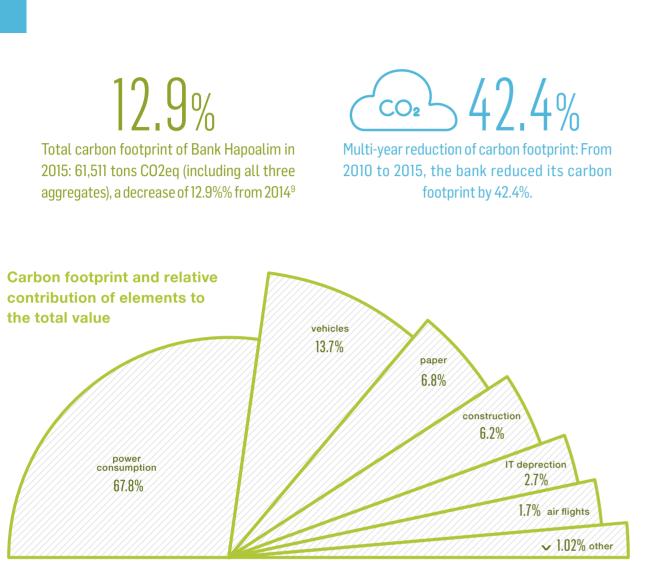
Carbon footprint measurement scopes



Emission of Substances that Damage the Ozone Layer

The bank uses five main types of airconditioning 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 2015, the coolant gas in the air-conditioning systems was supplemented by approximately 50 kg.





generators 0.51% | water 0.19% | ink 0.13% | coolant gases 0.12% | hotel stays oversea 0.07%

Carbon footprint data (in tons of CO2eq)

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | Change vs. 2014 |
|------------------|---------|---------|--------|--------|--------|-----------------|
| Total | 106,593 | 101,696 | 94,362 | 70,632 | 61,511 | -12.9% |
| Per employee | 10.44 | 10.05 | 9.68 | 7.61 | 6.91 | -9% |
| Per square meter | 0.34 | 0.33 | 0.31 | 0.23 | *0.20 | -13.0% |

*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.

9. G4-22 - Total carbon footprint data presented for 2014 were retroactively amended in this report. The figure for 2014 was 81,749 CO2eq; however, this calculation did not account for the lower emission coefficient of electricity sourced from Dorad, which supplies power derived from natural gas. Instead, all power consumption was included based on the coefficient for electricity from the Israel Electric Corporation. The amended figure for 2014, 70,362 tons CO2eq, is used throughout this report.



LOOKING AHEAD

The Bank aims to reduce greenhouse gas emission intensity of its operations, and set a goal of reducing emissions intensity on a scale of 1% each year during the next four years. Moreover, in the future, the Bank aims to keep an 0% increase in GHG emissions intensity of its operations.

Examining Achievement of Objectives

2015 Objectives Status The Bank aims to reduce greenhouse gas Completed. \bigtriangledown goal of reducing emissions intensity on a scale Moreover, in the future, the Bank aims to keep

CORPORATE GOVERNANCE, ETHICS AND COMPLIANCE

Instilling the Ethical Conduct Code

In 2004, Bank Hapoalim adopted an ethical code that addresses the values of accountability, trust, integrity, and respect. The code defines the relationship between employees and their environment - the bank, other employees, customers, and the community. The ethical guidelines stress employees' respectful behavior towards their environment and the bank's commitment to treat employees fairly and respectfully. In 2009, the bank updated the code, with renewed phrasing and expanded content, and the code became a global ethical code. In 2010, the code was officially launched for employees. The process of assimilating the code was conducted on three organizational levels: the individual level, the level of leading forums, and the organizational level. The process aimed to reinforce the status of the code as a significant element of the bank's organizational culture. The ethical behavior code is divided into four sections:

- My work at the bank Defines the relationship between the bank and its employees;
- **Customer relationships -** Defines the relationship between the bank and its customers of the bank:
- Relationships with external parties, suppliers, and competitors - Defines the relationship between the bank

and external parties, suppliers, and competitors:

Promoting the environment, society and community in Israel - Deals with the bank's social involvement, environmental responsibility, employee quality of life and welfare services and its customers' wellbeing.

An organizational structure has been established with the aim of promoting a culture of conduct congruent with the ethical code. The structure encompasses work processes and reporting channels in this area. Within the new structure, the head of the Human Capital, Advising, and Resources Division was appointed as the bank's ethics officer. The role includes:

- Management of learning and guidance processes
- Discussing ethical issues raised by employees through the various channels at their disposal;
- Discussing cases of violation of the code.

In addition, a head of ethics was appointed at the Poalim Campus, from the Leadership and Organizational Development Unit. The responsibilities of the head of ethics include helping to instill the code. The channels for reporting on ethical issues were changed in 2013. Responsibility for this area was transferred to the chief risk officer of the

function to oversee all of the reports. 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.

bank, in order to allow a single independent

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

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

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

of the bank's employees completed a mandatory tutorial on ethical dilemmas and possible responses during the year

One case of embezzlement was addressed at the bank in 2015, in accordance with the bank's regulations. As a result of the incident, the employee's work at the bank was terminated



Develop a new tutorial on ethics for all employees of the ba

Include training on conflicts of interest in most banking cours

Develop a kit on ethics discussions for managers;

Update and refresh the ethics page on the portal.

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

directors and management to the level of each individual employee, including the adjustment of existing mechanisms

Employee inquiries regarding ethics were responded to and addressed routinely. Eight inquiries from employees and managers were processed in 2015, concerning the conduct of managers, a relationship with the son of a customer, the purchase of a product/service from a customer, and an employee evaluation. All of the inquiries were addressed in accordance with the bank's regulations and with the ethical code

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.")

A learning module on ethics was translated into English and added to the bank's international portal

A discussion of ethical issues and the proper course of action was integrated into various banking courses

Regular messages to the bank's employees on the organizational portal placed special emphasis on rules of conduct for receiving work-related gifts

| | Examining Achievement of Objectives | |
|---------|--|---|
| | 2015 Objectives | Status |
| nk; | All employees of the bank will study the updated tutorial on the ethical code in 2015, as part of a month-long campaign to raise awareness in this area; | Completed. 95% of the employees of the bank completed the program. |
| | The content of the ethical code will be incorporated into the various banking courses, and a module will be developed for management courses. | Completed. |

CORPORATE GOVERNANCE ETHICS AND COMPLIANCE

Chart of the Bank's main holdings*

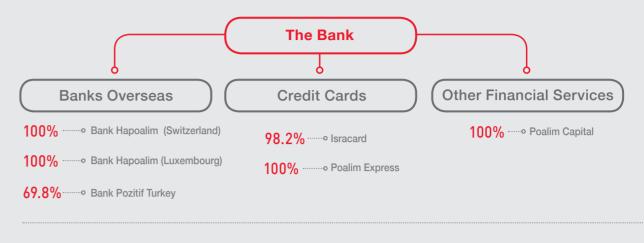
The bank's profile

Bank Hapoalim was founded in 1921 by the central institutions of the Jewish Settlement ("the Yishuv") at the time - the Zionist Histadrut and the Histadrut General Federation of Hebrew Workers in Eretz Yisrael - and incorporated as a limited company under the Companies Ordinance. The Bank is a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under state control, and it was fully privatized in 1997, with the controlling interest transferred to the current controlling shareholders and others.

Bank Hapoalim Group Activity in Israel

The Bank Hapoalim Group operates in all areas of banking in Israel through two main units. The Corporate Banking Area serves most business clients: large corporations are served by head-office sections specializing in each sector; middle-market firms are served by seven business centers located throughout Israel. All clients of the Corporate Banking Area receive operational banking services through a network of 22 business branches. The Retail Banking Area serves households, private-banking clients, nonresidents and small businesses, through the branch network; operates services through the direct channels (Internet, telephone, and mobile), and oversees consumer credit and mortgages. The Retail Banking Area operates through 245 branches, including traditional branches and advanced digital branches, which provide the full range of banking services.

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 The Bank Hapoalim Group operates in all areas of banking in Israel through two main units. The Corporate Banking Area serves most business clients. The Retail Banking Area serves households, private-banking clients, nonresidents and small businesses



The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The whollyowned 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).

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.

Activity of the Bank Group Overseas

Alongside its activities in Israel, the Bank Group also operates overseas, in the private-banking sector and in the corporate sector. This activity encompasses Israel, Europe, the United States, Canada, and Latin America, by means including branches, representative offices, banking subsidiaries, and asset-management

Organizational Structure of the Bank

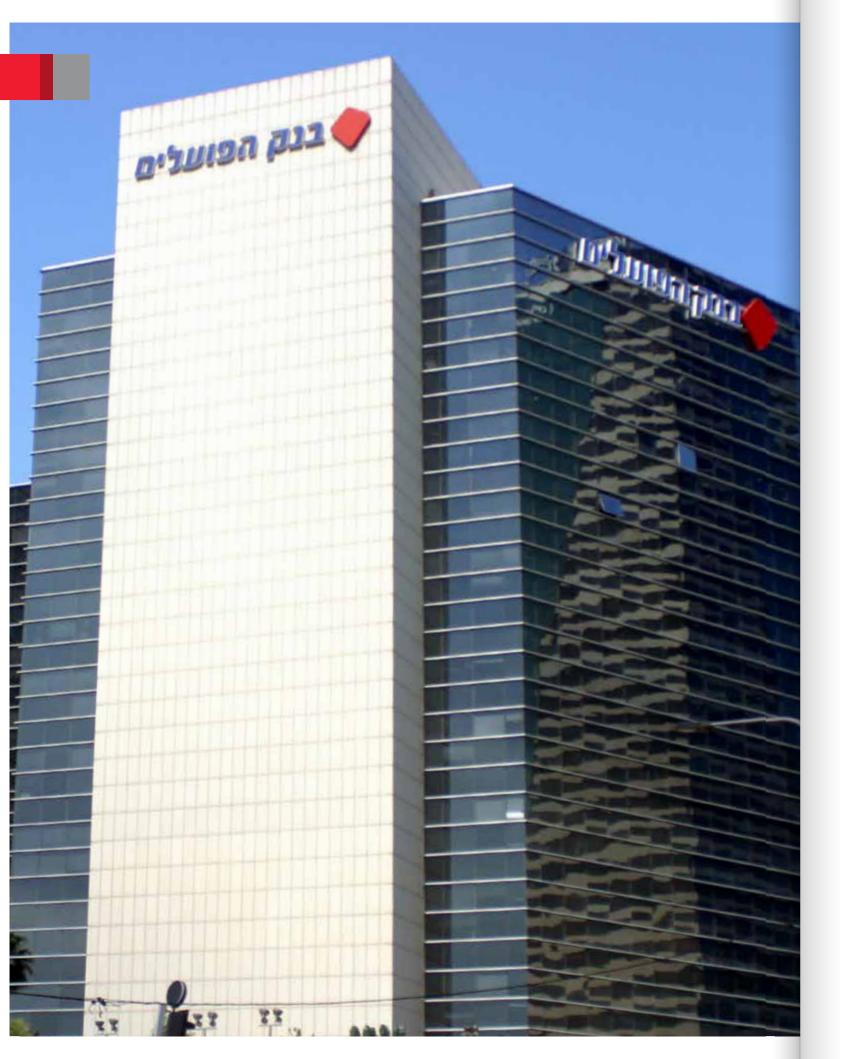


subsidiaries. The bank group also operates in the households sector and in the commercial sector in Turkey. In its privatebanking activity, the bank group provides its high-net-worth customers abroad with advanced professional products and services, including investment products and global asset management. Corporate banking overseas encompasses credit for local and foreign borrowers, including through credit granted for the business activities of the bank's customers; the acquisition of participation in credit organized by leading banks abroad; the provision of credit to borrowers with an affinity to Israel; and investments in bonds. As part of its international activity, the bank maintains relations with foreign banks around the world (hereinafter: "correspondent banks"). The main focus of the bank's strategy is the development and expansion of its Global Private Banking activity and of its commercial banking (middle market) business in the United

States, while expanding its service package and improving its capabilities in the areas of products, marketing, and customer service.

Ownership Structure and Legal Organization

The holder of the permit for control of the bank, near the date of publication of the financial statements, is Ms. Shari Arison. Her stake in the bank is held through several trusts that have holdings in Arison Holdings (1998) Ltd., which holds shares comprising approximately 20.1% of the bank's share capital near the date of publication of the financial statements, which constitute the "controlling interest" of the bank (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 Hapoalim Board of Directors operates in accordance with corporate governance guidelines established by law, including the Proper Conduct of Banking Business Directives of the Bank of Israel and the SOX Act.

The bank implements all of the directives set forth in the legislation, standards, and regulations with regard to preventing conflicts of interest within the board. As part of the separation of duties required between management in practice and the formulation of policy and supervision, the board's chairperson does not serve as

avoiding conflicts of interest, and other duties applicable to boards of directors, by law and pursuant to the directives of the Bank of Israel.

Appointments of directors at Bank Hapoalim are approved by the general meeting of the bank and by the Bank of Israel, in accordance with the directives of the law and with the Proper Conduct of Banking Business Directives, including the following:

general meeting;

As described in Article 24 of the Periodic Report of the bank for 2012, its

an executive at the bank. Directors are selected pursuant to the directives of Israeli law - the Companies Law, 1999, and the derived regulations; the Securities Law, 1968: and the Proper Conduct of Banking Business Directives of the Bank of Israel as well as the bank's codex. The directors' duties under the law are uniform for all types of directors; the basic duty is to act in the best interest of the company. These duties include: duties of care, fiduciary duties, corporate governance duties,

controlling shareholders have received a control permit from the governor of the Bank of Israel. Details regarding the appointment of directors pursuant to the control permit are provided in the Periodic Report of the bank for 2007:

Article 16 of the Articles of the Bank (which were approved by the general meeting of the shareholders of the bank (the "Articles of the Bank")) establishes the procedure for the appointment of directors. Pursuant to Article 16B of the

The Bank Hapoalim Board of Directors operates in accordance with corporate governance guidelines established by law, including the Proper Conduct of Banking Business Directives of the Bank of Israel and the SOX Act. The bank implements all of the directives set forth in the legislation, standards, and regulations with regard to preventing conflicts of interest within the board

■ The Companies Law (section 57) states that the appointment of external directors shall be approved by the Articles of the Bank, directors shall be appointed by a resolution of the general meeting; however, notwithstanding this article, the board of directors may appoint an additional director or additional directors from time to time, provided that any such appointment is performed in accordance with the directives of the voting agreement between the shareholders of the company who are entitled to appoint directors, etc. (Article 16C of the Articles of the Bank). The composition of the board of directors is subject to the provisions of the Companies Law Directive 301, the Articles of the Bank, and the Board of Directors Procedures

The financial expertise and professional qualification of directors are evaluated by the board of directors. The range of considerations include the director's education, experience, and knowledge in areas and issues related to the activity of the bank, as detailed in the Companies Regulations (Conditions and Tests for Directors with Accounting and Financial Expertise and Directors with Professional Qualification), 2005. Applications to appoint a director, with a declaration filled out by the director, pursuant to Proper Conduct of Banking Business Directive No. 301, are sent to the Supervisor of Banks for review; the appointment of the director is subject to advance approval by the Supervisor of Banks.

The performance of the board of directors is evaluated in accordance with section 59 of Directive 301 and section 9 of the Board of Directors Procedures. The effectiveness of the work of the board of directors is evaluated every two years, for the board of directors' internal needs. The board of directors has appointed an external attorney to work with the secretary of the bank in overseeing this process and analyzing the findings, in order to evaluate the effectiveness of the work of the board of directors. The board of directors discusses the findings that emerge from the evaluation process.

The Functions of the Board of Directors and the Board Committees

During 2015, the board of directors of the bank continued its work of formulating strategy, policy, and fundamental principles for the activity of the bank in Israel and overseas, while establishing guidelines on various matters, in accordance with the requirements of updates in legislation and in accordance with Directive 301 of the Bank of Israel. As part of this process, the board of directors set forth policy for the activities of subsidiaries in Israel and abroad, limits for exposure to various risks, bond issuance, share capital issuance, execution and realization of fixed investments, and the execution of buyout offers and mergers.

The board of directors addressed the approval of the quarterly and annual financial statements; dividend distribution policy; the organizational structure of the bank; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by the board of management and the congruence of these operations with the policies of the bank.

The plenum of the Board of Directors receives and discusses routine reports regarding execution plans in the area of sustainability and corporate social responsibility at the bank, including all activities described in this report. The chairperson of the bank's Board of Directors serves as the director responsible for sustainability and CSR, and is charged with promoting this area on the strategic level. The bank has a chief CSR officer who is the operational manager in this area, and who interfaces with all of the relevant functions within the organization and reports to the board of management and the board of directors. The reports and discussions include both status reports on the bank's progress in this area, under its CSR plan, and discussion and approval of future work plans. In addition to the discussions by the plenum of the board of directors, the activity of the members of the board of directors of the bank is conducted through the committees. The bank examines and evaluates the quality of risk management on an annual basis, within the ICAAP. As part of the ICAAP, the bank also works to continually improve the absorption and quality of the risk management process. The risk management and control committee of the board of directors receives annual and guarterly reports that are adequate in order to monitor, control, and assess risks, as required by the Proper Conduct of Banking Business Directives. Selected Indicators from the field of corporate responsibility are part of the bank's risk management perception.

This is reflected in their inclusion in audits and regular reports, such as BSC , SOX and more.

The risk management and control committee of the board of directors receives annual and quarterly reports that are adequate in order to monitor, control, and asses risks, as required by Proper Conduct of Banking business Directives.

Among the board members of the bank there are directors with expertise in risk management, including a director who served in the past as the bank's risk manager, an expert in credit risks and other experts. The bank's board of directors has decided on 19.7.2007 to establish a board of directors committee for risk management and control. The committee is comprised of 6 members, who received trainings and acquired extensive experience as part of the committee's work. The board members receive from time to time trainings in the field of risk management. In addition, the directors are free to address the appointed management member, if they seek to broaden their knowledge in a certain field. governance processes within the bank group Concurrently, the bank is working to improve and instill corporate governance processes within the bank group.

Control of the application of proper corporate governance at the bank is discussed in meetings of the Corporate Governance Committee, held each guarter. The committee discusses and makes recommendations to the board of directors regarding policies, procedures, and guidelines designed to instill corporate governance principles in the work of the board of directors and its committees, and to enable the bank to comply with the appropriate corporate governance principles, as adjusted to legal directives, including establishment of the bank's policy and supervision of the board of management and the subsidiaries of the bank, as required by the Proper Conduct of Banking Business Directives of the Bank of Israel.

The board of directors usually meets twice a month. The committees of the board of directors usually convene between these meetings; some committees meet every week. Thus, any urgent and/or significant matter can be discussed at any time. The directors can also raise issues for discussion, in coordination with the chairperson of the board of directors. In particularly urgent cases, the board of directors is convened to discuss the issue that has arisen. Urgent meetings are held remotely if necessary, as permitted by the regulations of the board of directors, in order to conduct an immediate discussion of an issue. Pursuant to Sections 98-99 of the Companies Law, 1999, directors are entitled to demand a discussion of a specific urgent or critical matter. Pursuant to Section 99 of the Companies Law, such issues are added to the board of directors' agenda. Section 44 of Proper Conduct of Banking Business Directive 301 states that the board of directors' agenda should include, among other matters, any subject that a director or the CEO has asked the chairperson of the board to include in the agenda a reasonable amount of time before the meeting convenes. Similar directives are set forth in Article 19A of the Articles of the Bank. Decisions made in an urgent meeting held via remote communications are affirmed in the next meeting of the board of directors or of the committee.

r transmitting ded to the a rgent matter ad/or at the the board o ecording to ne sue. As impo ised routinel ecurrences a rectors' rig ad to consul purse of the f een establish w, including ne "Compan Banking Bu uppervisor of

Pursuant to section 2.14 of the Board of Directors Procedures, the board of directors shall hold a discussion at the earliest possible time of the exceptional events listed therein (outside the regular scheduled reports). Sections 6.3.2, 6.3.5, 6.3.6., and 6.3.7 of the Board of Directors Procedures establish the way to convene a meeting of the board of directors in exceptional and urgent cases. Section 6.6.6 of the Board of Directors Procedures establishes directives for transmitting materials regarding an issue added to the agenda in an urgent meeting. Urgent matters are raised as necessary and/or at the request of the chairperson of the board of directors / directors / CEO, according to need and the importance of the issue. As important and urgent matters are raised routinely, as described above, such occurrences are not counted separately.

Directors' rights to receive information and to consult with various parties in the course of the fulfillment of their duties have been established in accordance with the law, including the Companies Law, 1999 (the "Companies Law"); Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks, Board of Directors ("Directive 301"); and the procedures on the work of the board of directors, approved by the board of directors of the bank on November 26, 2013 (the "Board of Directors Procedures"). This refers to all materials related to the activity of the bank or the assets of the bank, and to all documents of the bank that the directors require in order to fulfill their duties.

With regard to business matters, directors are entitled to request clarification or additional information in meetings of the board of directors or its committees (section 57 of Directive 301). Directors who wish to exercise their right to receive information required for the fulfillment of their duties as directors shall submit the request in writing through the chairperson of the board of directors. Directors interested in receiving clarification or materials regarding matters discussed, or scheduled for discussion, by the board of directors or any of its committees may contact the CEO or the relevant member of the board of management at the bank, provided that the guery does not concern a business venture or business matters of specific customers, or certain investments of the bank.

Directors also have the right, in special cases, to receive external professional counsel and/or external professional assistance, at the expense of the bank, if the coverage of the expense is approved by the board of directors (section 266 of the Companies Law and section 53 of Directive 301). The plenum of the board of directors, or the appropriate board committee, shall discuss and decide upon the need to engage an external consultant in order to receive professional assistance. Such a discussion shall address the questions of whether the counsel can be provided by internal parties within the bank, the purpose of the consultation, the extent of the work, and the schedule.

1955 neetings of the board committees were held in 2015

On February 11, 2014, the general meeting of shareholders of the bank adopted the bank's remuneration policy for officers, in accordance with Amendment 20 to the Companies Law, 1999, and in accordance with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013 ("Proper Conduct of Banking Business Directive 301A"). On June 22 2014, the bank approved another section of its remuneration policy, concerning its other employees, as well as remuneration plans based on its remuneration policy ("Remuneration Policy" and "Remuneration Plans," respectively, and as amended from time to time). Main objectives of the remuneration policy:

To motivate officers to work for creating long-term economic value for the bank and its stakeholders, in a manner that strengthens the connection between remuneration and the creation of value for the stakeholders in general and for shareholders of the bank in particular. In accordance with this objective, employees' pay is derived from a scale of ranks, which offers the possibility of promotion and

members of the board The board of directors of Bank Hapoalim consisted of 15 members, including 5 external directors, as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel, and 2 additional external directors, as defined in Section 240 of the Companies Law

> reflects the authority and responsibility of each level in the organizational hierarchy. Variable remuneration for officers, senior executives and other key employees in the bank shall consist, among other elements, of an annual bonus contingent upon the financial performance of the bank, based on risk-adjusted profit and the cost of capital of the bank; the bonus shall also be determined according to the achievement of measurable quantitative and qualitative individual performance targets. 50% of the annual bonus shall be spread over three years, in order to compensate for unsatisfactory performance during that period, if any, and paid in share-based instruments;

- To adjust the remuneration to the bank's vision, to the overall strategic plan of the bank and of its secondary units, and to the work plan derived from the strategic plans. Accordingly, remuneration incentives shall also be matched to the long-term objectives formulated in the strategic plan and in periodic work plans;
- To adjust total remuneration to the risk appetite of the bank. The annual and multi-annual work plans are constructed,

meetings of the board 31 meetings of the plenum of the board of directors were held in 2015 (for further information regarding the activity of the board of directors and the change in the structure of the committees, see the financial statements, p. 413-417).

among other matters, with reference to the volume and types of the risks that the bank is willing to undertake. The achievement of objectives of the work plan, including capital adequacy targets, and the achievement of a surplus return over the required cost of capital, set the threshold for the distribution of bonuses. This objective is also achieved through a ceiling on variable remuneration, and through postponement of the payment of part of the annual bonus, which is contingent on the bank's performance in future years, so that executives are exposed to the consequences of materialization of the risks that they take, and their remuneration decreases if or when risks materialize.

In accordance with the new remuneration policy of the bank, the total cost of remuneration of the CEO shall exceed the median total cost of remuneration of other employees of the bank by a factor of no more than 33.5 (this calculation was performed in accordance with the principles of the remuneration policy, based on the return on equity for 2012 and data on employees of the bank for 2012). As of the end of 2015, the number of directors with "accounting and financial expertise" and "professional qualification," based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations, is 12; one director is a "director with professional qualification." The number of directors with "accounting and financial expertise" and "professional qualification" who are members of the audit committee of the board of directors is 6, in accordance with the requirements of the Companies Law, 1999, and the regulations. As of the end of 2015, 4 women and 11 men are on the board of directors, see the financial statements, p. 426-427).



Composition of the board of directors – gender



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 compliance department and the anti-money laundering department, as well as two 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 Chief Compliance Officer Unit's activity is supervised through three channels:

- The Board of Directors' committee on risk management and control and Basel Il implementation;
- The Board of Management committee on compliance, headed by the CEO;
- Quarterly and annual reports to the bank's Board of Directors of the bank, the CEO, and the heads of the divisions. 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. 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, gualitative, and guantitative 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 cont rols 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.



93% managers and employees

Within an annual learning process using tutorials on the prohibition of money laundering, in accordance with the requirements of legislative amendments, 91% of managers and employees completed the course and test. In addition, 93% of managers and employees completed an annual learning process using tutorials on compliance. The Chief Compliance Officer Unit held visits and training activities at 15 branches (5.6% of the branches of the bank) and at relevant bank units in 2015. During the visits, the chief compliance officer reviewed activities relevant to these branches that pose a risk in the area of compliance. An emphasis was placed on the declared money policy and on the procedure for forms to be signed by foreign residents and American customers. No substantial fines or substantial non-monetary sanctions were imposed on the bank for noncompliance with laws and regulations in the area of products and services (consumer protection directives) during 2015 (for details of material legal proceedings to which the bank is a party, see note 26D on p. 322 of the financial statements for 2015).

CORPORATE GOVERNANCE, ETHICS AND COMPLIANCE

GRI-G4 Content Index and Global Compact COP Report

UNGC¹⁰:

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

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
 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

Principle 7: Businesses should support a precautionary approach to environmental challenges;
 Principle 8: undertake initiatives to promote greater environmental responsibility; and
 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 which 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.

10. Link to the UNGC formal website: http://www.unglobalcompact.org/



Materiality Disclosures Bank Hapoalim

| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|--|---------------------------------------|-----------------------|-----------------|
| Strategy and | analysis | | | |
| G4-1 | Statement from the most senior decision-maker of the organization | 4 | Yes See p. 238 | NR* |
| G4-2 | Description of key impacts, risks, and opportunities | 26 | yes | NR |
| Organization | al profile | | | |
| G4-3 | Name of the organization. | 218 | yes | NR |
| G4-4 | Primary brands, products, and/or services. | 218 | yes | NR |
| G4-5 | Location of organization's headquarters. | 218 | yes | NR |
| G4-6 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | 219 | yes | NR |
| G4-7 | Nature of ownership and legal form. | 219 | yes | NR |
| G4-8 | Markets served (including geographic breakdown, sectors served, and types of customers/ beneficiaries). | 218-219 | yes | NR |
| G4-9 | Scale of the reporting organization. | 68,113,156 | yes | NR |
| G4-10 | Total workforce by employment type | 159,169 | yes | NR |
| G4-11 | Percentage of employees covered by collective bargaining agreements. | 159 | yes | 1,2,6 |
| G4-12 | Description of the main elements of the supply chain in relation to the organization's primary activities, products, and services | 116 | yes | NR |
| G4-13 | Significant changes during the reporting period regarding size, structure, ownership or supply chain | There is no Significant changes | yes | NR |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organization | 192-193 | yes | 7 |
| G4-15 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses | 36 | yes | 1-10 |
| G4-16 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations | 36 | yes | 1-10 |
| Identified ma | aterial aspects and boundaries | | | |
| G4-17 | List of all entities included in the consolidated financial statements or equivalent documents. | 7 | Yes See p. 238 | NR |
| G4-18 | Description of the process for defining the report content and the Aspect Boundaries | 22 | Yes See p. 238 | NR |
| G4-19 | List of all the material Aspects identified in the process for defining report content. | 26 | Yes See p. 238 | NR |
| G4-20 | For each material Aspect, report the Aspect Boundary within the organization | 27 | Yes See p. 238 | NR |

* See under Message from the Chairman and CEO. No specific requirement of COP.



| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|--|---|-----------------------|-----------------|
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | 27 | Yes See p. 238 | NR |
| G4-22 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement | 114,212 | Yes See p. 238 | NR |
| G4-23 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report | There is no Significant changes | Yes See p. 238 | NR |
| Stakeholders | engagement | | | |
| G4-24 | List of stakeholder groups engaged by the organization | 20 | Yes See p. 238 | NR |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 16 | Yes See p. 238 | NR |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 20 | Yes See p. 238 | NR |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns | 20 | Yes See p. 238 | NR |
| Report profile | 9 | | | |
| G4-28 | Reporting period for information provided | 7 | yes | NR |
| G4-29 | Date of most recent previous report | Third Quarter, 2015 | yes | NR |
| G4-30 | Reporting cycle (annual, biennial, etc.) | annual | yes | NR |
| G4-31 | Contact point for questions regarding the report or its contents | 7 | yes | NR |
| G4-32 | Report the 'in accordance' option the organization has chosen | In accordance- | yes | NR |
| | Report the GRI Content Index for the chosen option | Comprehensive | | |
| G4-33 | Report the organization's policy and current practice with regard to seeking external assurance for the report | Board of directors and executive managers are not involved in this process | yes | NR |
| Governance | | | | |
| G4-34 | Governance structure of the organization | 218 | yes | NR |
| G4-35 | Description of process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees. | 222 | yes | NR |
| G4-36 | Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body. | 222 | yes | NR |
| G4-37 | Description of processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics | 224 | yes | NR |
| G4-38 | Composition of the highest governance body and its committees | 225 | yes | NR |
| G4-39 | Indicate whether the Chair of the highest governance body is also an executive officer. | 221 | yes | NR |
| G4-40 | Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | 221 | yes | NR |

| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|--|---------|-----------------------|-----------------|
| G4-41 | Processes in place for the highest governance body to ensure conflicts of interest are avoided | 221 | yes | NR |
| G4-42 | Description of the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.ŸŸ | 222 | yes | NR |
| G4-43 | Description of the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics. | 222 | yes | NR |
| G4-44 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | 222 | yes | NR |
| G4-45 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | 222 | yes | NR |
| G4-46 | Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics. | 222 | yes | NR |
| G4-47 | The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities. | 222 | yes | NR |
| G4-48 | The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered. | 4 | yes | NR |
| G4-49 | Description of the process for communicating critical concerns to the highest governance body. | 223 | yes | NR |
| G4-50 | Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | 223 | yes | NR |
| G4-51 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance). | 224 | yes | NR |
| G4-52 | Description of the process for determining remuneration. | 224 | yes | NR |
| G4-53 | Report how stakeholders' views are sought and taken into account regarding remuneration | 224 | yes | NR |
| G4-54 | The ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country | 224 | yes | NR |
| G4-55 | The ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country | 224 | yes | NR |
| Ethics and in | tegrity | | | |
| G4-56 | The organization's values, principles, standards and norms of behavior | 34,216 | yes | 1-10 |
| G4-57 | The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity | 217,226 | yes | NR |
| G4-58 | The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity | 217,226 | yes | NR |

CORPORATE GOVERNANCE, ETHICS AND COMPLIANCE

| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|--|---|-----------------------|-----------------|
| Economic Pe | rformance | | | |
| G4-DMA | | 113 | yes | NR |
| G4-EC1 | Direct economic value generated and distributed | 113 | yes | NR |
| G4-EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | 108 | yes | 7 |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations. | 188 | yes | NR |
| G4-EC4 | Significant financial assistance received from government. | 114 | yes | NR |
| Indirect Econ | omic Impacts | | | |
| G4-DMA | | 114 | yes | NR |
| G4-EC7 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | 58,124,130 | yes | NR |
| G4-EC8 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | 62,68,114 | yes | NR |
| Procurement | Practices | | | |
| G4-DMA | | 116 | yes | NR |
| G4- EC9 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | 116-117 | yes | NR |
| Materials | | | | |
| G4-DMA | | 192 | yes | 7,8 |
| G4-EN1 | Materials used by weight or volume. | 202-204, 208-209 | yes | 7,8 |
| G4-EN2 | Percentage of materials used that are recycled input materials. | 202-204 | yes | 8,9 |
| Energy | | | | |
| G4-DMA | | 194 | yes | 7,8,9 |
| G4-EN3 | Energy consumption within the organization | 198 | yes | 7,8,9 |
| G4-EN4 | Energy consumption outside the organization is not material | Energy consumption outside is not material | yes | 7,8,9 |
| G4-EN5 | Energy intensity | 198 | yes | 7,8,9 |
| G4-EN6 | Reduction of energy consumption | 198 | yes | 7,8,9 |
| G4-EN7 | Reductions in energy requirements of products and services | 46,86, 94-95,204 | yes | 7,8,9 |
| Emissions | | | | |
| G4-DMA | | 210 | yes | 7,8 |
| G4-EN15 | Direct greenhouse gas emissions (scope 1) | 210 | yes | 7,8 |
| G4-EN16 | Energy indirect greenhouse gas emissions (scope 2) | 210 | yes | 7,8 |
| G4-EN17 | Other indirect greenhouse gas emissions (scope 3) | 210 | yes | 7,8 |
| G4-EN18 | Greenhouse gas emissions intensity | 212 | yes | 7,8 |

| General Standard Disclosures | Description |
|------------------------------------|---|
| G4-EN19 | Reduction of greenhouse gas emissions |
| G4-EN20 | Emissions of ozone-depleting substances (ODS) |
| G4-EN21 | NOx, SOx, and other significant air emissions by type a |

| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|---|--|-----------------------|-----------------|
| G4-EN19 | Reduction of greenhouse gas emissions | 212 | yes | 7,8,9 |
| G4-EN20 | Emissions of ozone-depleting substances (ODS) | 210 | yes | 7,8 |
| G4-EN21 | NOx, SOx, and other significant air emissions by type and weight | Those emissions are not relevant | yes | 7,8 |
| Employment | | | | |
| G4-DMA | | 154-155 | yes | 1,2,6 |
| G4-LA1 | Total number and rate of new employee hires and employee turnover by age group | 158 | yes | 6 |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | 180 | yes | NR |
| G4-LA3 | Return to work and retention rates after parental leave | 158 | yes | 1,2,6 |
| Labor/Manag | ement Relations | | | |
| G4-DMA | | 160,184 | yes | 2,3 |
| G4-LA4 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | 184 | yes | 2,3 |
| Training and | Education | | | |
| G4-DMA | | 174 | yes | 6 |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category. | 176 | yes | 6 |
| G4-LA10 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | 177 | yes | 6 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender. | 162 | yes | 6 |
| Diversity and | Equal Opportunity | | | |
| G4-DMA | | 167 | yes | 1,6 |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | 156,171 | yes | 1,6 |
| Equal Remune | eration for Women and Men | | | |
| G4-DMA | | 167 | yes | 1,6 |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | 167,169 | yes | 1,6 |
| Supplier Asse | essment for Labor Practices | | | |
| G4-DMA | | 122 | yes | 1,2,6 |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria | 122 | yes | 1,2,6 |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken | 122 | yes | 1,2,6 |
| Non-discrimi | nation | | | |
| G4-DMA | | 167 | yes | 1,2,6 |
| G4HR 3 | Total number of incidents of discrimination and corrective actions taken | 167 | yes | 1,2,6 |
| | | | | |

CORPORATE GOVERNANCE, ETHICS AND COMPLIANCE

| General Standard Disclosures | Description | Page | External Assurance | GC Principle |
|------------------------------------|---|----------------------------------|-----------------------|-----------------|
| | ssociation and Collective Bargaining | | | |
| G4-DMA | | 184 | yes | 1,2,3 |
| G4HR 4 | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights | 184 | yes | 1,2,3 |
| Local Commu | inities | | | |
| G4-DMA | | 124,130,148 | yes | NR |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | 124,130,134,148 | yes | NR |
| G4-SO2 | Operations with significant potential or actual negative impacts on local communities. | 104 | yes | NR |
| G4-FS13 | Access points in low-populated or economically disadvantaged areas by type. | 70,115 | yes | NR |
| G4-FS14 | Initiatives to improve access to financial services for disadvantaged people. | 68-71 | yes | NR |
| Anti-corruptio | n | | | |
| G4-DMA | | 216-217 | yes | 10 |
| G4-SO3 | Percentage and total number of business units analyzed for risks related to corruption. | 227 | yes | 10 |
| G4-SO4 | Communication and training on anti- corruption policies and procedures | 216,226 | yes | 10 |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 217 | yes | 10 |
| Compliance | | | | |
| G4-DMA | | 226 | yes | 1 |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non- compliance with laws and regulations. | 227 | yes | 1 |
| Product and S | Service Labeling | | | |
| G4-DMA | | 28,31,68,81 | yes | 8 |
| G4-PR3 | Type of product and service information required by procedures | 81 | yes | 8 |
| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling | There were no incidents in 2015. | yes | 8 |
| G4-PR5 | Practices related to customer satisfaction | 72 | yes | 8 |
| Compliance | | | | |
| G4-DMA | | 226 | yes | 1 |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | 227 | yes | 1 |
| Product Portf | folio | | | |
| G4-DMA | | 28,31,50,58- 62,104-107 | yes | NR |
| G4-FS6 | Percentage of the portfolio for business lines by specific region, size and by sector. | 68 | yes | NR |
| G4-FS7 | Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose. | 64 | yes | NR |
| G4-FS8 | Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose. | 105 | yes | NR |

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 bank¹¹;
- 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 CSR and Sustainability Department of the BDO Ziv Haft Consulting and Management Group;
- The report was submitted for the GRI Materiality Disclosures Service, and GRI confirmed the correctness of the locations of the G4 materiality disclosures (G17-4 G27-4). The report is 'In Accordance' with the GRI G4 Guidelines Comprehensive option.

11. 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 tenth 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 2015 and up to the end of the first guarter of 2016. 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 – During 2015, the bank continued its dialogue with stakeholders. The key process in this area is the change in the bank's overall organizational structure. Within this change, the Stakeholder Relations Area was established - a positive and unique milestone in the banking industry and in the Israeli economy in general, allowing the bank to centralize the management of its interfaces with external stakeholders. Meanwhile, the bank continued to hold regular forums with various stakeholders (business organizations, non-profit groups, and public institutions), on subjects such as financial freedom, small businesses, and the promotion of solutions for challenges facing the senior-citizen sector. Over the last three years, the bank has conducted significant processes aimed at establishing dialogue with stakeholders; it should continue on this path.

Achieving shared value – The implementation of banking products and services involving social or environmental elements continued during 2015. The bank has significantly expanded its Poalim for Recovery drive, which focuses on customer-centric care for customers experiencing financial distress, reaching a wider group of customers. The bank has expanded and rolled out products and services (e.g. the expansion of pension advising and financial planning services) as part of a strategic effort to provide financial guidance and advice to the population group of senior citizens, before and after retirement; increased the volume of credit for small businesses; and extended the reach of its services for the Arab-Israeli community. Concurrently, activities continued within the lateral Financial Freedom drive, described extensively in this report, as well as financing for the promotion of products related to environmental sustainability. Through these actions, and others described

in this report, the bank achieves shared value for itself and its stakeholders.

Promotion of implementation of aspects of corporate responsibility in additional core activities - Within the core banking activity, we recommend an in-depth examination of the integration of ESG elements with the bank's investment activity, as an additional investment channel for customers and as part of risk optimization in the management of the bank's proprietary portfolio.

Broader and deeper objectives in the bank's CSR reports – As a CSR leader among banks in Israel, with a nine-year record of annual reports, we recommend that the bank expand its reporting on objectives and goals (and on controls) in the area of CSR, to include longer-term medium-range objectives, in addition to the annual objectives presented in the report.

The foregoing review contains several points which in our opinion should be maintained and reinforced in order to improve the implementation of the plan and preserve the bank's leadership in this area.

The Corporate Social Responsibility Department **BDO Consulting Group** May 2016



Quality Assurance Declaration Bank Hapoalim Sustainability Report 2015 Introduction

The Corporate Responsibility Institute is an independent public entity dedicated to the promotion of the corporate social responsibility approach. The institute operates within the academic center of Law and Business, a private law and business college (recognized by the Council of Higher Education in Israel). The institute's activities include organizing professional meetings; writing reports, studies, and market reviews; adapting global applied methodologies for use in Israel; and more. Transparency and the accountability of corporations for their social and environmental impact constitute one of the institute's core issues. In July 2016, Bank Hapoalim asked the institute to perform a quality assurance process for its 2015 CSR report.

The guality assurance process was performed by Mr. Liad Ortar, head of the institute. In addition to this position, Mr. Ortar is a researcher who publishes articles on sustainability reporting, a lecturer at universities in Israel and abroad, and a central figure in the field of corporate responsibility and transparency in Israel.

It is hereby declared that the institute receives payment to cover the time invested in this process. Beyond that, neither the institute nor Mr. Liad Ortar (who performed the assurance) have business consulting relationships with Bank Hapoalim, and the quality assurance process was independent. During the course of the quality assurance process, a draft of the report was examined, and several work sessions were held to clarify various issues. Some of these issues have already been addressed in the current report; others may be included in future editions.

Work Method

Quality assurance for CSR reports is a process aimed primarily at improving the quality of the output through professional feedback. For the



avoidance of doubt, quality assurance constitutes an integral part of the reporting process. The objective is for any professional comments that arise during the working process to be absorbed as quickly and as correctly as possible. The process for this report was performed in accordance with the principles of the AA1000 Assurance Standard of the AccountAbility organization. Liad Ortar is a licensed examiner for AccountAbility. In accordance with this standard, the report was examined for its fulfillment of three key principles:

- 1. Inclusiveness Fully addresses the topics from the reporting process and encompasses a wide range of stakeholders.
- 2. Materiality Addresses the material subjects in the activity of the company.
- 3. Responsiveness Reports on subjects raised by stakeholders.

This report was found to fulfill these principles appropriately. The depth and scope of the report are highly impressive, on a par with reports by leading global banks.

This report, in the tradition of a deep organizational commitment to corporate social responsibility, presents several notable developments. First and foremost, the effort of Bank Hapoalim to identify the needs of the older age group in the Israeli population (referred to in the report as the "New Seniors") and to provide service adapted to this segment is of high importance, and worthy of emulation by the business sector as a whole. In addition, the foundation of the Stakeholder Relations Area is one of the most significant organizational changes carried out in this field, essentially positioning corporate responsibility at the core of the bank's business operations. This is the fundamental purpose of the CSR approach: to embed these principles in the core of the business.

Key Remarks

This report, the ninth CSR report published by Bank Hapoalim, is a part of the movement towards adoption of sustainability reporting throughout the banking sector in Israel, in accordance with the requirements of the Supervisor of Banks. The report adopts the G4 reporting guidelines of the Global Reporting Initiative (GRI), and complies with the extensive reporting format known as Comprehensive. I hereby declare that the report by Bank Hapoalim complies with the required scope of reporting and disclosure at this level.

The following are the key recommendations for the continued progress of reporting at Bank Hapoalim:

. Expansion of information sources in the process of determining the material issues to be reported - As justly noted in the report, Bank Hapoalim is one of the largest and most influential financial corporations in Israel. Accordingly, the bank can be expected to examine macro- and micro-economic policy documents published by official national agencies such as the Ministry of Finance, the Bank of Israel, and the OECD, in addition to global and local research. Policy documents by non-government organizations should also be taken into consideration. Such documents can provide a more complete description of social conditions, making it possible to identify the economic challenges faced by Israeli society. It is plainly evident that successfully coping with these challenges will require the banking system to be an integral part of the effort. Implementation of social responsibility in the investment arm and in the non-financial corporations held by the group - Bank Hapoalim is a shareholder of several non-financial corporations. Although its stake in these corporations is usually low, in view of its public significance, Bank Hapoalim should exert a positive influence, in the spirit of corporate responsibility, to the

extent possible.

Sincerely yours,

Liad Ortar, Director

Corporate Social Responsibility Institute academic center of Law and Business

The Corporate Social Responsibility Institute

Carbon Footprint

Work Method

Our work is based on prevalent principles for carbon calculation and marking, developed by the technical work 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 March 2016. Emission coefficients used for these calculations are national figures published by professional entities such as the Public Utility Authority - Electricity, the Central Bureau of Statistics, and the Samuel Neaman Institute, which is linked to the Technion. Consumption data were supplied by the bank, at its responsibility.

Calculation and Reporting of the Carbon **Footprint of Bank Hapoalim**

In 2015, the bank continued to improve its carbon monitoring and reporting, further to the transition to analysis of its carbon footprint according to the prevalent international standards, effected during 2008-2014, and the reports to the Israel Greenhouse Gas Emission Recording System beginning in 2010. Bank Hapoalim was one of the first organizations in Israel to report its carbon footprint. The total carbon footprint of Bank Happalim in 2015 was 61.511 tons of carbon dioxide equivalent (CO2eg). Greenhouse-gas emissions from the bank's routine operations mainly derive from electricity consumption at the head-office buildings and branches (67.8%), the vehicle fleet (13.7%), paper consumption (6.8%), and construction work (6.2%). The carbon footprint decreased by 9,121 tons CO2eq between 2015 and 2014, following an update of the figure for 2014, to 70,362 tons CO2eq. In the last report, the figure for 2014 was given as 81,749 CO2eq; however, this calculation did not account for the lower emission coefficient of electricity sourced from Dorad, which supplies power derived from natural gas. Instead, all of the bank's power consumption was included based on the coefficient for electricity from the Israel Electric Corporation. The amended figure for 2014, 70,362 tons CO2eq, is used throughout this report. The reduction of greenhouse-gas emissions in the bank's operations has progressed continuously over the last few years. A substantial cutback of approximately 35% in the bank's carbon footprint has been achieved in the last two years, mainly as a result of the transition to power supplied by Dorad, which produces electricity from a less polluting fuel mix in comparison to the Israel Electric Corporation.

Notably, of the total carbon footprint data of the bank for 2015, 10,980 tons CO2eg are classified as Scope 3 (voluntary reporting). Excluding Scope 3, the carbon footprint would stand at 50,531 tons CO2ea.

Summary of Findings

Significant changes in the composition of emissions:

- **Power consumption:** Decreased by 2.3% this year, adding to the multi-year trend towards reduced consumption. In addition, the proportion of power generated more cleanly, in environmental terms, used by the bank rose significantly, from 34% of total electricity consumed in 2014 to 52% in 2015. The reduced consumption, together with the greater consumption of power produced using natural gas, led to a decrease of approximately 7,000 tons CO2eq in the carbon footprint, accounting for about three-guarters of the bank's total reduction in 2015, as compared to 2014.
- **Refrigerant gases:** The use of Refrigerant gases decreased significantly compared to 2014, due to reassessment of Refrigerant gas refills in the bank's air-conditioning systems, as well as the continued gradual transition from the more harmful Refrigerant 22 to Refrigerant 410.
- **Fuel consumption:** Total consumption increased by 1.8% as compared to 2014.
- **New construction:** Emissions fell by 13%, due to a decrease in construction work at the bank, as compared to 2014.
- **Paper consumption:** Emissions decreased slightly as compared to 2014, by 2.3%, as a result of paper savings.
- **Sewage:** The responsibility for emissions resulting from the treatment of sewage for the bank's employees was transferred to the purification plants, in accordance with the directives of the Emissions Reporting System.

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 Refrigerant 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 additionality - i.e., an addition relative to the ordinary business scenario. Given that the use of electronic banking today is a "business as usual" scenario, it does not have the property of additionality.
- 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 2016

CORPORATE GOVERNANCE. ETHICS AND COMPLIANCE

In this report, we have chosen to include photographs by Israeli artists that portray various aspects of the composition and texture of Israel's society and community.

Photographs:

Sharon Gabay - PP. 9, 11, 17, 21, 29, 32, 39, 42, 44, 61, 62, 63, 67, 69, 73, 75, 78, 87, 88, 96, 106, 110, 116, 119, 123, 130, 135, 144, 151, 162, 173, 175, 178, 200, 206, 211, 225, 227
Dubi Tal, Albatros -pp. Cover photo, 47, 57, 76, 79, 99, 102, 104, 109, 133, 157, 161, 203, 213
Ido biran - pp. 84, 90, 137, 143, 147, 152, 154, 168, 186, 189
Noa Sharony - pp. 6, 30, 41, 139, 165, 190, 197
Ruth Yehoshua - pp. 54, 193

Graphic Design: Studio Merhav



