



# Corporate social responsibility report 2017



MIZRAHI TEFAHOT



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# Message from the Bank Chairman and President & CEO

Dear readers,

We hereby present you with the fifth corporate social responsibility report by Mizrahi-Tefahot Group Ltd. for 2017. The report presented to you reviews the in depth activities of the Group and the Bank in areas of corporate social responsibility in 2017. The report reflects our commitment to stakeholders shows our understanding that, as a key financial organization in Israel's economy, we are committed to acting responsibly and transparently and to invest resources to benefit society and the environment. In our view, there is a close connection between business excellence and a responsible, ethical outlook.

This document provides detailed information about action taken by the Group in 2017 on matters such as: creating value for Customers and maintaining communication with them in a variety of ways, providing social credit, social involvement in diverse projects, investment in the community, and creating a fair, proper and responsible work environment for employees. Additionally we give detail about providing environmental credit, the steps we've taken to protect the environment, maintaining proper corporate governance, implementing ethics, preventing corruption, and operating risk management, as well as social and environmental risk, and more. These matters are foremost on the organizational agenda and form an integral part of our business core and organizational culture.

The unique characteristics of Bank Mizrahi-Tefahot, include being the most efficient bank with high a growth rate, double-digit return on capital, well as the youngest and most accomplished human resources in the banking system. These factors allow the Bank to provide an optimal solution for all stakeholders.

The Bank continues to operate in accordance with the five-year strategic plan presented in 2016, and in 2017 the bank expanded its operations in all business segments, particularly in the small and medium-business segments. This year, the Bank continued to expand its branch network and inaugurated three new service points to expand its services and availability to Customers. They did all this while intensifying their operations in the Arab, Jewish Orthodox and retiree communities.

One of the guiding principles for our operations is the understanding that there is no alternative for the unique added value brought by a professional, experienced banker to their Customer relationship. In our view, it is people who make the difference between good service and outstanding service. This year, too, we continued to implement the concept of human service, which optimally combines personal and professional contact between bankers and Customers, and uses advanced technology to bring Customer and banker closer together. This combination is paramount for the service experience offered by the Bank to its Customers. Results are indeed apparent in the field – our Customer surveys over the years show that our Customer satisfaction is the highest and they are happy and satisfied with how their needs are addressed by the Bank.

The Group sees great importance in empowering its human capital; therefore we take action designed to empower, promote and develop the Bank's employees, which the Bank regards as full-fledged partners in its operations. This campaign includes many activities, which are integrated within employee routine work and are designed to create a more comfortable, pleasant work environment. These factors work, to expand the knowledge and professional development of employees and to support relations between the Bank, its Customers and employees. We encourage our employees to develop within the Group and to grow into management roles.

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement in the community, to support segments with special needs and to assist in development of social-oriented businesses.

In 2017, the Bank continued to maintain a range of projects to benefit disadvantaged populations, with activities carried out with the involvement of Bank employees, their families and even, at times, Bank Customers. During this year, the Bank expanded its "Let us meet in the community" activities, designed to bring together the community and the Bank through various general-interest presentations in diverse banking and other fields.

This report is another communication channel with our stakeholders, with the intention of fostering open, transparent dialog on all of the issues contained therein. We invite readers of this report to comment on it and to further challenge us, so that we may build upon our actions in these important matters.

We wish you a pleasant and informative read,

**Mr. Moshe Vidman -**  
**Chairman of the Board of Directors**

**Mr. Eldad Fresher -**  
**Bank President & CEO**

## Words from the Corporate Social Responsibility Officer

Mizrahi-Tefahot Group has issued, for the fifth year, its corporate social responsibility report to the public and to its stakeholders. This report covers operations across the Group and its subsidiaries in Israel and at Group overseas affiliates in 2017, emphasizing social and environmental issues.

We strive every day to include considerations of corporate social responsibility in Group operations, based on the understanding that including corporate social responsibility in business activities generates common value for the Group and for interested parties thereof. We do this through ongoing dialog with employees, Customrs and suppliers, in order to deploy the concept of corporate social responsibility of the Bank across all parts of the organization, with commitment to meeting the goals we have set for ourselves.

This area is managed at the Group in an orderly fashion, integrates the work of multiple entities and requires significant coordination and preparation, in order to lead processes with long-term impact.



## In 2017, we continued to make progress in diverse areas – With Customrs:

- We opened new branches as part of the Bank's strategy to expand our service response to Customrs from different sectors;
- We expanded and adapted the services intended for business Customrs;
- We expanded the Bank's activities in the Jewish Orthodox, Arab and retiree sectors;
- We continued our activities to make our services and branches fully accessible to our Customrs; we also invested in training on accessible service, in order to increase awareness of optimal service;
- We increased the volume of environmental credit and social credit to Bank Customrs.

## With the community:

- We increased our investment in social and community-activities of the Group, by 3% compared to 2016;
- We continued to deliver financial training – to both private Customrs and business Customrs – and even expanded the scope of such training;
- We continued to deliver mortgage workshops for the general public, Being a key mortgage bank in Israel, in order to provide tools for selecting the most appropriate track – we provided information for both for Bank Customrs and for non-Bank Customrs;
- We supported and assisted projects, ventures, NGOs and diverse social organizations, while measuring the effectiveness and impact of Bank activities.



## With employees:

- We continued to promote the well-being of employees and their families through various benefits, activities and events throughout the year;
- We worked to enhance employee professional skills by means of a comprehensive training system – increasing the number of training hours at the Bank and the average training hours per employee;
- We improved intra-organizational communication and took action through diverse channels;
- We also continued to raise the percentage of female managers at the bank.

## With regard to the environment:

- We reduced our absolute carbon footprint by about 5% and our carbon footprint per employee (carbon footprint intensity) by about 8%. We also started an initiative, to measure and report indirect emissions (as part of Complex 3);
- We reduced our paper consumption by 40 tons and increased the percentage of paper sent for recycling out of total paper purchased by the Group.

You can read about these and other topics in this report, which present our activities and initiatives that we share as well as our key objectives for Bank operations in 2018 regarding corporate social responsibility.

In 2017, the Bank celebrated Corporate Social Responsibility Week. During the week, we issued an announcement to Bank Customers as part of the "Partners of Choice" project, in which Customers participate in selecting NGOs to which the Bank will contribute; We also held a lecture on the subject; and conducted a game which awarded prizes to employees who were knowledgeable on the Bank's corporate Social Responsibility Activities.

We also continued to intensify the integration of sustainable development goals set by the United Nations (SDGs) into the Group's work plan. The combination of objectives and the link to reporting the Bank's social and environmental activities reinforces our commitment to promoting sustainable business operations. Throughout the report, you can read about commitments made and Group activities to promote these goals.

In 2018 we will update the Group's materiality matrix, to be validated in discussions by management and by the Board of Directors. We will also continue to monitor the achievement of goals that we have set for ourselves and will review, together with our stakeholders, how to reinforce the processes to create shared value.

**This annual report is a managerial tool for constant improvement. For us, it is the best reflection of our continued commitment to implementation of corporate social responsibility and sustainability.**

We set ourselves a goal to continue to act with fairness and transparency, which are fundamental values of the Bank, and consequently, to continue reporting in future on our progress with regard to corporate social responsibility. A fair, transparent relationship with all stakeholders, and in particular with Customers who are the focal point of our business operations, is the basis for our earned trust and mutual success.

I would also like to thank all employees and managers at all Bank levels, who help in our daily work and in creating this report.

We would be glad to receive comments on this report and on our actions related to corporate social responsibility – from all stakeholders.

**Corporate social responsibility – for the environment and the community in which we live!**

Sincerely yours,

**Tamar Saffer,**

**Corporate Social Responsibility Officer**

For enquiries about this report – 03-7559675 // [saffert@umtb.co.il](mailto:saffert@umtb.co.il) // Bank Mizrahi-Tefahot, P.O. Box 3470, Ramat Gan



**MIZRAHI TEFAHOT**

## About Mizrahi-Tefahot Group

The Bank attaches great importance to generating direct and indirect value to stakeholders by virtue of its activities. This value is reflected by Bank contribution to economic growth, by providing banking solutions to individual and business Customers, by the commitment to empowering the community in areas where we do business, by strict adherence to fair remuneration of Bank employees and managers, by providing employment to thousands of employees and by duly paying taxes to the State – along with creating value for investors.

The Bank considers that its ability to create social-economic value for stakeholders would ensure its success over time and would also contribute to creating economic value for its shareholders. The Bank is working in this regard to properly position itself for future challenges and business continuity for providing critical services under various scenarios and providing a response to Bank Customers even during emergencies, in as much as possible. Bank operations with regard to business continuity aspects are incorporated in a specific policy.

**Mizrahi-Tefahot Bank Ltd.** was one of the first banks to be established in Israel. The Bank was incorporated as a public company in 1923, under the name Bank HaMizrahi Ltd., and started doing business in 1924. In 1969, upon the merger with Bank HaPoel HaMizrahi Ltd., the Bank was renamed United Mizrahi Bank Ltd. In 1983, as part of an arrangement between the Government of Israel and the banks, Bank shares were transferred to Government control. In 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger with Tefahot Mortgage Bank Israel Ltd., in November 2005 the merged entity was renamed Bank Mizrahi-Tefahot Ltd. – its current name.

As of 2017, the bank Board of Directors is headed by Mr. Moshe Vidman and the Bank President & CEO is Mr. Eldad Fresher.

## Group and Bank operations

The Bank Group is one of the top five banking groups in Israel, doing business in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nationwide network of 187 branches and business centers. Furthermore, business Customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector.

As of 2017, the Bank's overseas operations are conducted through 3 bank affiliates (two branches and a subsidiary) and representative offices in Europe and in Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, distribution and operation of mutual funds, management of securities portfolios for Customers, pension advisory service, trust services, provision of registration services for securities listed on the stock exchange in Israel, operation of provident funds and insurance incidental to mortgages. The Bank Group also engages in credit operations and participates in syndication deals.

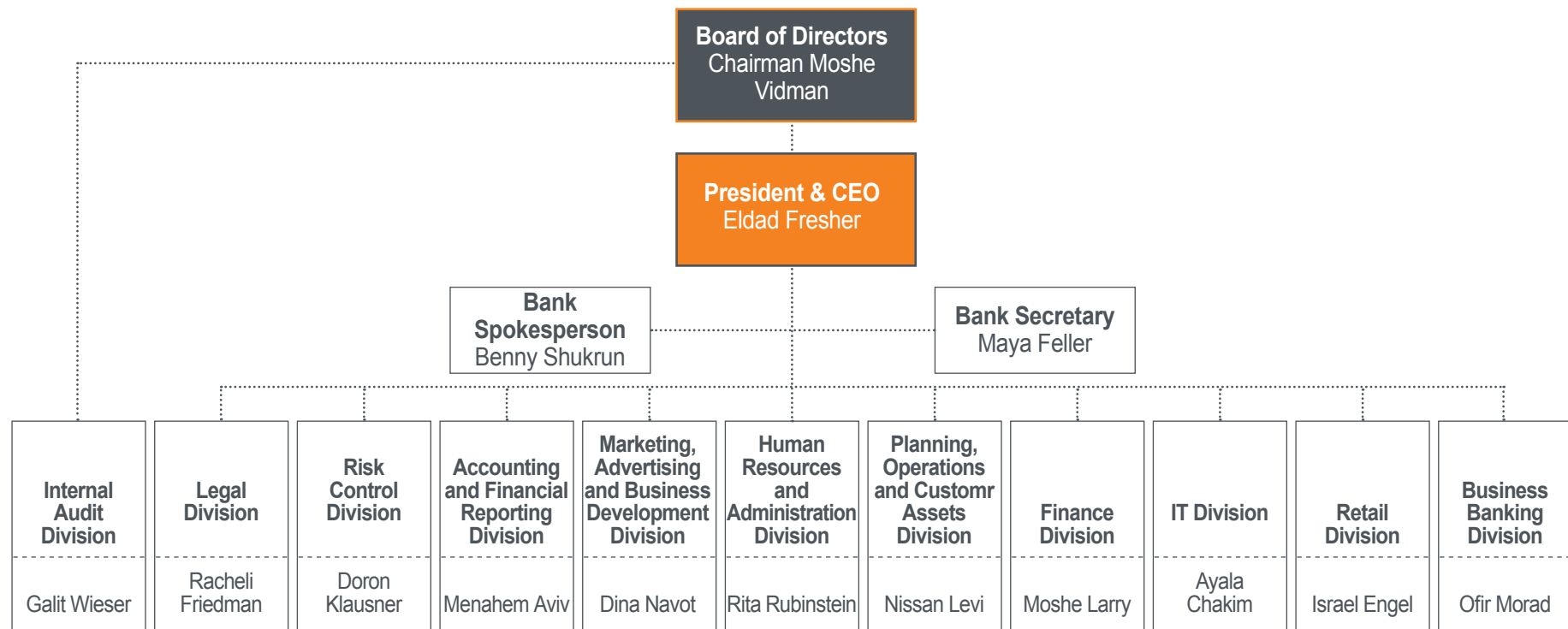


Group share out of the Top 5 bank groups (as of December 31, 2017):

Group share out of the Top 5 bank groups			
Loans to the public	Deposits from the public	Total assets	Shareholders' equity
18.9%	15.5%	16%	12.9%

## Organizational structure

The Bank's organizational structure is intended to support the achievement of Bank objectives and realization of its business plan. The structure is based on divisions and other units, reporting to the Bank President & CEO. The Internal Audit Division reports directly to the Chairman of the Board of Directors.





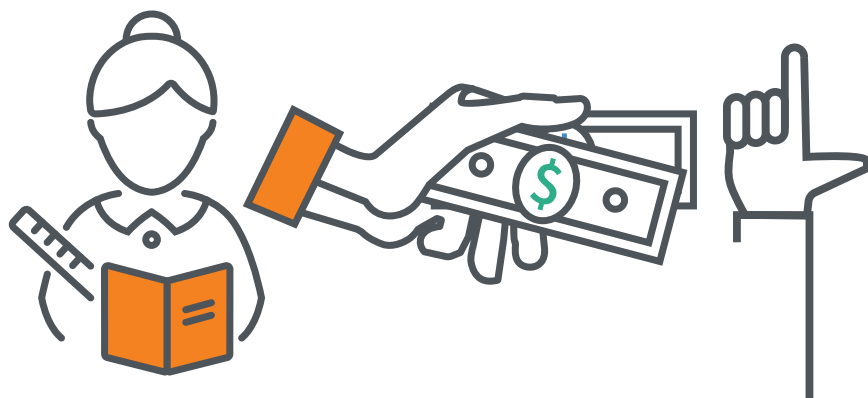
## Financial performance in 2017<sup>1</sup>

In 2017, Bank Group revenues amounted to NIS 6,000 million and operating expenses (including payroll) amounted to NIS 3,611 million. "Retained economic value" in this year amounted to NIS 1,249 million.

Net profit for the Group in 2017 amounted to NIS 1,347 million, compared to NIS 1,266 million in the previous year – an increase by 6.4%.

Multi-period profit data shows:

- Continuous, constant growth in Bank revenues.
- Control over operating expenses, with 2017 affected by the new collective bargaining agreement.
- Stable credit losses, despite an increase in net loans to the public by an average 7.1% over the five-year period.
- Consistent growth in Bank net profit year over year.



Financial Performance (NIS in millions)	2017	2016	2015	2014	2013
Interest and non-interest revenues	6,000	5,640	5,392	4,987	4,963
Of which: Interest expenses to debenture holders	599	472	392	556	786
Of which: Commissions and other revenues	1,517	1,567	1,500	1,439	1,485
Operating and other expenses	3,611	3,299	3,226	3,039	2,951
Provision for taxes	806	833	761	657	593
Dividend distribution	334	186	86	0	75
Retained economic value <sup>2</sup>	1,249	1,322	1,319	1,291	1,344
Net profit for the Bank	1,347	1,266	1,134	1,092	1,083

<sup>1</sup> This report is not a financial statement. The Bank reports its audited financial information in its annual financial statements, which are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in conformity with Public Reporting Directives of the Supervisor of Banks.

<sup>2</sup> Total interest and non-interest revenues before expenses with respect to credit losses, net of operating expenses, provision for taxes and dividend distributions. This value represents the economic generated by the Bank, net of the economic value distributed to various stakeholders

## United Mizrahi Bank (Switzerland) Ltd.

Net profit of Mizrahi Bank Switzerland in 2017 amounted to CHF 0.7 million, compared to CHF 1.0 million in 2016.

Interest revenues, net in 2017 amounted to CHF 1.9 million, similar to 2016. Pre-tax income in 2017 amounted to CHF 1.0 million, compared to CHF 1.4 million in 2016. Pre-tax income net of exchange rate effects in 2017 amounted to CHF 3.4 million, compared to CHF 5.4 million in 2016.

## Tax payments at overseas affiliates

Tax liabilities of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank makes up the tax indebtedness based on the tax rate in Israel.



## Government support

In 2017, the Group received no subsidies, tax relief, incentives or other economic benefits from the Government of Israel nor from governments of other countries in which the Group operates. Furthermore, the Bank received no economic aid from export credit agencies.

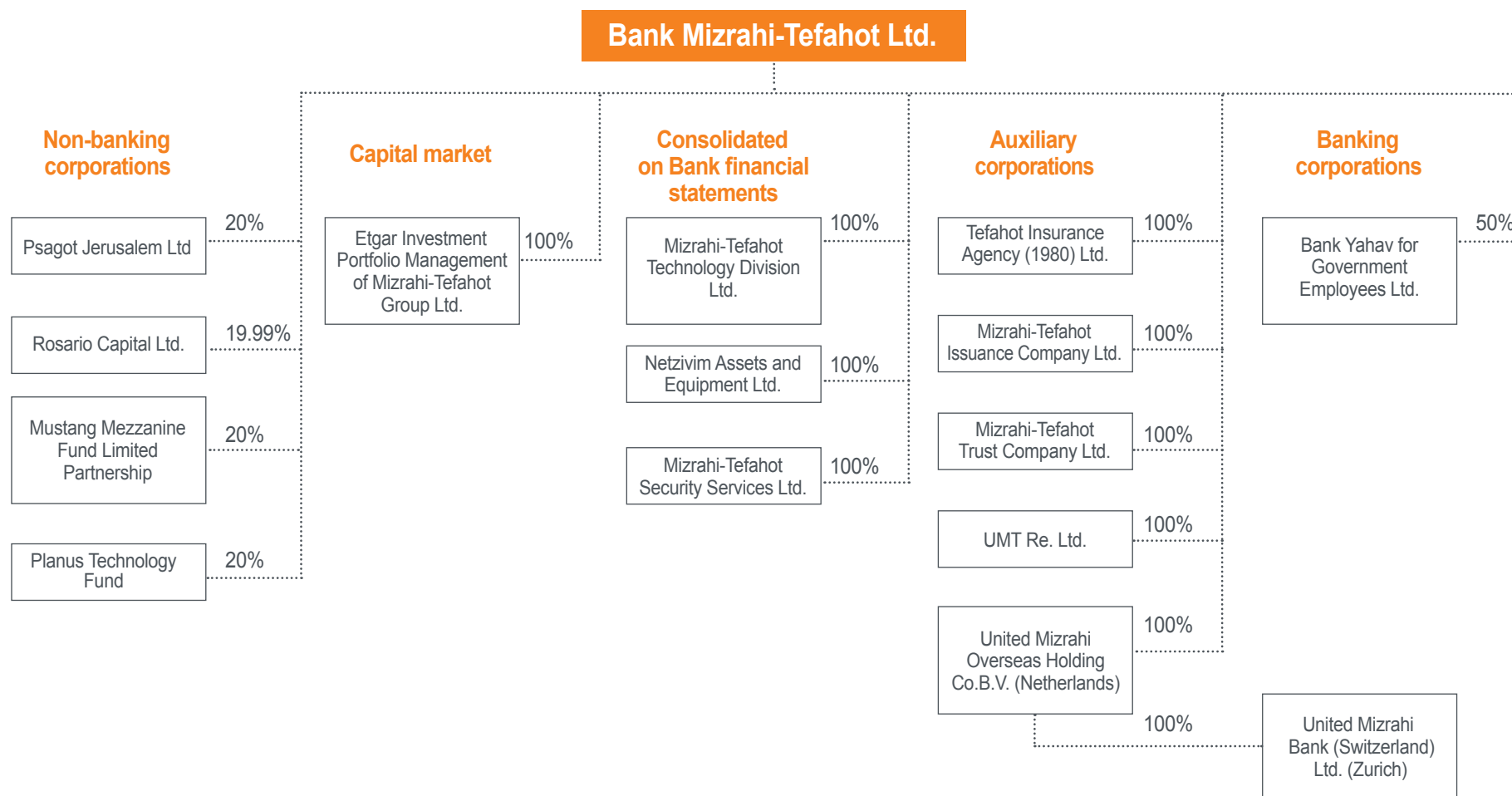
## Holding structure and control

As of December 31, 2017, the controlling shareholders of the Bank are Wertheim Group, holding 21.82% of capital and voting rights, and Ofer Group, holding 22.43% of capital and voting rights.

Further information on the holding and control structure can be found in the Group's 2017 annual report, pp. 308-309.



## Holding structure of key Group entities<sup>1</sup>



Further information about investees and investments therein can be found in Note 15 to the Group's 2017 financial statements.

<sup>1</sup> The Bank has holdings in other companies which are not material for Bank business.



## Events and material changes at the Group in 2017

**New five-year strategic plan for 2017-2021** – Given the Bank's achievements and changes to the macro-economic environment in Israel, on November 21, 2016 the Bank's Board of Directors approved a new five-year strategic plan for 2017-2021.

**Bank plan to relocate its headquarters units** – On June 19, 2017, the Bank's Board of Directors resolved to take action in order to relocate units the Bank's headquarters a single site, in Lod. For more information see Note 25 to the 2017 financial statements.

**Developments in labor relations** – On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For more information see Note 22.A.6. to the 2017 financial statements.

**Streamlining plan** – On December 27, 2016, the Bank's Board of Directors approved the streamlining plan recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions. For more information about the effect of the streamlining plan, see Notes 22 and 25 to the 2017 financial statements.

**Streamlining plan at Bank Yahav** – On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. For more information see Note 25 to the 2017 financial statements.

**Project to replace Bank Yahav's core banking system** – On January 1, 2017, Bank Yahav transitioned to an independent core system from TCS – TATA CONSULTANCY SERVICES LTD, after disconnecting from systems of Bank HaPoalim Ltd. which had provided to Bank Yahav IT and operating services through December 31, 2016.

The transition was successfully completed and Bank Yahav intends to continue developing the new system in 2018, including expanding the channels for providing online service to its Customers.

**Business activity expansion** – On November 27, 2017, the Bank signed an agreement with shareholders of Bank Igud Le-Israel Ltd. (hereinafter: "Igud"), who jointly hold 47.63% of Igud's issued and paid-in share capital (hereinafter: "the controlling shareholders" and "shares of the controlling shareholders", respectively). Furthermore, prior to signing the agreement, notice was given by another shareholder of Igud (hereinafter: "the Other Shareholder"), who holds (through trustees) Igud shares constituting 27.12% of the issued and paid-up share capital of Union, accepting the tender offer (hereinafter: "the Agreement").

In conformity with the Agreement, subject to preconditions highlighted in the agreement, the Bank will issue a full exchange tender offer to purchase Igud shares and, conversely, the controlling shareholders and the other shareholder have committed to accept the tender offer, which would close subject to preconditions stipulated by the agreement.

For more information about the agreement, see pp. 17-18 of the 2017 Annual Report.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the transaction (hereinafter: "the Decision"). Since the suspensive conditions for publication of the Tender Offer have not been fulfilled, in conformity with provisions of the Agreement, the Agreement is deemed null and void as of June 27, 2018, and none of the parties has any obligations pursuant to the Agreement nor any claim against the other parties to the Agreement.

**As of the publication date of this report**, the parties to the Agreement are negotiating potentially signing an addendum to the Agreement, whereby the Agreement would be renewed and the parties would appeal the Decision, all as agreed by the parties.

**Developments in international geographic deployment** – In 2017, the Bank closed its representative office in Uruguay; as of the end of 2017, the Bank operates representative offices in Mexico and in Germany. For more information about the various affiliates and their business, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management (Operating results of overseas operations)" in the 2017 Annual Report.



## Membership of organizations

The Bank is a member of the Bank Association and is active on the Association's Executive Board and Legal Committee. The Bank is a member of the Public Company Association and conducts a dialog with the government, the public and private environment on matters related to the banking system as a whole.



## Awards and recognition

In 2017, the Bank also won prestigious, leading awards in the field of marketing:

- In 2017, the Mizrahi-Tefahot brand was recognized for the fourth time in a row as an Israeli Superbrand by the international Superbrands organization, active in 70 countries around the world. The Superbrand title is the most coveted, prestigious international title in branding, awarded to brands and managers for outstanding marketing and managerial performance to an international standard. This prestigious title is evidence of the strength of ties between the brand and consumers in the country and of the fact that the brand provides consumers with more tangible and emotional benefits compared to other brands.
- In the past year, the Bank was ranked 14 places higher in the ranking of internationally recognized banking brands by BRANDFINANCE. As of 2017, the Bank is ranked third among Israeli banks in this ranking.
- The Bank was awarded for the third year in a row, the INNOVATE 2017 Award by the Innovation Forum in the Finance category for "Test drive", selected to be the most innovative marketing campaign of 2016.
- In the prestigious Effie competition, which measures marketing effectiveness, the Bank was awarded a prize in 2017 for a marketing campaign in the finance category for the "No substitute for humanity" campaign. This marketing campaign reinforced the Bank's differentiation, increased the willingness of potential Customers to transition to the Bank, and contributed significantly to the increase in actual accounts opened.

# Corporate social responsibility management concept at Mizrahi-Tefahot Group

## The principles underlying the management concept

The guiding principles for Bank policy on this topic are based on the material issues identified by the Bank, in conformity with the international reporting standard typically used for corporate social responsibility, as developed by Global Reporting Initiative (GRI). This policy includes management approach to each of the issues identified as material, both for the Group and for stake holders, which significantly impact Bank operations and the focus of Bank attention in the coming years.

## Involvement of management and Board of Directors

The Bank Board of Directors is tasked with setting and approving policy on corporate social responsibility and ensuring that these principles are applied and are in line with Group strategy. Group management is responsible for implementing the guidelines in policy documents and incorporating them in work processes in various areas.

The Manager, Human Resources and Administration Division heads the steering committee on this subject, attended by all Bank units and subsidiaries. This committee reviews activities in the various divisions and convenes periodically, as needed.

As part of deployment of the corporate social responsibility policy, in 2013 the Bank appointed the Manager, Organizational Development and Training Department in the Human Resources and Administration Division to head the field of corporate social responsibility. The appointed manager is responsible for implementation of the policy, its deployment across all employees and for monitoring achievement of objectives in this area, as set by the Bank.

In addition, each executive reports to management from time to time on the matters they are responsible for. For each topic discussed, there are meeting minutes recorded and implementation is monitored. If needed, a repeat discussion is held to review the implementation of recommendations.

The Bank Board of Directors plenum approves the Bank's corporate social responsibility report and the annual work plan on this matter is presented to the Board of Directors plenum.

## Implementation through cross-organizational cooperation

Corporate social responsibility policy is deployed across the organization, by a process which involves all Group operations and requires co-operation by many.

All Bank divisions have designated corporate social responsibility representatives, who act as division representatives for this purpose. These representatives and the corporate social responsibility Officer at the Bank maintain regular work





interfaces in order to implement the policy and to report on its implementation.

Each Bank entity is responsible for monitoring corporate social responsibility issues they are normally responsible for, including authorization ranking and reporting to higher levels, that monitor the implementation and handling of each area by these units. Thus, for example, in the energy consumption area, there is a committee for improved energy efficiency, which receives regular reports on this matter and controls its implementation.

Concurrently with the regular process at these units, data about social responsibility is summarized and monitored at least annually from all Bank units. These data are presented to Bank management and to the Board of Directors. As part of the corporate social responsibility policy deployment, a work plan is created every year and presented to Bank management and to the Board of Directors. Plan components are included in work plans of the different divisions.

The Bank invests significant resources in deployment of the corporate social responsibility concept among employees. In 2017, several activities took place:

- Those involved with corporate social responsibility receive training focused on this area.
- The topic of corporate social responsibility is included in courses delivered by the Training Center.
- Information items (“Did you know?”) with regard to corporate social responsibility are communicated.
- As part of the corporate social responsibility week, we held different events designed to increase employee awareness of this topic.

In 2018, plans are in place to expand the knowledge in this field and to enhance Bank influence on corporate social responsibility issues.

## Commitment to annual reporting

Publication of the annual corporate social responsibility report reflects Group commitment to act in areas of corporate social responsibility and to report its performance to stake holders. As it did in previous years, the Group is committed to continue reporting in future, in conformity with directives of the Supervisor of Banks. Reporting is in conformity with accepted international standards in this field.

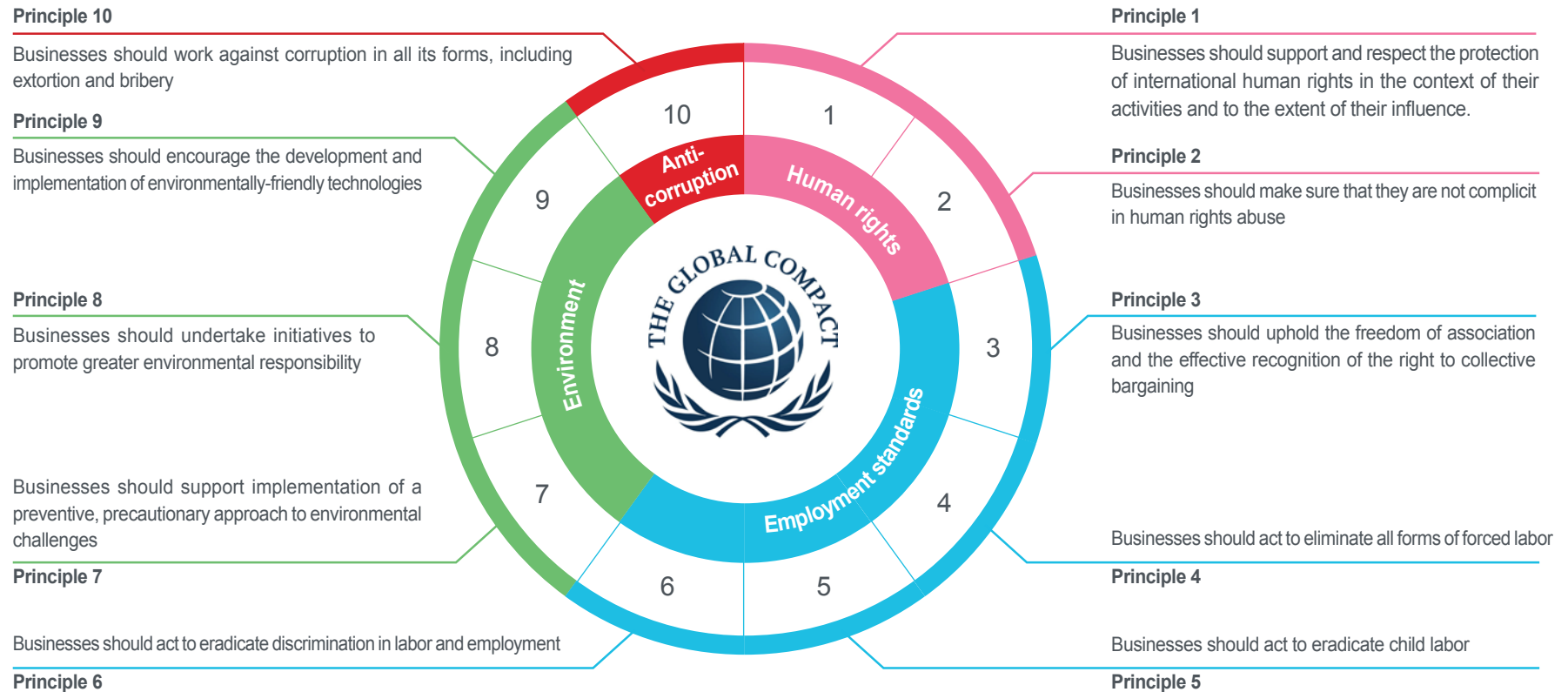
For more about the commitment to annual reporting and about this report, please read below.



# Committed to international principles

## Global Compact

Mizrahi-Tefahot Group joined the United Nations Global Compact Initiative in 2015, based on its commitment to further promote corporate social responsibility in the Group and in the financial sector. The Group supports and promotes the Ten Principles of the Initiative. Accordingly, we also report on our progress in implementing these principles.



Our membership to the Global Compact reflects **our commitment to adopting international standards for social-environmental responsibility** in all our endeavors, based on 10 principles. These principles reflect corporate commitment to leading the social-environmental agenda in the country in which it operates and around the world. Some examples of these principles include: responsible employment, preventing corruption, human rights and environmental protection. As part of Group commitment to the Global Compact principles, this report constitutes periodic Communication On Progress (COP) to the organization.

## UN Sustainable Development Goals (SDGs)

In September 2015, the State of Israel, along with 192 UN member states, adopted a resolution to participate in the effort to achieve the 17 new Sustainable Development Goals (or SDGs) and the realization of 169 global targets by 2030.

The goals address global challenges in three dimensions – society, environment and economics. The UN goals encompass many areas, including eradicating poverty, access to education, gender equality, nutritional security, industry, peace and preservation of life at sea, on land and so forth.

Sustainable development goals, based on principles of corporate social responsibility, create a multi-sector, multi-nation framework with a common language that increases the likelihood of their effective, measurable implementation.

This is the second year that the Group has reported in its corporate social responsibility Report on the commitment to advancing the UN Development Goals and elaborates on its activities in relation to the following goals.

The combination of goals and the link to reporting on the Bank's social and environmental activities reinforce our commitment to sustainable promotion as part of our business activities. Throughout the report, you can read about the Group's comments and activities to promote these goals.





In the following report, the Group outlines and describes its operations according to the marked principles below:



The eradication of poverty in all its forms, everywhere



The eradication of hunger, achieving nutritional security, improving nutrition and promoting sustainable agriculture



Ensuring a more healthy life and promoting well-being for people of all ages



Ensuring high-quality education that is inclusive and equal for all and promoting educational opportunities throughout life



Achieving gender equality and empowering all women and girls



Ensuring universal access to and long-term supply of water and sanitation



Ensuring universal access to affordable, reliable, sustainable and modern energy



Promoting inclusive, sustainable and accessible economic growth, employment and fair, respectable employment for all



Building immune, resilient infrastructure, promoting inclusive, sustainable industry and fostering innovation



Reducing inequality within and between countries



Creating cities and other human settlements that are inclusive, safe, robust and sustainable



Ensuring sustainable consumption and manufacturing patterns



Taking urgent measures to deal with climate change and its implications



Conservation and sustainable use of oceans, seas and other marine resources



Conservation, restoration and promotion of sustainable use of land-based ecosystems, sustainable management of forests, addressing desertification, stopping and reversing impact to land and to biodiversity



Promoting companies to be inclusive, to promote peace and sustainable development, providing universal access to justice and building efficient, reliable institutions at all levels



Strengthening the means to implement and reinforce the vitality of the global partnership for sustainable development



## International Transparency Index

In 2017, the Bank was first surveyed and measured by the TRAC Index – Transparency in Corporate Reporting. The index is published by Transparency International – Israel, an NGO affiliated with Transparency International. In 2017, this index reviewed 307 leading companies in three aspects: Reporting on anti-corruption programs, organizational transparency and reporting on company operations in each country in which it operates.

In 2017, out of the group of companies participating in the index for the first time, the Bank received the highest score, out of the 30 companies measured, the Bank was ranked 4th.

## About the fifth corporate social responsibility report

This is the fifth corporate social responsibility report published by Mizrahi-Tefahot Group. The report reviews Group activities in Israel and overseas in areas of corporate social responsibility in 2017. **The report was approved by Group management and by the Board of Directors plenum.**

Except as noted otherwise, this review relates to performance of Bank Mizrahi-Tefahot, Bank Yahav and the Group's overseas affiliates in Switzerland, London and Los Angeles (hereinafter: "the **Group**"). However, since the activities of Group companies or of its overseas affiliates may differ slightly from those of the Bank, we decided in some places to only refer to Bank Mizrahi-Tefahot. In these places, the term "**the Bank**" is used. In any event, all Group operations overseas are carried out in accordance with principles of Bank policy, and insofar as there are material differences, specific disclosure is provided of the activity and this was specifically stated, particularly with regard to Bank Yahav.

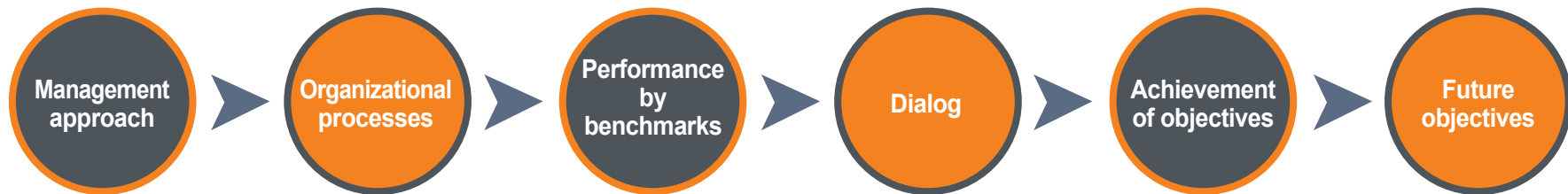
This report was preceded by corporate social responsibility reports which covered Group activity in 2012-2013, 2014, 2015 and 2016. Each report covers a year's worth of activities, as part of a comprehensive program in this area. Similar to previous reports issued by the Group, this report was also compiled in conformity with reporting guidelines of the Global Reporting Initiative (GRI) and it is compliant with the most advanced transparency standard – GRI:SRS. The new SRS standard replaces the G4 standard, used by the Group for reporting last year, also emphasizing materiality and dialog with stakeholders of the reporting entity. Accordingly, the report includes all matters identified as material for Group operations: details of the management approach, work processes, performance against required benchmarks, a description of the dialog with stakeholders on the topic, as well as future performance targets.

In some places, a change has been made to how data is measured and presented. Therefore, for some data there is no comparison provided to previous years. This was stated explicitly in a comment.

Most of the information presented in the report is collected regularly and routinely during the reported year, through the Group's information systems, from various organizational sources and with assistance from external advisors. To this end, the Bank has put in place tools and means for measurement, monitoring and control based on the different activities. Moreover, some data is collected at the end of the reported period (such as financial performance). Information is presented in this report by comparative analysis for the reported period and presents multi-year trends.



## Structure of report chapters for reporting on material issues:



The management approach at the beginning of each topic also includes the relevant reference from the policy document for implementation of corporate social responsibility at Mizrahi-Tefahot Group, which was revised and approved in April 2017.

The report was written with assistance from Good Vision, corporate social responsibility advisors of Grant Thornton Fahn Kanne Group.

**The report was externally audited for due diligence by an independent third party** by the Corporate Social Responsibility Institute. This combination of professional assistance and independent external audit allows the Group to ensure that information presented in this report properly reflects Group operations. We are committed to make judicious use of response and feedback received from our stakeholders, to learn from this feedback and to continue to review our performance in these areas.



## Identifying material issues related to social responsibility

The materiality matrix, as defined in the previous corporate social responsibility report of Mizrahi-Tefahot Group, is also applied by the Group in this report. The matrix was formulated in accordance with GRI guidelines, including a process for defining the material issues for the Group and its external stakeholders. This process was conducted in two parallel channels, integrated to allow us to create the materiality matrix focused on the 22 material issues.

## The process of identifying material issues for the Group

In the process of identifying material issues for Mizrahi-Tefahot Group, meetings were held with three groups at the Bank: Managers, employees and members of the corporate social responsibility Steering Committee. These representatives rated all of the corporate social responsibility issues (based on specific aspects defined by GRI), by their importance for Group operations, on a scale from 1 to 5. The outcome of this stage was a list of material issues for Group operations.





# The process of identifying material issues for stakeholders

In order to specify the material issues for external stakeholders of the Group, we used 3 representative information sources:

- 1. BDO research: Review of positions of bank stake holders in Israel on the 2015 report** – In 2016, the corporate social responsibility and sustainability group of BDO Ziv Haft reviewed the positions of stake holders on the corporate social responsibility reports issued by the top 5 banks. This research studied the material issued in Israel's banking sector, based on positions by 16 stakeholder representatives who represent environmental organizations, communities, employees, customers and suppliers.

The discussion with representatives of these stakeholders raised 23 major issues with the banks' reporting, on which the stakeholders commented. The comments involve improvement of the required information and in the manner of reporting, as well as raising significant issues not included in these corporate social responsibility reports.

- 2. Review of supplier positions with regard to Bank conduct** – The Bank is in constant work relationships with suppliers, hence the importance of hearing their perception and expectations on matters which, in their opinion, the Bank should report from corporate social responsibility aspects. This survey of several Bank suppliers showed that the suppliers were interested in more extensive reporting on five major topics in the Bank's report on corporate social responsibility, which have been weighted in the materiality matrix (listed in order of significance):

- Bank policy on transparency and strict payment terms to suppliers
- Review of ethical issues in supplier operations (prevention of corruption and bribery, code of conduct)

- Review of social issues in supplier operations (minimum wage for employees, proper employment terms, maintaining human rights)
- Minimum requirements posed by the Bank for suppliers (including requirements with regard to health and safety, compliance with laws, permits and licenses)
- Preference for suppliers who employ disadvantaged employees (segments under-represented in the labor market)

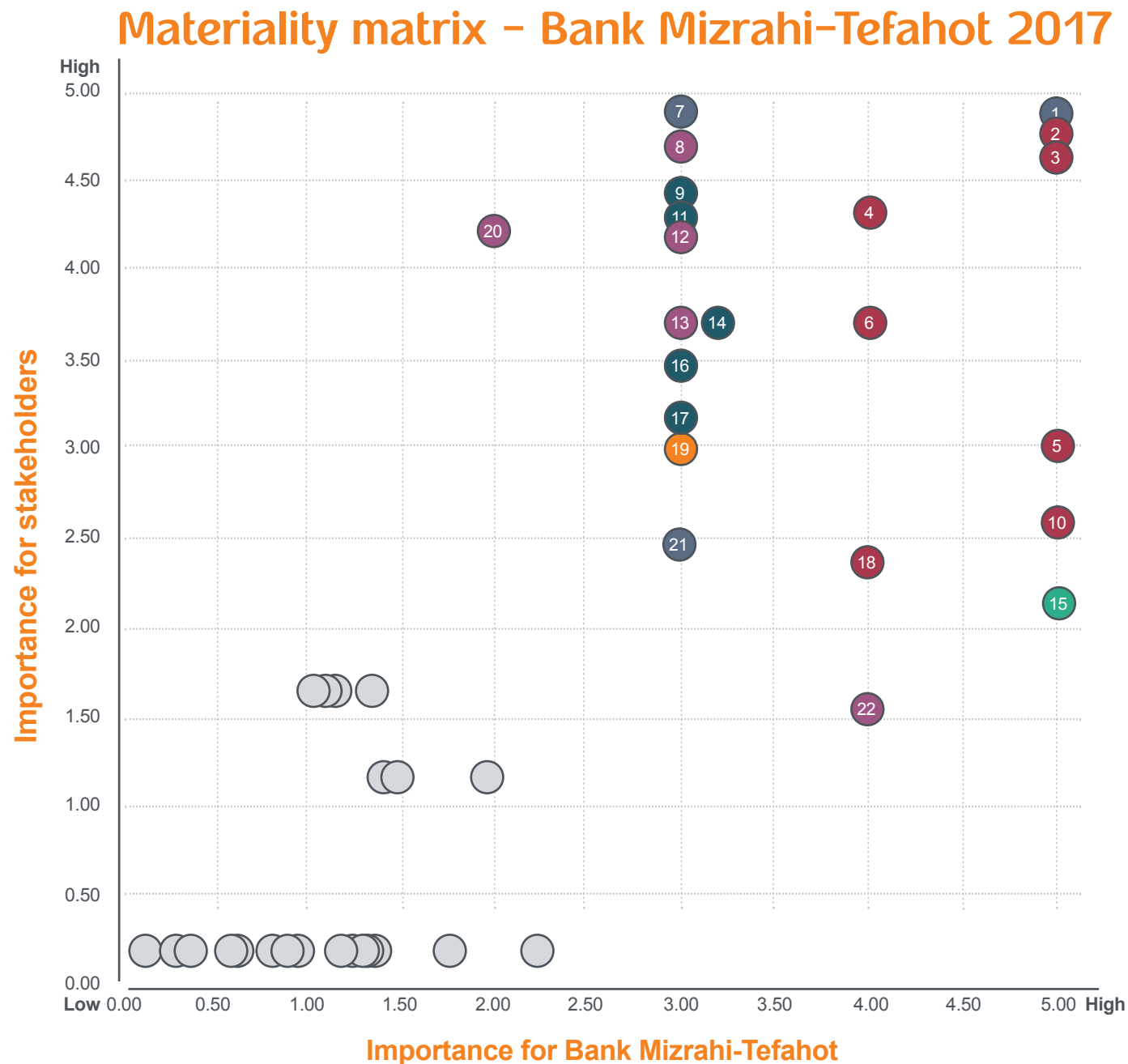
- 3. Review of customer positions with regard to Bank conduct** – A survey, similar to the supplier survey, was conducted among 504 Bank customers, to review their positions with regard to the corporate social responsibility reports issued by the Group. This survey showed that customers were interested in more extensive reporting on seven major topics in the Bank's report on corporate social responsibility (listed in order of importance):

- Action taken by the Bank to protect customer privacy
- Promotion of banking services which do not require attending the branch in person
- Comprehensive information about risks / rewards of investment alternatives
- Promoting processes to prevent corruption
- Various channels for customer contact – whether complaints or praise
- Information about accessible branches and ATMs
- Action taken by the Bank to address environmental and social risk arising from lending by the Bank

# Material issues selected for reporting

Weighting and cross-referencing the issues has resulted in 22 material issues selected for reporting. These are issues rated highly by Group employees and managers and also rated important by external stake holders.

The Group's materiality matrix, listing the 22 issues which the Group selected for reporting:



22 material aspects identified	GRI indices	SDG goals	Materiality (position on chart)	Reporting limits	Report chapter	Report issue
Marketing and labeling of products and services (Marketing and Labeling)	417	12, 16	3	Within the organization	Investing in customers	Fairness and transparency towards customers
Diversity of customers and sectors (Serving a diverse customerele)	-	-	5	Within the organization		We adapt ourselves to our customers, Diverse customers and segments
disadvantaged populations (Economically disadvantaged populations)	G4-FS13-14	10	10	Within the organization		Reinforcing disadvantaged populations and assisting customers in crisis
Customer Service (Customer service)	-	-	6	Within the organization		Quality of service
Accessibility for persons with disabilities	G4-FS13-14	10	4	Within the organization		Accessibility for persons with disabilities
Customer privacy (Customer privacy)	418	-	2	Within the organization		Information security and keeping information confidential
Environmental and social products (Product portfolio)	G4-FS6-8	9	18	Within the organization		Development of environmental and social products
Local communities (Local communities)	413 G4-FS13-14	1, 10	20	Inside and outside the organization	Investing in the community	Impact on Israeli society through involvement and volunteer work
Promoting financial literacy (Promoting Financial Literacy)	G4-FS16	1, 10	12	Inside and outside the organization		Promoting financial education and training of business owners
Economic performance (Economic performance)	201	8, 9 13	8	Within the organization		Financial performance in 2017, Management of environmental and social risk
Responsible procurement (Procurement practices)	204	8	22	Inside and outside the organization		Responsible supply chain management
Indirect economic impact (Indirect economic impact)	203	1, 3, 5, 8, 9, 10	13	Inside and outside the organization		Investing in the community, Impact on Israeli society through involvement and volunteer work
Diversity and equal opportunity (Diversity and equal opportunity)	405-1	5, 8, 10	17	Within the organization	Investing in employees	Diversity, equality and avoiding discrimination in employment
Gender equality (Gender Equality)	405-2		16	Within the organization		
Non-discrimination (Non-discrimination)	406		14	Within the organization		
Employment terms (Employment)	401	3, 5, 8, 10	11	Within the organization		Promoting fair work environment and employment terms
Labor-management relations (Labor-management relations)	402	8	9	Within the organization		Management-employee relations and maintaining the right to free association
Social and environmental risk management (Environmental and social policies and risk assessment procedures)	G4-FS9	9, 13	15	Within the organization	Investing in the environment	Management of environmental and social risk
Compliance (Socio-economic compliance)	419	16	7	Within the organization	Corporate Governance	Commitment to regulatory compliance
				Within the organization		Risk Management, Business continuity
Anti-corruption (Anti-corruption)	205		1	Within the organization		Our commitment to preventing corruption
Stable corporate governance (Corporate Governance)	102-18		21	Within the organization		Group commitment to accountable conduct
Sustainability and CSR management	102-20	16, 17	19	Within the organization	Introduction	Corporate social responsibility management at Mizrahi-Tefahot Group



# Investing in Customers



MIZRAHI TEFAHOT





## Fairness!

Mizrahi-Tefahot is perceived as  
**the most fair bank**  
in the banking system

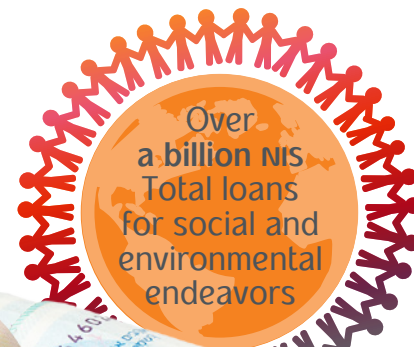
## 6 "Live" branches

With a personal banker, available  
during extended business hours,  
along with advanced digital  
services



**181  
billion NIS**

Total loans to the public  
5.7% year-over-year  
growth compared  
to 2016



Over  
**a billion NIS**  
Total loans  
for social and  
environmental  
endeavors

**3**  
new branches

about  
**25,000**  
customers  
and potential  
customers  
Participated in  
client surveys  
during 2017



**187** service  
locations

Nation-wide, from Kiryat Shmona  
to Eilat Access to a personal  
banker and to Bank services  
through various  
channels



Investing in Customers  
Overview



**1,710 training hours  
on accessible service**

Attended by 1,632  
employees and 215  
managers

Intensified  
activity in the Jewish  
Orthodox sector,  
in Arab society and  
among retirees



**212**  
self service  
stations

Constant growth  
in number of  
self-service stations  
nation-wide

**250**  
ATMs



**1,300**  
customers  
Participated in  
conferences for  
business customers  
on various  
subjects

**Rated 8.8**  
out of 10

This year too, the Bank  
maintained the high level of  
customer satisfaction with  
the bankers - the highest  
among the top  
5 banks



**MIZRAHI TEFAHOT**



# Group commitment to its customers

Mizrahi-Tefahot Group is committed to success of all its customers, acting to generate value for them over time in all of its operating segments. This commitment is reflected by fair conduct and by creating a range of channels for providing service and products customized to the needs of every customer. It also requires listening to customer needs, preserving their privacy and a commitment to providing professional tools for customer success. This topic is handled by different divisions at the Bank, each in its own aspects, primarily by the Retail, Business and Marketing Divisions.

## Customers from various supervisory operating segments<sup>1</sup>

The Group serves customers in different operating segments, in conformity with the definitions of the Supervisor of Banks. Attribution to operating segments is usually determined according to client turnover (annual sales or revenues).

Supervisory operating segments are as follows:



### Households

individuals, other than private banking customers <sup>2</sup>



### Private banking

individuals who manage a financial asset portfolio in excess of NIS 3 million at the Bank



### Small and micro businesses

businesses with turnover amounting up to NIS 50 million



### Medium businesses

businesses with turnover higher than NIS 50 million and lower than NIS 250 million



### Large businesses

businesses with turnover higher than NIS 250 million



### Institutional investors

Provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios



### Financial management

includes trading operations, asset and liability management and non-banking investments



### Overseas operations

presented separately from operations in Israel, divided into individuals and business operations

<sup>1</sup> In 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the customer's turnover (annual sales or annual revenues).

<sup>2</sup> According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the Bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.



Investing in Customers



Investing in the community



Investing in employees



Investing in the Environment



Corporate Governance



MIZRAHI TEFAHOT

## Key products offered by the Bank's different operating segments

- Banking and finance**  
An array of banking services offered to private and corporate customers, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivatives, including trading in currencies and interest rates, etc.
- Capital market**  
security transactions for customers on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution, which are among investment tracks available to Bank customers.
- Credit cards**  
All financial products and banking services provided in conjunction with credit cards issued to Bank customers by credit card companies in Israel.
- Mortgages**  
Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- Construction and real estate**  
banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

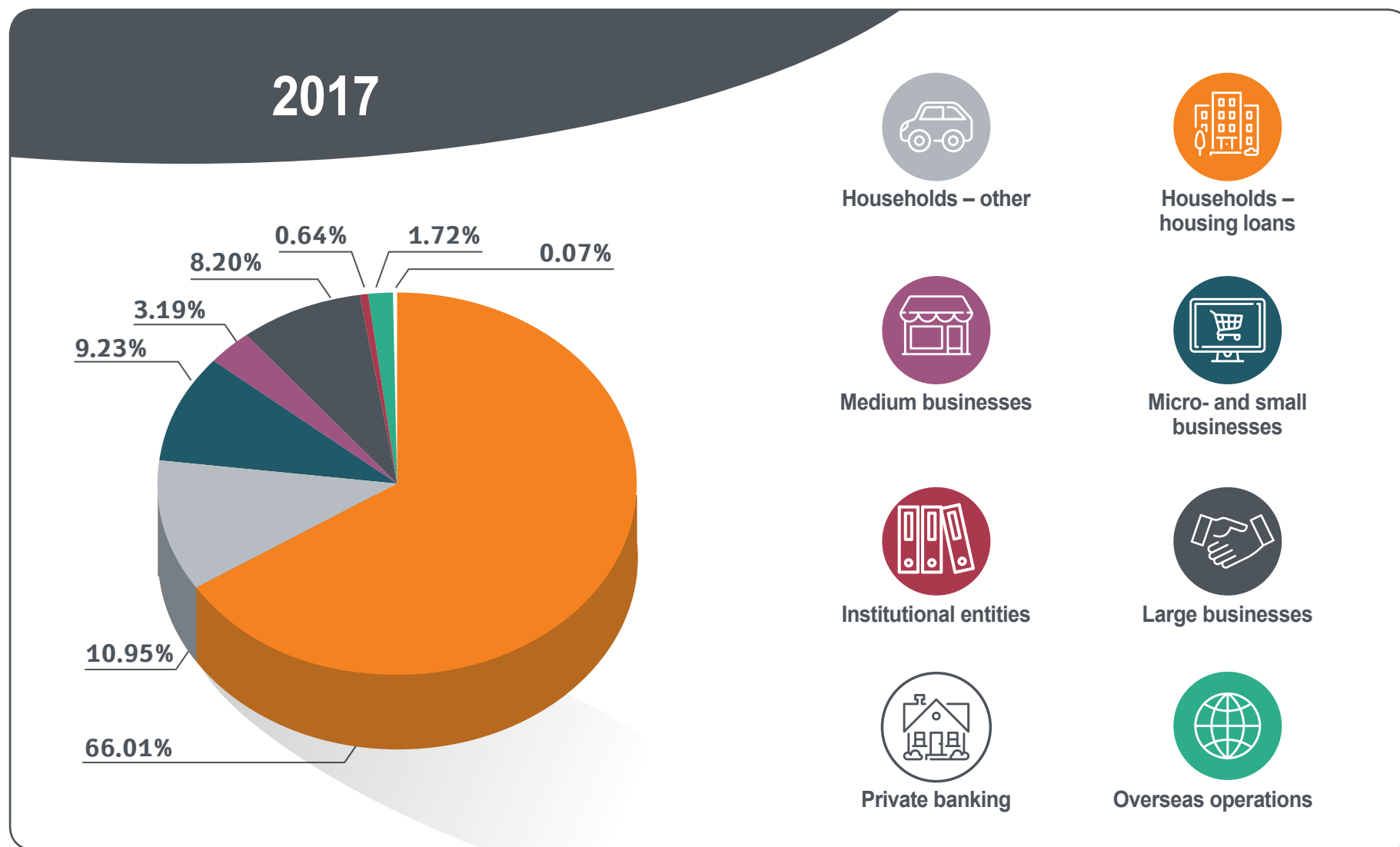
The Group does not offer nor sell financial products and services that have been banned or prohibited.

## Loans to the public by supervisory operating segment (net, NIS in millions)

Operating segment	2016	2017	Change (percentage)
Households – housing loans	114,070	119,557	+ 4.8%
Households – other	18,945	19,824	+ 6.6%
Private banking	81	119	+ 46.9%
<b>Total – individuals</b>	<b>133,096</b>	<b>139,500</b>	<b>5.1% +</b>
Small and micro businesses	15,126	16,716	+ 10.5%
Medium businesses	4,786	5,779	+ 20.8%
Large businesses	12,525	14,847	+ 6.6%
Institutional investors	2,586	1,160	- 24.4%
<b>Total – business operations</b>	<b>35,022</b>	<b>38,502</b>	<b>8.9% +</b>
Overseas operations	3,223	3,116	- 3.3%
<b>Total</b>	<b>171,341</b>	<b>181,118</b>	<b>5.7% +</b>



## Loans to the public by supervisory operating segment (net, in %)



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## Wide banking deployment

The basis for making services accessible to the general public is through Group branches deployed nation-wide. Branches are primarily aimed at providing professional, high-quality service to customers of all banking segments, close to the location where the service is required (residence or place of business). The merger of United Mizrahi Bank and Bank Tefahot in early 2005, the merger with Bank Adanim in 2009 and the acquisition of Bank Yahav completed in 2008 – all created an extensive nation-wide branch network. Moreover, the Bank's unique growth strategy is reflected in consistent growth in the number of branches providing solutions for diverse segments. Along with this extensive presence, the Bank provides services through other channels, in the form of Hybrid Banking services.

## 187 service locations nation-wide

High-quality professional service provided across all banking areas, close to where customers are located (place of residence or business) – this is a key component of nation-wide branch operations. In order to expand services and availability to customers, the Group opens new service locations every year. The Group operates an extensive nation-wide branch network; as of the end of 2017, the Group had **187 business centers, branches and overseas affiliates** – including 46 Bank Yahav branches. All Bank branches offer full cash services, and at Bank Yahav all branches offer queue-replacement services and some offer full cash services. In most branches, it is also possible to obtain financial investment advice tailored to client needs, by a qualified financial advisor.

In accordance with the Bank's policy and strategic plan, and with the objective of expanding its high-quality service, **three new service locations** were launched in 2017, after mapping client needs, focusing on outlying regions and communities with populations targeted by the Bank as part of its strategic concept. At the same time, several points of sale were relocated to more geographically appropriate locations. Some of the places where new branches were opened in 2015-2017: Sderot, Migdal HaEmek, Kfar Kassem, Baqa Al Gharbiya, Agripas Street in Jerusalem, Harish, Um El Fahem and Kfar Yassif.



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Corporate Governance

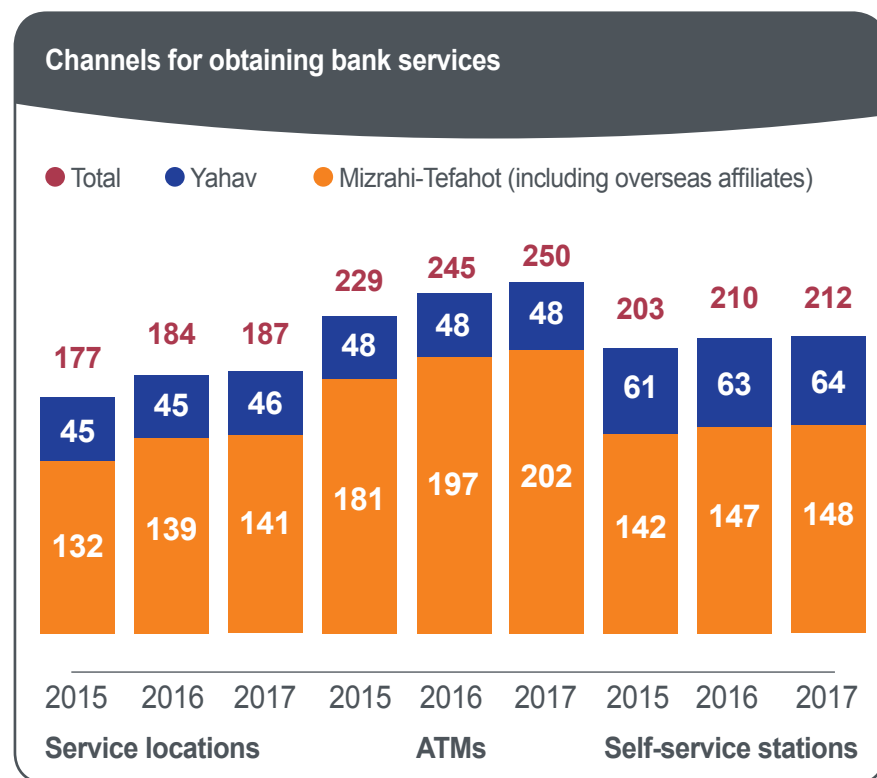


MIZRAHI TEFAHOT

**212 Self-service stations** – As at the end of 2017, customers may use 212 self-service stations, 64 of which at Bank Yahav. These stations allow for a range of transactions to be conducted and information to be obtained by self-service. Most of these stations are available 24 hours a day, even when the branch is closed.

At all Bank branches, checks may be deposited at service stations and at 47 branches, check books may be immediately printed.

**250 ATMs** – At the end of 2017, the Group had 250 ATMs, including 48 at Bank Yahav.



## Live branches

In addition to the regional branch network, the Bank operates 6 "Live" branches, offering banking services to customers by using advanced technology, rather



than in person, during extended business hours: 7am to 8pm.

Each client is assigned their own personal banker, who is constantly available through various channels: direct phone line to the banker and secure correspondence by SMS, email and fax. In cases where the client is required to attend the branch in person, service can be provided at any physical branch of the client's choice. Furthermore, customers may use a courier service (at no charge, up to three times per year) – saving them the need to get to the branch to collect credit cards, checkbooks etc.

Potential customers who open an account with the Bank online are referred directly to the LIVE branches. To this end, designated bankers have been trained and special workstations have been placed, equipped with cameras for client authentication on the video call. This new service was deployed through a unique training campaign for bankers.



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## Quality of service

The Bank is working to provide high-quality personal service to all customers. To this end, the Bank is committed to conduct itself fairly vis-à-vis customers, to create a variety of channels for them for obtaining service, and to develop banking products suited to client needs, while ensuring client privacy and attentiveness to client needs.

Bank customers are a key pillar of Bank success; hence the Bank attaches great importance to ensuring client satisfaction, based on understanding their needs. The Bank also strives to create an optimal client experience, providing knowledge for informed use of banking and financial tools.

The Bank's strategic plan is based on personal, human, professional service integrated with advanced technology. These guidelines are a vital key component of client operations at the Bank."

This is managed through:

- **Adapting products and services to the client** – adapting products and services to the business environment and to client needs and making them more accessible to customers and to the general public, with understanding of the unique attributes of customers in different segments of Israeli society.

- **Dialog and listening** – conducting a constant, on-going dialog with customers is a key tool, at the heart of the concept, allowing for a successful implementation of the concept. The Bank conducts regular public opinion surveys, monitors the online discourse and provides a website and a Facebook page for gathering client feedback.
- **Client satisfaction** – The Bank monitors and controls client satisfaction and response to inquiries and complaints.
- **Avoiding discrimination** – As for customers, avoidance of discrimination is reflected in equality in client recruitment, allowing any person to become a Bank client, and in providing equal service absent of any discrimination to all customers.
- **Handling client inquiries** – The Bank regularly measures customers complaints and contacts, reviews the cases, learns lessons and acts as needed. The Bank has an improved system designed to improve analysis and composition by topic, classification and customers contacts with the department.

Investing in Customers

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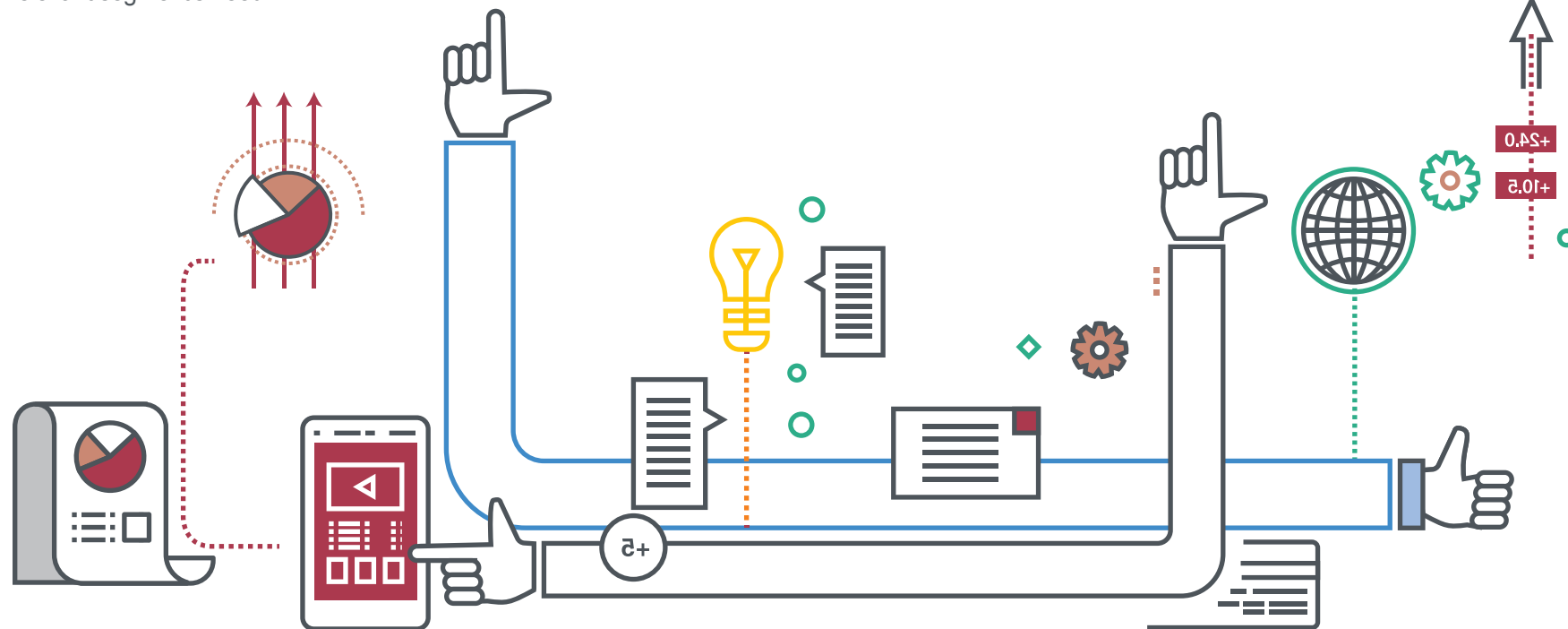
Corporate Governance



## We adapt ourselves to our customers

The Group offers a range of financial products and services, including deposits and savings channels, as well as special benefits, according to needs of its different customers, their financial situation, their different life stages and the unique needs of different demographics.

The process of adapting the product to needs of a specific client segment is based on information received from bankers in the field, who reflect client needs and from surveys, research and analysis conducted by professionals in the Group and in the Israeli finance sector. In accordance with the Group's master policy, any new product development is also reviewed in light of the Code of Ethics. After studying the needs, the Group forms a product in response to the relevant segment's need.



## Use of advanced systems

In order to provide customers with the best possible service experience, customized for their needs, Bank employees use advanced technological systems and tools, such as the CRM system and the "Banker's personal task list". In these systems, all information about the client and communication with them is centrally documented, so as to ensure ongoing monitoring and maintenance of service continuity. Communication is reflected in face-to-face meetings, in telephone calls, in voice messages, in inquiries from branch staff, from a client inquiry to the bank, or by secure mail and by text messages.



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## Straight talking

In order for customers to understand the financial products offered to them and the services they receive from bankers at our branches, the Bank acts to adapt the language to be straight talking and easily understood by those who are not familiar with the financial-banking world. An example of this is the use of fruit names in the catalog of deposits offered to customers. To this end, all deposits were categorized by 10 key attributes (investment horizon, liquidity etc.) and each category was named for a different fruit, based on its attributes.

### "Coconut" deposit

**Fruit:** The coconut shell protects the fruit from the outside and ensures that it remains sweet and juicy on the inside.

**Deposit:** A deposit that safeguards the deposit over a long-term (5 years or longer), providing an attractive, guaranteed return at maturity (up to twice the deposit amount).



Another example is explanatory sheets that the Bank attaches to various banking documents sent to customers, such as the explanatory sheet for the banking ID.

## Products adapted to the economic reality

In 2017, the Bank continued development of multiple deposit products adapted to client needs, in the current economic reality where interest rates remain low and where the average individual client wishes to invest their money so as to ensure their financial liquidity frequently. Here are some examples:



### "Sabra" deposit

An innovative, unique deposit in the banking system that allows customers to invest for the long term, while maintaining the option for early withdrawal in case of need.



### "Grapes for Every Child" deposit

An exclusive deposit under the "Saving for Every Child" program, which includes six savings tracks, including mortgage benefits and higher education benefits.



### "Carambola" deposit

At the request of many customers, the Bank decided to reopen for a limited period the "Carambola" deposit, the bank's best-selling deposit in 2016. This deposit allows customers to benefit from concurrent investment in two tracks and at maturity, to choose the most profitable track for the client. At the same time, this deposit keeps funds available at any time if needed by the client.

## Customized mortgage products

Buying an apartment is a significant step for customers, especially for young couples buying their first apartment. Along with the great excitement of taking this step, the first exposure to the world of mortgages brings with it feelings of ignorance, confusion and fear of the long-term commitment and uncertainty of what may lie ahead, certainly in view of the likelihood of un-expected events.



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In order to facilitate the client's planning for the future and to help them address these feelings, the Bank launched a number of products and services:

- **A mortgage to match your abilities**  
a unique mortgage that allows the client to build a personal monthly repayment schedule according to their needs and abilities. The flexible repayment option is designed to allow customers to determine in advance when to increase or decrease their annual repayment amount, based on their individual needs. This loan is suitable for customers who expect changes in their financial capacity over time, such as young couples just starting out or customers who anticipate higher monthly income during the loan term.



- **Mortgage on hold**  
This product allows the client to occasionally put their mortgage payments on hold, in order to make life easier for them in periods when expenses are higher or income is lower. In this way, the Bank makes it easier for the client, giving them control over managing the mortgage and adapting it to their changing needs.

- **"Tefahot to the home" application**  
The most advanced mortgage application in Israel allows you to formulate a plan to finance the purchase of your property and provides practical tools and extensive environmental information, in co-operation with the MADLAN website. Users may also use the app to correspond with a personal banker, a mortgage specialist available to answer any question and to resolve any doubt with regard to the mortgage process.

- **Secure correspondence service**  
In order to improve contact between the Bank and the client in the mortgage application process, the Bank has created a secure correspondence service that enables close assistance for the client throughout the process while maintaining banking confidentiality. With a user-friendly interface and quick and easy access, the client may also transfer and receive documents in a simple, convenient manner without having to go to the branch. The correspondence with the client is documented in the CRM system and enables backup for providing service to the client.

- **Services in conjunction with the Ministry of Construction and Housing Assistance Programs**  
Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance programs, including location-based loans and contingent grants and loans for specific populations (such as: new immigrants, new immigrants from Ethiopia, disables persons etc.) In the loans area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing and Construction eligible participants, such as issuance of eligibility certificates. Note that Bank Mizrahi-Tefahot is a key player in eligibility loan origination, and thanks to the Bank's extensive branch network, it is accessible to those eligible for Ministry of Housing programs.

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## Customized products for the business sector, too

In the business sector, where financial management is complex, sensitive and requires rapid and efficient handling, the presence of a human personal banker is a highly important and valuable factor for business owners and results in an outstanding service experience.

Mizrahi-Tefahot's hybrid banking uses all of the digital channels in order to allow customers to have direct and available contact with their personal banker, who knows the business and its owner and provides an important professional anchor for them. Business bankers are available to customers through all communication channels and are managed under the unique Hybrid Banking umbrella.

In addition to the extensive professional infrastructure created by the Bank for the business sector and to professional business bankers determined to act in the client's best interest, the Bank has developed direct banking tools and customized products that provide added value for business customers:

- In 2016, the Bank was awarded, for the second time, a tender for extending loans guaranteed by the State – an attractive credit line that allows businesses to grow and develop. At the Bank, the business is also assisted by professional bankers all the way to the actual loan origination.
- In addition to unique and diverse deposits, that may be suitable for businesses, the Bank also presents a unique product called "Mortgage for Businesses", which helps the business owner in acquiring a property for their current operations, in lieu of leasing.
- The Bank also offers advanced solutions in the field of foreign trade, and even offers business customers the opportunity to study at a business college, in co-operation with the Israeli Management Center ("MIL").



## Dialog and listening – our way of understanding the needs of our customers

According to the Bank, personal, human banking means seeing the client and understanding their needs. The variety of platforms used by the Bank for regular communication with customers – including meetings, focus groups, conferences and surveys – allows the Bank to be successful, to be constantly kept current and to remain relevant to customers.

Bank Mizrahi-Tefahot is the only major bank that continues to open branches, expand its workforce, and provide personal, human service, so that dialog and direct communication between bankers and customers is maintained.

### Meeting in the living room

From time to time, the Bank conducts focus groups meetings with customers. Some of the focus groups apply NLP (or Neuro Linguistic Programming). In this methodology, the meeting with the audience simulates a casual living-room conversation, or a meeting without any barriers in a host home. This allows for an open, intimate conversation and an optimal connection with participants and removes any barriers. A Bank team is present at the meeting but does not take an active role – and only identifies as such and takes part in the conversation in the last part of the meeting. This methodology allows the creation of a direct link with consumers and customers in order to better understand their needs.

In 2017, 17 focus groups were held, 5 of them using NLP, attended by 100 customers.



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## Customer opinion surveys

The Group also contacts customers through surveys using text messages, product-related surveys and satisfaction surveys. Customers who are not satisfied are referred to the branch manager for handling. In 2017, 25,000 customers and potential customers took part in client surveys.

## Orienting ourselves to the online customer

In recent years, use of the Internet, social networks and blogs as a means of communication between customers and service providers has increased. Consequently, Bank Mizrahi-Tefahot and Bank Yahav offer a website and a Facebook page where answers may be found on various topics. The Bank invests significant effort in monitoring and responding to the discourse in cyberspace about its services in order to learn from client responses and to improve:

- **To better understand how customers view us** – a real-time reference to statements in various social networks that relate to Group activity help us gain insight about current or potential customers and how they perceive the Bank and the products and services it offers.
- **Improving learning processes** – The use of social networks requires the ability to debrief service situations, learn lessons and provide a service response within short time periods. Often, a quick response to a dis-satisfied client on the social network, after conducting a professional debrief, can significantly improve the client's feeling and trust. This understanding requires short, high-quality learning processes as well as the ability to maintain effective internal communications, that will provide an optimal solution for the client in the shortest possible time.
- **Insights into product innovation and feedback on current products and services** – The Internet is the largest, most effective focus and research group, since it reflects the "wisdom of the masses." Therefore, the Bank also uses it for assistance in the development process of new, innovative financial products and services and in improving existing ones.
- **Reviewing success of marketing campaigns** – Public responses and online discourse allow us to review the impact and success of marketing campaigns, in addition to regular surveys used to review effectiveness.



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## Business customers

In addition to regular contact and meetings of Corporate Division employees and managers, with customers, meetings and conferences for business customers are held in various regions and branches, to which Bank customers and potential customers are invited. The objective of these meetings is to provide enrichment in relevant content domains, to expose Bank products appropriate for the target audience and to allow attendees to network.

In 2017, a large conference was held for 1,000 current and potential customers in the business sector. In addition, 250 business owners participated in client conferences with regard to foreign trade. These conferences are intended for customers in the corporate sector and for customers in the business sector.

In addition, a conference was held for some 50 accountants and another conference for businesses from the Arab society was attended by more than 200 businesses.

The Bank also holds a series of business courses (on marketing and finance) as part of the Mizrahi-Tefahot "Business College", in cooperation with the Israeli Management Center ("MIL"); in 2017, these were attended by 80 business managers and owners. In 2017, the Bank also sponsored the main conferences of the CFO association.

## Keeping in touch

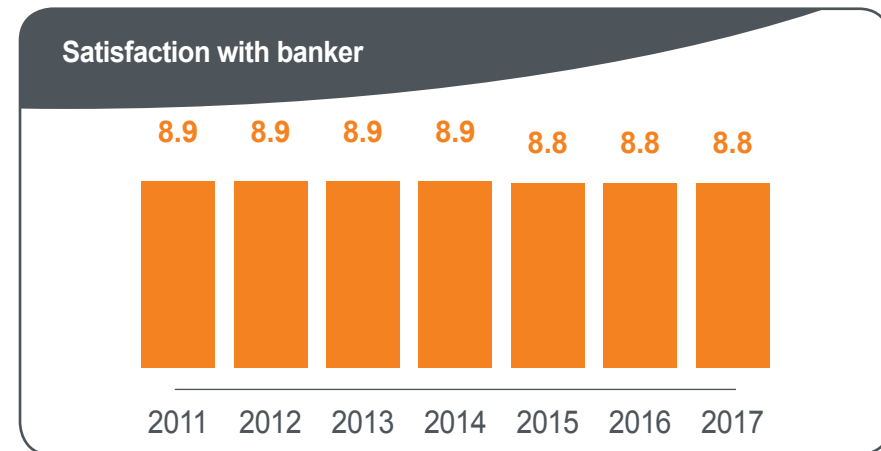
Through a dedicated online newsletter, the Bank regularly informs customers from various sectors, provides a quarterly macro-economic overview, offers a variety of new financial benefits and services, and keeps customers interested through various content articles.

## Customers satisfaction

### Satisfaction surveys

In order to assess client satisfaction and to maintain high client satisfaction, the Bank uses focus groups and conducts regular surveys, including satisfaction surveys, image surveys, interest surveys, client experience surveys with regard to the contract process and so forth. Based on findings from these surveys and focus groups, the Bank adapts its conduct vis-a-vis customers.

A client satisfaction survey conducted by the Brandman Institute for 2017 shows that client satisfaction with our bankers continues to be very high and stable over time. In 2017, too, satisfaction with bankers remained at 8.8:



In particular, the Bank is also rated high by its customers (8.5 out of 10) for the following:

- Bankers are happy to provide service
- Bankers at the branch treat you fairly
- Your banker listens to you





## Measurement and handling of customer inquiries

Client inquiries are an opportunity to reinforce and improve the relationship between the client and the Bank, while increasing trust and satisfaction. The Bank views client inquiries as a very important source for identifying cases in which a professional, high-quality solution was provided and as an opportunity to empower proper conduct. At the same time, this is a highly important source for improving service, correcting deficiencies and improving banking processes. Based on this understanding, the Bank has set itself the goal of optimally handling public inquiries.

Client inquiries are directly received by the Public Ombudsman Unit, through various entities at the Bank, through the Bank of Israel or through other external entities. The Ombudsman Unit is headed by the Ombudsman, reporting to the Bank's Chief Internal Auditor. The Ombudsman and their staff are responsible for objectively and impartially addressing any public complaint, for thoroughly reviewing it, and for quickly responding to the client. The Bank is committed to handling all inquiries according to the values in our Code of Ethics and our organizational culture, which highlights the values of reliability, integrity, fairness and transparency.

For each inquiry received by the Public Ombudsman Unit, feedback regarding its receipt is provided within two business days

A full, professional response is provided within 45 days from the date of receipt (except in exceptional cases, where an inquiry may be answered within 60 days)

The Bank transparently publishes information on public inquiries received during the year on the Bank website.

Inquiries received and handled by the Public Inquiries Unit in 2017:

- 75% of the inquiries received were complaints and 25% were requests
- Continued downward trend in the number of complaints received – in 2017 there was a further decline by 6% compared to 2016
- 99% of the inquiries received in 2017 (complaints and requests) were processed and closed



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## Inquiries were received on the following subjects: <sup>1</sup>

Subject	Percentage of total inquiries In 2017	Percentage of total inquiries in 2016
Methods of Payment	24%	17%
Housing loans	16%	21%
Current accounts (including overdraft accounts)	15%	15%
Quality of service	14%	16%
Loans (non-housing)	11%	11%
Other activity of the corporation	8%	10%
Deposits and savings	4%	4%
Foreign currency	3%	2%
Other	2%	1%
Securities	2%	1%
information	1%	2%

<sup>1</sup> Inquiry subjects classified in accordance with Bank of Israel Directive 308A

<sup>2</sup> Cases of "he said, she said", without established evidence, or cases in which there is no significance to determining a position, in order to provide client relief and resolve the issue

<sup>3</sup> Complaints relating to the branch failing to approve credit, benefits in commissions or debt settlement

## Complaint findings in 2017:

- 9% were found to be justified (10% in 2016)
- 63% were found to be unjustified (57% in 2016)
- 27% were concluded without a specified outcome <sup>2</sup>
- In 1% of the complaints it emerged that their subject was not under the unit's authority <sup>3</sup>

### Client complaints about accessibility

In 2017, the Group received 6 complaints about accessibility (1 at Mizrahi-Tefahot and 5 at Bank Yahav). All of these complaints were found to be unjustified.

### Complaints about breach of client privacy

In 2017, the Group received 9 complaints about breach of privacy (5 at Mizrahi-Tefahot and 4 at Bank Yahav). Of these, 2 complaints were found to be justified (1 at Mizrahi-Tefahot and 1 at Bank Yahav), which were addressed as needed in conformity with Group procedures.

### Client complaints regarding discrimination in service provision

In 2017, the Group received 13 complaints concerning discrimination (6 at Mizrahi-Tefahot and 7 at Bank Yahav). Of these, 1 complaint was found to be justified (at Bank Yahav, age-related), and was properly handled in conformity with Group procedures.



# Fairness and transparency towards customers



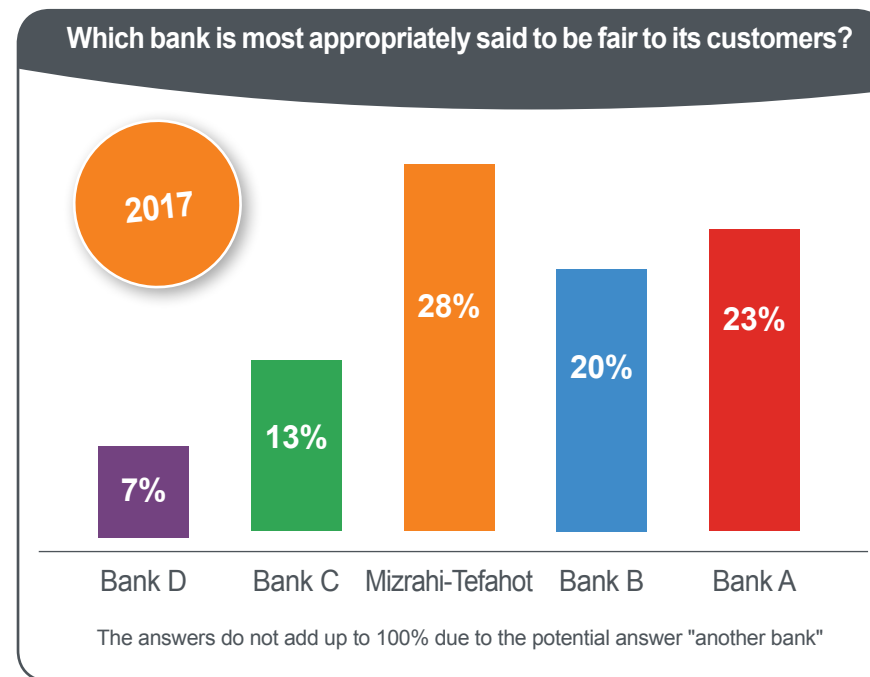
In 2005, after the merger of Bank HaMizrahi with Tefahot, the Bank set a clear goal: lead a new banking agenda. To this end, the Bank formed the “human banking vision” – whereby good banking service starts with professional, innovative banking which sees the client, understands the client and speaks to the client in their own language. Thus, the Bank's unique Hybrid Banking concept harnesses the global technological development in the world of banking to achieve an optimal combination of human and digital banking, allowing all customers direct access to their personal banker at the branch by using a range of communication channels.

The Bank maintains a fair relationship with customers, ensuring full transparency with regard to information which the Bank is required to provide to customers with regard to its services.

## Fairness and transparency

Fairness and transparency are fundamental values in the Bank's Code of Ethics and in the framework of its corporate social responsibility philosophy. A fair relationship with all stakeholders, and especially with customers who are at the center of business activity, is the basis for trust, mutual success and creating shared value.

A survey conducted among the general public <sup>1</sup>, shows that Mizrahi-Tefahot was perceived as the most fair bank in the banking system. These findings reflect the degree of public trust towards Bank Mizrahi-Tefahot.



In 2017, the Group received no fines nor warnings concerning non-compliance with voluntary regulations and codes with regard to providing information about financial products and services.

<sup>1</sup> A dedicated internet survey among 1,000 respondents aged 18-65, conducted once a quarter.



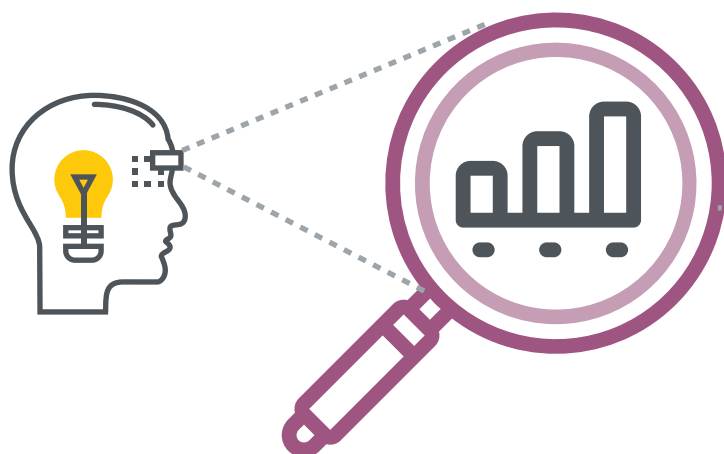


## Due disclosure

The perception of fairness and transparency towards customers is based, first and foremost, on providing all of the required information regarding financial products and services, in a clear and accessible manner, allowing the client to make the best decisions for them.

The Bank makes sure that agreements with customers comply with legal requirements and with directives of the Supervisor of Banks regarding proper disclosure. As part of the Internal Audit work plan, audits are also conducted of information with regard to various products and services offered to customers. These audits include sampling of client agreements. In case of any agreements that should be revised, including with regard to full disclosure and fees, this issue is reflected in the Audit Report.

The publication of marketing messages about products and services, as well as providing updates to existing customers, are made in accordance with Group values and provisions of the law and of the Supervisor of Banks, and include all of the information required in accordance with mandatory proper disclosure.



## Making the Bank ID accessible

In accordance with Bank of Israel directive 425, as from 2015 all individual customers receive a "bank ID", which lists information about all of their assets and liabilities at the Bank, total income and expenses during the year and a summary of activity in their current account. In late February 2017, the banking ID was sent to all customers – either to the mailbox in their Bank account or to their home address.

The bank places special emphasis on making the bank ID accessible to customers, and therefore a general explanatory sheet is attached with regard to its essence, together with a reminder of personal banking services – the name of the client's personal banker and the telephone number where he may be contacted.



## Diverse customers and segments

The Bank sees the great importance of approaching diverse customers and segments in Israeli society. As part of its policy on promoting client interests, the Bank strives to create products and services in response to various client needs. This is based on the understanding that different customers have different needs and on the desire to adapt for each client the products and services most appropriate for them. This is designed to allow anyone who so wishes to become a Bank client.

To this end, the Bank acts as follows:

- **Multiple languages** – The Bank strives to adapt its services for speakers of diverse languages, at branches and at service centers.
- **Diverse media** – The Bank approaches different segments in the population through media commonly used by each segment.

The Bank also acts to provide unique solutions for diverse segments:



### Arab sector

This is based on establishing a branch network in Arab and mixed-population towns and by translating banking and marketing content into Arabic.



### Jewish Orthodox sector

Adaptation of marketing messages for the Jewish Orthodox population, along with development of products relevant for this segment, based on life patterns and financial information of this population.



### Retirees

Adaptation of products and services and conducting specific activities for this population.



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## Speaking your language

As part of the policy to promote client interests and based on the understanding that the financial world addresses different audiences with diverse needs – the Bank offers service to customers in different languages:

- customers who call the different call centers can receive service in the language of their choice. If at the time of the call there is no banker available who speaks that language, the client is asked to leave their contact information to get a call back.
- The investment center offers a customized investment service to customers in Arabic, Russian, French, Spanish and English. Moreover, the center supports international private banking customers, allowing them to receive banking services in the language of their choice.
- The Mortgage Center includes bankers who speak foreign languages, who provide a response and who act as a gateway to the Bank for foreign residents who are interested in buying property and obtaining a mortgage in Israel. The foreign resident desk provides answers in English, French and Spanish.



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## Diverse channels for provision of banking service

Although the bankers in the branches are the main communication channel with customers, the Group also maintains other channels, including: call centers, email for inquiries, dedicated websites, apps, social media, conferences and workshops.

At the end of 2017, Bank customers receive banking services through diverse key channels, under the unique Hybrid Banking method – whereby each client has a banker at the branch, but may also elect to receive service through various online channels. Hybrid Banking is an optimal combination of personal and digital banking, allowing all customers direct access to their personal banker at the branch by using a range of communication channels. This unique, innovative service concept puts to use technological advances in the banking world, to create an immediate, direct link between the client and their personal banker at the branch. This concept is also applied to the mortgage segment.

## Online communication channels

- **Bank Mizrahi-Tefahot transaction website**  
a technologically advanced, functional and professional website that combines means to contact a personal, human and professional banker. The website allows you to receive information and conduct various banking transactions yourself, to contact a banker, advisor or the investment center, as necessary.

In 2017 we also added tools to the transaction website, according to needs arising from customers using the website and to feedback we received from them. These tools and additions include the following:

- Increasing the limits for transfers made on the website
- Adding an option to make deposits to provident funds through the website
- Adding an option to conduct transfers according to signatory rights, for customers with signatory composition specified in their account
- Extending the time range for displaying balances and transactions in the account – from 6 months to 9 months

### Tefahot's transaction website

For mortgages, as well, the Bank operates a website offering significant content and added value to its users. The website offers mortgage customers at the Bank extensive information about their mortgage, as well as diverse information about the property environs, based on co-operation with the MADLAN content website. Customers with a checking account and a mortgage from Mizrahi-Tefahot can see their entire finances on a single website.

### Tefahot's marketing website

In addition to the transaction website, the marketing website provides extensive information about real estate, including property comparison, information about the neighborhood, chat with an expert, unique content wizard, extensive content from Tefahot experts, financing options and comparison tools.



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- **Capital market website**  
The website provides extensive, current information about financial assets and has been upgraded so as to allow customers to efficiently conduct transactions on their own – along with an option to contact a banker or advisor. The website is a unique, innovative venue, customized for needs of retail customers as well as professional customers – who trade on the capital market. The website offers a wide range of innovative tools that support client activity in the capital market, and was awarded first prize in the Client Experience category of the WEBI 2015 competition held by "People and Computers" magazine, the most prestigious competition in the Israeli internet arena.

- **The Mizrahi-Tefahot club website**  
The "Card" club – This website offers club members all the information about club activities and provides quick and convenient access to the relevant offers and benefits of their choice.

- **Mizrahi-Tefahot app**  
The app allows customers to manage their account using their cell phone from anywhere, to obtain information and to conduct a range of transactions on their cell phone, with no need to visit the branch nor to use the PC. This app also has an option to correspond with a banker or investment advisor.

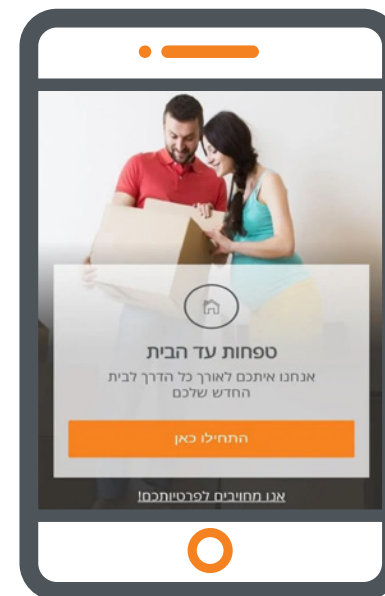
In 2017, the app was upgraded and the range of transactions that can be performed through the app was expanded. The following services are now also available:

- Quickly contact a banker or investment advisor, by call or message
- Increase the limits for transfers made using the app
- A new option to perform a multi-signature transfer
- A new option to deposit checks from any bank

- **"Tefahot to Home" app**  
The most advanced mortgage app in Israel allows you to design a plan to finance the purchase of a property, providing practical tools and

extensive information about the surroundings, in cooperation with the MADLAN website. Users may also use the app to correspond with a personal banker, a mortgage specialist available to answer any question and to resolve any doubt with regard to the mortgage process.

- **Capital market app**  
This app rounds up the trading experience and provides maximum convenience to our customers who are active in the capital market. The app is dedicated to the capital market, which allows customers to benefit from the online usage experience and use of decision-support tools customized for a mobile device. This app provides extensive information about the market and about securities from Israel or from overseas, in addition to the client's own information, listing instructions given and carried out for both buy and sell transactions, as well as correspondence with their personal banker and with their investment advisor.



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## Other channels for obtaining information from the Bank and for conducting transactions

In addition to the channels described above, Bank customers also have the following options:

- Conduct transactions without a representative, using IVR by telephone, 24 hours a day
- Receiving notifications of account activity in a personal notification mailbox via the Bank website
- Receiving real-time updates via cell phone
- Direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions on your home PC.
- Receiving current banking information by fax about the client account on a range of subjects, at the frequency specified by the client.
- Receive updates on the progress of the mortgage application process at any time, by email and SMS, through the GPS Tefahot service
- Chat with mortgage banker and investment banker
- Correspond with a banker using the message box



## A unique solution for diverse demographics

The Bank defined Arab society, the Jewish Orthodox sector and retirees as strategic demographics in which the Bank wishes to grow over time and with which the Bank would like to intensify contact. This is based on the understanding that these demographics have social and cultural attributes, as well as unique financial needs that require a custom response in order to bring about their true integration into Israeli society.



### Arab society

The Bank is expanding its business activity in Arab society, according to a long-term plan by opening new branches and expanding activity in existing ones. The Bank is also focusing its marketing message on diverse media channels and presenting publications throughout the year, led by the designated brand ambassador.

Furthermore, in 2017, the Bank incorporated special activities designated for Arab society as part of the "Let us meet at Mizrahi-Tefahot" program, adapting the content and speakers to the target audience. In this context, 11 activities took place at Umm al-Fahm, Kafr Qasem, Kafr Yasif and Akko.



### Jewish Orthodox sector

The Bank intensifies its ties with the Jewish Orthodox community, both by opening new branches and by expanding activity in the existing ones. The Bank specifically addresses this segment through specific media, by adapting the language of the marketing messages. Thus, the marketing language is adapted for the needs and values of this segment. This segment has been addressed through a range of channels, such as Orthodox press, radio, online and mobile websites, billboards and posters in cities identified with this segment.

The Bank also continued to include activities focused on the Jewish Orthodox sector in its "Let us meet at Mizrahi-Tefahot" program, with content and speakers customized for this segment's needs. In this context, in 2017 we conducted 12 activities at the Tarfon and Geula branches in Jerusalem, as well as mortgage workshops customized for this segment held at Beit Shemesh, Ashdod, Jerusalem, Safed, Modi'in Illit and Nesher..



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## Retirees

In 2017, as part of the plan to expand activity among retirees, the Bank used multiple channels in order to expand its unique offering of products and services for this audience:

- Communications about services and products designated for retirees, such as "Cherry Deposits" – where the client receives current monthly income to supplement their pension payout. The Bank also offers a pension advisory service adapted for retiree customers and their needs, provided by expert advisors.
- Expanding the activities of "Let us meet" and launching "Let us meet – Sixties" – a series of meetings and lectures dedicated to retirees. The "Let us meet – Sixties" activity was put in place as part of the Bank's strategy focusing on personal, human contact, in order to provide a high-quality solution to free time available to this demographic. These activities include custom content designed for retirees, such as: "How to be happy after 60 in the 21st century", "Correct nutrition", "Physical activity and health at retirement and their inter-relationship", and "Changes and transitions – making a successful career at any age". In addition to these lectures and content, participants were also given short presentations on relevant financial fields such as savings, capital market and pension. All lectures were open to the public, free of charge.



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# Accessibility for persons with disabilities



The Bank strives to make its services accessible for persons with disabilities, thus allowing anyone who so wishes to become a Bank client.

The Bank is made accessible on these key levels:

**Making facilities physically accessible** – In this regard, the Bank acts to make branches, ATMs, service stations and its website accessible for customers, so as to allow persons with disabilities to also conveniently use these.

**Making banking services accessible** – The Bank acts to make banking services accessible, in conformity with the Equal Rights to Disabled Persons Act.

## Making banking services accessible for disabled persons

Recognizing the importance of this issue, the Group emphasizes making services accessible for all its customers. Bank Mizrahi-Tefahot and Bank Yahav implement the Equal Rights for People with Disabilities Act, ensuring that buildings, infrastructure and environment are made accessible, and that the service provided to the public is made accessible in order to allow people with disabilities to conveniently use such service.

The subject of accessibility is managed at the Bank by an Accessibility Coordinator, who was duly certified.

- Making branches accessible**  
 as of the end of 2017, 95% of Bank Mizrahi-Tefahot branches and 100% of Bank Yahav branches are accessible to people with disabilities, in terms of building and related accessories.  
 All remaining Bank branches will be made accessible by end of 2018, in coordination with the Equal Opportunity Commission of the Ministry of Economy.

- Making ATMs accessible**  
 as of the end of 2017, 80% of Bank Mizrahi-Tefahot ATMs and 94% of Bank Yahav ATMs are accessible to people with disabilities, in terms of device height.



- Making service stations accessible**  
 The Group is promoting several initiatives to improve accessibility of service stations in operation throughout Israel. Thus, for example, the new service stations at the Bank are positioned at an appropriate height, allowing a person in a wheel chair to use the service station. All Bank Yahav service stations include accessibility software.  
 Other adaptations would be completed in conformity with regulations of the Equal Rights to Disabled Persons Act.

- Accessible service at branches and centers**  
 Group employees and managers undergo specialized training concerning providing accessible service. In 2017, we delivered 1,710 training hours to 1,632 employees and 215 managers.

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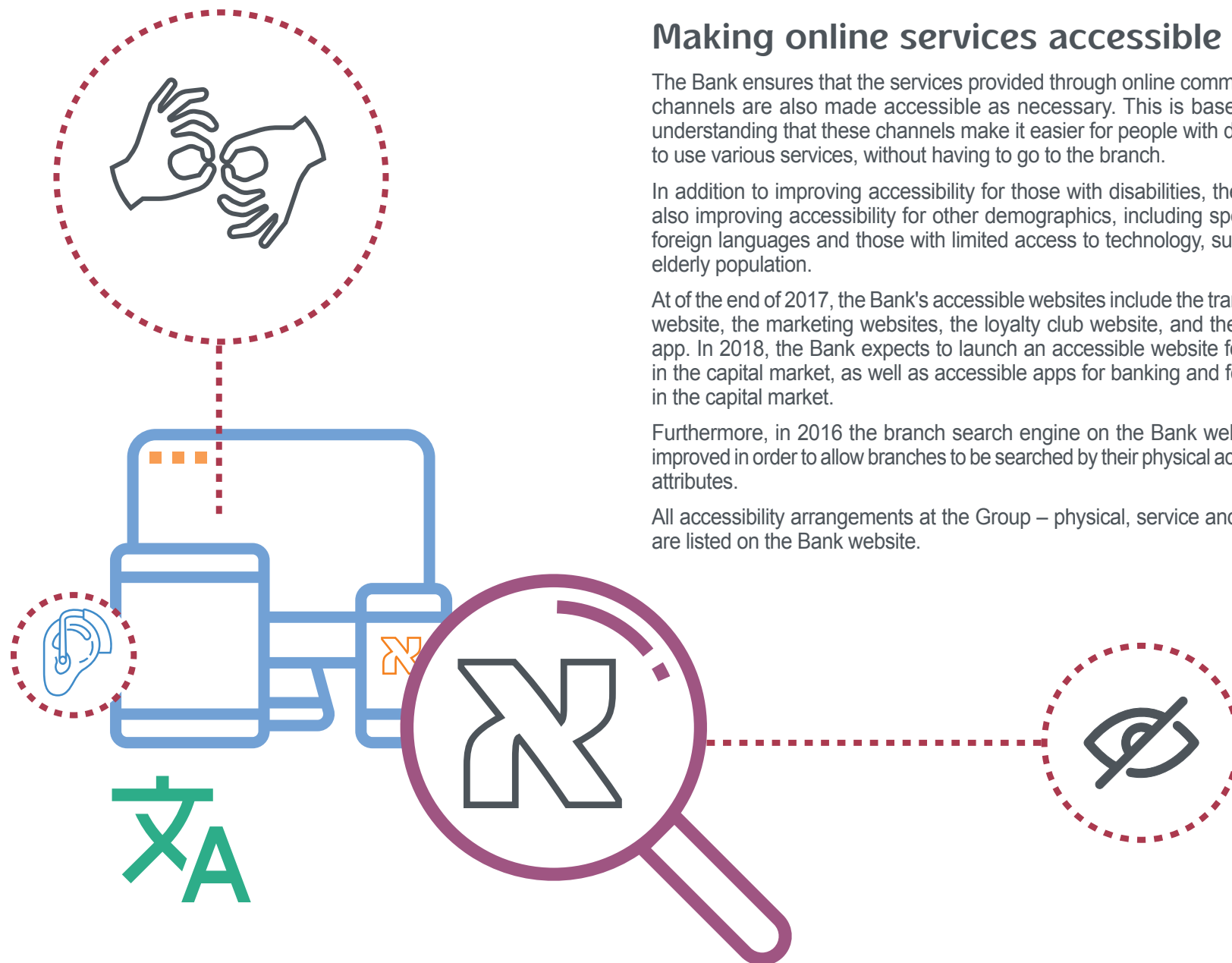
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## Making online services accessible

The Bank ensures that the services provided through online communication channels are also made accessible as necessary. This is based on the understanding that these channels make it easier for people with disabilities to use various services, without having to go to the branch.

In addition to improving accessibility for those with disabilities, the Bank is also improving accessibility for other demographics, including speakers of foreign languages and those with limited access to technology, such as the elderly population.

At the end of 2017, the Bank's accessible websites include the transactions website, the marketing websites, the loyalty club website, and the banking app. In 2018, the Bank expects to launch an accessible website for trading in the capital market, as well as accessible apps for banking and for trading in the capital market.

Furthermore, in 2016 the branch search engine on the Bank website was improved in order to allow branches to be searched by their physical accessibility attributes.

All accessibility arrangements at the Group – physical, service and online – are listed on the Bank website.





# Empowering disadvantaged demographics and assisting customers in crisis



The Bank is committed to supporting disadvantaged populations in Israel. This is due to the Bank being part of Israeli society and because some Bank customers come from these populations. In this context, the Bank strives to help these populations through several major channels:

- **Supporting disadvantaged populations**  
The Bank provides support for disadvantaged populations in Israeli society, including debtors, women staying in shelters for abused women and population in need, both directly and through organizations that work with these populations.
- **Respectful service for customers in crisis**  
The Bank provides respectful, sensitive service to customers who face difficulties.

## Assisting disadvantaged demographics

### Assistance for abused women

The Bank has joined an inter-bank covenant launched by the Banking Association in co-operation with the Bank of Israel, to facilitate dealing with financial issues for abused women staying in shelters and in temporary housing. The purpose of this covenant is to assist women who reside in shelters for abused women, both through a special contact person who is available to help these women and through agreement in principle, subject to certain conditions, to delay legal proceedings against these women.

In 2017, the Bank received 8 applications from women staying in such shelters – and these applications were handled by the special contact person.

### Retaining interest for Holocaust survivors who receive reparations

A plan for retaining a uniform, attractive interest rate for customers (Holocaust survivors who receive reparations) and allowing such deposits to be renewed indefinitely, as opposed to other products where renewal is limited.

### Deposits of migrant foreign workers

The Bank has been awarded a tender by the Israeli Government to provide deposit services for migrant foreign workers. As part of the service, the deposits transferred by the employer for the foreign worker are accrued by the Bank through termination of their employment. When the employee has terminated their employment in Israel, they get the deposit balance as requested by them (in cash or by wire transfer to their account overseas).



## Assistance for customers in crisis

It is Bank policy to provide considerate service, understanding of the client's situation, especially in cases of financial hardship and in times of crisis. The Special customers Sector of the Business Division, tasked with handling client debt collection and managing controlled accounts, acts in conformity with this policy and meticulously provides respectful, sensitive service to customers in times of crisis.

The Bank makes significant effort to agree with customers in debt on arrangements that they can comply with.

In order to promote agreements with debtors, representatives of the Special Client Sector and attorneys representing the Bank meet with customers, conduct joint campaigns with the Enforcement and Collection Authority and review applications for agreements from both customers and relief organizations. This was in addition to the Bank's constant contact with organizations providing assistance, including Pa'amoni and Yadid, who assist customers in debt.

Moreover, in order to offer the client liquidity and security, the Bank offers customers with liquidity issues a bridging loan secured by deposits at the Bank, for a term of 3 months or longer.

### **Cooperation with the Civil Law Legal Aid Clinic at Bar Ilan University –**

The clinic provides legal assistance to debtors facing hardship in areas of Civil Law, including debt arrangements and enforcement. In the past 3 years, students from the Clinic have been visiting the Mortgage Center for study visits to get an impression of and learn about the Bank's soft collection approach and to include it in their activity.



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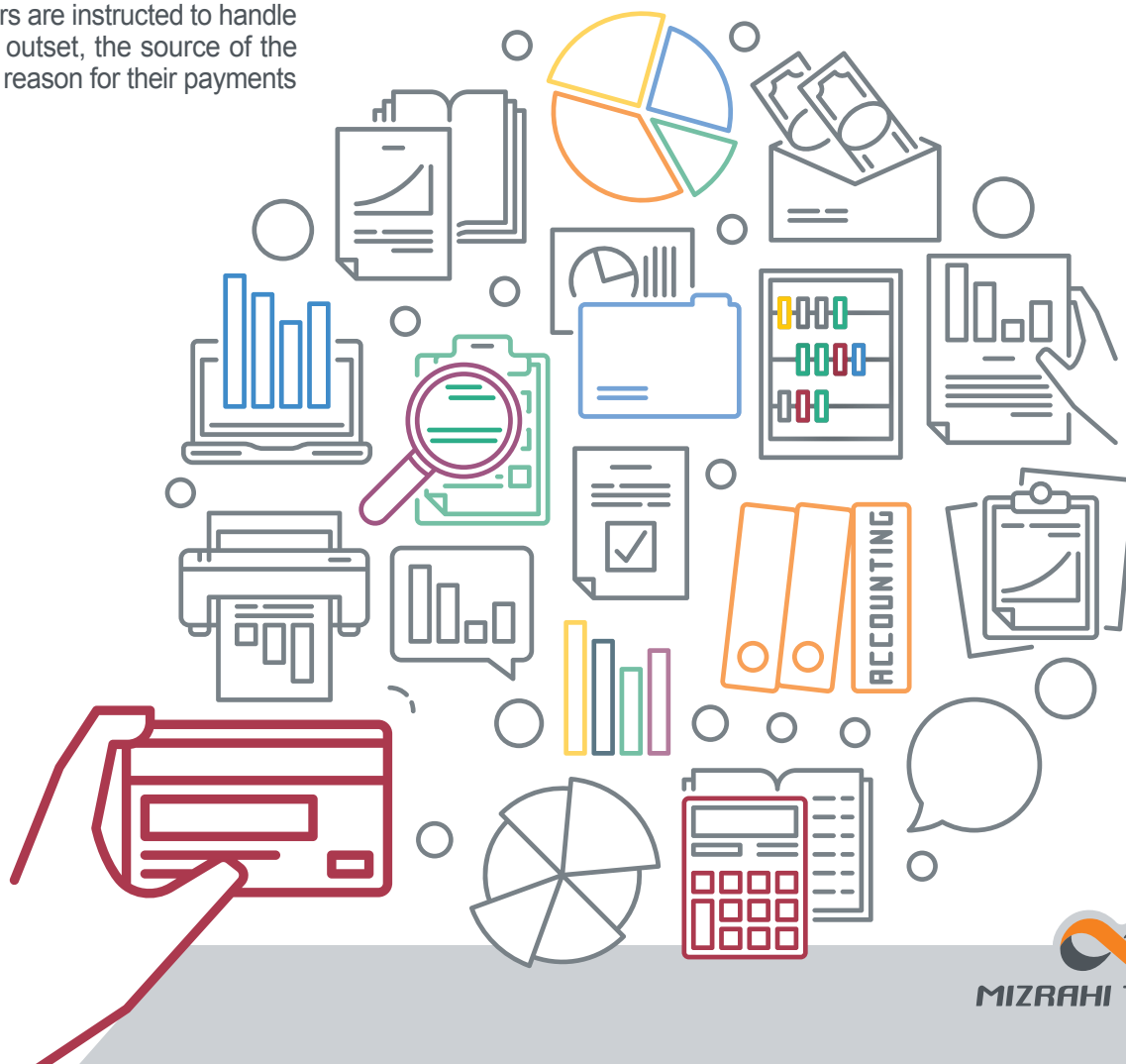
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## Collection Center

As a rule, a client in debt or in arrears, is approached by the Bank's Collection Center, even before being transferred to the Special Client Sector for processing. Bankers at the Collection Center are extensively trained in aiding customers who face challenges in meeting their obligations, in order to reach agreement with the Bank, in line with their capacity, to eliminate their debt and to return customers to the regular repayment schedule.

These arrangements are made judiciously and are personalized for each and every client, in order to resolve the difficulties which borrowers are currently facing. As part of their collection efforts, the bankers are instructed to handle customers with empathy and to discover, at the outset, the source of the hardship which the client is facing and what is the reason for their payments being in arrears.

Thus, as for mortgages, out of all cases of payments in arrears sent to the Collection Center in 2017 (20 thousand new cases of arrears), only 1.5% were referred to legal proceedings. All of the other cases handled by the Collection Center resolved their debt and resumed their payments in good standing or continue to be handled by the Collection Center, most of them with active arrangements in place and a high level of compliance with such arrangements.



# Development of environmental and social products



The Bank recognizes the importance of identifying risk and opportunities facing the Bank and provides loans for development, construction or launching of products with a positive environmental and social impact.

## ● Providing loans for development, construction or launching of environmental products

The Bank is committed to promoting environmental issues and therefore assists by providing loans for development of new technologies for generating, including to customers seeking to construct solar energy generation plants.

## ● Providing loans for development, construction or launching of social products

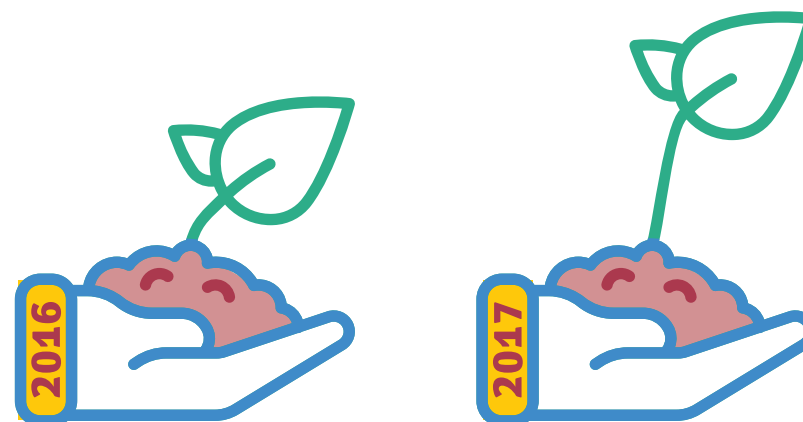
The Bank, being a major financial institution, is aware of its accountability for economic stability and growth and supports small businesses through various funds which promote social or business goals in outlying areas and through support and promotion for social businesses.

# Environmental lending

The Bank acts to promote environmental loans to Bank customers in these areas:

## ● Promoting credit for development of energy sources

In 2017, credit was approved for green energy – renewable energy, energy generated from renewable sources as well as financing for co-generation facilities. Use of such energy reduces environmental pollution. Loans approved in 2017 amounted to NIS 448 million; in 2016 – NIS 445 million.



## ● Incorporation of environmental considerations in extending loans to companies with environmental implications

The Bank has an environmental risk management policy in place, as part of the approval of credit policy documents. The Bank's policy documents include dedicated environmental risks policies, including methodology for identification, assessment and handling of environmental risk.



## Social lending

The Bank acts to promote social lending to its customers in several areas; in 2017, the Bank provided NIS 646 million to promote social causes as follows:

- Loans to small businesses: "The Northern-Southern Fund"**  
 The Bank promotes small and medium businesses in the Northern and Southern regions, by turning these regions into attraction hubs, by creating employment, increasing revenues and improving quality of life.  
 To this end, the Bank allocated through 2017 loans amounting to NIS 813 million, of which NIS 85 million in 2017 alone, compared to NIS 56 million in 2016.
- Government-backed fund for small and medium businesses**  
 Since 2012, the Bank has been active in the Government-backed fund for small and medium businesses. In 2016, the Bank was awarded the new tender conducted by the Government and started providing such loans as from May 2016.  
 To this end, the Bank allocated through 2017 loans amounting to NIS 3.079 billion, of which NIS 544 million in 2017 alone, compared to NIS 549 million in 2016. In the fund launched in 2016 in accordance with tender requirements, the Bank's share of loans provided is 60% in a financial partnership with institutional entities that provides the loans.
- Loans in cooperation with IVN Yozma Fund**  
 The Bank provides loans jointly with the Fund, which focuses on the development, investment and support for social businesses that focus on vocational training and employment for youth and youngsters at risk, people with special needs, paroled prisoners, the elderly and single-parent families. As part of this partnership, the Bank resolved to lend NIS 1 million over 10 years, starting in 2017.



### Social investments by US affiliate

In 2017, the Los Angeles branch invested NIS 17.5 million (USD 5.04 million) in dedicated funds which provide mortgages to the disadvantaged and loans to small businesses in the USA.



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MIZRAHI TEFAHOT



# Information security and maintaining information privacy

The Bank sees great importance in information security and in maintaining the privacy of client information. To this end, the Bank has specified its information security and cyber strategy and policy, which have been approved by Bank management and by the Board of Directors, in line with Bank of Israel requirements. This policy includes the commitment by Bank management with regard to ensuring the availability, privacy, integrity and reliability of information systems and assets of the Bank and its customers, with emphasis on maintaining client information privacy and banking confidentiality. The Bank's outsourcing policy ensures that where the Bank has elected to conduct business with customers through a third party (outsourcing), the supplier ensures information privacy, as stipulated by Bank policy.

This is managed by the Bank as follows:

- **Risk mapping**  
The Bank regularly conducts mapping, analysis, management and assessment of all risk factors facing the Bank.

- **Risks management and mitigation**  
In conformity with the current risk mapping, the Bank implements processes and technology to hedge and mitigate risk.
- **Control**  
The Bank applies control processes in order to identify any gaps in implementation of the tools and processes specified.

Information security is managed by the Risk Control Division, together with the Technology Division.



The Risk Control Division specifies policy and requirements on different topics, directs the various units and provides approval and control services with regard to information security.

The Technology Division deploys and operates lines of defense and technology based on the policy and requirements specified at the Bank and the Division. They are also responsible for monitoring, identification and avoidance of any deviation from such policy and requirements.

The Hybrid Banking sector of the Bank is certified under the information security management standard ISO 27001.



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# Taking no risk – protection circles for safeguarding information

Our customers entrust us to not only their money, but also significant financial and personal information. In today's technological reality, given threats such as digital fraud and cyber-crime, the Group acts extensively to safeguard information. Among the steps that can be disclosed, we apply the following:

- **Risk management**  
Risk assessment for systems and processes, including monitoring of sensitivity transactions, information analysis and processing, identification of anomalies, response and control.
- **Addressing cyber threats**  
developing and using advanced technological capabilities to deal with cyber threats, including cyber-crime. The Bank, inter alia, monitors client activity in the various channels, in order to identify and prevent un-authorized use of client accounts, informing the client if any such use has been identified.

- **Confidentiality and privacy**  
Access to client information is controlled and allowed based on policies specified for this matter. There is also strict adherence to procedures regarding safeguarding the privacy of client information and banking confidentiality, with regular control and enforcement.
  - **Awareness and education**  
Regular activity to enhance awareness of Group employees and managers of risk associated with the Internet and with social media. In this context, training is delivered to new employees, lectures are delivered to managers and information security and cyber security flashes are disseminated, discussing different events in Israel and overseas. This is designed to enhance awareness of events and to underline the personal responsibilities of all employees and managers for safeguarding client information privacy.
- In 2017, we delivered 2,814 training hours on information security, to 1,600 employees and managers.**



### Securing transactions in direct channels

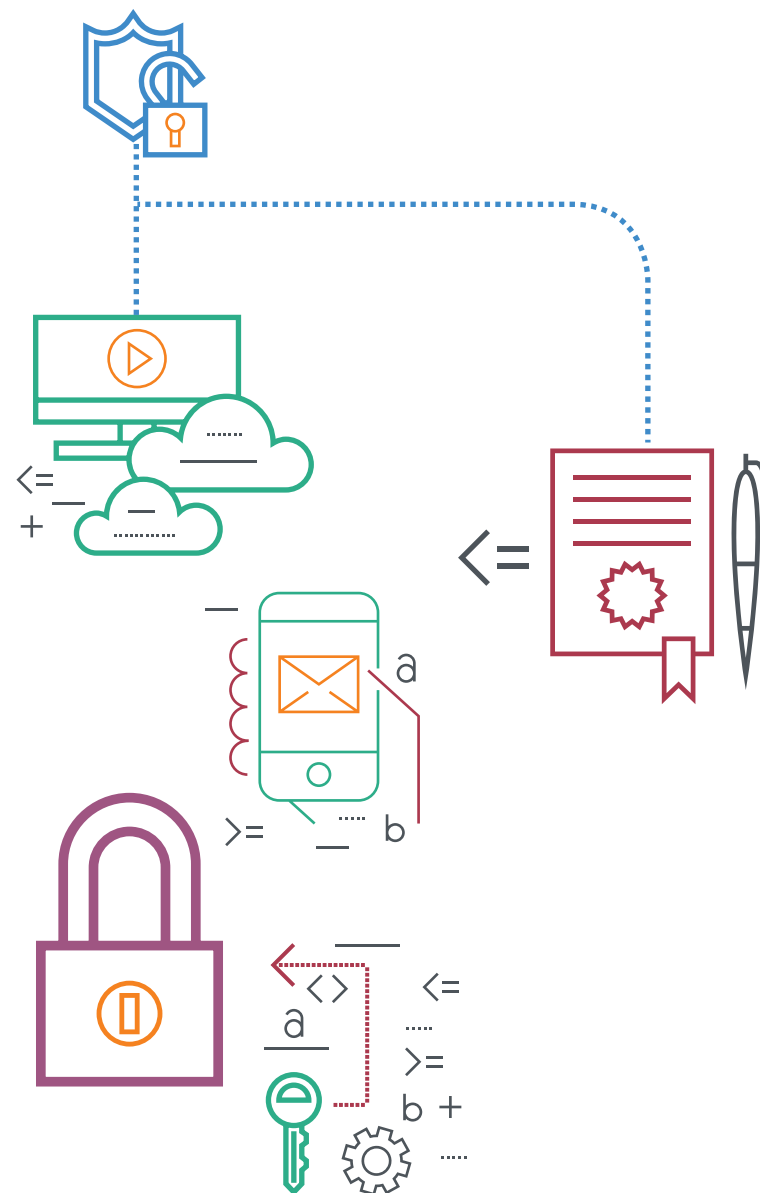
As described, we maintain diverse communication channels with our customers, including through a mobile app, various websites, e-mail and SMS messages. When signing up for one of these channels, customers are instructed how they should act to optimally safeguard their privacy and their information. Moreover, client authentication and verification processes have been defined for any contact through one of these channels.

Commencing in January 2017, the Bank began to manage communications in various channels, in conformity with Proper Conduct of Banking Business Directive No. 367, which governs activities of banking corporations when providing online banking services to customers. The Bank also implemented multiple measures to reinforce authentication, to identify anomalies, and to ensure stronger protection for client activity and for Bank business. This activity will continue to expand in 2018.

Customers who wish to open a bank account with Mizrahi-Tefahot directly via the Internet can now do so, in conformity with approval granted by the Bank of Israel in 2015. In order to overcome the need to go to the Bank for physical identification, the Bank of Israel has authorized client identification by video call with a banker. We make sure that customers who open an account via the Internet would have an optimal user experience, without compromising on strict information security and safeguarding client privacy.

### We also check suppliers

our suppliers who are exposed to internal information, especially those exposed to information about our customers, are committed to maintain strict information security measures, designed to provide good security for such information. As part of the risk control and management processes of suppliers, the Bank conducts rigorous checks and surveys with regard to information security at suppliers' premises, so as to ensure that the required security level is maintained.



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## Responsible marketing and advertising

The Bank ensures respectful, non-abusive marketing messages, in conformity with statutory provisions and with Proper Banking Conduct Directives of the Bank of Israel.

The Bank adheres to clear standards with regard to marketing communications, advertising, sales promotion and sponsorship. These standards form part of marketing procedures and are reviewed in each campaign and on regular basis, annually or more often as required. In conformity with marketing procedures, all messages made public on behalf of the Bank are in compliance with legal requirements and with these principles:

- **Avoiding contentious issues in Israeli society**

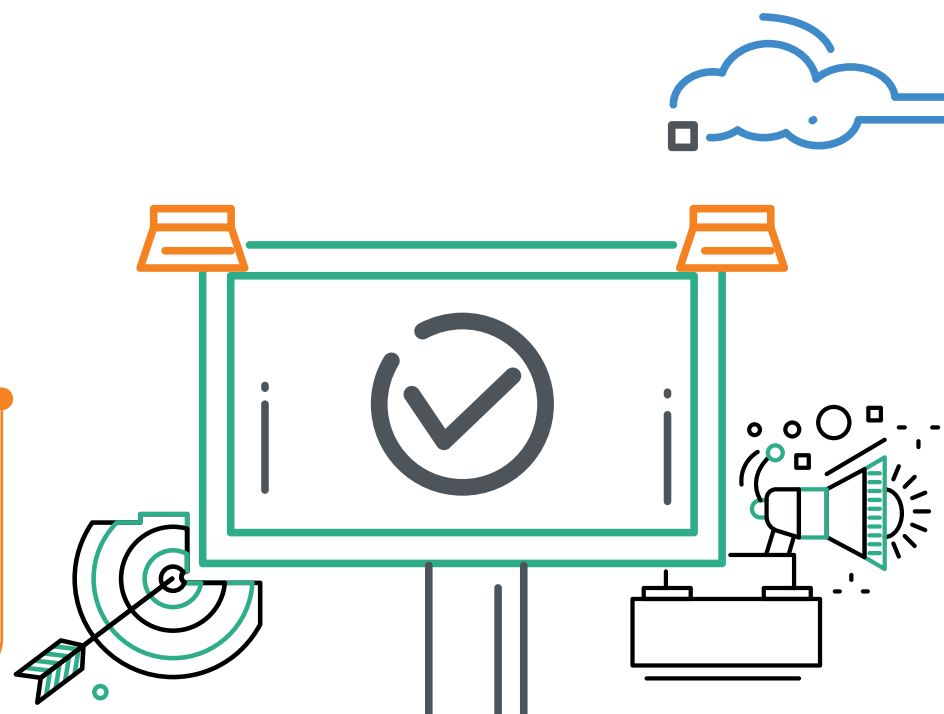
- **Respectful, non-abusive advertising**

The Bank adapts its messages for various segments of the population, so as to align with their norms and cultural values. These messages reflect the Bank's guiding principles for its current operations – reliability, loyalty, maintaining human dignity, professional integrity and commitment to the customers.

The Group's marketing activity is characterized by messages conveyed to the public at large. As a leading market player, we engage in marketing and advertising – both to potential customers and to existing customers – strictly in adherence to statutory requirements and in compliance with mandatory full disclosure, respecting the demographics in the Israeli population and their culture.

The Group ensures that its advertising adheres to the rules of ethics rules of the Second Broadcasting Authority.

In 2017, there were no recorded events of non-compliance with regulation or code with regard to marketing communications.



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# Targets

## Achievements of 2017

Target	Status
Expand operations in the Arab and Jewish Orthodox sectors, by opening new branches dedicated to these population segments	Deferred To be carried out in 2018
Adapt products and services to retirees, through conferences and products addressed to this population segment	Done
Add points of sale: Open 4 new points of sale	Mostly done 3 new points were opened.
Accessibility – complete making all Group branches and websites accessible by end of 2017	Mostly done To be completed in 2018
Further deploy the topic of accessibility among Group employees through dedicated training	Done
Continue to maintain high level of satisfaction of Group customers	Done
Continue to provide optimal service handling customers complaints, while adhering to the values of fairness in Bank treatment of the customers	Done
Continue to conduct business customers conferences	Done
Continue activity as part of courses at the Small Business College	Done
Further assistance to be provided by the Bank to businesses and organizations which promote social causes	Done
Increase activities of "Let us meet at Mizrahi-Tefahot" by 5% and expand activities for specific segments – Jewish Orthodox, Arab and retirees	Done



## Targets for 2018

- Continued expansion of the service: Open 3 new branches
- Continued expansion of activity in the Arab and Jewish Orthodox sectors by opening new designated branches and expanding existing services
- Continue to conduct business customer conferences
- Maintain high level of satisfaction among Group customers
- Continue to provide optimal service handling customer complaints with fair treatment of customers by the Bank
- Continue activity as part of courses at the Small Business College
- Expand the activities of "Let us meet at Mizrahi-Tefahot" to specific sectors: the Arab society, the Jewish Orthodox sector, retirees ("Let us meet – Sixties") and businesses
- Continue delivery of mortgage workshops and activities targeted at the Jewish Orthodox sector
- Continue delivery of meetings for the business sector and for companies, with our foreign trade experts







# Investing in the community



MIZRAHI TEFAHOT

2,400

Participate in the "NOAR LATET" educational program for social entrepreneurship, sponsored by the Bank



60,000

students participated in "Green Light" road safety training sessions, sponsored by the Bank, in 200 schools nation-wide

14.7 million NIS

Total investment in social and community activities by the Group in 2017  
3% growth compared to 2016



**ZAZIM**

64 out of 300 projects  
Were selected to receive bank support as part of the "ZAZIM" project



99%

of Bank suppliers are local

83

Students received scholarships

Over 500 participants

In 14 workshops  
On mortgages,  
for the public at large  
Providing tools to select  
the most appropriate track



28,834  
hours of volunteering  
in the community

Invested by Group employees  
In 171 organizations,  
projects and community  
and social ventures

## Investing in the community Overview

125

Bank branches & headquarters units  
Adopt social organizations and institutions in their local communities



190,000 NIS

Total purchasing from social NGOs in 2017, by the Bank and its employees

400

employees and their families ran the Jerusalem marathon in cooperation with the Israel Cancer Association

10,000 students

Study Hebrew as part of the "Ivrit B'Salam - Spoken Hebrew" project



Continue to meet at Mizrahi-Tefahot

157 "Let us meet" events at 25 branches  
Of which - 30 about financial topics



MIZRAHI TEFAHOT



# Impact on Israeli society through involvement and volunteer work

As a business entity whose business relies on the community in which it operates, the Bank is committed to be involved with and to invest in the community. The Bank is working to realize its community involvement in a manner that expresses its strength, engages the Bank's employees in active volunteer activity and leverages its physical, financial and human abilities and resources. These matters are handled at the Bank by the Mizrahi-Tefahot in the Community unit of the Organizational Development and Training Department of the Human Resources and Administration Division.

The Bank's community engagement is carried out accompanied by a constant dialog and realization of broad initiatives with community partners throughout Israel, engagement of employees and managers, geographic and other diversification of activities utilizing the Bank's nation-wide presence, through partnerships and with



internal and external communication of the Bank's community involvement.

The Bank is primarily focused on two specific social areas, to which it funnels most of the charitable donation and volunteer activity by the Bank and its employees:

1. **Promoting disadvantaged children and youth;**
2. **Supporting NGOs and businesses who promote social causes or employ persons with special needs.**

The Bank's involvement in these areas is reflected by various activities:

- **Involvement of employees and their families in the community** – contribution to the community has become a key objective for Bank employees, and management provides incentives to employees to participate in this activity.
- **Involvement in broad projects to help youth at risk and persons with disabilities** – The Bank and its employees are involved in projects which empower youth at risk and promote volunteer activities with youth – as well as in projects which assist NGOs that employ persons with special needs.
- **Investment in financial education** – supporting and increasing financial awareness among youth, customers and the public at large.

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- **Including stakeholders in community involvement** – The Bank sees great importance in including its customers in community activities, by including them in decision making on targets for charitable donations by the Bank to NGOs and by including them in various projects initiated by the Bank, such as collection of medications, participating in runs etc.
- **Investment through charitable donations, sponsorship and equipment** – The Bank donates furniture, electric appliances and PCs to various NGOs, after reviewing their compliance with rules for proper management.

## Adoptive units

Some 125 Bank branches and headquarters units adopt social organizations in their towns that act on behalf of children and youth at risk. This includes regular activities to provide assistance and mentoring by volunteer employees, holding social events, unique activities in advance of holidays, using creative craft kits sent by "Mizrahi-Tefahot in the Community" and centralized activities for children well-being in various regions all across Israel.



## Involvement in projects to promote and empower children and youth

As part of Group policy to invest in promoting children and youth, the Bank takes part in various projects that focus on the following issues:

### 1. Promoting social issues and encouraging youth involvement in the community –

- **"ZAZIM" – youth movements for the community** – The objective of this project, in co-operation with the Youth Movement Council, is to encourage youth movement participants to volunteer for society and their community. In this project, which was started in 2012, youngsters submit proposals for involvement projects in community work, which would be supported by the Bank. Out of 300 proposals submitted in 2017, the Bank selected 64 projects to support. Bank employees take part in the selected projects – providing advice and assistance in implementation for selected projects as part of their community volunteering.

In 2016, Superbrands awarded the Pola Moses Community Contribution Award to the Bank's ZAZIM project.

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- **"LATET Youth"** – Since 2012, the Bank has partnered in an educational program for social entrepreneurship, volunteer work and empowerment of youth, in co-operation with the NGO named LATET. As part of the program, Bank employees advise and assist youth, who initiate and operate social projects for the benefit of the communities in which they live. In 2016-2017, program activities took place in 32 towns around Israel, and 2,400 youths from different demographics in Israeli society took part in 144 groups:

- 30% are youth at risk
- 4% are special education groups
- 5% are Muslim youth (including Bedouin)
- 40% are Druze youth



- **Community Leadership Development Center in Akko** – The Bank sponsored, for the second year, creation of the Community Leadership Development Center in Akko, jointly with the Administrative Excellence Institution in Israel. The Center develops, promotes and empowers a cadre of young leaders in Northern Israel, who are committed to influencing and community leadership, in their communities and throughout Israeli society.



- **Road Safety** – The Bank has sponsored the "Green Light for Children" program, which is operated by an interactive van that visits elementary schools throughout the country. As part of this activity, pupils are made aware of road safety content, designed to raise awareness of road risk and to provide them with tools for handling such risk. In this activity, the pupils experience safe riding, practice proper road crossing and are taught safety rules. In 2017, training was delivered in 200 schools throughout the country, attended by 60,000 pupils.

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- **"Neighborhood Carriers"** – a two-year program for fourth to fifth graders, who learn about their neighborhood and the school vicinity, through tours and meetings with related figures, as well as in school classes. The program goal is to empower the pupils and to intensify their sense of affinity, belonging and local pride in the neighborhood in which they live.

- **Promoting creativity and culture** – "Shenkar Flowers" – Supporting 80 teenagers with artistic skills, training them over the school year, through students from Shenkar College.

## 2. Support for NGOs that focus on the health and well-being of children and youth –

- **"Tour De TROM" bicycle rally** – This initiative, launched nine years ago, has become a tradition at the Bank. This project is held in cooperation with the ILAN NGO sports center – designed to raise funds for ILAN children. In 2017, some 140 employees took place in the rally.

- **Hanukkah of Gifts** – As part of this unique project, on Hanukkah 2017, some 1,500 children from boarding schools and welfare day-clubs enjoyed Hanukkah gifts purchased by 1,300 Bank employees. The gifts are purchased by employees at a subsidized cost, with the difference made up by Bank management.



- **"Make a Wish"** – This NGO acts to make dreams and wishes come true for children suffering from serious illness. In 2017 as well, the Bank participated in planning and wish fulfillment for sick children. The wish realization was planned at a workshop, attended by 50 Bank employees, who also took part in making the wish come true.

- **"Zichron Menachem"** – Since 2010, the Bank held, for the 7th year, an annual fun day in Eilat for 150 children in collaboration with employees at the Eilat branch. Throughout the year, the Geula branch in Jerusalem adopts the "Zichron Menachem" children, celebrating the holidays and their birthdays with them.

- **Ezer MeZion** – an NGO acting for the well-being of cancer patients, including children. In 2016, the Bank helped increase bone marrow availability by establishing a bone marrow donor database in the name of the Bank. The database is available to patients requiring a bone marrow transplant. In 2017, the Bank sponsored the "MAKOM" exhibition by women with cancer, who participated in an art workshop as part of their treatment.

- **"Joy for children"** – this NGO acts for the well-being of children suffering from serious illness. In 2017, the Bank sponsored a fund raising event for the NGO and Bank volunteers helped raise funds on a special fund raising day dedicated to this NGO.

- **"SHALVA" and "RACHASHEI LEV"** – these NGOs act for the well-being of children with special needs and children suffering from cancer. In 2017, the Bank and the NGOs held a summer camp for children in Eilat, with participation from local branch employees.



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# Social involvement in neighboring communities

The Bank's headquarters units operate at two main Bank hubs, located in Lod and Ramat Gan. These units are also involved in funding and social activity, as part of their involvement in neighboring communities in these cities:

## 1. Community involvement in Lod –

- **"Holylood"** – The Bank has sponsored a festival of social films and a competition for films by youths, written and produced by high-school students in Lod. The films were screened as part of the "Holylood" film festival, held in the city.

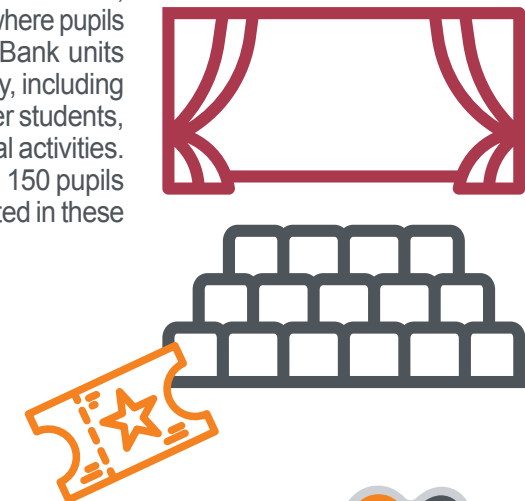


- **Pre-school center** – The Bank contributed to construction of a pre-school center, serving the Arab and Jewish populations who live close to the Chicago Youth Center in the city.

- **"Melodica"** – The Bank sponsors the Melodica social club, which provides social activities to teenagers in Lod.
- **"Volunteering for the community"** – Bank employees take part in various community activities and join volunteer organizations in school after-study clubs, in providing financial training to youngsters (The Money Road project) and in other municipal events, such as the Purim festival "ADLODYADA" and the Lod Race.
- **Bar Mitzvah for Lod children** – A city-wide event for Bar Mitzvah and Bat Mitzvah children and their parents, that takes place in Jerusalem for the fourth year. This event includes a tour of the Old City and the Western Wall, and a festive ceremony at the end of this festive day, attended by the Mayor of Lod and Bank representatives.

## 2. Community involvement in Ramat Gan –

- All welfare daytime clubs in Ramat Gan are adopted and assisted by Bank units located at the Bank's headquarters building in this city.
- In Hanukkah, a key event for all children in these daytime clubs took place at the Ramat Gan Theater – with 300 children enjoying a performance of the "Emperor's New Clothes" play at the Ramat Gan Theater.
- "Theater Days" – a project of Beit Zvi Theater in Ramat Gan, supported by the Bank, where pupils in schools adopted by Bank units enjoy an experiential day, including a performance by theater students, workshops and theatrical activities. In the 2017 school year, 150 pupils from 5 schools participated in these theater days.



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# Support for NGOs and businesses that promote social causes



## 1. Support for NGOs that employ persons with special needs:

- **"Added Value" website** – The Bank launched the Added Value website – an online platform for products and services produced by 200 NGOs and social and environmental organizations that employ persons with special needs. This platform provides a unique store front for hundreds of social and environmental organizations, helping them gain exposure of their products and services to the public at large – both individuals and businesses. The objective of this venture is to connect potential customers and social organizations. In 2017, the website was made accessible by people with special needs. **In 2017, the public purchased 13,500 items through this website!**

- **Buying gifts and giveaways from NGOs** – The Bank also buys gifts and other giveaways through these various NGOs and in the holiday season employees are invited to purchase select products at sales events held at Bank headquarters and through the Bank's intranet website.

**Total purchasing from social NGOs in 2017 amounted to NIS 190 thousand (compared to NIS 160 thousand in 2016).**

- **"Creating from the Heart for the Community"** – For several years now, the Bank has been supporting the "Creating from the Heart for the Community" fair, held since 2010 on HOL HaMOED Sukkot at Mamilla Boulevard in Jerusalem. At this fair, some 30 NGOs that employ people



with special needs offer their products to tens of thousands of visitors.

- **"Recurring Story"** – The Bank has joined forces with the "Shekulo Tov" NGO in a joint project to operate a book lending venture for Bank employees, through an online library. In addition, libraries were established in the Ramat Gan management building and in the Bank building in Lod, operated by members of "Shekulo Tov" who are being rehabilitated.
- **Sponsoring of NGOs taking part in gift fairs for employees and suppliers** – The Bank sponsors NGOs that present their products at fairs targeted at companies seeking to buy holiday gifts for their employees.

## 2. Support and professional assistance for social businesses:

- **"Business with value" project** – the Bank's social venture program, in cooperation with the IVN Foundation supporting social businesses and NGOs that aid those with special needs.

As part of this venture, start-up social businesses are invited to apply to take part and to benefit from a financial grant from the Bank and from professional assistance from experienced businessmen. In 2017, 100 businesses and NGOs applied, of which 4 NGOs were selected to receive professional assistance from Bank employees and business advisors on the following topics: Writing a business plan, organizational development, marketing, human resource management etc. These NGOs also received a financial award, for expanding their business, in conformity with the business plan.

- **"The Honeycomb"** – a home for the promotion and development of social projects that provide solutions to challenges faced by disadvantaged populations. The Bank joined as sponsor of the "Honeycomb" activities, both financially and through assistance, with the participation of managers at different stages of assistance for these ventures.

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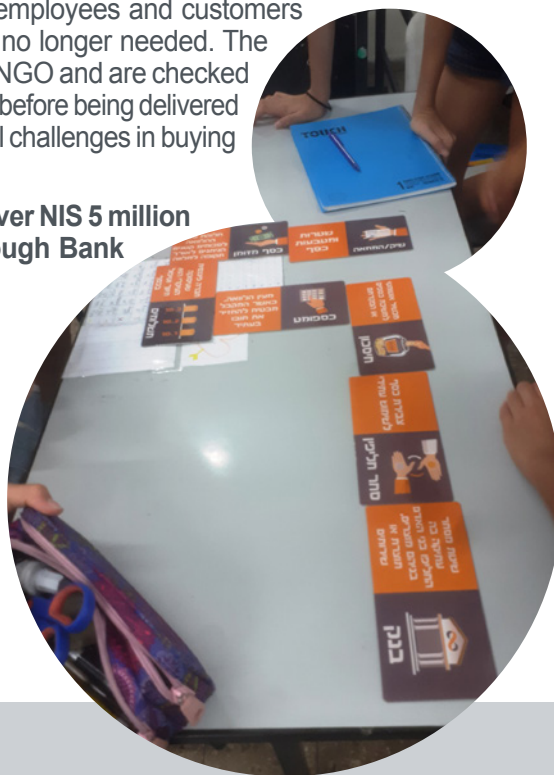


## Other Bank activities to benefit Israeli society



- **"Ivrit B'Salam - Spoken Hebrew"** – The Bank has joined forces with the Abraham Foundation to operate a program teaching Hebrew language skills at Arab schools, taught by Jewish teachers. In 2017, this activity took place at 31 Arab schools with 264 classrooms and 10,000 pupils.
- **Scholarships for students of Ethiopian origin** – This year, as well, the Bank continued to provide scholarships for students of Ethiopian origin, as part of the connection with the Feuerstein Institute and the Hebrew University, established in 2014.
- **"Chaverim lerefua"** – An NGO which operates a social pharmacy, by collecting un-used medications and providing them as a contribution to people unable to buy them. Through dedicated collection containers, placed at Bank branches, employees and customers can provide drugs that are no longer needed. The drugs are passed on to the NGO and are checked by professional pharmacists, before being delivered to patients who face financial challenges in buying their drugs.

**To date, drugs valued at over NIS 5 million have been collected through Bank Mizrahi-Tefahot alone.**



## Promoting financial education and training of business owners



Being one of the top 5 banks in Israel, which impacts the economy and the market, we attach great importance to promoting financial education among the Israeli public and we make an effort to provide our customers with tools for proper financial management, including tools for economic empowerment and proper budget management.

Other activities in this framework include:

- **"Money Road" training kit** – A program which provides youth with training on financial issues. This kit is available on the Bank website, to assist a wider audience of teachers, instructors, counselors etc. to learn the content of this package and to train youngsters in the content listed in this package. In 2016, the kit was translated into Arabic and made available on the Bank website. In 2017, "Money Road" training was delivered by students, who received scholarships from the Bank to finance their education and in exchange provided training to groups of youth at high schools and, in cooperation with the Alvin NGO, delivered training in 2017 to youth with special needs who volunteered for National Service.
- **Reinforce financial education for students and relations with institutions of higher education** – The Bank intensified links with institutions of higher education, by co-operating with colleges and universities, delivering lectures to students by volunteer employees and managers and by providing scholarships for students at several universities and colleges in financial fields of study. In 2017, the Bank awarded 83 scholarships to outstanding students from disadvantaged populations (of Ethiopian descent, Jewish Orthodox, etc.)

As part of the link with Sapir College, the Bank expanded training of school students in Sderot by students who received scholarships from the Bank.

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- **Trainee Student project** – The Bank operates multiple initiatives to employ students during their studies, in order to make it easier for them to find a job later on:
  - **"New immigrants together"** – Including students of Ethiopian origin in Bank work during the summer vacation.
  - **"ALUMA" NGO, Herzlia Interdisciplinary Center and the Management College** – In 2017, 4 students were hired for practical work at the Bank during their studies, as part of an internship program.
- **Workshops for students on proper economic conduct** – In 2017, workshops were held on proper economic conduct, attended by 60 students, with personal workshops and awareness-raising sessions held at the Tel Hai College Financial Counseling Center for Students "Breathe easy at Tel Hai College". The center was established in 2015 under the auspices of the Bank, staffed by students who were awarded a scholarship and received financial guidance from Bank staff.

- **Mizrahi-Tefahot Small Business College in cooperation with the Israeli Management Center ("MIL")** – the Small Business College, operated by the Bank together with the Israeli Management Center ("MIL") offers two courses: a marketing course and a financial course. Each course consists of five sessions. In 2017, some 80 business managers and owners participated. Bank customers pay to attend these courses at price subsidized by the bank.
- **Financial meetings at branches throughout Israel** – In 2017, as part of the "Let us meet at Mizrahi-Tefahot" program, 30 financial meetings were held at branches throughout the country, in which 1,000 participants took part. The meetings were held in the evening, in a relaxed, pleasant atmosphere, and included lectures on savings, retirement advice, mortgages and capital market investment.



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- "Let us meet on the international stage"** – a series of meetings for the business sector and for companies with foreign trade experts – In December 2017 we launched a pilot for specific business-oriented meetings. The series of meetings on foreign trade issues takes place in the Bank's business centers (in Haifa, Netanya, Petah Tikva and Beer Sheva). In each branch, a series of three different meetings takes place, on topics relevant to foreign trade. The content of these meetings was adapted to businesses and companies and participation at these meetings is open to the general public at no cost. The activity was launched in December 2017, with the first meeting held in the Petach Tikva business center, and we intend to continue this activity in 2018.
- "Financial Awareness Month"** – In order to increase financial awareness among youth and to give them practical tools for dealing with banking institutions, the Bank of Israel, the Banking Association and the Ministry of Education launched financial education training for students in schools. As part of this month, Bank Mizrahi-Tefahot delivered training to 64 classes in 13 schools, and Bank Yahav delivered training to 40 classes in 15 schools.
- Mortgage workshops** – As the leading mortgage bank in Israel, we attach great importance to holding training sessions and workshops on this topic. These workshops provide participants with clear, professional information about the world of mortgages and tools to choose the most suitable track. These workshops are attended by Bank customers, even those who eventually decide to take out a mortgage elsewhere. We see it as our responsibility to provide the best tools for making such decisions, for anyone who wishes to do so.

In 2017, we conducted 14 workshops, attended by 560 participants.
- Seminar for NGO managers** – The seminar "Innovation and Accelerating Fund Raising", held in 2017 and designed to help expand their business activity, was attended by 70 NGO managers.

## Promoting financial education at Bank Yahav

- "Another Lesson"** – As part of volunteer work by Bank Yahav, the "Another Lesson" NGO allowed 80 employees volunteer in 2017 to deliver 21 courses throughout Israel, imparting knowledge and tools for smart financial management, to 500 children.



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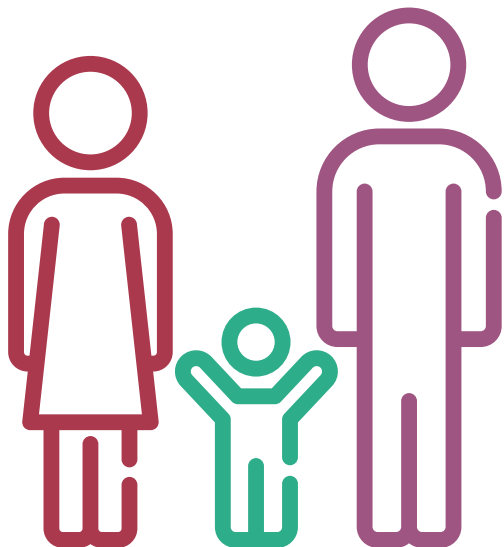
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## Including employee families in activities for the community

As part of our community involvement, the families of Bank employees are also invited to take part in Bank activities for the community:

- **Popular race at the Jerusalem Marathon** – This race is sponsored by the Bank in co-operation with the Israel Cancer Society, and more than 400 employees and their family members take part in it.
- **Passover Walk** – A walk for cancer research, attended by 200 Bank employees and their families, is being held for the eighth year.
- **"Young Summer"** – The Bank offers the chance for employees' children to volunteer during the summer vacation with social NGOs involved in the community. 20 children of employees volunteered in 2017 and received a gift whose monetary value is in line with their volunteering hours.
- **"ZAZIM– Youth Movements for the Community"** – The Bank invites in person the children of Bank employees to take part in the "ZAZIM – Youth Movements for the Community" project.



## "Let us meet at Mizrahi-Tefahot"

Bank branches are not merely a financial center, but also a meeting place. Aiming to be a human bank that strives to bring our customers closer to the Bank and to Bank branches, the Bank has created a social project designed to empower, enrich and bring residents in the vicinity of Bank branches to meet.

As part of the "Let us meet at Mizrahi-Tefahot" project, a wide range of activities are being offered at key Bank branches by leading lecturers in their fields. These meetings are devoted to topics of general interest and enjoyment, are held in the evening in a relaxed atmosphere and customers of all banks, residents of the neighborhood and the general public are invited to attend at no cost.

### These are branches where "Let us meet at Mizrahi-Tefahot" activities took place in 2017:

#### "Let us meet" Branches 2017

**North region:** Naveh Sha'anani | Akko | Migdal HaEmek | Kiryat Atta | **South region:** Yavne | Bnei Barak | Ashdod City | Sderot | **Yehuda region:** Jerusalem downtown | Geula | **Dan region:** Maron Naveh | Rosh HaAyin | Bar Ilan | Tarfon | Kfar Kassem | Givat Shmuel | Petach Tikva downtown | **Central region:** Kikar HaMedina | Lev Dizengoff | Ramat Aviv | **Sharon region:** Ir Yamim | Umm El Fahem | Hadera | Ra'anana | Netanya downtown

A dedicated website was created for this project, listing information about lecturers, lectures and activities for different audiences. Information about the project is also available on the Bank's main website and Facebook page, and is provided to customers and participants in previous events through a dedicated newsletter. Naturally, Bank employees, their families and friends are also invited to attend these meetings.

In 2017 there were 137,472 visits to the "Let us meet" website

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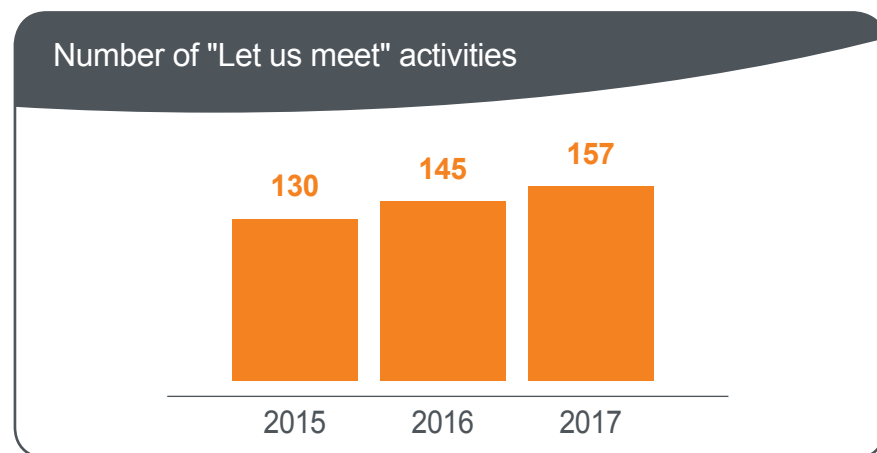
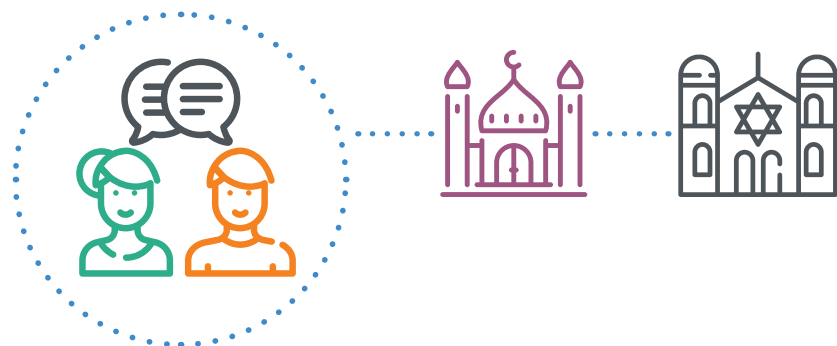
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In 2017, 157 meetings took place at 25 major branches around Israel, including meetings designated for the Arab and Jewish Orthodox populations, with content customized for these target audiences. This compares to 130 meetings in 2015 and 145 meetings in 2016.



The various activities are widely acclaimed, as reflected in participant numbers and in very high satisfaction ratings for these meetings, as reflected in feedback received at the end of each meeting – In 2017, satisfaction with the meetings was rated 4.8 out of 5.

## Refreshing the content

In 2017, in addition to regular project activities, two series of meetings took place with a unique concept, each lasting about a month:

- **"Head-to-head Month"** – in which lectures were delivered by two lecturers who presented different approaches to the same topic.
- **"The Stories Behind the Songs Month"** – where branches hosted well-known artists, who talked about their work and sang together with the audience.

## Meetings customized for different target audiences

- **"Let us meet – Sixties"** – Understanding the needs of customers, we expanded the range of activities and adapted these meetings to retirees. Thus, we developed the series of meetings "Let us meet – Sixties".

In 2017, we conducted 14 customized, relevant activities for retirees at 7 designated branches. These meetings included banking lectures as well as non-banking lectures on topics adapted to retiree, along with general interest lectures.

These sessions were attended by 700 people – 46% higher than in 2016. Participants praised the various activities in their feedback and rated the activity very highly, both for content and organization.

- **"Let us meet" in Arab society and in the Jewish Orthodox sector** – In 2017 special activities were organized for Arab society and the Jewish Orthodox sector, as part of the "Let us meet at Mizrahi-Tefahot" project, adapting the content and lecturers to the target audience. In this framework, we conducted 11 activities in Umm al Fahm, Kafr Qasem, Yasif and Akko, and 12 activities at Tarfon branch in Bnei Brak and at Geula branch in Jerusalem.

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MIZRAHI TEFAHOT

# Community involvement at Bank Yahav

**Empowering Youth of Ethiopian Descent** – In June 2017, the second session of the ZOOM Leadership Program was completed at the immigrant absorption center in Mevasseret Zion. This program was created and is being delivered by the Fidel NGO, including development of a sense of identity and leadership among youths of the Ethiopian community, meetings with role models and guest lecturers, as well as academic assistance in core studies.

In 2017, Bank Yahav also conducted these activities:

- |   |  |   |
|---|--|---|
|  Art and photography seminars, together with persons with special needs, jointly with the AKIM Jerusalem NGO   |  Support and guidance for youth in disadvantaged neighborhoods, in cooperation with "The sky is the limit" NGO              |  Participation in the Tour De TROM bicycle rally, in co-operation with "ILAN" NGO.         |
|  Established and assisted basketball teams for youth at risk, in co-operation with HaPoel Yahav Jerusalem      |  Participation in mentoring program for lone veterans   |  Volunteer work at kindergartens for children with special needs and for children at risk. |
|  Collecting and donating food during the holidays   |  Visits to children wards and to wounded IDF soldiers in hospitals   |  Painting the homes of elderly people and volunteer work with Holocaust survivors         |
|  Support and assistance for boarding schools of "HaMifal" NGO for training of Israeli children               |  Donation of equipment, furniture and computers   |    |
|  Established and assisted cycling groups for children at risk, in cooperation with the "Shimshon Riders" NGO |  Funding of judo classes at the SHALVE Jerusalem center for children and youth at risk and for children with disabilities |    |



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## Community involvement at overseas affiliates

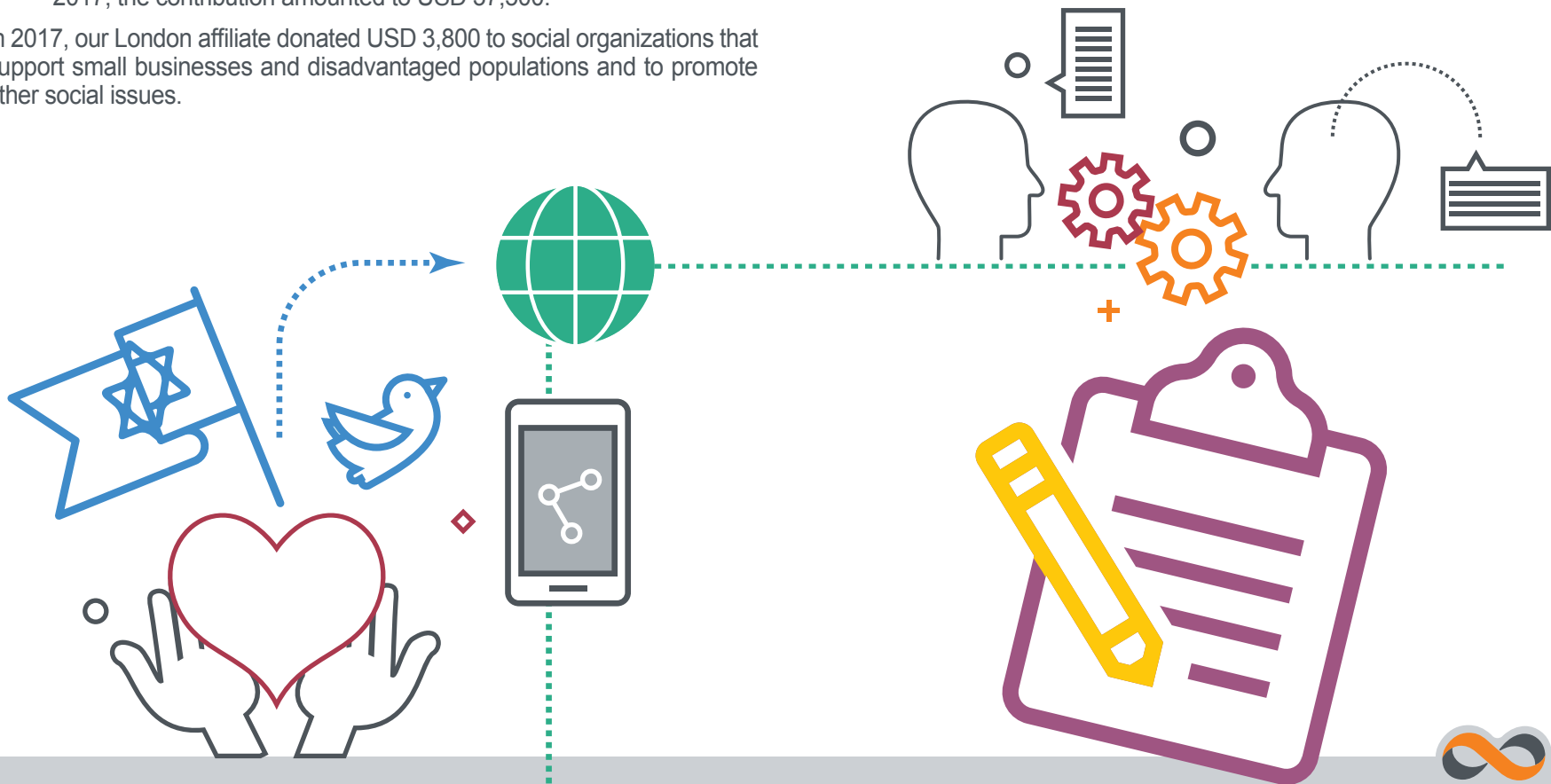
Group activity in the USA (Los Angeles branch) in the community is focused on these activities:

- **Volunteering in the Community** – In 2017, 10 employees of our US affiliate volunteered for 60 hours in their local community.
- **Donations to social NGOs** that support social businesses and disadvantaged populations, to promote financial education, to promote education and social activity, and to empower children and youth. In 2017, the contribution amounted to USD 37,500.

In 2017, our London affiliate donated USD 3,800 to social organizations that support small businesses and disadvantaged populations and to promote other social issues.

## Involvement with cooperation, dialog and feedback

The outline of activities and involvement in the community is formulated through ongoing dialog with social organizations and community partners. In this way, the group identifies needs, renews the social involvement program every year, and maximizes its resource investment for the community. Moreover, all projects are subject to close monitoring and assistance by the Bank, to ensure that charitable donations end up where intended.





# Identifying needs and dialog regarding the donations targets

Local authorities	<p>The Bank is in constant contact with the welfare and education departments at many local authorities across Israel, in order to develop projects and to identify social organizations that may be adopted by Bank units, as part of their regular community involvement. Together with these, the Bank reviews and plans the investment plan for the relevant venture.</p> <p>Examples of activities which resulted from this dialog in 2017 –</p> <ul style="list-style-type: none"> <li>● Following a request from the Akko Municipality and the College for Quality Government, the Bank sponsored, for the 2nd year, a training program for local leadership in Akko.</li> <li>● Upon request from the Ramat Gan Municipality, the city's welfare daytime clubs were adopted by Bank units.</li> <li>● Resulting from a dialog between the Bank and the Lod Municipality, the Bank sponsored a festival of social-topic films and a festival of youth-produced films; the Bank also sponsored the Lod Run, with 140 Bank employees participating, as well as the Bar Mitzvah project for all school children in the city.</li> <li>● A steering committee convenes quarterly at Lod City Hall, composed of representatives of the organizations that operate "Melodica" – to review the club's operating plans, monitor use of the activity budget, the number of activities carried out, the number of youngsters participating etc. These meetings resulted in various action taken to expand the opening hours of the club, making it available to other groups for various social activities, inclusion of other groups of youths in activities etc.</li> </ul>
Customers	<p><b>"Partners by Choice"</b> – This project allows Bank customers to take part in voting on which NGOs, that provide for children and teenagers, would receive a Bank donation of NIS 580 thousand. In this project, now in its tenth year running, the Bank contacts its customers and asks them to vote for their preferred NGO. The Bank and the selected NGOs deliver joint projects designed for the benefit of children and teenagers.</p> <p>In 2017, customers chose the following NGOs: ILAN-Sports Center, Enosh, Alot, Etgarim, Shanti House, Israel Cancer Association, Zichron Menachem, Friends of Medicine, Krembo Wings, Ezer MeZion, Ezra Lemarpe and ALEH.</p>
Employees	<p><b>"Your Vote Counts"</b> – This project allows Bank employees to take part in the decision as to which NGOs would participate in the project and which ones would benefit from the Bank's contribution amounting in total to NIS 100 thousand. The Bank and the selected NGOs deliver joint projects designed for the benefit of youth at risk and persons with special needs. In 2017, employees chose the following NGOs: Or Menachem, Or Shalom, Ahuzat Sarah, Akim Israel, Beit Haya'eled, Beit Hinuch Ivrim, Larger Than Life, First Hug, Yad Ezra &amp; Shulamit, Refuah &amp; Yeshuah.</p>
Social NGOs and organizations	<p>In order to identify needs, the Bank is in constant dialog with social NGOs and other organizations. As a result, we initiate projects in response to these needs. Here are some examples of such dialog and ensuing activities:</p> <ul style="list-style-type: none"> <li>● <b>"Partners by Choice"</b> – As part of the project, the decision as to which ventures of the winning NGO the Bank would invest in is made in cooperation with the NGO.</li> <li>● <b>"Friends of Medicine"</b> – Following a request from the "Friends of Medicine" NGO, which operates a social pharmacy and donates drugs to people who cannot afford them. The Bank has placed at all branches and headquarters units designated collection containers, in which Bank employees and customers can deposit un-used drugs that are sent to the NGO.</li> <li>● <b>"Green Light for Children"</b> – Following a request from the Green Light NGO, seeking assistance for educating school children on road safety, the Bank sponsored the "Green Light for Children" project, which provides training on road safety to tens of thousands of elementary school students.</li> </ul>

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## Review of activity effectiveness and impact

In addition to measuring satisfaction with activities for the community, the Bank also measures the effectiveness and impact of projects in which the Bank is involved:

- **"Adoptive units"** – The Bank maintains a constant dialog with representatives of the social organizations where employees do volunteer work. Through questionnaires and visits the Bank can review, inter alia, employee satisfaction with the volunteer work and with their relationship with the Bank unit. The data collected indicates that satisfaction of social organizations where Bank employees volunteer is very high, with demand to expand operations with additional volunteering employees.
- **"Business with value" project** – After a year of activity and support for social businesses, the Bank monitored the development and improvement of these businesses based on various parameters. The findings showed that ventures which participated in this project have increased their average monthly revenues, profitability and headcount. Thus, for example:
  - **Nani** – a family-owned enterprise in Be'er Sheva, specializing in development and production of natural premium products, sauces, spreads and cooking products. In 2015, Nani's first factory was constructed in Be'er Sheva. The factory employs retirees who wish to continue being in the labor market. The company also employs mentally destitute employees in a tolerant, inclusive atmosphere, who receive a higher salary than they have been paid in the past. The factory increased sales in 2017 by more than 30% and increased its headcount from 7 to 8 mentally destitute people.

- **AlAdaika** – This NGO leads educational initiatives, training programs and workshops in Arab society for improving thinking methods. The NGO employs more than 150 instructors in a large number of projects across the country. In 2017, the NGO increased the number of employees from 97 to 219 (an increase in working hours from 13,332 in 2016 to 22,569 in 2017), and went from a loss of NIS 77 thousand in 2016 to a profit of NIS 531 thousand in 2017.

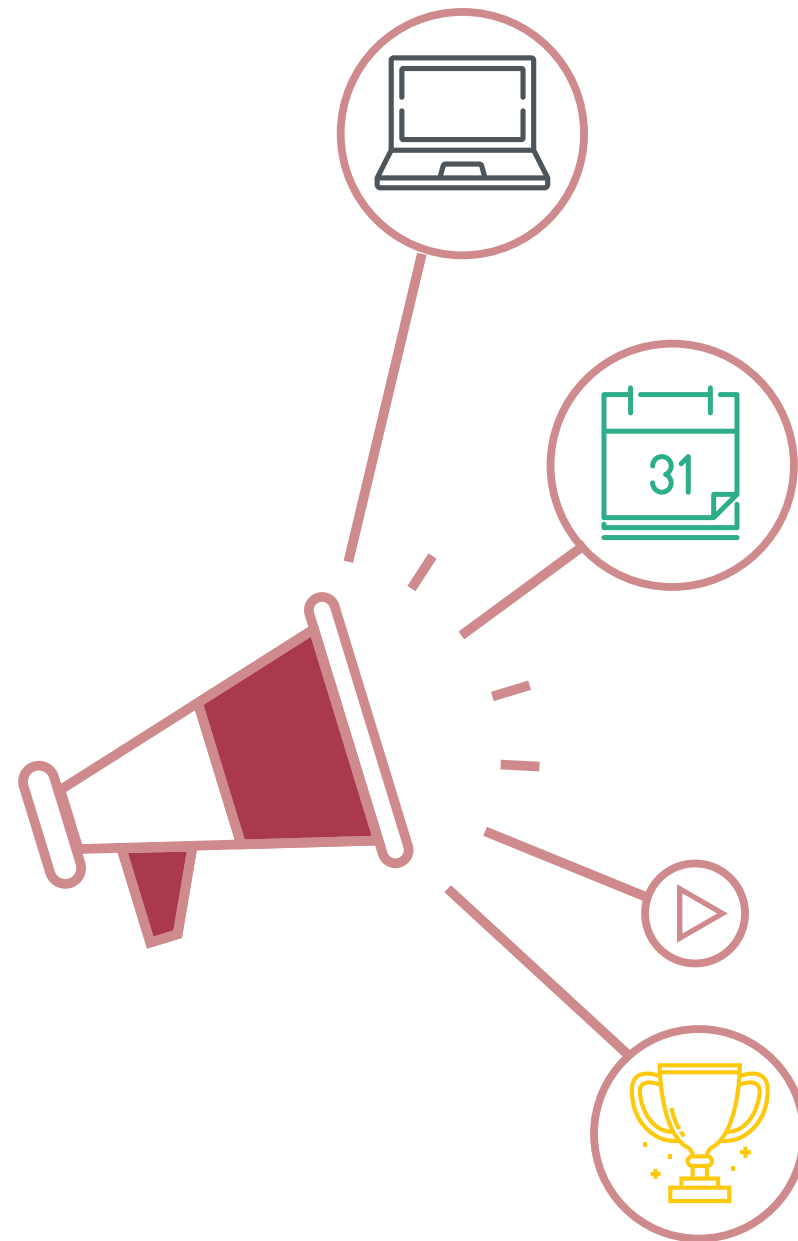
- **"Creating from the Heart for the Community" fair** – Once the fair is concluded, questionnaires are sent to NGOs in order to review their satisfaction. Results indicate that NGOs are highly satisfied with the fair and 85% of NGOs wish to continue taking part in the fair in coming years. (Rated 4.7 out of 5).
- **"Tour De TROM" bicycle rally** – After the rally, feedback questionnaires were filled by Bank employees who took part in the rally. An absolute majority of participants expressed high satisfaction with the rally and a sense of connection with its objective (rated 4.7 out of 5). 90% of the cyclists expressed their wish to take part in coming years.
- **Seminar for NGO managers** – At the seminar on "Innovation and Accelerating Fund Raising", all participants asked, at the end of the seminar, to attend additional seminars. The great majority of attendees rated the quality of the professional content delivered in this seminar as HIGH (4.5 out of 5) and also rated HIGH the feasibility of applying this content during their daily work (4.2 out of 5).



## Communicating about activities and invitation to join them

The Bank communicates its social activities to employees and customers and invite them to take part in various activities:

- **Bank website** – Activities are listed on the Bank website as a platform for including customers in various social projects (examples: Invitation to the "Heart-felt creation for the community" fair, enrollment in the Jerusalem marathon, a project for collecting medications for the "Friends in Medicine" NGO, promotion of the ZaZIM project, publication of a call for action for the "Business with value" project).
- **Intra-organizational dialog** – The Bank maintains a constant dialog with employees through internal communications and by listing the diverse activities on the "Mizrahi-Tefahot in the Community" website.
- **Calendar** – A calendar is printed annually and distributed to all Bank employees. This calendar lists the projects and activities by employees who volunteer throughout the year.
- **Recognition for volunteer employees** – Bank management values and appreciates employee involvement in the community and regards this as part of the organization's values. Once every two years, an evening of appreciation is held for volunteer employees and during the balance sheet conference, management recognizes outstanding branches and units for their contribution to the community.
- During the corporate social responsibility week held by the Bank in June 2017, photos and video clips were screened at key locations around the Bank, showcasing the Bank's activity within the community.



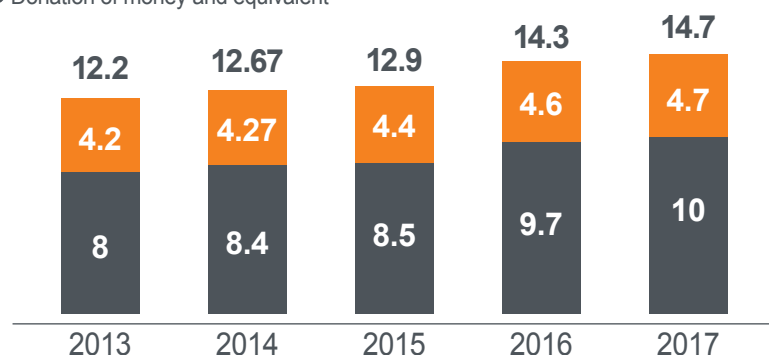
## Investing in the community

In 2017, total investment in social community activities by the Group amounted to NIS 14.7 million, compared to NIS 14.3 million in 2016 (3% growth).

Total investment consists of total charitable donations and costs associated with Bank activity in the community, which exceeds NIS 10 million (NIS 10,006,229), as well as the monetary value of employees' volunteer hours, valued at NIS 4.7 million (NIS 4,744,524)<sup>1</sup>. In addition to monetary donations, the Bank also sometimes donates equipment and infrastructure. In 2017, the Bank donated furniture, electric appliances and computers.

Group investment in the community (NIS in millions)

- Donation by employee volunteering hours (equivalent value)
- Donation of money and equivalent

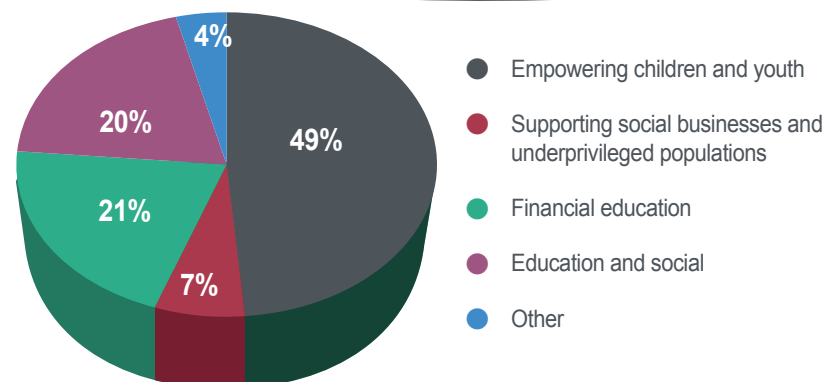


## Employee volunteer work

In 2017, Group employees volunteered 28,834 hours for the community, compared with 29,170 hours in 2016, in 171 community and social organizations, projects and ventures.

<sup>1</sup> The value of employee volunteer hours grew in 2017, even though the number of volunteer hours decreased by 1%, since the hourly wage in the Group increased.

Composition of investment in the community by area (2017)



Composition of (monetary) investment in the community by type of activity (NIS)

	2017
Empowering children and youth	NIS 7.2 million
Support for social businesses and disadvantaged populations	NIS 1 million
Financial education	NIS 3.1 million
Education and society	NIS 2.9 million
Other	NIS 0.5 million
<b>Total</b>	<b>NIS 14.7 million</b>

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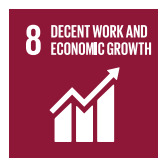
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# Reinforcing Israel's economy through responsible supply chain management



The Bank generates direct economic value to its stakeholders and indirect economic value to companies and suppliers in the Bank's indirect supply chain. As part of orderly and responsible management of the Bank's supply chain, the Bank is in constant dialog with its suppliers, through in-person meetings and visits of Bank representatives to suppliers, designed to verify, inter alia, aspects of maintaining basic human rights in the supplier treatment of their staff. Every contract signed by the Bank includes a clause whereby the supplier or contractor commits to lawfully employ their staff, pay their wages, ensure their rights subject to all binding legal norms and avoid any type of discrimination. Furthermore, as part of the considerations for selecting suppliers, the supplier's approach towards aspects of environmental responsibility are taken into consideration.

Responsible supply chain management is applied as follows:

- **Control of lawful employment by suppliers** – Visits to premises of major suppliers of the Bank, review of these suppliers based on criteria specified by the Bank. Any supplier that fails to meet the criteria is liable to have their contract terminated.
- **Control of outsourced employees' employment terms** – The Bank ensures that employment terms of outsourced employees would be in line with all laws and regulations with regard to security and cleaning staff. This is verified by a qualified payroll auditor, in conformity with statutory provisions, including requests made by employees seeking specific verification.
- **Promoting local purchasing** – Given its responsibility to reinforcing the Israeli economy, it is Bank policy to prefer local suppliers ("Made in Israel"), so that the great majority of purchasing by the Bank is made from local suppliers.
- **Prioritizing suppliers** – Being accountable to Israeli society, the Bank maintains a policy that prioritizes suppliers who contribute to the community and operate based on an internal Code of Ethics.

Procurement is managed at the Bank by the Logistics Department of the Human Resources and Administration Division.

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## Responsible supply chain management

Mizrahi-Tefahot Group has significant impact on Israel's economy, and it attaches great importance to orderly and responsible supply chain management. In conformity with Group policy and its responsible supply chain concept, the Group generally prefers to do business with local suppliers.

### Preference for local suppliers

The Group has a policy in place for preferring local suppliers. The Group receives services from 2,000 active suppliers (including 880 at Bank Yahav), of which 99% are Israeli. These are construction and maintenance contractors, landlords and management companies, equipment suppliers (office equipment, printers, auto leasing, telephones, computers, computer equipment etc.) and service providers (consultants, designers, supervisors, computer and information security service providers and cleaning service providers).

In 2017, total purchase orders created by the Group for suppliers amounted to NIS 417 million.

**Prioritizing responsible suppliers** – considerations for supplier selection include parameters such as contribution to the community and adhering to a Code of Ethics.

### Ensuring human rights and compliance with the law

The Bank only contracts with suppliers who operate in compliance with all relevant laws and regulations. Furthermore, the Bank, when signing agreements with suppliers, makes sure that such agreements include a requirement for suppliers to fully discharge their obligations as employers towards their employees or anyone on behalf thereof, including the suppliers' obligations to comply with all statutory provisions applicable to employers with regard to their employees and laws which govern employment and employee rights.

## Supplier control

As from 2013, the Bank's Logistics Division Manager and Purchasing Manager visit premises of major Bank suppliers. Through 2017, Bank representatives visited the premises of all major suppliers, and starting in 2018 there will be repeat visits. This visit is accompanied by a questionnaire, designed to test suppliers based on the aforementioned criteria. Any supplier that fails to meet the criteria is liable to have their contract terminated.

**Control of employment terms of outsourced employees** – In accordance with the law, the Group makes sure that the employment terms of outsourced employees (cleaning, security and catering staff) are verified by a certified wage reviewer. As at the end of 2017, all the suppliers with whom the Bank works in these areas complied with the provisions of the law that were examined. Employees can use an anonymous, discreet mechanism to report violations and non-compliance by their employers.

**Control of suppliers with regard to corruption risk** – The Bank performs risk assessments, including with regard to corruption risk, among suppliers and sub-contractors engaged on a regular basis. The final invoices from these contractors for refurbishment work are subject to a second review by an External Auditor and cleaning service invoices are specifically and regularly reviewed by the supervisor in charge of these operations.

In addition, significant contracts signed with architects and supervisors include a specific clause forbidding them from accepting any direct or indirect benefit from any third party.



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# Targets

## Achievements of 2017

Target	Status
Increase financial presentations given as part of "Let us meet at Mizrahi-Tefahot" by 10%	Done
Increase the number of Arab sector students who take part in extra-curricular activity in Hebrew, as part of the "Spoken Hebrew" project by 20%	Done
Increase Bank support for ventures by youth movement participants as part of the ZAZIM project by 10%	Done
Continued support for social ventures as part of the "Business with Value" project, with emphasis on projects in the Arab sector.	Done
Expand cooperation with Beit Zvi Theater for children in need, supported by social organizations adopted by Bank units.	Done
Maintain local purchasing for the Group as an absolute majority of purchasing	Done
Random visits to 5 major suppliers	Done



## Targets for 2018

- Increase activities of "Let us meet at Mizrahi-Tefahot" by 5%
- Develop a financial education training kit for fourth-sixth graders
- Expand the "Leading Neighborhood" project in the Ramot neighborhood
- Expand the number of participants in the "Young Summer" project by 10%
- Produce an evening honoring employees who volunteer in the community in 2018
- Random visits to 5 major suppliers

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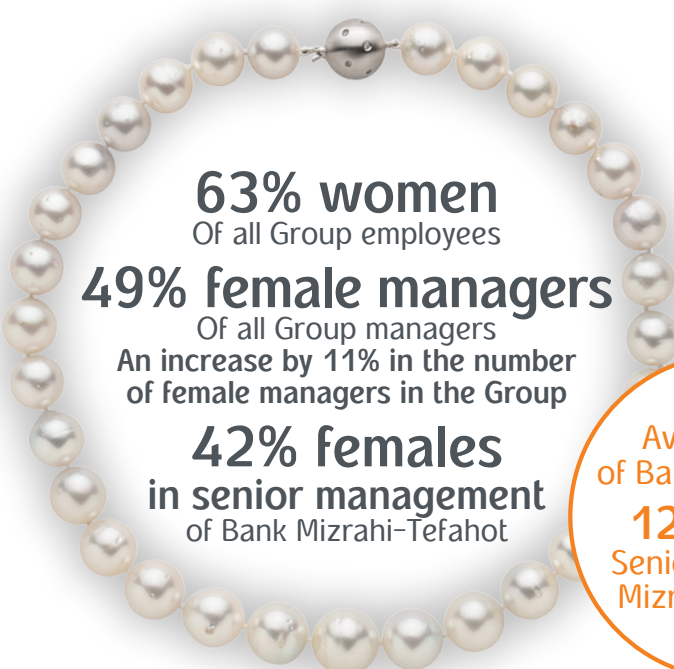


# Investing in Employees



MIZRAHI TEFAHOT





**63% women**

Of all Group employees

**49% female managers**

Of all Group managers

An increase by 11% in the number of female managers in the Group

**42% females  
in senior management**  
of Bank Mizrahi-Tefahot



**40**

Average age  
of Bank employees

**12.6 years**

Seniority at Bank  
Mizrahi-Tefahot

**Round  
tables**

Open discussions  
between employees  
and managers, on  
issues on the agenda  
at the Bank



**Medical  
check-ups**

Offered to all Bank  
employees aged  
40 or over

**150  
athletes**

Bank employees take  
active part in Bank  
teams, practice and  
competitions

**2,500  
employees,  
retirees and  
their families**

Took part in "Good  
Film Club"



**Retirement  
seminar  
for retirees**



**6,354  
employees**

were employed in  
the Group in 2017  
3% growth compared  
to 2016

## Investing in Employees Overview



**99%**  
of employees  
are employed  
in Israel

**99%  
promoted  
internally**

Percentage of  
managers promoted  
from among Bank  
employees

**74%**

of Bank  
employees with  
a university  
degree

**About 270,000  
training hours**

Delivered to all Group  
employees in 2017

**42.5 hours  
per worker on  
average**



**39  
work hours  
per week**

Fewer work hours than  
specified by law

**600**

employees and  
family members

Took part in meetings on  
healthy nutrition, body  
and mind healthcare  
and better life  
coaching



**1,033  
improvement  
proposals**

To improve customer  
service Received  
from employees  
in 2017



MIZRAHI TEFAHOT

## Group commitment to its employees

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Services to individual employees, from recruiting through ongoing services and up to retirement.
- Human resource development at the Bank in all relevant aspects.

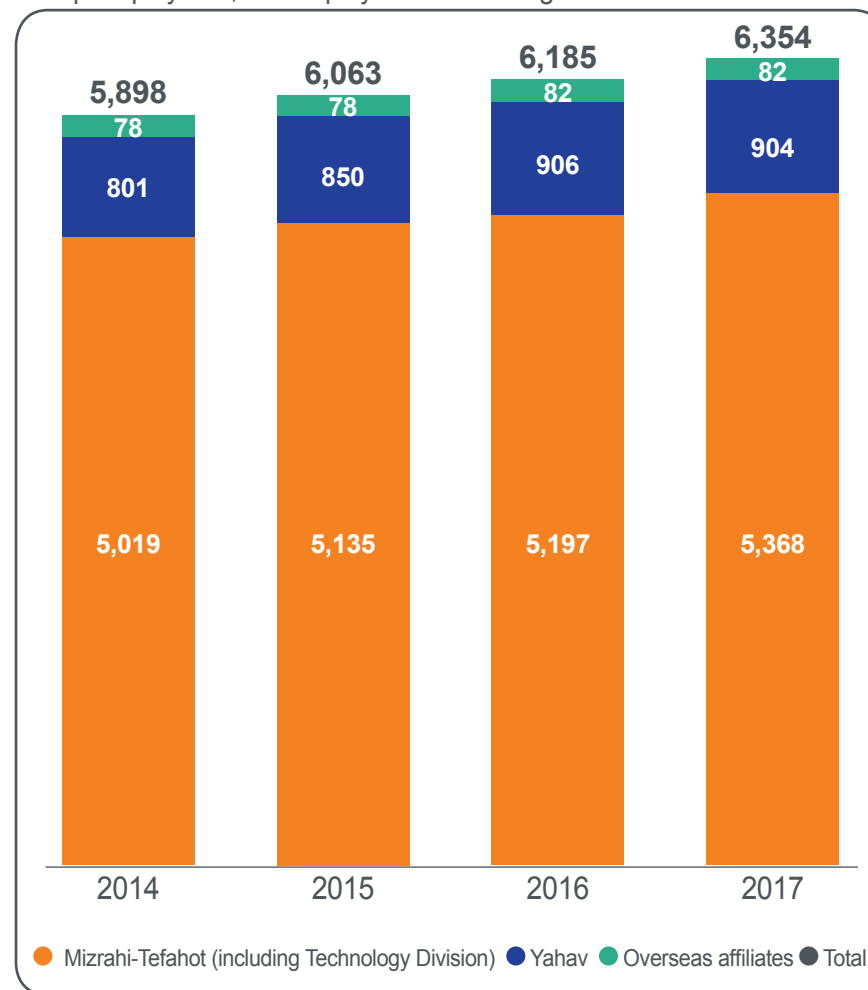
This area is managed by the Human Resources and Administration Division.

Group commitment to all its employees, in Israel and world-wide, is reflected by development of a pleasant work environment with fair employment terms for all employees. The Group's capacity to listen to needs of its employees and consequently, to create a work place which provides a solution over time - turns the Group into a high-quality and sought after place of employment.

## Employees profile

### Further expanding the family

Mizrahi-Tefahot Group continues to grow from year to year, and therefore the number of Group employees grows accordingly. As of the end of 2017, the Group employed 6,354 employees and managers:



Investing in the community

Investing in the community

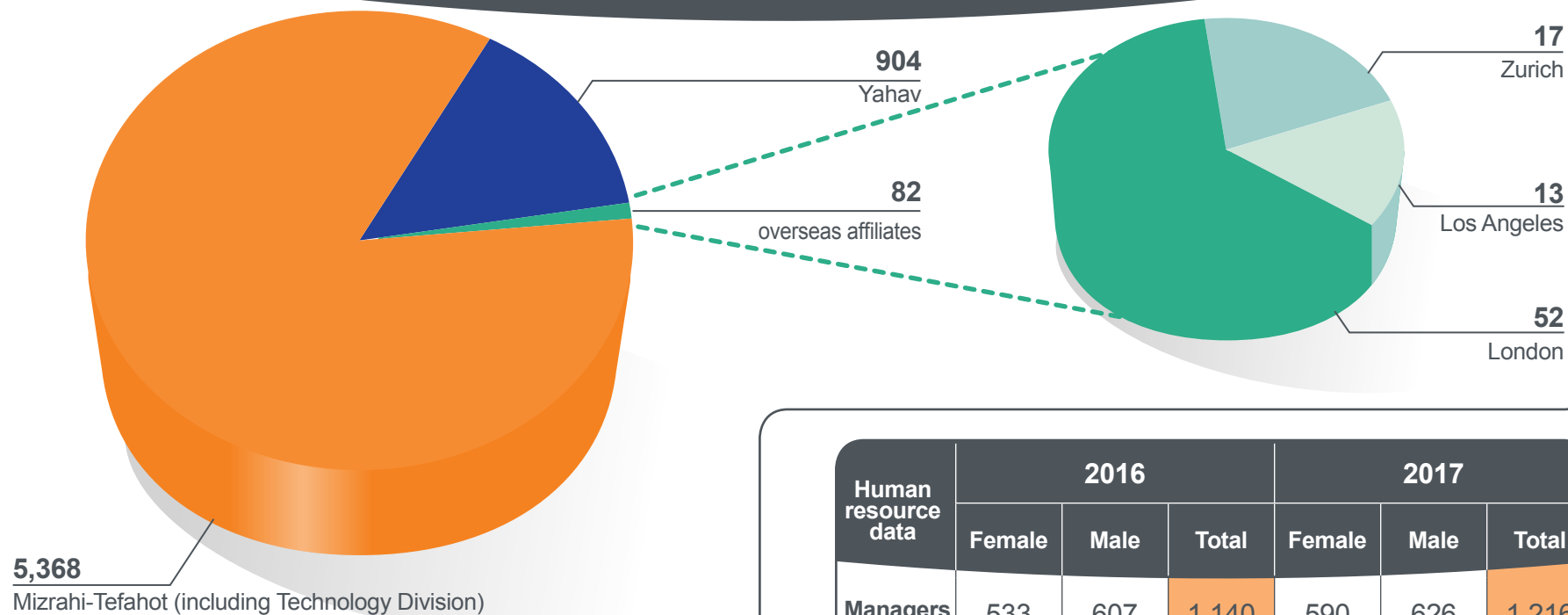
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## Total Group employees (at end of 2017)



Of all Group employees, 93% were full-time employees and the others were part-time employees. Most of the part-time employees are students, who work at the Banking Center (call center).

Human resource data	2016			2017		
	Female	Male	Total	Female	Male	Total
Managers	533	607	1,140	590	626	1,216
Employees	3,339	1,706	5,045	3,424	1,714	5,138
Headquarters	1,302	1,061	2,363	1,331	1,059	2,390
Branches	2,570	1,252	3,822	2,683	1,281	3,964
Total	3,872	2,313	6,185	4,014	2,340	6,354

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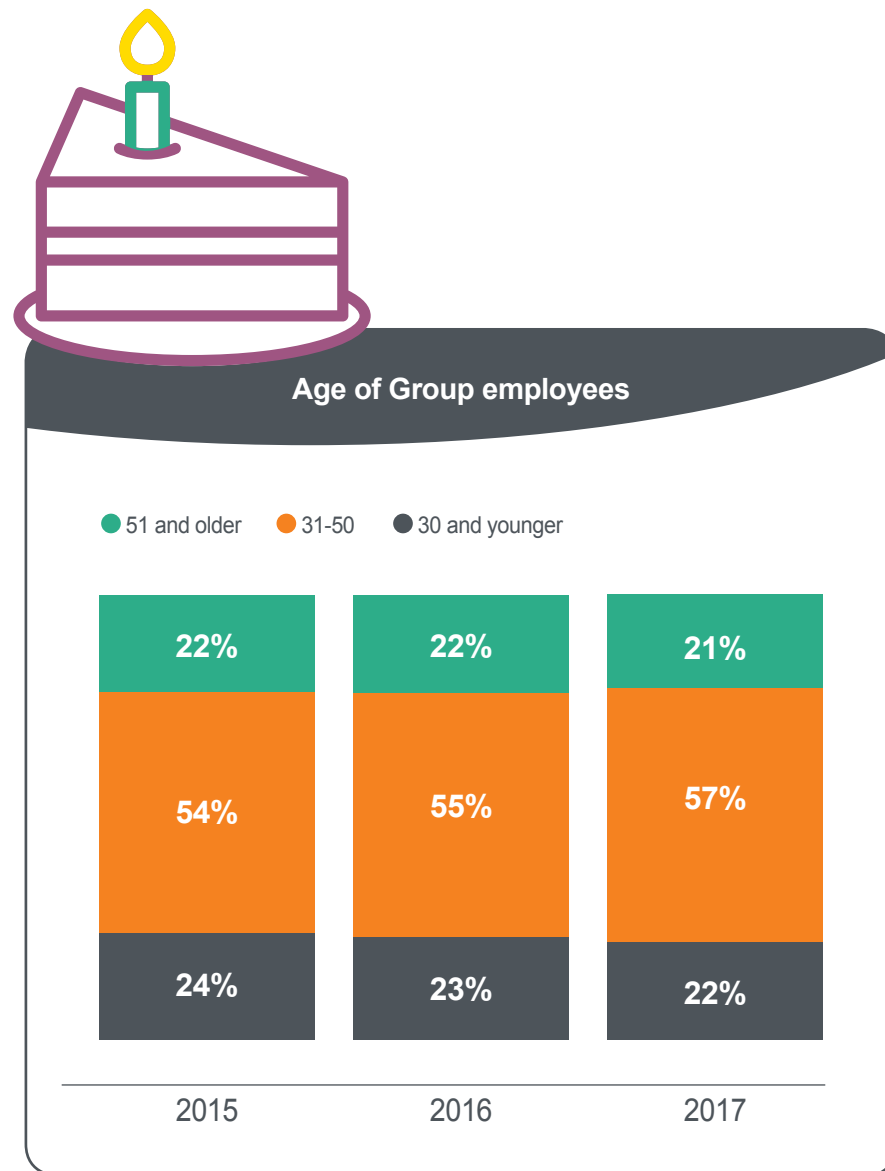
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## Age of employees and managers

The average age of Bank employees (excluding the Technology Division) is 40, and the average age of all Group employees is 40.6.

Most Group employees (57%) are aged 31-50; 22% of Group employees are aged 30 or younger and 21% of Group employees are aged 51 or older.

Age group		2017		
		Female	Male	Percentage
Non-manual position	Up to 30	1,028	343	22%
	31-50	1,821	999	44%
	51 and higher	575	372	15%
Group managers	Up to 30	15	3	0.3%
	31-50	440	337	12%
	51 and higher	135	286	7%
Total employees	Up to 30	1,043	346	22%
	31-50	2,261	1,336	57%
	51 and higher	710	658	21%



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MIZRAHI TEFAHOT

## Composition by geography

99% of Group employees are employed in Israel (6,272 employees and managers), 62% in the Central region, 18% in Jerusalem and surrounding areas, 10% in the South and 9% in the North.

1% of Group employees are employed by overseas affiliates (82 employees and managers) – in London, Switzerland and Los Angeles. The great majority of these are local employees. Bank overseas affiliates ensure that local employees are hired for various positions, including management positions. Thus, local employees account for two thirds of management at the Switzerland subsidiary; 90% of management at the London branch; and 100% of management at the Los Angeles branch.



Region		Number of employees	Percent of all Group employees
Israel	Haifa and North	579	9.1%
	Sharon region	452	7.1%
	Tel Aviv and Ramat Gan	1,444	22.7%
	Dan	439	6.9%
	Center	463	7.3%
	Lod	1,137	17.9%
	Jerusalem region	1,129	17.8%
	South (including Eilat)	629	9.9%
<b>Total - Israel</b>		<b>6,272</b>	<b>98.7%</b>
UK	London	52	0.8%
Switzerland	Switzerland	17	0.3%
USA	Los Angeles	13	0.2%
<b>Total - overseas affiliates</b>		<b>82</b>	<b>1.3%</b>
<b>Total - Mizrahi-Tefahot Group</b>		<b>6,354</b>	<b>100%</b>

Investing in the community

Investing in the community

Investing in employees

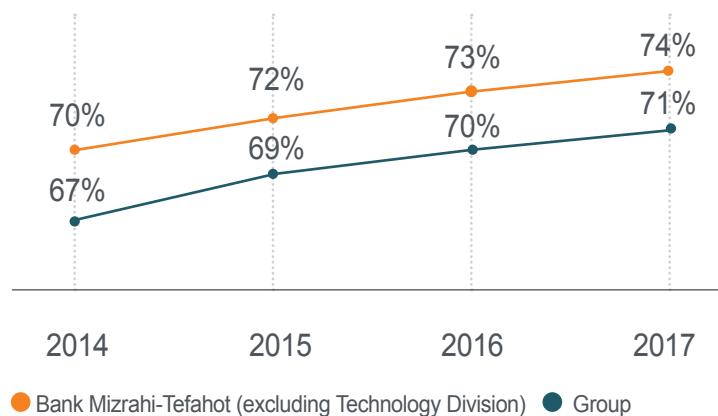
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## Education

The share of Group employees who hold a university degree grows annually – In 2017, the share of Bank Mizrahi-Tefahot employees (excluding the Technology Division) who hold a university degree was 74% and 8% were university students. For the Group in 2017, the share of Group employees who hold a university degree was 71% (compared to 70% in 2016).

Percentage of employees with university degree



## Contractors

As a rule, it is Bank policy that each Bank employee is an employee of the Bank for all intents and purposes from Day 1, therefore the Bank does not employ any contractors through service providers or labor companies. This policy also applies, naturally, to call center employees, most of whom are students characterized by a higher turnover. However, from time to time, the Bank receives services from labor companies, to support project operation for a limited time – and only a small number of such contractors.

## Employee turnover

The Group strives to maintain a low turnover rate among employees, and even to reduce it. Employee turnover is affected by Bank policy of employing all of its employees as regular employees, including call center employees, most of whom are students characterized by high turnover. Therefore, the turnover rate at these centers is relatively high and affects the turnover rate for the entire Group.

At Group level, in 2017 we managed to reduce the turnover rate (including call centers) from 10.2% in 2016 to 9.4%. The turnover is relatively high among employees aged 30 or lower, which may be explained by the fact that a significant proportion of these are call center employees, which, as stated, are regular Bank employees.

If you look at the turnover rate without accounting for turnover at call centers, the turnover rate in 2017 is even lower and, at 7.4%.

The table shows the turnover rates for each age bracket, an indication that the Group is a desirable work place for young employees.

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## Employee turnover<sup>1</sup>

Age group		2016		2017	
		Employees and managers hired by the Bank	Employees and managers who departed (terminated / resigned / retired)	Employees and managers hired by the Bank	Employees and managers who departed (terminated / resigned / retired)
Male	Up to 30	173	108	148	104
	31-50	82	111	93	84
	Above 51	3	22	6	45
Total – male		258	241	247	233
Female	Up to 30	391	255	383	220
	31-50	83	100	111	120
	Above 51	3	36	3	24
Total – women		477	391	497	364
Total – up to 30		564	363	531	324
Total – 31-50		165	211	204	204
Total – 51 and higher		6	58	9	69
Total		735	632	744	597

<sup>1</sup> The data in this chart includes call center employees, most of whom are students characterized by high turnover. Therefore, the turnover rate at these centers is relatively high and affects the turnover rate for the entire Group.

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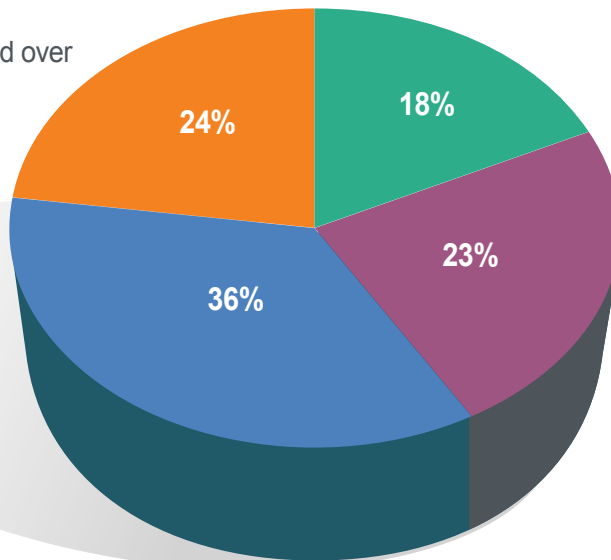
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### Composition of Group employee seniority

- Up to 5 years
- 6-10 years
- 11-20 years
- 21 years and over

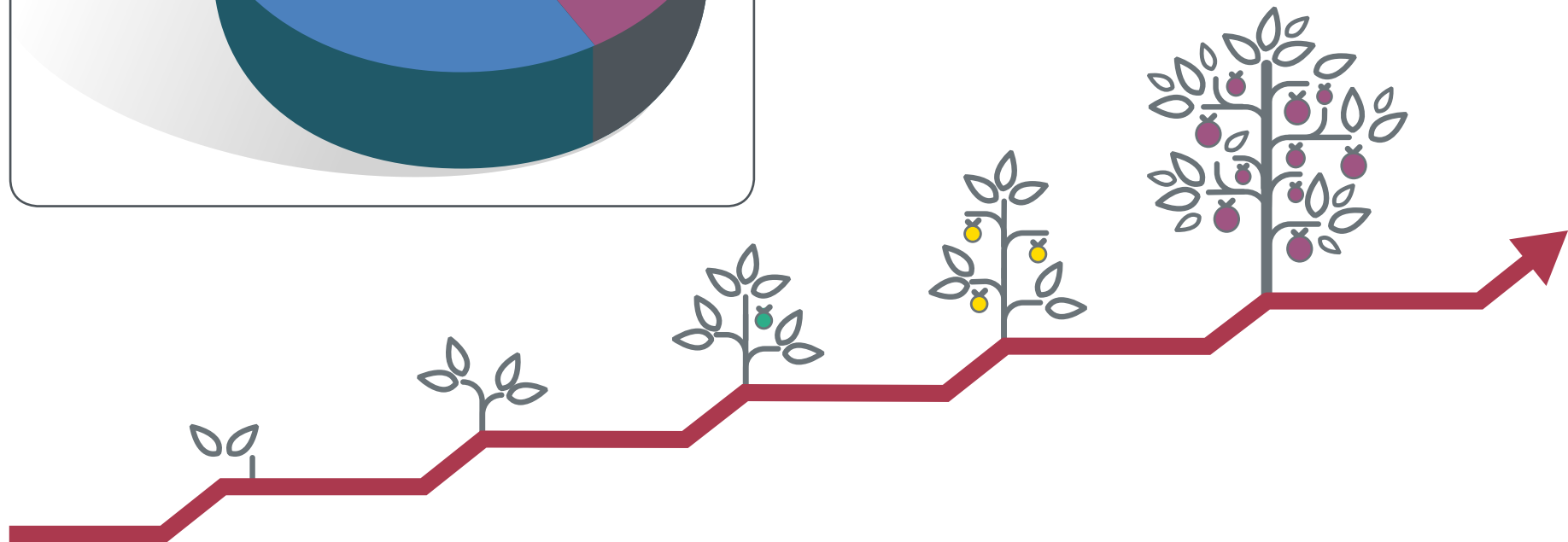


In 2017, 744 new employees and managers joined the Group, of which 247 men and 497 women. In this year, 597 employees and managers departed the Group, of which 233 men and 364 women. These figures reflect success in retention of employees and managers, along with expansion and new positions available for hiring, mostly for new hires starting out on their banking career.

**Seniority** – 36% of employees are new employees at the Group (up to 5 years), along with employees who have been with us for over 21 years and constitute 23% of the workforce. The diversity of veteran and experienced employees, alongside new and young ones, allows for preservation of knowledge, organizational memory and professionalism over many years, along with new ideas, growth and development.

**Average seniority at Bank Mizrahi-Tefahot (including overseas affiliates) is 12.6 years**

**Average seniority at the Group is 13.1 years**



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# Promoting fair work environment and employment terms



As part of Bank commitment to its staff, a special policy document was created with regard to care for human resources. This commitment is reflected by implementation of three key principles in Bank operations:

- **Creating a respectful work environment** - The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive, respectful work environment.
- **Caring for employee rights** - The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- **Caring for employee well-being** - Employee well-being is managed as follows: Creating well-being support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

# Caring for employee well-being

## Employee benefits

The Bank emphasizes three circles that accompany the employee throughout their work: professional development, personal joyful occasions and, if needed, in times of crisis and distress. All Bank employees are entitled to benefits, without distinguishing between regular and provisional employees.



### The work cycle

various benefits upon reaching milestones during employment at the Bank: Upon hiring, upon reaching tenure, upon promotion, at milestones based on seniority and upon approaching retirement.



### The cycle of the seasons

benefits and gifts for holidays and other events based on the calendar



### Employees' family circle

benefits for life events of employees and their families. This includes gifts given at events such as birthdays, bar / bat mitzvahs, weddings, births, etc., as well as upon starting in first grade and starting military / national service.

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Bank employees also enjoy a range of other benefits:

- **Banking benefits** – Bank employees also enjoy various benefits in management of their bank account and credit facilities and loans at preferential terms.
- **Benefits for the family** – subsidized day care and kindergartens for employees' children and tuition reimbursement for their children's higher education.
- **Eligibility for study fund**

**Help in times of crisis** – As part of our concern for the family circle, unit managers, with help from Human Resources, accompany and support the employee and their immediate environment when facing difficulties and in times of crisis. In addition to the Bank's support in crisis situations, a mutual aid fund was established at the initiative of the employees. Employees who wish to do so, pay a modest sum out of their salary into the fund, which helps employees in various crisis situations.

**Saluting employees serving on the Military Reserve** – In 2017, a gift kit consisting of a prestigious survival kit was sent to employees serving on the Military Reserve for 5 days or longer. The Bank also recognizes those in the Army reserve at the meeting of all Bank managers.

**Israel Trail** – Bank employees are invited, once a month and at a nominal cost, to walk the Israel Trail, guided by tour guides. In 2017, 500 employees and family members took part in this activity.



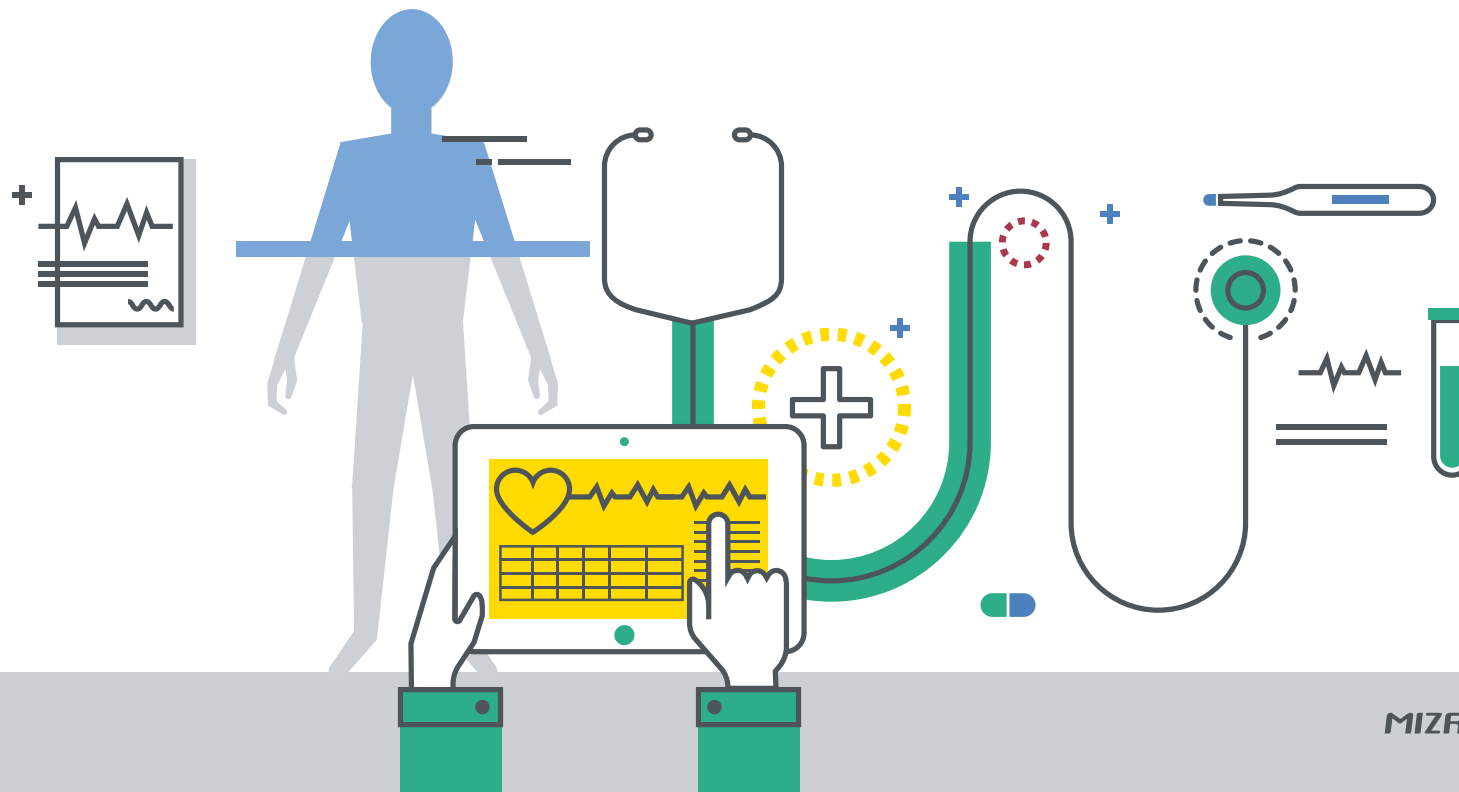
**Good film club** – Employees and their spouses are invited, for a token cost, once a quarter to watch a selected movie at one of several cinemas around the country, along with a lecture and light refreshment. Bank retirees are also invited to take part in this activity, through the Retiree Council. In 2017, 2,100 employees and family members took part in this activity.



## Maintaining a healthy lifestyle

- **Healthy Lifestyle** – As part of promoting a healthy lifestyle among employees, in 2017 we held 6 sessions on these topics: healthy diet, home-work balance, body and mind health and better life coaching. 600 employees and family members attended these lectures.
- **Fun team-building days** – The Bank makes sure that employees go on fun days and team-building activities, which are an opportunity to break out of the routine, relax and re-charge.
- **Gym at the Lod headquarters building** – At the Lod headquarters building, a gym is available to Bank employees, offering a variety of activities and courses during the week, at a nominal cost.
- **Workplace League** – 150 Bank employees take active part in Bank teams, practice and competitions as part of the Workplace League and attend the Sportiada event annually.

- **Medical check-ups for all employees aged 40 or over** – As part of our concern for the health and well-being of employees, the Bank bears the cost of medical check-ups for all employees aged 40 or older.
- **Awareness of disease and plagues** – In case of an outbreak of disease / plague in Israel, the Bank informs employees on how to protect themselves. Handling of such cases is part of the Bank's business continuity plan, in conformity with directives of the Bank of Israel.
- **Well-being Manager** – The Bank appointed a Well-being Manager, tasked with contacting employees who are seriously ill, supporting their requests and needs and assisting employees whose family requires financial assistance for medical treatment.
- **Blood donation** – From time to time, the Bank, in cooperation with the Blood Bank, conducts blood donation campaigns among Bank employees.



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## Maintaining employee safety

The Bank sees great importance in maintaining employee safety, health and security – as an integral part of employment conditions and care for Bank employees. The Bank has appointed a special manager to manage health and safety issues, as required by law.

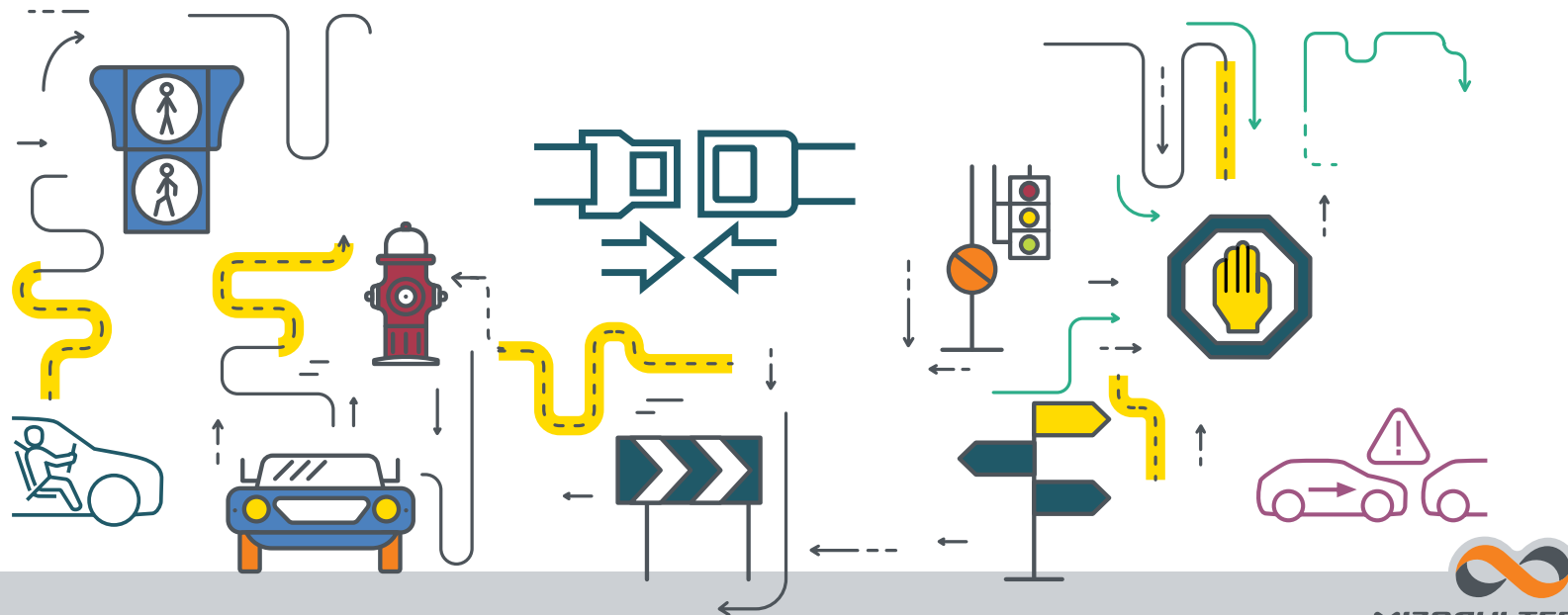
One key aspect of employee safety is road safety. The Bank makes sure to deliver training to employees who use a company car or a leased company car about the car's safety systems and careful driving. As part of the concern for employee transportation safety, the Transportation Safety Officer sends out periodic emails with current updates on winter driving, driving during the holidays etc.

**Road accidents down by 41%** – in 2017 there were 41 road accidents on the way to, from, or during work, compared with 70 in 2016. The Bank will continue to act to reduce the number of road accidents in future as well.

As from 2016, the Bank sends annually a postcard to employees whose children reached the legal driving age, providing tips on accompanying a new driver. In this postcard, the Bank provides parents of new drivers with tips on the following: Safe driving and adapting your driving to conditions around you.

## Addressing distress situations at the branch

As part of safeguarding employee safety, Bank employees receive training on dealing with stress situations at the branch. As part of training delivered to branch staff when they join the Bank, they receive training on conduct during a robbery. The Bank also disseminated additional material and eLearning kits, delivers training on this topic at branches and conducts debriefing of events.



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## Work-life balance

A proper work-life balance and development of professional skills, as well as development of personal interests and personal growth directly affect employee well-being. Therefore, the Bank encourages employees to maintain a balance between work and leisure, provides training for employees on this subject and ensures that employees have free time during the week for their family and other activities:

- **Work week** – The work week at the Bank, for a full time position, is only 39 hours long, compared to 43 hours as stipulated by law<sup>1</sup>.
- **Additional paid leave** – Employees are granted annual paid leave as required by law and based on seniority, and even longer:
  - Holiday days during Hol HaMoed are not fully deducted from employees' paid leave.
  - As from 2018, non-Jewish employees may take five days off every year, paid by the Bank, during their religious holidays. These days are in addition to holidays according to the Jewish calendar, which are not business days at the Bank.
  - The Bank offers additional paid leave to employees upon their wedding, their child's birth, Bar-Mitzva (or Bat-Mitzva) and wedding.
  - Regular employees at the Bank who study for a post-graduate degree while working are credited with paid leave upon graduation.

<sup>1</sup> As of 2017, prior to the entry into force of the extension decree reducing work hours per week in general.

- **Support for caregivers – employees who care for a sick family member** – As a rule, the Bank is considerate of employees and is flexible in crisis situations, when employees are required to care for a sick family member.
- **Vacation pay** – Bank employees are eligible to receive vacation pay, at a rate higher than required by law.
- **Vacation voucher** – Once every year, employees receive a voucher with a specified value, for booking a vacation in Israel or overseas, at their choice.

## Benefits for Bank Yahav employees

Bank Yahav is strict in providing benefits to employees: Eligibility for study fund, summer camp, scholarships, student dormitories, newspapers, vacation pay, annual bonus, benefits from the well-being Fund and clothing allowance. They are also eligible to receive benefits and bonuses on holidays and upon certain events: A bonus to mark 25 years of seniority, gifts on holidays, gifts for personal events and so forth.



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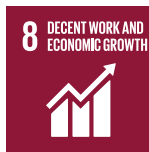
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# Diversity, equality and avoiding discrimination in employment

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender, place of residence nor any other attributes. This commitment is based on the belief that promoting sector equality in the workplace generates social and economic value for the Bank, for employees and for all of society. Hiring employees of diverse ethnic backgrounds allows Bank customers of these ethnic backgrounds to receive service while recognizing their unique needs and providing them with an appropriate response. Diversity is reflected in being able hire any person to work for the Bank; equality is reflected in providing equal conditions to all Bank employees.



## Workplace diversity

The Bank actively recruits employees from various demographics and sectors that are under-represented in the labor market as a strategic step, and to this end also cooperates with designated NGOs and other organizations. The Bank adapts its screening tests in the hiring process (conducted at external, professional screening centers) to candidates from these demographics – usually by providing additional time and the option to be tested in their mother tongue (such as Arabic).

**Jewish Orthodox employees** – As part of the Bank's strategy of expansion in the Jewish Orthodox sector as well, the Bank strives to hire employees from this sector. As part of the Bank's efforts to integrate Jewish Orthodox employees, we are cooperating with Bereshit, the Employment Guidance Institute in Bnei Brak, and with Mafte'ach (Jewish Orthodox employment development centers of JDC-Israel). The Bank also participates in employment fairs designed for hiring from the Jewish Orthodox sector. In 2017, the Bank attended a job fair hosted by Mafte'ach at the Lev Institute of academic studies for Jewish Orthodox men and at the Tal Institute of academic studies for Jewish Orthodox women. The Bank also uses the Glatt Jobs website, dedicated to job searching for the Jewish Orthodox population. These hiring methods are used in conformity with Bank needs.

In 2017, some 20 Jewish Orthodox female employees were hired for custom shifts and adjustments were made to help their integration into the workforce.



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**Arab sector employees** – As part of our commitment and as part of the Bank strategy of expansion in the Arab sector, in 2017 the Bank continued to make a concerted effort to recruit employees from the Arab sector. As part of this recruitment effort, the Bank co-operated with NGOs "Kav Mashve" and "Al Fanar", that refer candidates from this sector to the Bank.

**Additional paid leave for non-Jewish employees** – Employing staff from different sectors requires a work environment that reflects cultural sensitivity and adapts itself to the religious and cultural needs of its employees.

Therefore, as from 2018, non-Jewish employees may take advantage of five paid leave days at the Bank's expense during their holidays, in addition to holidays according to the Jewish calendar, which are not business days at the Bank.

**Integration of employees with disabilities** – the Bank is committed to promoting equal opportunity employment for people with disabilities. In order

to comply with statutory provisions of the Employment of the Disabled Act, the Bank put in place a strategy for including employees with disabilities and locating relevant positions for them in different units. Meetings also took place with the Support Center for Employers of Disabled Persons, at the Ministry of Economics – as well as with various NGOs which specialize in assisting in placement of such employees. In 2017, we added 9 designated positions for employees with disabilities, and the Bank hired a number of employees with disabilities for various positions.

In order to ensure inclusion of employees with disabilities, the Bank's work environment is accessible, and is further adapted when additional needs arise.

**Trainee Student project** – The Bank operates multiple initiatives to employ students during their studies, in order to make it easier for them to find a job later on:

- **"New immigrants together"** – Including students of Ethiopian origin in Bank work during the summer vacation.
- **"ALUMA" NGO, Herzlia Interdisciplinary Center and the Management College** – In 2017, 4 students were hired for practical work at the Bank during their studies, as part of an internship program.



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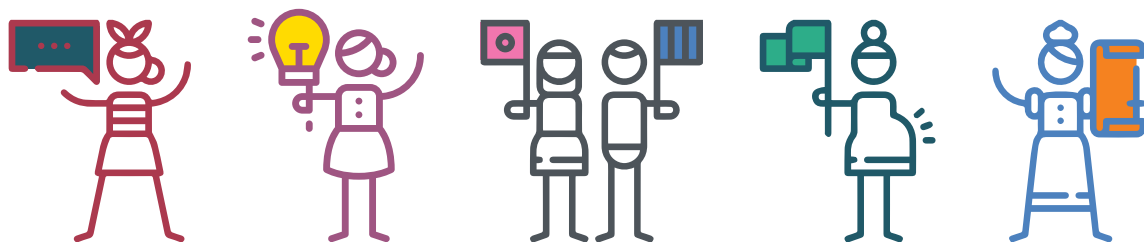
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## Promoting gender equality

The Bank sees great importance in promoting gender equality in the work place. The Bank has an equal opportunity employment policy, with employees hired and promoted based solely on their skills and on needs of the Bank. Each employee's pay, in all ranks and positions at the Bank, is determined regardless of the employee's gender – but rather based on their skills, professional experience and their designated position. Therefore, there are no pay differences between men and women at the Bank. In all areas of operation, the Bank adheres to equal pay to employees in conformity with statutory provisions, and consequently also complies with the binding minimum pay, as well as equality in terms of benefits given to employees.



## Women in management and at the Group

**An increase by 3.7% in the number of women in the Group** – As of the end of 2017, 4,014 women were employed, or 63.2% of the Group headcount, compared with 3,872 women at the end of 2016, or 62.6% of Group headcount at that time.

**An increase by 11% in the number of women managers at the Group** – As of the end of 2017, the number of women managers at the Group was 590, or 49% of all managers, compared with 532 women at the end of 2016, or 47% of all managers at that time.



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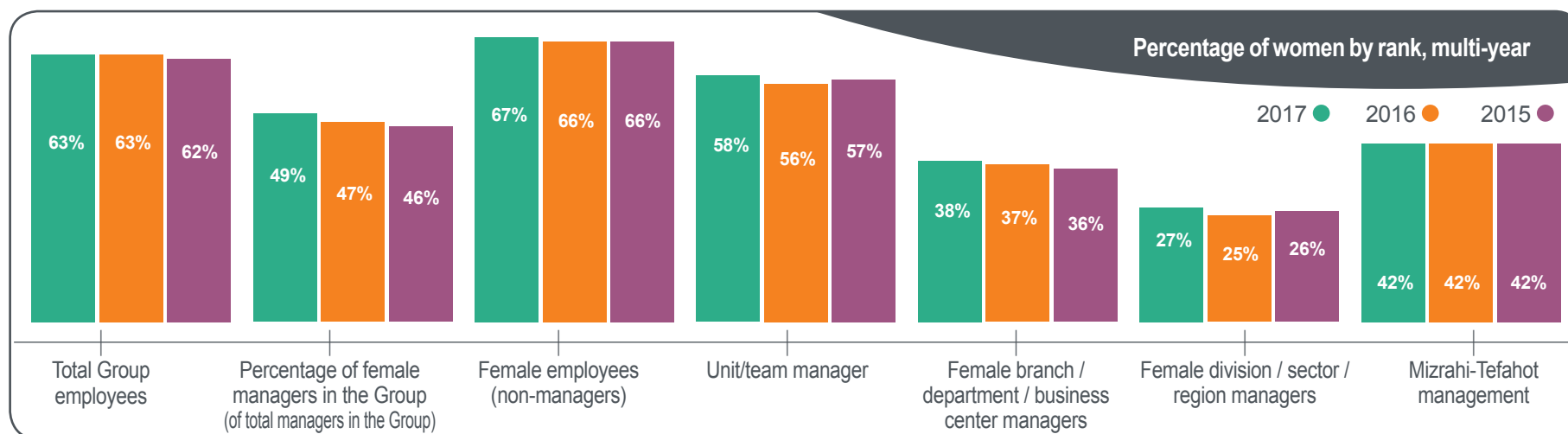
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Total women employed by the Group			
	2015	2016	2017
Mizrahi-Tefahot management	42%	42%	42%
Division / Sector / Region Manager	26%	25%	27%
Branch, Department and Business Center Manager	36%	37%	38%
Unit / Team Manager	57%	56%	58%
Female employees in non-managerial position	66%	66%	67%
Percentage of female managers at the Group (out of all Group managers)	46%	47%	49%
Total women employed by the Group	62%	63%	63%

The data is for Bank Mizrahi-Tefahot and Bank Yahav (excluding overseas affiliates)

## Equal pay for male and female employees

Each employee's pay, in all ranks and positions at the Group, is determined regardless of the employee's gender – but rather based on their skills, professional experience and their designated position.

A recent review conducted by the Bank to compare pay for men and women in similar positions (disregarding employee-specific attributes, such as years of service and individual allowances, such as housing, mileage etc.) showed that on average, there were no significant pay differences between men and women.

## Preventing sexual harassment

As part of the measures designed to ensure a safe and pleasant work environment for employees of all genders, the Bank is committed to preventing sexual harassment. The Supervisor for Prevention of Sexual Harassment is the address for any inquiries on this subject, including anonymous ones. Every complaint is reviewed in conformity with procedures and the circumstances of each case and a decision is made on how to act and what steps to take.

In 2017, we delivered 2,164 hours of training on prevention of harassment (including sexual harassment) and workplace abuse, to 1,444 employees and 399 managers.





# Equal opportunity employment and prevention of discrimination

As part of promoting equality at the Bank, the Bank adheres to a policy for avoidance of discrimination. This applies to discrimination against both employees and customers. Avoidance of discrimination against Bank employees is reflected in processes for equal hiring, employment and promotion while avoiding any kind of discrimination. The Bank also operates an anonymous hot line and fax for employee inquiries as needed.

## Equal hiring

The Group implements a hiring process which ensures equal opportunity to candidates of both genders and various ethnic backgrounds in Israeli society. Candidates are hired based on their skills and on Group needs and the Group does not discriminate against any employee by national, religious, cultural or ethnic affiliation, by race, gender, sexual orientation, disability nor any other attribute.

If necessary, adjustments are made to the recruitment and screening processes, in order to ensure equal opportunity for all candidates. Such relief is typically in the form of additional time or the option to take the test in your native tongue (such as Arabic).

## Equal employment

The Group strictly complies with statutory requirements regarding equal and fair employment.

**Equality in employee benefits** – The Group ensures equality in employee benefits as well. Part-time and full-time employees are eligible for the same benefits, and their employment scope does not affect standard benefits, including vacation reimbursement, holiday gifts, employee gifts etc. Other than standard benefits, some specific benefits are based on scope of employment, with differences between full-time and part-time employees, such as: vacation pay, clothing allowance, paid leave and sick leave.

At Bank Yahav, part-time and full-time employees mostly have equal rights, other than eligibility for study fund, summer school, scholarships, jubilee bonus, housing and clothing allowances.

**Equality in professional promotion** – Group employees are promoted based on equal criteria and on their skill, taking into account only relevant considerations.

In 2017, no complaints of discrimination were received from employees nor from job applicants.



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# Staff training and development

The Bank sees great importance in professional and personal growth of its employees. Bank management regards the development of its staff and constant improvement of the professional and personal skills of Bank employees and managers as a critical component of implementing the Bank's business strategy. Training and personal development processes are applied throughout the employee's employment by the Bank; from mentoring and certification training when starting on the job, through various training programs throughout the career, preparing for the next position through professional or management cadres and through preparation for retirement.

The Bank offers a program of courses, seminars and workshops which support the professional, behavioral and management skills required for the position at the highest standards. Courses are delivered in various fields of operations. In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as extra-curricular external workshops.

The Bank maintains a dialog with employees about their performance and targets, through evaluation and feedback processes. The bank encourages excellence and remunerates employees through bonuses, promotion, individual awards to outstanding employees and recognition of outstanding employees.



## Training and mentoring of employees and managers

The Group's training program includes a variety of courses: training and general interest lectures for employees and managers, both on professional topics (whether or not regulatory mandated), as well as on general topics for expanding their knowledge and for acquiring various personal skills. Each employee is assigned a customized training curriculum, consisting of courses appropriate for their role.

The training center is a strategic partner for cross-bank processes with regard to change management, deployment and training.

Bank Yahav creates an annual training plan for all employees, based on the Bank's work plan and needs, which is then disseminated to all employees.

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- **Training, seminars and workshops** – The Bank offers seminars and workshops which support professional, behavioral and management skills required for the position at the highest standards. The courses delivered cover the various banking topics: loans, investments, service and selling, management, work process deployment, IT deployment etc.

Special emphasis is placed on regulatory training – a deployment method for each regulation, adapted for its complexity and for its relevant target audience. Training also refers to deployment of new content among employees and managers, as well as to maintaining and refreshing skills over time.

- **Learning organization** – The Training Center develops diverse projects designed to deploy a "learning bank" culture where managers and employees regard learning as a continuous activity, which also takes place at their work station. Material is made available to managers and employees on the Bank's learning portal. Mentoring is provided as part of starting in a new position, computer-based kits for individual learning are provided etc.

- **Academic education** – The Bank encourages achievement and expansion of academic education of its employees, as well as training through external workshops.

- **Extra-curricular classes** – The Bank offers its employees various extra-curricular courses for enjoyment and for development of skills – even beyond what is needed for their position, such as language courses. This year, too, the Bank continued the Tree of Knowledge project, with presentations given by senior lecturers from business and academia. In 2017, we delivered 5 presentations. Each session was attended by 100 managers and headquarters employees. In addition, the Bank conducted training on work-life balance.

- **Personal mentoring program** – The Bank emphasizes professional and managerial mentoring. Every employee starting in a new position is mentored by a colleague and by the unit manager, using a structured, customized mentoring program. Employees attending managerial courses are mentored by other managers at various levels.

- **New learning system** – In 2017, we deployed a new learning system to provide employees with transparency about their planned personal training plan and details of training already completed. The system also allows managers to directly keep track of employees' professional development.

In 2017, we delivered 270,146 training hours

Average hours of training in 2017 <sup>1</sup>			
Average hours of training in 2017	Female	Male	Average – overall
Managers	52.2	47.1	49.5
Employees	40.2	42.1	40.9
Headquarters	22.3	20.6	21.5
Branches	51.8	62.3	55.2
Average hours – overall	42	43.4	42.5

Data for women includes those on maternity leave which are not actually present at the Bank, which explains the difference in average hours for men and women. This is especially the case given the young population at the Bank, with significant occurrence of maternity leave.

<sup>1</sup> Total and average hours in this report are presented differently from how they were presented in previous reports. This is in order to present a comparison between male and female employees in each category – managers, employees, headquarters and branches.



## Review of training program effectiveness

In order to improve professional skills and to streamline learning processes, a structured process is in place for testing the effectiveness of new learning content as well as of existing learning content. This review is conducted on different levels:

- Participants complete feedback forms at the end of the training, designed to review their satisfaction with the training; employees and managers also provide feedback over time, in order to review the contribution of training to improved performance, deployment and application of knowledge during day-to-day work. In accordance with feedback received, required changes are made and their implementation is monitored.
- Once every other month, the relevant staff convenes at the training center in order to review feedback received and to decide on any changes required in order to improve training.

Participants in the various training sessions rated the effectiveness of activities at the Bank's Training Center. In 2017, the effectiveness rating was 4.6 (out of 5).

## Training employees on human rights topics



The Bank sees great importance in having all Bank employees be capable of handling issues related to human rights, in all aspects of their work. This is a major cornerstone of Bank life and one of its key values.



**Preserving human rights in Bank operations** – As part of the Bank's commitment to preserve human rights, the Bank preserves human rights in all areas and avoids any action or business initiative which may impact human rights. To this end, the Bank delivers training on topics including the following: preventing sexual harassment, customized training for security staff on limitations on the use of force etc. The issues of preventing discrimination and respecting human rights are handled at the Bank by the Human Resources and Administration Division with regard to employee hiring and employment, by the Retail Division, Business Banking Division and Financial Division with regard to avoidance of discrimination in customers recruitment and in provision of service to customers.

The Bank sees great importance in having all Bank employees be capable of handling issues related to human rights. To this end, the Bank provides training with regard to human rights, including training for deployment of the Code of Ethics and prevention of sexual harassment.

In 2017, Mizrahi-Tefahot Group delivered 17,077 hours of training on policies and procedures with regard to human rights aspects relevant to Bank operations. In 2016, we delivered 22,436 training hours on these subjects. (The decrease in the number of training hours was partly due to the fact that in 2015-2016, a wide range of training sessions and workshops were delivered on accessibility and prevention of sexual harassment to all Bank employees, whereas in 2017, only new employees received such training, with other employees taking a refresher learning kit, which required fewer training hours).

As part of training on human rights issues, content was delivered on the following topics: preventing sexual harassment in the work place, equal opportunities at work and accessible service, ethics and public inquiries. A refresher eLearning course about accessible service was also delivered to all Bank employees.

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## Career development tracks

**Promoting employees to management positions** – the Group encourages promotion of its employees to management positions and provides them with tools for this purpose. In 2017, 99% of management appointments were promotions of Bank employees, compared to 97% in 2016.

The Bank offers multiple career development tracks for both employees and managers:

- Manager development program** – This program is intended for branch-department- and other managers. The program consists of multiple courses, individual advice and seminars on management skills.
- Training program for management cadre** – The Bank has developed programs to train suitable employees for future positions, in both their professional and managerial capacity. Employees and managers found it suitable to undergo diverse training as part of this program, such as: management cadre, MATARA program for training managers for senior positions and employee training program for future professional positions (business management cadre).
- Manager training at Bank Yahav** – Bank Yahav offers a management cadre training course, intended for training of incumbent and potential managers on different levels. These employees are selected based on a screening process, which may be undertaken by any employee with the appropriate seniority and experience.



## Caring for employees approaching retirement

As part of its responsible employment policy, the Group cares for employees about to reach retirement age (or as part of early retirement agreements):

**Employees retiring at the legal retirement age** are eligible to a pension from the pension fund. Contributions to this fund on behalf of Bank employees are made in conformity with the law.

**Employees retiring before the legal retirement age (early retirement)** – Employees confirmed for early retirement have two tracks available to them: the early retirement track and the increased severance pay track. Retiring employees in these tracks are also eligible for Bank assistance in financing training courses.

Employees about to retire from the Bank at the legal retirement age, as well as employees taking early retirement, are invited to attend a retirement workshop and are eligible to benefits in account management, holiday gifts as well as cultural events organized by the Retiree Council.

Bank Yahav offers an increased severance pay track for employees taking early retirement. Bank Yahav retirees enjoy various benefits, such as gifts on holidays or birthdays or attending extra-curricular courses and leisure activities. The Bank also provides a budget for the Retiree Council and for trips and lectures for Bank retirees. The Bank offers a contribution towards payment of a retirement advisor's fee to employees with over 30 years' service.

In 2017, 23 female and 37 male employees retired after many years of diligent service for the Group.

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## Ensuring employee rights

The Bank maintains a continuous dialog with employees and with employee representation and ensures that employee rights are maintained.

Labor relations with managers and employees are governed by the collective agreement with each sector's representative labor union.

The Bank informs employees in advance of organizational changes, so that all parties involved may find the optimal solution in full co-operation. All re-organization takes place with professional assistance, sharing change leadership with managers. Upon termination, the advance notice period takes into consideration the employee's needs and system constraints – but no less than required by law.

The Bank ensures the rights of employees – and human rights in general. The Bank does not employ children nor practices forced labor. Moreover, the Bank ensures that suppliers engaged by the Bank are also meticulous about safeguarding employee rights.

## Management-employee relations and ensuring the right of association

93% of Group employees in Israel are subject to collective bargaining agreements. Mizrahi-Tefahot (including the Technology Division) – 94% of employees, and at Bank Yahav – 90% of employees. All other Bank employees are employed in conformity with individual employment contracts.

94% of all Bank employees are represented by one of three different Employee Unions: Mizrahi-Tefahot Employee Union, Council of Managers and Authorized Signatories and Mizrahi-Tefahot Technology Division Ltd. Union.

Bank managers are aware of the guidelines and procedures that ensure operations of these Employee Unions and act accordingly.

**The following key events in management-employee relations took place in 2017:**

- **Economic Arbitration 2005-2015** – In 2017, the economic arbitration for 2005-2015 continued between Mizrahi-Tefahot management and employee representation. This arbitration would continue in 2018.
- **Labor Agreement 2016-2021** – in 2017, in light of disagreements during negotiations between Bank management and the Employee Union with regard to a labor agreement for 2016-2021, the Employee Union called a labor dispute and on August 2, 2017 launched a general strike that lasted until August 15, 2017 (for 10 business days in total). During this strike, the Bank made every effort to operate its services and to provide services to customers, based on the available staff.

During the strike, Bank management instructed its managers to respect the right to strike and re-iterated guidelines on how to act during a strike.

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The strike ended with fundamental understandings on the issues in dispute and after intensive negotiations, on December 13, 2017, the Bank Board of Directors approved the labor agreement for 2016-2021.

The labor agreement includes wage raises for all employees, an additional ROE bonus, benefits for kindergarten and schooling, for credit facilities and additional management pay to unit and team managers.

Part of the wage raise is uniform for Bank employees of all ranks, thus creating a relatively higher raise for low-wage employees.



## Ensuring wages and social benefits in conformity with legal requirements

**Compliance with legal requirements** – In all areas of operation, including at its overseas affiliates, the Bank adheres to equal pay to employees in conformity with local employment laws and consequently also complies with the binding minimum pay. Note that for employees employed under the collective bargaining agreement, pay is updated annually. The Group also adheres to all statutory requirements with regard to taking maternity leave, work hours and other labor laws.

**Increased social benefits** – The vacation pay to Bank employees is higher than required by law, as is their number of sick leave days.

**Maternity leave** – By law, employees returning from maternity leave are assigned their old job, and any changes are made in strict coordination with the employee. In 2017, 498 female employees and 5 male employees went on maternity leave, and 244 female employees and 5 male employees returned from maternity leave.

## Reducing wage gaps

As from October 12, 2016, the maximum remuneration payable to Bank employees is subject to the restrictions stipulated in the Remuneration Act (as set forth in the chapter "Commitment to accountable conduct" – Remuneration Policy, p.131). Terms of office and employment of the Bank Chairman and of the Bank President & CEO, which have been adapted to limitations stipulated in the Remuneration Act (i.e. the ratio of their anticipated remuneration expense, as defined in the Act, to the expense for the lowest remuneration of a full-time position paid by the Bank, directly or indirectly, must be less than 35), have been approved by the General Meeting of shareholders on February 14, 2017.

## Promoting employment security

The Group strives to promote employment security among its employees as follows:

1. After a relatively short time of only 3 years, the Bank decides to grant tenure to employees, in accordance with the relevant procedure. As of the end of 2017, 72% of Bank employees have tenure (70% of Group employees).
2. Career development tracks and creation of a long-term employment horizon for Group employees.
3. The collective bargaining agreement provides a solution in cases of downsizing due to streamlining.

Group employees with tenure	2016			2017		
	Female	Male	Average overall	Female	Male	Average overall
<b>Fixed</b>	2,754	1,598	4,352	2,822	1,619	4,441
<b>Provisionary</b>	962	443	1,405	1,022	451	1,473
<b>Other</b>	156	272	428	170	270	440

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# Employee remuneration

The Bank applies multiple measures to remunerate and provide positive incentives to employees, including:



**Promotion** – Once a year, in accordance with the recommendation of management and of direct supervisors, the Board of Directors decides on promotions across the organization, based on performance in the past year.



**Individual bonus** – Once a year, in accordance with the Group's financial standing and taking into account other business considerations, the Board of Directors decides on bonuses to be awarded, their rate and how they are to be distributed. Bonus eligibility and amount are determined, for each employee, based on their achievement of targets and on their supervisors' recommendation.

Part of the bonus is paid uniformly to all employees, and another part is paid based on personal performance of the employee and their contribution to the Bank's success.



**Wage increase bonus and ROE bonus** – As from 2017, the Bank pays its employees subject to the collective bargaining agreement a variable bonus based on achievement of return on equity targets. In addition, part of the ROW bonus will become fixed as a fixed wage increase, subject to achievement of minimum ROE.



**Outstanding employees** – The Bank recognizes outstanding employees at both the balance sheet conference, where outstanding employees are recognized by Bank management and at the outstanding employee event, attended by the Bank President. Outstanding employees are selected by recommendation of their supervisor, their achievements and their contribution to the Bank.

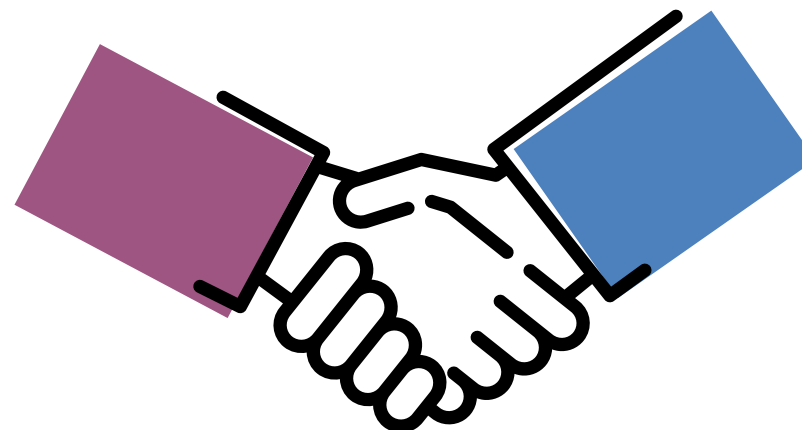


**Individual awards** – The branches offer a program of incentives and remuneration, based on excellence in various benchmarks, in branch activities and in special drives. Remuneration is typically paid at the branch level and is designated for team building and leisure activities for branch employees. Bank headquarters awards individual prizes in recognition of employees who posted outstanding achievements in their work.



**Efficiency improvement suggestions by employees** – The Bank sees great importance in promoting innovative initiatives and in improving work processes and customers service processes. The Bank operates a committee for "promoting initiatives for improvement, savings and streamlining", whose role it is to discuss employees' suggestions for improvement and streamlining of work processes. The committee convenes quarterly to discuss the suggestions submitted. The best suggestions are implemented by the Bank and awards are given to those who made these suggestions. These awards are presented at a grand ceremony, attended by the Bank President & CEO. This is a positive tradition very successfully deployed at the Bank, which is an important value in the Bank's organizational culture.

**In 2017, employees submitted 1,033 improvement suggestions.**



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## Maintaining a dialog with employees and expanding intra-organizational communication

The Bank sees great importance in maintaining a constant dialog with Bank employees and managers, as part of the Bank's responsible employment policy. In order to expand the discourse with the employees, the Group operates in two complementary channels:

1. Maintaining an on-going dialog with employees and expanding intra-organizational communication.
2. Providing regular feedback annually to employees

In order to foster an organizational culture of open discourse, the Group acts as follows:

- **Accessibility to employees** – Maintaining constant contact with all employees, through HR staff frequently present at all units and the HR Desk available to answer questions from employees.
- **Direct meetings** – The members of the management and senior management of the Group conduct tours of all units and branches, and regularly and directly meet with employees throughout the country.
- **Running forums** – The Bank operates several forums, whose members include employees and managers from different levels and departments. Such a meeting between representatives of different levels and departments enhances communication between Group departments and improves their mutual work interfaces. The forums managed by the Bank include an Internal Communication Forum, consisting of representatives of all units and branches, which convenes periodically to discuss ways to improve internal communication.



- **Meetings of senior executives and employees** – During banking courses, executives deliver presentations to employees and present the division they head.
- **Monthly information bulletin "Among Us Online"** – In 2017, the Bank issued 5 issues of "Among Us Online" – an employee newsletter published on the internal website for Bank employees – for a total of 39 issues to date, with an average of -1,600 employees who read the various articles.
- **"Among us, this is serious"** – The "Among us, this is serious" website lists aspects and milestones for professional and personal assistance to employees.
- **Round Tables** – In 2017, the "Round tables" project was launched, which invites all Bank employees to open discussions, led by a senior manager or executive, on issues that are on the Bank's agenda. The project resulted in three meetings attended by 84 employees. This activity is another step in promoting intra-organizational communications at the Bank, based on the wish to conduct a dialog and raise ideas regarding the Bank's key activities and processes.

## Providing feedback to employees

The Group ensures that employees receive regular feedback about their performance. In 2017, 100% of Group employees received feedback in a personal discussion or meeting.

Feedback is provided in a personal talk. Soon prior to the evaluation date, workshops are provided on this topic and an explanation of the evaluation process is disseminated. Workshops on employee evaluation are provided as part of the management training process as well.

The feedback is mutual feedback and allows employees to provide feedback on what is going on at the bank.





## Targets

### Achievements of 2017

Target	Status
Increase recruitment in various population segments, in conformity with Bank footprint	Done
Continue activity to recruit and hire employees with disabilities	Done
Expand the range of activities for wellbeing of employees and their family members, such as: "Health on the Map" – A range of workshops and presentations on diet and fitness	Done
Train all new Bank employees on ergonomical design	Done
Deploy new learning system to provide employees with transparency about their anticipated training plan and details of training already completed	Done
Expand internal communication channels through the Round-Tables project – inviting employees to attend discussions of strategic issues	Done



### Targets for 2018

- Recognition for retirees – Assistance and recognition for Bank employees upon reaching retirement age, through a retirement workshop
- Continue activity to recruit and hire employees with disabilities
- Expand recruitment of employees from diverse demographics, according to the geographical distribution of Bank branches
- Expanding extra-curricular activities for employees in the fields of health and well-being.
- Reinforce intra-organizational communication through organization-wide conferences and general interest days
- Expand and intensify transparency and information accessible to employees in training areas, through the new Learning Management System (LMS)
- Improve training effectiveness by using the new learning system

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# Investing in the Environment



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**40 tons**  
Reduced paper  
consumption  
Compared to  
last year

**Recycled paper  
consumption at  
7.4%**  
Of total paper consumption  
across the Group  
(in 2016: 6.9%)



**1.2%  
decrease**  
in power consumption  
per employee

**58%**  
of total paper  
Purchased by the  
Group is being  
recycled



**Recycled  
12,600  
bottles and cans**  
**Reduced paper**  
The deposit money for the  
bottles was donated to  
families in need

**Reduced carbon  
footprint intensity**  
This year as well, the Group reduced  
its carbon footprint per employee  
**by 8%**  
compared to the  
previous year.



**6%**  
decrease in fuel  
consumption



Investing in the  
**Environment Overview**

**"Ecommunity"**  
Cooperation with a  
social enterprise for  
recycling electronic  
waste, which includes  
employees with  
disabilities

**38%  
increase**  
in treatment  
of electronic  
waste



**38,400**  
**video conferencing  
call minutes**  
Resulting in fewer employee trips  
between Bank sites  
**42% increase in call minutes,**  
compared to 2016



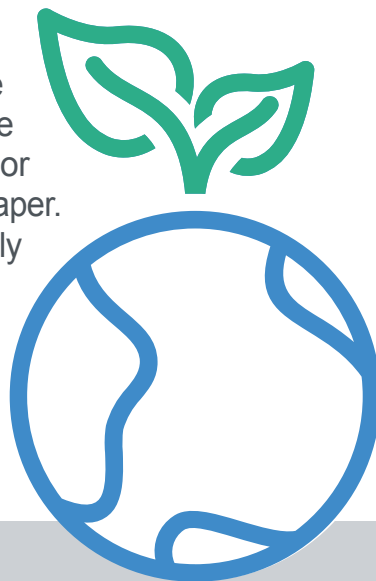
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## Group responsibility for the environment



The Group recognizes the impact of its operations on the environment and on the Earth's climate, primarily due to resource consumption and incorporating environmental considerations in decision making when extending loans. Therefore, the Group strives to minimize the negative environmental impact of its operations by reducing material consumption, improving energy efficiency and managing environmental risk. These matters are managed at the Bank by the Business Banking Division with regard to environmental credit risk management and by the Logistics Department of the Human Resources and Administration Division with regard to consumption and improved energy efficiency.

Bank operations are primarily office work; therefore, in order to reduce this impact, the Bank strives to reduce its material consumption. The major resource consumed by the Bank is paper. Environmental management is mostly carried out on these three fronts:



- **Reduce paper consumption at the Bank** - As part of the Bank's commitment to reduce paper consumption, the Bank strives for more intelligent use of paper on these levels: First, reduce the need for printing (at branches, in printing centers and for customer mailings); second, by using recycled paper and by transitioning customers to electronic mailing (as permitted by the Bank of Israel). As a result of all the activities in this field, we see a steady decline in the volume of paper consumed, and an increase in the rate of recycled paper usage out of total consumption.
- **Waste recycling and processing** - The Bank sees the importance of reducing its negative environmental impact due to waste generated in the course of business and therefore, the Bank operates multiple waste recycling initiatives. Waste recycling is focused in four key areas: paper, bottles & cans, printer ink & toner cartridges and surplus electronic products.
- **Compliance with environmental regulation** - The Bank complies with all applicable laws, including environmental legislation.

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## Reducing paper consumption

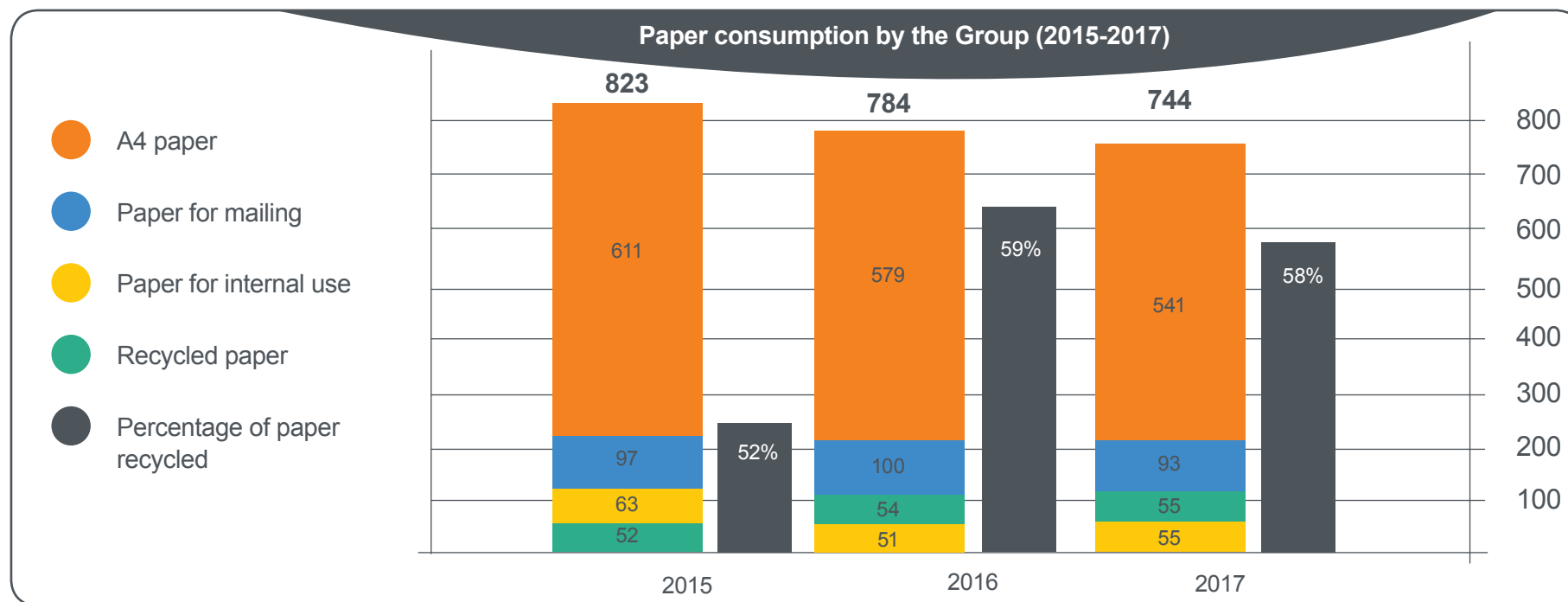
The Group uses paper mainly for forms, letters to customers, report printing etc. Note that a considerable percentage of the paper is produced according to Bank of Israel directives for customers and is hand-delivered to them.

	2015	2016	2017
Total paper consumption (tons)	823	784	744
Recycled paper used as percentage of total paper consumption	6.3%	6.9%	7.4%

In 2017, the Group reduced the paper used by 40 tons, 5% lower than in 2016, despite the increase in the number of employees and branches in 2017. One of the reasons for this reduction is the "paper-less branch" project, to be continued in coming years, so that a further decrease is expected in 2018. Another reason for the reduced paper consumption is the print capture option to a digital file, printing only the copy required for the customer.

Along with efforts to reduce consumption, the Group acts to include purchasing of recycled paper, such as toilet paper and paper towels, as well as purchase of electric hand dryers to reduce paper consumption. This purchasing in 2017 constituted 7.4% of total paper consumption by the Group, 0.5% higher than in 2016.

All recycled paper used by the Bank is made of 100% recycled fibers, and the Bank ensures that raw materials used by the supplier are from an approved source and compliant with international standards.



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## Waste recycling and processing

Waste treatment at the Bank focuses on separating waste into 3 types: Paper, electronic and inkjet cartridges.

Waste type	Processing type	Destination for removal	Volume in 2015 (in tons)	Volume in 2016 (in tons)	Volume in 2017 (in tons)
Paper waste	Sent for recycling (tons)	KMM	428	465	432
Percentage of paper waste sent to be recycled as percentage of total paper purchased			52%	59.3%	58.1%
Handling of electronic waste	Scrap (tons)	Ecommunity	14	22	35
Processing of inkjet and toner cartridges	Shred (units)	KMM and Cahila	16,271	18,065	14,851

Along with the decrease in absolute paper consumption and the increase in use of recycled paper, in the past three years there was also an increase in the percentage of paper sent to be recycled as percentage of total paper purchased. In 2017, the Group sent for recycling 58% of the total paper purchased by the Group, compared to 52% of total paper purchased in 2015, a 6% increase in two years.

In 2017, there was also a decrease in the number of inkjet and toner cartridges sent for shredding, compared to 2016 (an 18% decrease) and compared to 2015 (a 9% decrease). This is due to the reduction in paper consumption and to massive replacement of older printers by newer, more economical ones. The printer replacement also resulted in increase in electronic waste sent to be scrapped in 2017.



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## Campaigns to promote recycling by employees

As part of diverse actions taken by the Bank to deploy the values of sustainability, the Bank promotes campaigns designed to promote recycling by employees. These campaigns focused in particular on recycling of bottles, batteries and electronic waste. In order to increase employee awareness of this matter, the Bank placed special signage to promote recycling. In each of the designated areas, these campaigns were successful and achieved great cooperation and satisfaction among employees.



### Recycling bottles

The Bank has placed containers for collecting cans and bottles. In 2017, 12,600 containers were collected, and the deposit money for the bottles was donated to families in need.



### Recycling of batteries and electronic waste

The Bank is part of Ecommunity, a social corporation for recycling of electronic waste which employs and includes employees with disabilities. Bank employees are reminded to bring used batteries and electronic waste, which is collected in containers placed around the Bank.



### Collecting clothes for donation and recycling

In the Bank's office building in Lod, we placed a container for collection of clothes from employees and their families. The collection is conducted in cooperation with the "Pitchon Lev" NGO.



### Reuse of furniture

When a property is sold / returned, the Bank reviews if the furniture can be used elsewhere at the Bank – and if so, the furniture is relocated. If this is not possible – the furniture is donated to the community.

## Improved energy efficiency

Due to activities in office buildings, energy consumption is one of the Group's most significant environmental impacts. Therefore, the Group manages and measures this and takes steps to improve energy efficiency. This issue is managed by an Energy Efficiency Committee, consisting of professionals from the Logistics Division and permanent professional consultants. The role of the Committee is to consider any idea and suggestion for improved efficiency – from buying advanced systems with the capacity for analysis and control, to help reduce energy consumption, through adjustment of the temperature of cold water in cooling units according to the temperature outside, business hours, turning off lights or turning off air conditioners in bulk after business hours etc.

In 2017, a comprehensive energy survey was conducted in all headquarters buildings and in 15 branches across Israel. Chiller efficiency (COP) was measured and recommendations were prepared made for preparation of a multi-year work plan on this subject.



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### Energy consumption at Mizrahi-Tefahot Group (excluding overseas affiliates)

	2015***	2016***	2017	Change compared to 2016
<b>Total power consumption (KwH*)</b>	<b>35,912,433</b>	<b>35,420,720</b>	<b>35,490,911</b>	+0.2%
Total power (GJ**)	129,285	127,515	127,767	
Consumption per employee (KwH)	5,923	5,727	5,658	
Bank area (m2)	123,312	126,340	124,022	-2%
Consumption per m2	291	280	286	+2.1%
<b>Total fuel consumption (liters)</b>	<b>729,016</b>	<b>731,837</b>	<b>690,497</b>	-6%
Total fuel (GJ)	24,492	24,576	23,194	
<b>Total diesel consumption (liters)</b>	<b>95,202</b>	<b>101,366</b>	<b>110,344</b>	+8%
Total diesel (GJ)	3,516	3,726	4,061	
<b>Total energy (GJ)</b>	<b>157,293</b>	<b>155,817</b>	<b>155,022</b>	<b>-0.5%</b>

\* KwH – kilowatt-hour

\*\* GJ – Giga Joule – unit for measuring energy

\*\*\* Energy calculation in 2017 differs from the calculation in previous years. Consequently, a recalculation was also made for 2015 and 2016, hence data differs from data listed in the 2016 report.

The data above shows a 1.2% decrease in power consumption per employee, with negligible growth in total power consumption by the Group, resulting from business growth. In summary,

**1.2%**

**0.5%**

in 2017 the trend of increased energy consumption efficiency at the Group (power and fuel) continued, with total energy consumption down by 0.5%.



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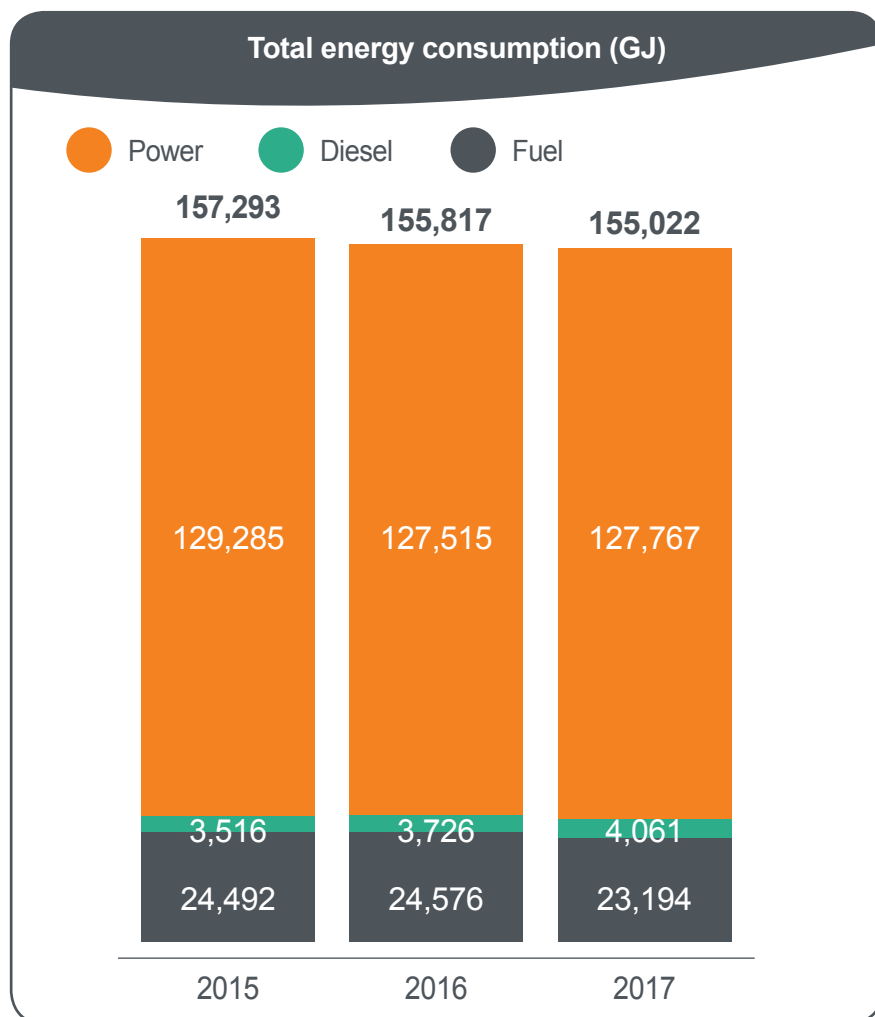
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The increase in diesel consumption is due to expansion of cash transportation services provided to external parties through courier vans operated by Mizrahi Security Services. In 2017, additional courier vans were purchased.



## Improved energy efficiency measures for power consumption

- Use of LED lighting**  
 Gradual replacement of lighting fixtures at Bank premises to use low-cost lighting. It is Bank policy to install low-cost lighting in any branch or facility newly constructed or refurbished. In addition, lighting is gradually replaced with LED lighting at existing branches as well.
- Operation of control systems at headquarters buildings**  
 The system controls turning off of lights outside of business hours and can automatically turn off lights after business hours and reduce lighting in parking garages. The system automatically turns off the lights in each Bank headquarters building according to a pre-defined schedule. The Bank also installed a lighting control system which automatically turns off the lights in empty rooms and turns it back on when someone enters the room.
- Power savings at Bank headquarters in Lod**  
 This was achieved by adjusting the temperature provided by the AC system to the desired air temperature – increasing the temperature of cold water flowing in the AC pipe system in the headquarters building in Lod. The adjustment is made based on specific requirements for each area. In addition, the operating schedule of the AC system was aligned with business hours in the building; sometimes, a decision was made together with the business units to concentrate activity in certain areas in order to allow the system to be disconnected in the evening hours. This matter is under review and adjustments are regularly made.



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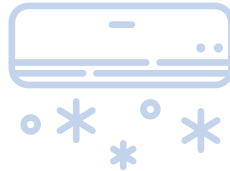
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- **Use of emergency generators during regular peak hours**  
According to an agreement signed in 2014 with IEC, the Bank sells electricity to IEC during peak hours, on demand, by operating its emergency generators. This was in order to help reduce peak consumption at the national level and to make use of diesel in generators at the Technology and Logistics Center.

- **Installation of diesel circulation system in generators**  
in order to avoid soil pollution by unusable diesel and to extend the useful life of diesel.

- **Replacement of older, inefficient AC systems at branches**

In 2017, systems were replaced at 2 more branches.



- **Installation of VM servers at DRP facility**

In 2015-2016, new servers were installed at the Technology- Logistics Center and at the DRP facility. This is a consolidation of computer servers, so that one physical server contains 15 virtual servers, for savings in footprint, power and AC consumption.

- **Efficient space utilization**

The Bank regularly reviews the efficient utilization of all its assets. In case of need for additional work stations, the first planning option considered is how to do so without any additional space, by re-organization of the work areas. The Bank also regularly reviews and carries out sale / return of surplus space. More efficient use of space indirectly results in savings in power consumption as well.

In 2017, space reduction was approved at 8 branches. Despite the increase in headcount and continued opening of new branches in 2017, the Bank's total space was reduced compared to 2016. This is further evidence of the bank's successful use space.

## Improved energy efficiency measures for fuel consumption

Several complementary measures were taken in order to reduce fuel consumption in the organizational vehicle fleet. In addition to reduced fuel consumption, these measures streamline the use of time and save costs:

- **Transition from in-person meetings to video conferences**

Since 2012, the Bank started installation of video conference systems at headquarters and regional buildings. In 2014, a system was launched to measure the number of such meetings, to allow the Bank to better estimate the savings due to this initiative. These calls result in fewer employees traveling between Bank sites.

Furthermore, the call volume increased from 27,000 call minutes (1,000 calls) in 2016 to 38,400 call minutes (1,240 calls) in 2017.

Conference call minutes 2015-2017

2015	2016	2017
24,000	27,000	38,400



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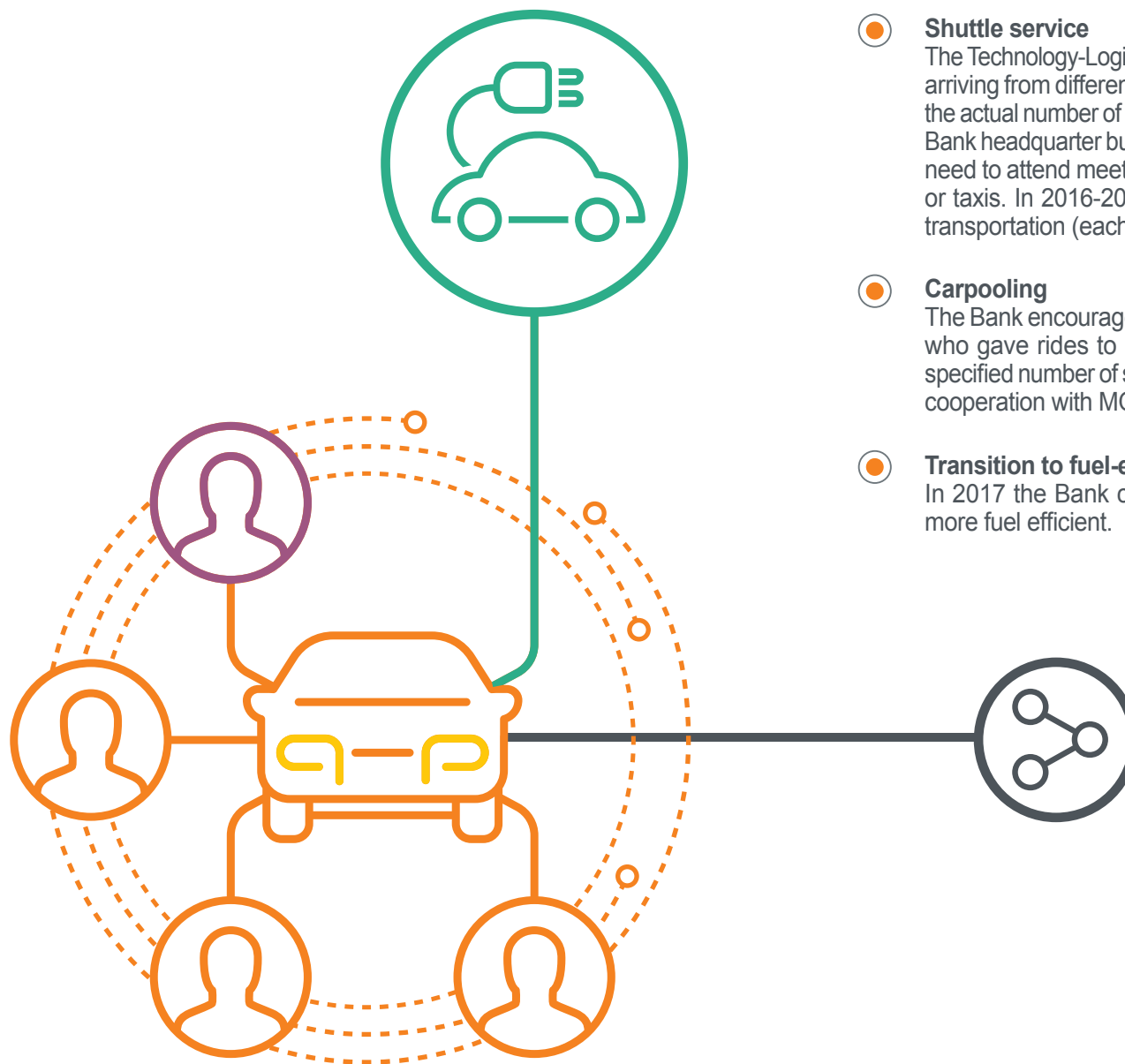
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### Shuttle service

The Technology-Logistics Center operates a shuttle service for employees arriving from different locations around Israel. The shuttle size matches the actual number of passengers. A shuttle service also operates between Bank headquarter buildings in Ramat Gan and in Lod for employees who need to attend meetings, so as to reduce the use of their own vehicles or taxis. In 2016-2017, 350 employees made daily use of organized transportation (each year).



### Carpooling

The Bank encourages employees to carpool, by rewarding employees who gave rides to other employees and who have accumulated a specified number of signatures on a specially designed card and through cooperation with MOOVIT.



### Transition to fuel-efficient vehicles

In 2017 the Bank continued purchasing hybrid vehicles, which are more fuel efficient.

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## Carbon footprint

As part of the desire to reduce climate change, the Group carefully measures greenhouse gas emissions caused by direct consumption of fuel and diesel (Scope 1), indirect emissions as a result of power consumption at the Bank (Scope 2) and other indirect emissions along the supply chain. In 2017, we calculated for the first time emissions due to business flights, paper consumption,

paper waste being recycled, and electronic waste being scrapped (Scope 3).

Measurement of greenhouse gas emissions is carried out in accordance with the Green House Gas Methodology (GHG) methodology<sup>1</sup>, using calculation adjustments specified by the Ministry of Environmental Protection.

The calculation excludes Group operations overseas.

Mizrahi-Tefahot Group's carbon footprint (CO <sub>2</sub> eq)				Change in % compared to 2016
	2015	2016	2017	
Scope 1 – direct emissions due to fuel consumption	1,965	1,989	1,917	-4%
Scope 2 – indirect emissions due to power consumption	24,988	21,347	20,185	-5.4%
<b>Total carbon footprint (CO<sub>2</sub>e) – Scope 1 and 2 only</b>	<b>26,953</b>	<b>23,336</b>	<b>22,102</b>	<b>-5.3%</b>
<b>Carbon footprint intensity (CO<sub>2</sub>e tons per employee) – Scope 1 and 2 only</b>	<b>4.5</b>	<b>3.8</b>	<b>3.5</b>	<b>-7.9%</b>
Scope 3 – Other indirect emissions in the supply chain as due to business flights, paper consumption and waste (electronic and recycled paper) <sup>2</sup>	Not measured	Not measured	661	
<b>Total carbon footprint (CO<sub>2</sub>e) – Scope 1, 2 and 3</b>	<b>-</b>	<b>-</b>	<b>22,763</b>	<b>-</b>
<b>Carbon footprint intensity (CO<sub>2</sub>e tons per employee) – Scope 1, 2 and 3</b>	<b>-</b>	<b>-</b>	<b>3.6</b>	<b>-</b>

<sup>1</sup> <http://www.ghgprotocol.org>

<sup>2</sup> Emissions in Scope 3 exclude emissions involved in paper transportation and waste transportation to waste treatment facilities.

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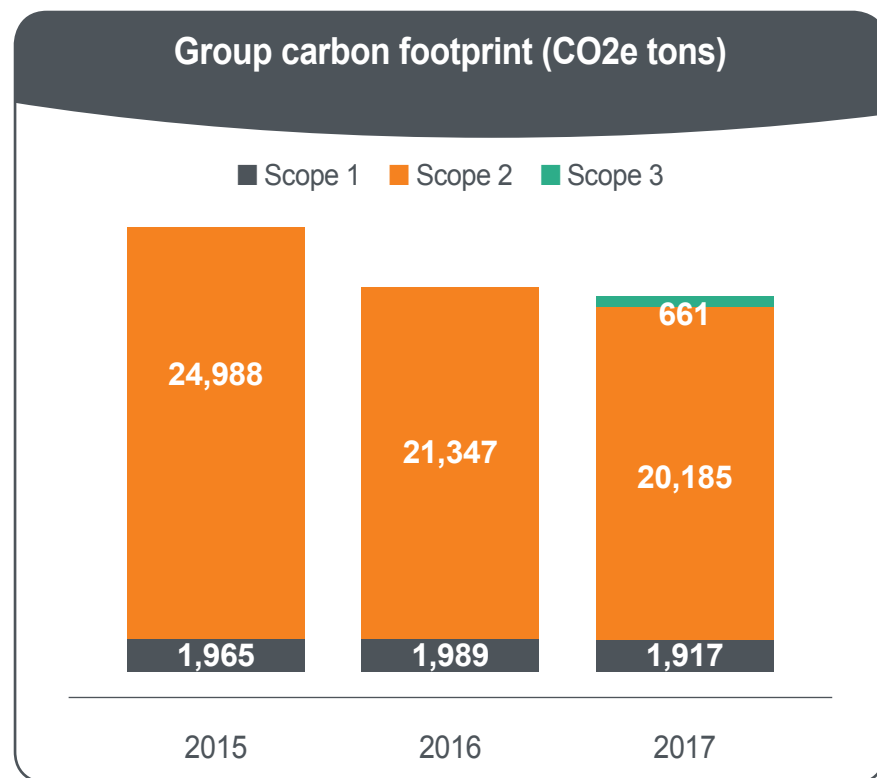
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Greenhouse gas emissions in Scope 1 and 2 decreased in 2017, compared with 2016, both in absolute terms – a 5% decrease – and per employee (carbon footprint intensity) – an 8% decrease.

This being the first year in which the Group has reported total emissions in Scope 3, a comparison including this Scope will be reported in the Group's next report, for 2018.



\* In 2015 and 2016, Scope 3 was not measured, hence the chart includes no data on GHG emissions in Scope 3 for these years. Note that this does not imply that there were no emissions for Scope 3 in these years.

## Dialog on environmental issues

Mizrahi-Tefahot Group maintains a dialog on environmental issues, focused on discourse with relevant customers and suppliers about the environmental impact resulting from their operations.



### Suppliers

During visits by the Logistics Division to strategical suppliers, they administer a specific questionnaire on environmental issues. This questionnaire tests the extent to which suppliers act in conformity with social responsibility, including environmental aspects thereof. This questionnaire poses the following questions to suppliers: Where is waste disposed? How is waste processed? Are the company premises in a Green building? How does the company relate to Green standards? etc.



### Environmental organizations

The Bank maintains a dialog with organizations and NGOs on environmental issues, where ideas are raised for activities in which the Bank could contribute to environmental protection. Several projects resulted from this dialog: recycling drink cans and bottles, recycling medications, recycling batteries, recycling electronic waste, carpooling, environmental initiatives as part of the ZAZIM project etc. The Bank includes its employees and customers in these activities.

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## Regulatory compliance and control

In the reported year, no penalties or sanctions were imposed on the Group for regulatory violations of environmental issues.

The Bank maintains and applies internal and external control to all aspects of environmental management:

- Paper consumption and shredding are controlled by computer-based systems and by different suppliers.
- Fuel consumption data for the Group are provided by PAZOMAT.
- The Group's power consumption data is provided by Israel Electric Company.
- Data on electronic waste recycling is provided by supplier reports.
- All employees who receives a company car from the Bank receive regular reports, which reflects the fuel consumption data of their vehicle. This allows them to reduce consumption by efficient, proper use of their vehicle.

All these are constantly monitored by relevant employees and managers of the Logistics Division.



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# Targets

## Achievements of 2017

Target	Status
Review transition to hybrid vehicles	Done
Further review of efficient utilization of existing space, addition of required work stations with no increase in space if possible and sale / return of surplus space which the Bank no longer needs.	Done
Gradual transition to air-conditioners rated A, which are energy efficient, at all Bank buildings by 2021.	In process In 2017, chillers were replaced at 2 branches
Reduce paper consumption due to continuation of the "Paperless Branch" project	Done



## Targets for 2018

- Further review of efficient utilization of existing space, addition of required work stations with no increase in space if possible and sale / return of surplus space which the Bank no longer needs.
- Continue to reduce paper consumption due to continuation of the "Paperless Branch" project
- Review and formulate a multi-year work plan to replace lighting at branches with LED lighting
- Map and locate all air conditioners over 5 years old and formulate a multi-year work plan to replace air conditioners found to be inefficient in terms of energy consumption
- Advance thermal insulation of windows as part of renovation of new branches, and formulate a multi-year work plan for other branches
- Replace old chillers in 3 more branches in 2018
- Install meters for water installations at headquarters buildings, in order to save power at night and on weekends
- Review the possibility of installing voltage reduction controllers at headquarters and branch buildings

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# Corporate Governance



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# Corporate Governance



Being a leading financial institution in Israel, the Bank adheres to Corporate Governance throughout the Bank Group. This commitment is reflected by respecting the law and applying corporate governance rules and regulations applicable to the Bank. The Bank adheres to ethical conduct and acts to prevent corruption. The Bank is also committed to a risk management culture which supports achievement of its targets and implementation of its business strategy while maintaining commitment to its customers. These matters are managed by multiple divisions, including the Risk Control Division, the Technology Division, the Human Resources and Administration Division and by the Bank Secretary.

## Group Board of Directors

**Operation of the Board of Directors** – As part of managing corporate governance at the Bank, the Board of Directors is responsible for Bank business and its financial robustness. The board takes the utmost steps in order to discharge its duties, in conformity with the law, with Proper Banking Conduct Directives, including Proper Banking Conduct Directives, including Directive 301, as well as with procedures specified by the Board of Directors. As part of approval of the Bank's annual work plans, the Board of Directors would be asked to approve the work plan with regard to social responsibility.



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## Board members

As of December 31, 2007, the Group Board of Directors consisted of 13 Board members – 10 male and 3 female. The Board of Directors includes 10 Board members with accounting and financial skills (at the Audit Committee – 7 Board members with such skills) and 5 external Board members, pursuant to Proper Conduct of Banking Business Directives, of whom 3 are external Board members appointed pursuant to the Corporate Act. All external Board members are also independent Board members.

Among the Board members are also Board members with experience and knowledge of risk management and credit risk. The Risk Management Committee of the Board of Directors consists of seven members with significant experience with Committee membership.

All Bank Board members have professional qualifications, in conformity with provisions of the Corporate Regulations, and are classified as "expert Board members" for the purpose of Corporate Regulations.

All Board members do not report to the CEO, directly nor indirectly.

The following is a list of members of the Bank Board of Directors as of December 31, 2017:

- Moshe Vidman, Chairman
- Zvi Ephrat
- Sabina Biran
- Ron Gazit
- Avraham Zeldman
- Nachshon Yoav-Asher
- Mordechai Meir
- Avraham Ya'akov Neuman, external Board member (pursuant to the Corporate Act)
- Gideon Siterman, external Board member (pursuant to the Corporate Act)<sup>1</sup>
- Liora Ofer
- Jonathan Kaplan
- Osnat Ronen, external Board member (pursuant to the Corporate Act)<sup>2</sup>
- Joseph Shachak

<sup>1</sup> Note that Mr. Gideon Siterman brought forward the end of their term as external Board member, from July 6, 2018 to July 2, 2018

<sup>2</sup> Note that Ms. Ronen resigned her position on June 5, 2018

All Board members are aged 51 or higher.

More information about Board members is provided on pp. 295-296 of the Bank's 2017 annual report.

Board members are appointed by the General Meeting of shareholders, in conformity with provisions of the Bank's Articles of Association and in conformity with provisions of the Corporate Act.

## Improvement of Board operations effectiveness

On July 5, 2017, the Bank of Israel issued an update to Proper Banking Conduct Directive 301 concerning "Board of Directors". These updates to the directive are designed to improve the effectiveness of Board work and to enhance the professional qualifications of the Board of Directors. The updated directive stipulates, inter alia, that the Board of Directors shall consist of no more than 10 Board members, expands the definition of "having banking experience" and increases the number of Board members required to have such experience from one fifth to one third; stipulates that the Board of Directors shall include at least one Board member with proven experience in technology; reduces the list of topics for which Board authority may not be delegated to Board committees; stipulates that the Board of Directors should set policy on the maximum term in office of the Chairman of the Board of Directors; as well as other provisions with regard to Board authority, work and function.

The revised directive is effective as from the circular issue date. As for the number and qualifications of Board members, the effective start date is July 1, 2020. The Bank is preparing to implement the revised directive.



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# Board of Directors – committees

In 2017, the Board of Directors operated four standing committees:

	<b>Name</b>	<b>Credit Committee</b>
	<b>Composition</b>	Moshe Vidman – Chair, Yossi Shachak, Nachshon Yoav-Asher, Zvi Ephrat, Liora Ofer, Osnat Ronen, Gideon Siterman
	<b>Role</b>	This committee is authorized to discuss general policy issues concerning credit, to formulate recommendations to be brought before the Board of Directors plenum, to discuss the annual and multi-annual work plan of the Credit Control Department and to receive periodic reports concerning credit risk. The committee is also authorized to discuss credit applications which are exceptional to the credit policy and to recommend their approval to the Board of Directors plenum.
	<b>Name</b>	<b>Risk Management Committee</b>
	<b>Composition</b>	Moshe Vidman (chairman), Sabina Biran, Ron Gazit, Avraham Zeldman, Avraham Neumann, Jonathan Kaplan, Yossi Shachak
	<b>Role</b>	This committee is authorized to discuss issues and policy related to risk management and control at the Bank, capital planning at the Bank and internal control. The committee is authorized to discuss the risk appetite document as well as the master policy document with regard to the risk management and control framework. The committee is also authorized to discuss and formulate recommendations to be brought before the Board of Directors plenum with regard to overall strategy targets and overall risk strategy. The committee is also authorized to discuss issues concerning liquidity risk management, business continuity management, new products, the capital adequacy assessment process and the quarterly risk document – and to recommend to the Board of Directors approval of the various risk management policy documents.
	<b>Name</b>	<b>Remuneration Committee</b>
	<b>Composition</b>	Avraham Neumann (Chair), Sabina Biran, Gideon Siterman, Osnat Ronen and Yossi Shachak
	<b>Role</b>	This committee is authorized to discuss and make recommendations to the Board of Directors with regard to remuneration policy and procedures, as required by the Corporate Act and in conformity with Proper Banking Conduct Directives. The remuneration policy is required to be in conformity with the Bank's organizational culture, its long-term strategic goals and its control environment – such that remuneration incentives would not encourage risk taking beyond the Bank's specified risk appetite and would allow the Bank to maintain a robust capital base. The committee convenes at least once per year to review the implementation of the remuneration policy. Once every three years, the committee shall make its recommendations to the Board of Directors with regard to approval or revision of the current policy. This committee also makes recommendations to the Board of Directors with regard to guidelines for employment and retirement terms of Bank executives and employees and also approves officer remuneration, prior to approval by the Board of Directors and by the General Meeting of shareholders, as the case may be.
	<b>Name</b>	<b>Audit Committee</b>
	<b>Composition</b>	Osnat Ronen (chair), Sabina Biran, Avraham Zeldman <sup>1</sup> , Mordechai Meir, Avraham Neumann, Gideon Siterman, Yossi Shachak
	<b>Role</b>	The roles and responsibilities of this committee are: discuss any faults identified in conducting Bank business and to propose ways to remedy these faults to the Board of Directors, to specify arrangements with regard to handling complaints by Bank employees with regard to any faults identified in conducting Bank business, to review the quarterly and annual reports to the public, to discuss them and recommend their approval, to approve transactions and actions as specified in the Corporate Act and to approve transactions with related persons in conformity with Proper Banking Conduct Directive 312. The Board of Directors also appointed the Audit Committee to be the entity responsible, on behalf of the Board of Directors, for supervision of the work of the Compliance Officer, including execution of the enforcement plan of securities laws and anti-trust laws, as well as its implementation.

<sup>1</sup> Avraham Zeldman was appointed member of the Audit Committee on December 18, 2017

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## Board of Directors – operation

The Board of Directors fulfills its functions by means of discussions by the Board of Directors plenum, at meetings held at least once a month (or more frequently, as necessary), as well as at meetings of its committees.

During 2017, the Bank Board of Directors held 25 plenary meetings, 5 seminars for Board members and 64 committee meetings.

Various issues are brought before the Board of Directors for discussion and for reporting, so that in most cases the issues brought by management have already been discussed with professional and control functions at the Bank, as applicable – and by Bank management. Management recommendations are included, as applicable, in background material provided to Board members.

Operating procedures of the Board of Directors stipulate matters, with emphasis on risk management at the Bank, which must be reported to the Board of Directors; these procedures specify the frequency and form of such reports and also refer to immediate reports with regard to such events which require such reports:

- Once a month, the Bank President presents his report, an overview of all Bank operations and special event, including issues of social responsibility.
- Once a quarter, Bank management presents an overview to the Board of Directors and to its Risk Management Committee, including discussion of all risks facing the Bank, developments in risk control and management in the reported quarter and, occasionally, issues of social responsibility.

During the reported year, no exceptional critical events on economic, social or environmental issues were brought before the Board of Directors.

The right of Board members to obtain information and to consult with various entities in the course of discharging their duties is in conformity with provisions of the Corporate Act and provisions of Proper Banking Conduct Directive 301 by the Supervisor of Banks with regard to "The Board of Directors" and is included in operating procedures of the Board of Directors.

In justifiable cases, the Board of Directors may be assisted by external advisors, as set forth in the Corporate Act and in Directive 301. Board members may also, in special cases, obtain professional advice at the Company's expense, if such expense reimbursement has been approved by the Board of Directors, all in conformity with and subject to provisions of the Corporate Act and in Directive 301.

In conformity with the Corporate Act, shareholders may propose issued for discussion prior to the General Meeting of shareholders. In addition to General Meetings of Bank shareholders, convened by the Bank as required by law, Bank management is in contact with various interested parties, and reports on such issues that arise, to the extent relevant, to the Board of Directors.

## Assessment of effectiveness of Board operations

The Bank assesses the effectiveness of the Board of Directors' operations, in conformity with Directive 301, using structured questionnaires prepared by an external advisor on behalf of the Board of Directors. Once a year, the Board of Directors self-assesses the effectiveness of its operations, in discussion attended exclusively by Board members.

Bank Yahav assesses the effectiveness of the Board of Directors' operations in accordance with Proper Conduct of Banking Business Directive 301. The assessments made to date have been carried out by external advisors and discussed by the Board of Directors plenum.



# Remuneration policy

## Board member and executive remuneration

Board member remuneration is in conformity with Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000 ("Remuneration Regulations"). The officer remuneration policy is approved by the General Meeting of shareholders, whose resolutions are reported to the public.

Terms of office and employment of the Chairman of the Board of Directors for the period as from December 1, 2015 were approved by the General Meeting of shareholders on March 8, 2016, revised by the General Meeting of shareholder on February 14, 2017 and consist entirely of fixed remuneration. This is in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act" or "the Act") and following revisions to Proper Banking Conduct Directive 301A on remuneration ("the new remuneration policy").

Senior management at the Bank are eligible to receive fixed pay plus variable remuneration based on Bank performance and on their own individual contribution.

## Remuneration of Officers in Financial Corporations Act

On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three (3) years as from January 1, 2017. In addition, the terms of employment of the Chairman of the Board of Directors (as above) and of the Bank President & CEO were approved.

In conformity with the revised remuneration policy, the maximum remuneration as defined in the Executive Remuneration Act (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than -35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other (non Board member) officers will not exceed the amount specified in section 2(a) of the Executive Remuneration Act, which currently stands at NIS 2.5 million.

In conformity with the new remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for a retention bonus equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

The pay for most Bank employees is based on collective bargaining agreements.

## Avoiding conflict of interest

The Bank applies all statutory provisions with regard to avoiding conflict of interest among Board members. The Bank acts, in this matter, in conformity with provisions of the Corporate Act, 1999 and provisions of Proper Banking Conduct Directive 312 "Banking Corporation's Business with Related Parties". The Bank's enforcement plan also includes detailed instructions on this matter.



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# Commitment to regulatory compliance

The Bank strictly complies with the law and implements any corporate governance rules and regulations applicable there to. This area is managed by the Risk Control Division, assisted by the Legal Division. The Risk Control Division verifies Bank activities on these fronts:

- **Organized deployment of operating procedures**  
The Bank strictly complies with statutory provisions through an organized set of operating procedures and processes. The process of implementing laws and statutory provisions and updates there to are monitored by the Compliance Department of the Risk Management Division.
- **Training**  
Training on various regulatory issues is delivered as part of banking training delivered as part of training of Bank employees and specifically, based on role and department.
- **Control implementation**  
Compliance is verified, inter alia, by implementing controls over compliance with provisions in various areas.

- **Compliance risk identification and mapping**  
Identify focal points of increased risk, potentially due to breach of statutory provisions, so as to focus effort on mitigating such risk and on avoiding such breach.
- **Handling exceptions**  
The Bank handles any exceptions identified by controls, at both HQ and branches. This includes implementation of recommendations for improved processes and controls, verifying that faults are corrected, lessons learned and disciplinary action taken, if needed.
- **Audit**  
Conducting independent audit of compliance and operational risk relating, inter alia, to material departments and processes at the Bank.
- **Fair competition**  
The Bank adheres to fair competition with its competitors, does not promote any public agenda and does not apply any lobbying.
- **Fairness**  
The Bank maintains a fair relationship with everyone, in particular with customers, including sales of products and services which match the customer and their needs.

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# Compliance and regular control over proper conduct

The Bank maps the regulations and appointed persons responsible for ensuring compliance with these regulations in all areas. Each division is responsible for regulatory compliance in its own area. As part of compliance operations and implementation of the compliance culture, the Group provides its employees with training on the following subjects:



Compliance



AML and terror financing



bribery and corruption risk



internal enforcement



cross-border risk



compliance with international sanctions



anti-trust law



fairness to customers



proper disclosure



the Code of Ethics

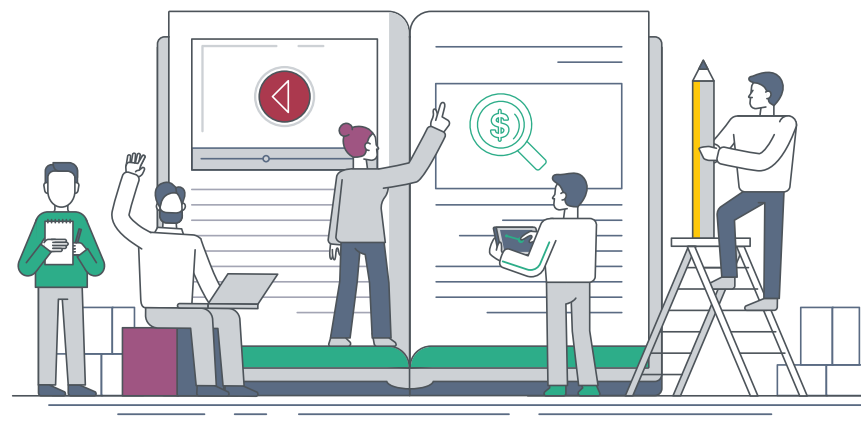
The Group also refers to mandatory non-discrimination against various populations, including operations involving minorities.

The Bank conducts operational risk surveys with reference to embezzlement and operates a current system for embezzlement monitoring.

The Bank regularly maintains and updates the mapping of compliance risk and internal enforcement.

In 2017, no significant fines<sup>1</sup> were imposed on the Bank for non-compliance with laws and regulations.

As part of proper management, the Bank does not promote any public agenda nor does it apply any lobbying. The Bank makes no contributions to any political parties, politicians or official institutions. Such contributions are prohibited in Israel and the Bank complies with the law. The Bank only operates in the public arena as required and only in the context of Bank business.



<sup>1</sup> In July 2018, the Bank received a demand from the Israeli Securities Authority (ISA) to pay a monetary sanction of a non-significant amount, in connection with a violation of ISA applicable to investment advisors, which took place in 2017

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## Investigation with regard to Bank business in the USA

In 2011, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided, as from September 2011, to Swiss authorities quantitative data as requested about their business with US customers, to be provided to US authorities.

In a letter dated August 2013, Mizrahi Bank Switzerland was informed by the US Department of Justice that an investigation of its business has been launched. In June 2014, the Bank was first informed of expansion of the US DOJ investigation, which would apply to all inter-state activities of the Bank Group with its US customers.

The US DOJ required the Bank to provide data and information with regard to a wide range of issues concerning inter-state transactions with US customers of the Bank Group, including quantitative data with regard to accounts of US customers for the period from January 1, 2002 through July 2014 ("the effective period").

In order to collect the information and data thus required by the US DOJ, the Bank engaged, in August 2014, the services of external experts for data research and validation, who joined the Bank Group's team of legal counsel (in Israel and in the USA). The Bank has completed creation of a computer-based repository to include the quantitative information about US customers.

Validation of quantitative data concerning the Bank branch in Los Angeles and London as well as Bank Mizrahi in Switzerland and in Israel – this validation has been completed and this data has been provided to the US DOJ.

Moreover, the process of collecting electronic messages relating to American customers at the Bank's various sites has been completed, and some of these have been provided for review to the US Department of Justice, in coordination there with.

According to these letters, court orders and discussions, the Bank had to provide additional information and documents, some of which has already been provided, including in meetings with US DOJ representatives. In the aforesaid letters, discussions and meetings, the US DOJ specified actions which the Bank should take in order to conclude the inquiry.

The US Department of Justice sent the Bank requests to provide additional data and information, including revision of certain data about accounts of US customers for a period that was extended through October 2017, as well as to conduct tests, including with regard to additional accounts that may be relevant to the inquiry, and to provide documents in connection with matters subject of the inquiry, relating to the Bank Group. The Bank is acting to comply with the requests in these requests.

In a letter dated April 2018, the DOJ informed the Bank that it would be providing the Bank with a draft DPA ( Deferred Prosecution Agreement). The Bank is in preliminary contact with the US DOJ with regard to a possible outline for concluding the investigation, regarding the type of agreement and highlights thereof. However, negotiations have yet to start, including with regard to financial implications for the Bank Group, if any, of such an agreement when reached.

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, inter alia, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, other than preliminary discussions as noted above, negotiations with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start. In view of the foregoing, it is possible that in the future the realized loss may turn out to be significantly higher than the amount of the provision recorded to date.

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## Risk management and control

The Bank has an organized system in place for risk control and management including, inter alia, a framework document on risk control, which specifies the Bank's risk appetite, guidelines for risk management and corporate governance (Master Document) and policy documents on management and control of specific risk in various areas. These policy documents are approved at least once per year by Bank management and the Board, by the Risk Management Committee of the Board of Directors and by the Board of Directors plenum and govern, inter alia, how the Bank addresses any risk identified as material risk to Bank operations. These risks include: strategic and reputation risk, credit risk, including environmental risk, financial risk, operational risk including information security and cyber risk, human resources and legal risk, compliance risks including: compliance and regulation, AML and terror financing, cross-border risk, conduct, banking management risk and a policy (new to 2017) on the Bank's branch strategy.



## Policy on responsible market risk management

The Bank's investment policy calls for maintaining a low risk profile by holding a loan portfolio which consists mostly of diversified, retail loans. In addition, the Bank's nostro operations are primarily focused on investing in liquid, high-quality assets carrying minimum credit risk, mostly debentures of the State of Israel. Therefore, the risk level of the Bank's investment portfolio is low.

This policy is designed, inter alia, to ensure that deposits from the public are not invested by the Bank in high-risk assets, but are deposited with the Bank, which maintains a relatively low risk level compared to the banking system.

Bank operations with regard to risk management are in conformity with Proper Banking Conduct Directive 310 concerning "Risk Management", issued by the Supervisor of Banks in 2012. The regulation is primarily based on Basel guidelines for risk management, as reflected in recommendations made by the Basel Committee. The regulation includes a corporate-wide risk management concept, listing principles for risk management. The regulation also clarifies the processes required of the Board of Directors in order to duly discharge its duties pursuant to Proper Banking Conduct Directive 310, including a requirement to appoint a Risk Management Committee of the Board of Directors. According to the regulation, senior management is responsible for regular risk management, and is required to create a Risk Management function, and to appoint a Chief Risk Officer to head this function. The regulation lists the responsibilities and position of the Risk Management function and the Bank fully implements this regulation.

The Bank has in place custom policy documents in various areas of risk management and control, in support of implementation of statutory and regulatory provisions. In these documents, the Bank's Board of Directors set guidelines for risk management, in line with the Bank's strategic plan. Policy which, inter alia, specifies the risk appetite and has determined that the Bank has zero tolerance to improper implementation of statutory and regulatory provisions.

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These policy documents dedicated to each risk type at the Bank govern the Bank's internal control. This framework supports aspects of the Code of Ethics, determines the reporting chain in case of improper action and specified guidelines for the internal control culture at the Bank. The Bank's policy documents explicitly specify the roles of the various corporate governance layers for handling internal control (including: compliance, AML, legal, operations, fraud & embezzlement) – including roles of the Board of Directors, management and roles of the specified three lines of defense at the Bank: business lines, control lines and audit line.

In 2017, the compliance policy document was expanded to include a framework for addressing conduct risk. This risk has been addressed by the Bank for some time, but was initially brought up as policy approved by the Bank Board of Directors, in view of the great importance the Bank sees in managing this area.

Risk management is conducted at Group level; specifically, appropriate forums and procedures have been created to ensure that risk management and control processes at Bank Yahav and overseas affiliates of the Bank, too, are in line with Group policy.

## Preventing terror financing and trade with enemy entities

The Bank adopts a risk-based approach that contributes to effectiveness and to addressing AML and terror financing risk, as well as to implementation of risk-based measures for mitigating such risk.

AML and terror financing risk through the Bank are part and parcel of all levels of Bank activity with customers. In order to manage this risk, Bank policy includes guidelines in this area. The guidelines relate to conditions for accepting customers for providing service and for conducting transactions, to the required knowledge of the customer and their business, to classifying Bank customers by risk level, to risk unique to customers with public exposure, to bribery and corruption risk, to illegal gambling activities, to preventing terror financing and trade with enemy entities, to compliance with international sanctions, to rules regarding the activity of correspondent banks, rules for ensuring information safety and for closing accounts at the Bank's initiative.



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## Involvement of management and the Board of Directors in risk management

Once a year, Bank Management presents to the Risk Management Committee of the Board of Directors and to the Board of Directors the Bank's annual ICAAP document. This document reviews corporate governance operations in the area of risk management, risk evolution during the reported year, and in particular the resilience of Bank capital and its stability in the face of stress events and the outcome of self-assessment carried out by the organization as to the risk level, in conformity with the Bank's risk appetite and policy and the quality of risk management. The effectiveness of risk management is also independently reviewed by Internal Audit and is presented and discussed as part of this process. Board members receive training from time to time on the subject of risk management.

The Bank's work plans, which are submitted for approval by Management and by the Board of Directors, include a challenge document prepared by the Risk Control Division, which reviews, inter alia, the compatibility between the business plans and the Bank's overall risk appetite.

Furthermore, as from the end of 2015, the Bank issues, in conformity with Bank of Israel directives, a quarterly risk report online, which contains a similar overview with regard to development of risk management and control at the Bank, corporate governance activity with regard to risk management etc.



## Review of effectiveness of risk management processes

As noted, the Bank reviews annually the effectiveness of its risk management. This process uses structured questionnaires which review the positions of various Risk Owners and risk controllers at the Bank, as to the level of risk inherent in activities which they manage or control, as well as their position on the quality of risk management and control and assessment of the risk trend going forward.

In 2017, the process was revised, with emphasis on transitioning to qualitative questionnaires, in order to improve process effectiveness, assessment capacity and identification of the processes required for improvement and reinforcement.

The outcome of these annual surveys are also compared to previous results to identify any gaps in risk management and control and to identify evolving trends in opinions of managers with regard to the specific risk level and to the quality of risk management and control. As part of this process, a dialog takes place between risk owners and risk controllers, including discussion of annual work plans and their impact on the level and quality of risk management, with the aim of ensuring that weaknesses identified would be addressed during the year. The outcome of these questionnaires, accompanied by a summary qualitative assessment, including developments during the year and expectations for the coming year, are discussed by Bank management, by the Risk Management Committee of the Board of Directors and by the Board plenum, and are submitted for review by the Bank of Israel.

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# Management of environmental and social risk



As part of its credit risk management policy, the Bank has set policy on environmental risk management in lending. This policy, as part of the Bank's risk management and control process, accounts for considerations based on customer quality, repayment capacity, financial robustness, liquidity, reliability, seniority with the Bank, account management and collateral quality – as well as environmental considerations. This is based on the understanding that customer operations may have environmental impact. Based on this concept, the Bank strives to find a balance between the various considerations, including environmental considerations, when providing products and services to its customers.

**Training relevant employees on environmental risk -** For optimal deployment and implementation of the Bank's environmental risk management policy, training is delivered about processes for credit approval processes and environmental risk assessment.

The environmental risk policy stipulates the methodology for identification, assessment and handling of environmental risk. The environmental risk management policy is approved annually by the Board of Directors as part of the policy documents.

## Environmental risks

Environmental risk to the Bank is the risk of loss which may be incurred due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard (such as: air pollution, soil pollution, climate change, hazardous materials etc.) and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risk factors derived from this risk: goodwill, third party liability etc.

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. In conformity with directives of the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when granting credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended. As part of this process, the Valuation Unit also reviews, as needed, any environmental aspects related to land, in order to identify any actual or suspected soil pollution and accordingly, determines the collateral value of the assets referred to it.

The business units review customers where the environmental aspect is material and when the approved credit amount is also material.

For real estate projects, the external supervisors that accompany the project are required to refer to environmental protection aspects as integral part of the project. Furthermore, when valuating properties as collateral for loans other than housing loans, the valuers are required, in conformity with Standard 19, to refer to any environmental protection aspects, as required by the Standard.

In case of any indication or suspicion of significant environmental impact, the environmental review is intensified.



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Credit approvals are revised annually, or in case of change in the volume or structure of credit extended to the customer, in which case such approvals are discussed more frequently. In case of discussion of extending material credit and the environmental risk is also material, the business unit includes reference to this matter in the credit application.

The Bank's policy documents include dedicated environmental risks policies, including methodology for identification, assessment and handling of environmental risk. The environmental risk policy is approved annually by the Bank Board of Directors, as part of the policy documents.

## Social risk

Social risk is one of the risk factors facing the banking system and may arise from regulatory provisions. Social risk in banking (such as: money laundering) are included as part of overall risk management at the Bank. In line with Group policy, the Bank reviews all risk and customer information before extending credit; this is a comprehensive process which includes review of all aspects indicating the customer quality, financial robustness, repayment capacity and conduct.

**Changes to the product mix based on macro-economic changes** – The Bank regularly reviews and maps the risk and opportunity in the Bank's main business lines, inter alia in accordance with macro-economic changes, modifies the product mix accordingly, and reports branch performance to management in conformity with guidance and the recommended product mix.

## Implementation and deployment of this issue

A major component for including environmental risk in overall lending considerations is internalizing and deployment of awareness of relevant persons to this matter, among those involved in extending loans of material amounts.

In order to improve employees' capacity to apply the Bank's social and environmental policy, the Bank delivers regular training and seminars. In 2017, the Business Division headquarters expanded training in this area, assisted by external advisors on environmental protection and on legal aspects. In this regard, training was delivered to 130 employees and managers, including branch managers, economists and lawyers. In addition, 68 employees attended the Senior Lending Course, where the topic of environmental risk is covered in a presentation by representatives of the Risk Control Division on the Bank's credit policy, with reference to the issue of environmental risk.



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## Business continuity

The Group is committed to maintaining continuously available service at a specified level at all times. The Group is prepared to address significant events which may impact this objective. These events may be external (such as: impact to Bank facilities, impact to its data center, war, plague, earthquake etc.) or internal, only affecting the Bank (such as: impact to facilities, technology failure, fire, employee strike etc).

Bank management ensures that a business continuity management framework is in place and managed by the Planning, Operations and Customers Asset Division. Each division manager at the Bank is responsible for verifying the material services and business processes, subject to the business continuity management framework. Each division manager is responsible for creating detailed plans for preparations in their field, in line with this policy and in co-ordination with the Business Continuity Manager. These plans ensure the Bank's capacity to provide vital services at all times, in response to Bank of Israel requirements. As part of the business continuity plan, the Group acts in compliance with regulatory requirements concerning business continuity management, proper disclosure of operational risk and directives with regard to backup and recovery. As part of this preparation, the Bank prepares to handle cyber events and regularly exercises its response teams, in co-operation with emergency and business continuity constituents at the Bank.

The Group has technology infrastructure, including emergency backup sites, branch protection and readiness for key branches and managerial infrastructure in place, designed to provide Bank customers with essential business services at all times.

In general, the Group has a policy on exercise and exercise plans approved by management and by the Board of Directors. The Group regularly drills its business continuity plan, in accordance with the multi-annual drill plan, both at the backup site and at Bank units; the Group is prepared to back critical processes in IT systems and work processes. These drills are audited by the Risk Control Division and some are conducted in co-operation with the Bank of Israel and with the IDF Civilian Command. At the end of each exercise, lessons are learned and reported to management.

## Earthquake readiness

Group policy on business continuity addresses, inter alia, the earthquake reference scenario, which constitutes a risk with significant potential economic implications. The risk is of impact to buildings, telephony and IT systems, resulting in disruption to continuous provision of service and information to customers. The risk is also reflected in impact to employees, extensive road closings, resulting in employees being unable to reach their workplace. Another aspect of this risk is the challenge to the Group in achieving minimum service targets, such as ATM replenishment, providing information to customers and conducting basic banking transactions.

In 2017, the Group reviewed its readiness for handling an earthquake scenario as part of a series of exercises. During the national exercise conducted by the Home Front Command on the subject of earthquakes, the Bank has conducted a comprehensive exercise that included several elements of the business continuity plan, including the following: deployment of units and employees at the emergency site, including checking the worthiness of IT systems and recovery of essential services during emergency, carrying out operations and checking the worthiness of employees operating from the emergency site. In addition, employee evacuation from a central building damaged by an earthquake was also exercised, as well as an exercise for evacuation of a branch under a similar scenario. The Bank also participated in a major exercise of the Home Front Command in the Carmiel region, which simulated a disaster area that impacted by an earthquake. As part of a Group-wide exercise, Bank Mizrahi-Tefahot and Bank Yahav exercised deployment of a mobile branch and reviewed the deployment of mobile branches in case of emergency to disaster-impacted areas.

As part of the exercise summary, conclusions and recommendations, the Bank took part in a round-table discussion at the Bank of Israel and discussed the conclusions from the exercise and the business and service needs of the banking system in times of emergency.

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## Business continuity for critical suppliers during emergency

As part of the business continuity plan, the Bank ensures that all suppliers classified as critical service providers during emergencies have a business continuity plan that meets the Bank's requirements. This is designed to ensure that even during a business continuity event, the Bank could continue to provide service to its customers in as much as possible.



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## Deployment of business ethics



In 2008, the Board of Directors approved the Bank's Code of Ethics. The Code of Ethics includes the base values for Bank operations, including fairness, integrity, transparency and human dignity. The Bank's Code of Ethics is deployed across the organization by various training activities, including an Ethics Committee headed by the Bank secretary, which meets monthly to discuss ethical dilemmas that arise from the field, and to outline policies and actions for deployment of values of the Code of Ethics.

## The Code of Ethics

The Bank's Code of Ethics reflects the Bank Spirit and its organizational culture, as reflected by its management and staff. The Code of Ethics defines appropriate rules of conduct for all those acting on behalf of the Bank, based on analysis of events observed in the field and is a tool for handling issues and dilemmas arising in the normal course of work.

Bank Code of Ethics – values which guide Bank operations:

✓ **Reliability**

✓ **Loyalty**

✓ **Preserving human rights**

✓ **Excellence**



✓ **Commitment**

✓ **Integrity**

✓ **Fairness**

✓ **Transparency**

Full transparency is a prerequisite of corporate governance, and in particular as relates to efficient risks management. Policies of proper disclosure of events, support processes and appropriate organizational structure create regular work interfaces which support the Board of Directors and allow it to discharge its duties. The Bank's Board of Directors and management promote, throughout the organization, a high level of ethics and integrity. One of the key means for instilling ethics and integrity is the preparation of the Bank's Code of Ethics and its deployment among all Bank employees.

The Bank has an Ethics Committee, which convenes monthly, headed by the Bank Secretary, with representatives from headquarters units and branches. The Committee works to implement the Code of Ethics on a regular basis and reviews this deployment process. The Committee also serves as an address for consultation and discusses ethical dilemmas arising from the field.

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## Deployment of the Code of Ethics

In 2017, Bank units continued to deploy the Code of Ethics, using various tools, in accordance with the work plan:

- **Reporting to management and to the Board of Directors** – In accordance with the work plan for deployment of the Code of Ethics, the Management Forum quarterly receives a status report on ethics and semi-annually, the Chair of the Ethics Committee presents to the Board of Directors a report on deployment of the code and ethics-related events that took place.
- **Ethics-related training** – In 2017, we delivered 2,752 hours of training on the Code of Ethics and on ethics issues, to 1,632 employees and managers.
- **Ethics eLearning module** – Every new hire is required to use the eLearning kit concerning the Bank's Code of Ethics. Such eLearning use is monitored.
- **Proactive discussion of ethical dilemmas** – As part of the work plan, a proactive discussion of ethical dilemmas is conducted once per quarter at Bank units in Israel and overseas. These are regularly reported to the Ethics Committee.
- **Deployment of ethical aspects in employee evaluation** – In the employee evaluation questionnaire, which is one of the sources used to make organizational decisions (such as promotion, remuneration etc.), ethical aspects of the employee's conduct are also addressed.
- **Management meeting concerning ethical issues** – A monthly meeting between Bank management and managers (from Sector Manager and higher) is convened to discuss ethical issues.
- **Ethical dilemmas** – Publishing of ethical dilemmas on the Code of Ethics website.
- **Introduction of Ethics as a topic in core courses** – A training unit on Ethics is incorporated in some banking courses.

- **Manager training** – Manager training includes discussions of ethical issues relevant for managers, based on values in the Code of Ethics.
- Division-level activities designed to describe ethical dilemmas and relevant processes for each division and to formulate an internal ethics program.

**Various ways of contacting** – The Bank allows employees to contact with regard to any issue, including ethics-related issues, in by various channels and at any time. This is done by means of a hot line, contacting the Chair of the Ethics Committee by email, an email address dedicated to ethics-related issues, and an online form for anonymous inquiries. External parties may address ethics-related issues through the Public Call Center or through the Bank website. The Bank has a procedure in place which guarantees protection of the information provider and inquiries may also be sent anonymously. Information about ways to send inquiries is listed on the organizational portal, on the notice board at overseas affiliates and is made public in branches. Moreover, in conformity with a new directive by the Bank of Israel, the Bank issued a public statement with regard to public complaints, worded as specified by the Supervisor of Banks. The Bank maintains constant contact with the person who filed the complaint, unless this is not feasible (as in the case of a complaint made anonymously).

**Measuring the effectiveness of deployment of the Code of Ethics** – In 2015, a survey was conducted to review the effectiveness of deployment of the Code of Ethics among Bank units, further to the survey conducted in 2013. This survey reviewed, inter alia, the need to revise the values in the Code of Ethics and highlights for expanding ethics activities across the organization. In 2017, focus groups were convened in order to analyze the effectiveness of deployment of the Code of Ethics and to review the need for revision of the Code of Ethics.

**The Code of Ethics and the new strategic plan** – The Bank's new strategic plan for 2017-2021 highlights the differentiation of Mizrahi-Tefahot as a bank that offers personal, human banking along with advanced technology tools. In accordance with this plan and with Bank policy, which highlights the key position of the Banker, with more branches and service positions opened, the Bank deploys the unique values of the Code of Ethics, forming the basis of the Bank's business and inter-personal conduct.

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# Our commitment to preventing corruption

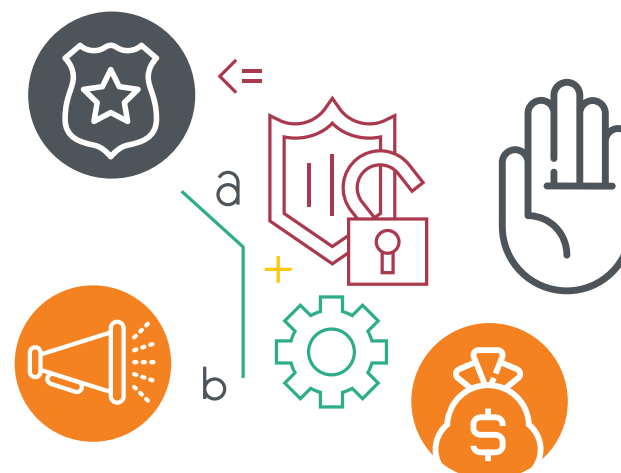


Mizrahi-Tefahot constantly strives to prevent occurrence of corruption events – by employees, customers and others. Corruption prevention is managed at the Bank on several fronts, due to the nature of bank operations and in conformity with Section 38 of Proper Banking Conduct Directive 350, whereby banking corporations should identify areas with roles which generate potential conflict of interest for employees, reduce them and subject them to monitoring and independent review. In this regard, the Bank specified a policy on addressing aspects of operational risk and internal control and created control and continuous monitoring processes.

This matter is handled by several units at the Bank, which handle different issues:

- **Fraud and embezzlement by employees** – Unusual cases are monitored by the Risk Control Division and referred as needed for handling by the Internal Audit Division.

- **Cases of fraud by Bank customers** are monitored and handled by the Information Security and Cyber Departments of the Risk Control Division and the Technology Division, by Mizrahi-Tefahot Security Services in the Human Resources and Administration Division and by the clearinghouse.
- **Activities of Bank customers, suspected of being connected to bribery and corruption** – are monitored and handled by the Compliance Department.
- **Cases of theft and robbery** are monitored and handled by Mizrahi-Tefahot Security Services, the Information Security Department and the Audit Division.



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- **Cases related to information and cyber security** – are monitored and handled by the Information Security and Cyber Departments of the Risk Control Division and the Technology Division.
- **Ethics-related cases** – are handled by the Chair of the Ethics Committee (the Bank Secretary).

In all of these cases, when malfeasance is suspected due to monitoring or due to information received, the Audit Division is involved in review of such event.

The Bank reviews these cases with debriefs and lessons learned from relevant cases, in order to avoid their recurrence. Moreover, where required, a complaint is filed with the Israeli Police and/or reports are sent to the relevant authorities. The Bank is conducting several key processes to address these issues on two main fronts: prevention and training as well as handling of exceptional cases and events:

## Prevention and training

- **Regular dissemination of operating procedures to employees** – The Bank specifies rules of conduct for employees, disseminating them to all employees based on the nature of their banking role.
- **E-learning kits for employee training** – The Bank provide E-learning kits for employees on diverse topics, including: preventing fraud and embezzlement, bribery and corruption risk, information security, Code of Ethics, anti-trust and inside information.
- **Advice and ongoing training** – The Compliance Department accompanies ongoing activity in all aspects of risk compliance, by providing ongoing advice and guidance and by delivering in-person training to all branch and headquarters employees.
- **Event debriefing** – The Bank has a methodology in place to learn lessons and to take action as required to avoid their recurrence.
- **Deployment of the Code of Ethics** – The Bank deploys the Code of Ethics at its different units through various means, based on a well-organized plan.
- **Anonymous hot line for employee inquiries** – The Bank operates an anonymous hot line and fax for employee inquiries as needed.

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## Handling cases and learning lessons

- Operating identification and control circles** – The Bank operates three identification and control circles: the first circle is control at branches and business units; the second circle is at the Human Resources and Administration Division, the Accounting and Financial Reporting Division, the Legal Division and the Risk Control Division; the third circle is at the Internal Audit Division. These three circles are designed to allow for early identification, prevention, deterrence and handling of such cases, in as much as possible.
- Operational Risk Portal at the Bank ("PSTL")** – This is a database of all relevant events, based on directives from the Bank of Israel, which classifies – out of all events – those which are exceptional / material for analysis, reporting and debriefing, if required.

- AML system** – This system flags exceptional events for review by the branches (first line) and by the Compliance Department (second line) and then reported to the AML Authority, in compliance with statutory provisions.
- Operational risk steering committee** – Headed by the Chief Risk Officer the committee convenes regularly at least once every quarter, to receive an overview of events that took place, action taken and recommendations to be implemented.
- Information and cyber security risk steering committee** – Headed by the Chief Risk Officer, the committee convenes regularly at least once every quarter, to discuss information and cyber security issues, including an overview of events and recommendations to be implemented.
- Internal control forum** – a periodic forum responsible for the integration of internal control areas at the Bank, which discusses, inter alia, significant cross-organization events.



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## Preventing fraud and embezzlement

The Bank regularly monitors operations of all branches, designed to identify unusual transactions in customer accounts. Embezzlement monitoring covers activities at all Bank branches, designed to identify embezzlement-related risk. In any case of suspicion of embezzlement or misconduct, the Audit Division conducts an in-depth inquiry into the matter. If any breach of Bank procedures by any Bank employee is discovered, the Bank takes disciplinary measures against such employee, in line with the severity of the breach and in line with the values included in the Bank's Code of Ethics. Findings of such inquiry are reported to the Bank President and to management – and based on the circumstances, also to the Board of Directors' Audit Committee. In addition, a debrief takes place and lessons are learned to avoid similar occurrences in future. In cases of suspected embezzlement, a complaint is filed with the Police and the event is reported to the Bank of Israel.

The Bank has created a procedure for handling events with regard to embezzlement, fraud and breach of laws and procedures, in which the Bank specified the guidelines and rules for identification, management, monitoring and control of exposure to risk of embezzlement, fraud and breach of statute. The Bank also specified the organizational structure to implement role separation, work processes, policy document, IT systems and other tools designed to mitigate such risk.



Group employees are required to refrain from receiving any benefits in conjunction with their work with customers or suppliers. The Group has clear procedures on this matter and employees are required to act according to these procedures. Gifts, benefits or special terms may only be extended to customers in accordance with the relevant procedure, according to a clear authorization ranking and in conformity with Bank of Israel directives. In order to avoid deviation from these procedures, the Group communicates and provides training to employees on this matter.

In 2017, testing was conducted to identify corruption-related risk at all Group units.

## Reporting of suspicious events and handling of corruption events

Each employee is required to report any suspicion of embezzlement, fraud and breach of statute. This report may be made anonymously. The operating procedure specifies protection for whistle-blowers in order to encourage Bank employees to fulfill their reporting duty without any concern about being impacted by such reporting. Such report may be made by one of the following ways: structured reporting form, free-form email, free-form written text, direct telephone call or fax, through the Audit Hot line.

The procedure stipulates that any material fraud or embezzlement events are to be immediately reported to the Chairman of the Board of Directors and to the Bank President & CEO. In case of any significant event, the inquiry report is sent to the Chairman of the Board of Directors' Audit Committee, to the Audit Committee, to the Chairman of the Board of Directors and to the Bank President.

In 2017, 3 reports of fraud or embezzlement were made at Mizrahi-Tefahot Group. These reports were handled in accordance with Group procedures and were also reported to the Bank of Israel in conformity with guidelines of the Supervisor of Banks.

## Corruption-related training

In 2017, we delivered 21,487 hours of training on preventing corruption to 4,639 employees and to 1,009 managers.

Furthermore, Board members receive training from time to time on preventing corruption, fraud and embezzlement.

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# Targets

## Achievements of 2017

Target	Status
Continued preparation for management of environmental risk on multiple levels (risk mapping and identification, assessment and mitigation of identified risk).	Done
Further impart the topic of environmental risk to other relevant departments and employees, through custom training	Done
Continued review of environmental risk when extending significant credit to customers subject to significant environmental aspects, primarily soil, as part of the routine work process	Done
In 2017, the Bank would continue its efforts to improve the compliance culture, to analyze and implement new compliance provisions and to enhance the effectiveness of control in various areas of compliance. In 2017, the Bank would continue the process of deployment of procedures and controls designed to identify and prevent corruption and bribery risk.	Done
Enhance training with regard to regulation and revise regulatory content of existing courses	Done
Integrate the Code of Ethics in the Bank's strategic plan for 2017-2021.	Done
Convene focus groups in order to analyze the effectiveness of deployment of the Code of Ethics and to review the need for revision of the Code of Ethics	Done
Conduct division-level activities designed to describe ethical dilemmas and relevant processes for each division and to formulate an internal ethics program and continue activity at all levels of the Bank: Branches, headquarters units and subsidiaries.	Done
Conduct an Annual Ethics Day, with special emphasis on ethical conduct in social networks.	deferred - will be carried out in 2018
Continue periodic internal communication with presentation of "open-ended dilemmas" with regard to ethics. In addition to publication of the Bank's Code of Ethics, analysis of such dilemmas according to procedures and suggested resolution	Done

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## Targets for 2018

- Further impart the topic of environmental risk to other relevant departments and employees, through custom training
- Continued review of environmental risk when extending significant credit to customers subject to significant environmental aspects, primarily soil, as part of the routine work process
- Continued improvement of the compliance culture, analysis and implementation of new compliance directives, and increased control effectiveness
- Continued deployment of the process for bribery and corruption risk, including appropriate training and control tools
- Continued deployment of the Bank's business fairness concept, through the annual training program, focusing on overseas affiliates

## Ethics:

- Continued deployment of the values in the Bank's Code of Ethics, in conformity with the annual work plan, using diverse tools, such as:
  - Conducting ethics-related meetings of executives with branch and unit managers, together with representatives of the Ethics Committee
  - Division-level activities designed to describe ethical dilemmas and relevant processes for each division and to formulate an internal ethics program
  - Conduct an Annual Ethics Day, with special emphasis on ethical conduct in social networks
  - Review the need to update the values in the Code of Ethics

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## External Control and Benchmark Index



# Quality assurance certification

Mizrahi-Tefahot Group, 2017 Corporate Social Responsibility Report

## Introduction

**Corporate Social Responsibility Institute** – This is an independent public entity which promotes the concept of corporate social responsibility. The Institute operates as part of the Academic Law and Business Center, which is a private college (recognized by the Higher Education Council) for law and business administration. The Institute operates, inter alia, by conducting professional meetings, compiling reports, studies and market overviews, translating global applied methodologies into Hebrew etc. In May 2018, Mizrahi-Tefahot Group contacted the Institute, in order to conduct a quality assurance process for its 2017 Corporate Social Responsibility Report.

It is noted that the Institute is paid to cover its time spent on this process. Furthermore, note that the Institute nor Mr. Liad Ortat (who authored this work) are in any business advisory contact with Mizrahi-Tefahot Group and the quality assurance process was independent. During the Quality Assurance process, the draft report was reviewed, comments were made and a statement to ensure the aforementioned quality was worded.

## Work methodology

The process of ensuring the quality of corporate social responsibility reports is primarily designed to improve the quality of reporting output, by providing professional feedback. This process reviews whether the report is compliant with three major principles:

1. **Inclusiveness** – Complete reference to issues of the reporting process itself and to reported matters and inclusion of a wide range of stakeholders in the report.
2. **Materiality** – Reference to matters which are material for company operations.
3. **Responsiveness** – Reporting of matters raised by stakeholders.

## Findings

This report by Mizrahi-Tefahot Group is the fifth report being published, joining the trend of adoption of sustainability reporting by the entire banking system in Israel, in conformity with the requirement by the Supervisor of Banks. The report adopts the current GRI reporting guidelines – SRS – in compliance with the Comprehensive reporting framework. I hereby certify that Mizrahi-Tefahot Group is in compliance with the scope of disclosure and reporting required for this level and is compliant with the three aforementioned principles.

This fifth report continues to show a notable trend of professional improvement. I wish to commend the emphasis placed on innovative services for retirees. Aging is one of the most significant social issues facing many companies in countries around world, including Israel. Retirement is a new age bracket, opened up to many people who have already retired from the regulated labor market who continue to lead a full and challenging life style and therefore require a unique set of services and professional support, as provided by the bank. I also wish to commend the significant growth in social credit extended by the Bank, in excess of 30%.

This is a significant move worthy of broad, positive recognition.

Comment on the report:

**Details of support for social ventures** – As noted in the report, the Bank is involved in a business process to promote social ventures in Israel and provides a significant line of credit for these ventures. It is noted that the project was launched in early 2017 and since this report summarizes the first year of this activity, we would have liked to see which social ventures received this credit and what support did they receive. We propose for this subject be further elaborated in future reports.

Finally, this report presents in the final chapter (in the Index) a detailed reference not only to sustainability goals, but also to specific performance indicators associated with each and every goal. This step is further progress in implementation of the SDGs in the Bank's overall sustainability strategy and is in line with similar adoption by leading organizations worldwide.

Congratulations to all involved,

**Liad Ortat**

Head of the Corporate Social Responsibility Institute  
The Academic Law and Business Center



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# Combined index:

GRI – In accordance: Comprehensive  
COP – UN Global Compact  
SDGs – Sustainable Development Goals

## General indices

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		102-4	Countries in which the organization does business, major countries of operation or those relevant to issues covered by the report	6			
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		102-11	Implementation of the principle of "diligence approach" by the organization	135-136			
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Chapter	Subject	CPI	Index description	Report page	UNGC - CoP	SDGs
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Chapter	Subject	CPI	Index description	Report page	UNGC - CoP	SDGs
102 General Indicators	Corporate governance	102-27	Description of the means for development and promotion of the Board of Directors' knowledge on matters of corporate social responsibility	13	No specific CoP requirement	
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Chapter	Subject	CPI	Index description	Report page	UNGC - CoP	SDGs
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		102-42	The process of identifying and selecting groups of stakeholders for conducting dialog	35-40, 76-78 81-82, 110 123	No specific CoP requirement	
		102-43	Description of the organization's approach to dialog with its stakeholders, including the frequency of dialog with each stakeholder type and group, and whether specific dialog took place in preparation of the report	31, 35-40 76-78, 81-82 110, 123		
		102-44	Key issues raised in dialog with stakeholders and how the organization addresses these issues	35-40, 76-78 81-82, 110, 123		
	Reporting practice	102-45	Details of entities listed in the consolidated financial statements of the organization and whether the corporate social responsibility report covers all of these entities	10, 18-19	No specific CoP requirement	
		102-46	The process of defining the report content and the impact limits of material issues	20-23		
		102-47	List of material issues identified in preparing the report	22-23		
		102-48	Re-statement of data from previous reports	104, 118		
		102-49	Material changes in the list of material issues and their limits, compared to previous reported periods	20		
		102-50	Reported period	18		
		102-51	Publication date of the most recent report	18		
		102-52	Reporting frequency	18		
		102-53	Contact person for questions regarding the report or report content	5		
		102-54	The organization's certification of reporting in conformity with GRI Standards	18		
		102-55	Index – GRI Content index	152-163		
		102-56	Policy and actual performance with regard to external quality assurance for the report	151		

## Benchmarks for material issues

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Economic benchmarks	201 Economic performance	103-1	Explanation of the material issue and limits thereof	6	No specific CoP requirement	
		103-2	Administrative approach and components thereof	6		
		103-3	Measuring the administrative approach	6		
		201-1	Direct economic value generated by the organization	8		8.1, 8.2, 9.1, 9.4, 9.5
		201-2	Financial implications and other threats and opportunities in operations of the organization due to climate change	138-140		13.1
		201-3	Liabilities of the organization in respect of retirement plans or employee remuneration and pensions	106		
		201-4	Government support / grants / assistance provided to the organization in the reported period	9		
	202 Market presence	103-1	Explanation of the material issue and limits thereof	98, 107	6	
		103-2	Administrative approach and components thereof	98, 107		
		103-3	Measuring the administrative approach	98, 107 111		
		202-1	Range of initial wage level at the organization compared to the minimum wage by gender and operating region.	108		1.2, 5.1 8.5
		202-2	The rate of senior managers employed from local communities in areas of significant operations	89		8.5





Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Economic benchmarks	203 Indirect economic impact	103-1	Explanation of the material issue and limits thereof	6, 64	No specific CoP requirement	
		103-2	Administrative approach and components thereof	6, 64		
		103-3	Measuring the administrative approach	6, 64, 83		
		203-1	Development and impact of investments in infrastructure and services primarily provided for public benefit through commercial arrangement, donation in kind (for goods) or pro bono (for services).	80		5.4 9.1, 9.4
		203-2	Significant indirect economic impact of the organization	64-80		1.2, 8.2 8.3, 8.5
	204 Procurement practices	103-1	Explanation of the material issue and limits thereof	81-82	No specific CoP requirement	
		103-2	Administrative approach and components thereof	81-82		
		103-3	Measuring the administrative approach	81-82		
		204-1	The ratio of actual expenditure on procurement from local suppliers in significant areas of operation	82		8.3
	205 Preventing corruption	103-1	Explanation of the material issue and limits thereof	144-147	10	
		103-2	Administrative approach and components thereof	144-147		
		103-3	Measuring the administrative approach	144-148		
		205-1	Units of the organization in which a review was conducted to identify corruption-related risk and significant risk identified in such review	147		16.5
		205-2	Communication and training on corporate policy and procedures for preventing corruption	147		
		205-3	Corruption events in the reported period and actions taken	147	10	16.5

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Environmental benchmarks	301 Materials	103-1	Explanation of the material issue and limits thereof	114	7 ,8	
		103-2	Administrative approach and components thereof	114		
		103-3	Measuring the administrative approach	114 124-125		
		301-1	Weight or volume of materials used by the organization	115-116	7	12.2, 8.4
		301-2	Percentage of recycled materials used as raw materials	115-116	8	12.2, 12.5 8.4
		301-3	Products and packages returned for reuse, recycling etc.	115-116		
Social benchmarks	401 Employment	103-1	Explanation of the material issue and limits thereof	86, 90, 93 107	6	
		103-2	Administrative approach and components thereof	86, 90, 93 107		
		103-3	Measuring the administrative approach	86, 90, 93 111		
		401-1	Recruitment rate of new employees and turnover rate of employees at the organization	90-91	No specific CoP requirement	10.3, 5.1 8.5, 8.6
		401-2	Benefits provided to full-time employees which are not provided to part-time or temporary employees	93-97		3.2, 5.4, 8.5
		401-3	The rate of return to work and employees retention after returning from maternity leave	108	6	5.4, 5.1, 8.5

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Social benchmarks	402 Employee–management relations	103-1	Explanation of the material issue and limits thereof	107	3	
		103-2	Administrative approach and components thereof	107		
		103-3	Measuring the administrative approach	107		
		402-1	Minimum advance notice given upon re-organization	107		8.8
	404 Training and development	103-1	Explanation of the material issue and limits thereof	103	6	
		103-2	Administrative approach and components thereof	103		
		103-3	Measuring the administrative approach	103-104 105, 111		
		404-1	Average annual training hours per employee	104		10.3, 4.3, 4.4 4.5, 5.1, 8.2, 8.5
		404-2	Skill development programs that support continued employability of employees	103-104 106	No specific CoP requirement	8.2, 8.5
		404-3	Percentage of employees receiving regular performance and career development reviews	110	6	10.3, 5.1, 8.5
	405 Employment diversity and equal opportunity	103-1	Explanation of the material issue and limits thereof	98, 100	6	
		103-2	Administrative approach and components thereof	98, 100		
		103-3	Measuring the administrative approach	100-101 111		
		405-1	Diversity among the organization's management and employees (gender, age, and other diversity aspects)	86-92 100-101		5.1, 5.5, 8.5
		405-2	The ratio of base pay for men and women at each level in significant areas of operation	101		10.3, 5.1, 8.5

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Social benchmarks	406 Prohibition of discrimination	103-1	Explanation of the material issue and limits thereof	98, 100 102	6	
		103-2	Administrative approach and components thereof	98, 100 102		
		103-3	Measuring the administrative approach	100-101 102, 111		
		406-1	Incidents of discrimination and action taken	102		
	412 Human rights assessment	103-1	Explanation of the material issue and limits thereof	81-82, 105	1, 2	
		103-2	Administrative approach and components thereof	81-82, 105		
		103-3	Measuring the administrative approach	81-83, 105		
		412-1	Number and rate of activities of the organization subject to human rights review or to assessment of the impact of such activities on human rights, by countries of operation	105	1	
		412-2	Total training hours in the reported period devoted to the organization's human rights policies or procedures and their relevance to the organization's activities, and the percentage of employees who have received training on the organization's policies and procedures with regard to such issues	105		
		412-3	Number and percentage of agreements and contracts for significant investment that include human rights clauses or human rights screening	81-82	2	

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Social benchmarks	413 Local communities	103-1	Explanation of the material issue and limits thereof	64-65	1	
		103-2	Administrative approach and components thereof	64-65		
		103-3	Measuring the administrative approach	64-65, 83		
		413-1	The percentage of activities in which the organization involves the local community, in which the impact on the local community was assessed and/or activities that implement community development programs	68	1	1.4
		413-2	Actions that have significant negative impact on local communities (potential or actual)	The Group has no significant negative impact on local communities (potential or actual)		
		G4-FS13	Service locations for disadvantaged populations by area of operation	29, 52-54	No specific CoP requirement	
		G4-FS14	Initiatives to make financial products accessible for disadvantaged populations	52-54		
	417 Marketing and labeling of products and services	103-1	Explanation of the material issue and limits thereof	41-42, 60	No specific CoP requirement	16.3
		103-2	Administrative approach and components thereof	41-42, 60		
		103-3	Measuring the administrative approach	39-40 41-42, 60		
		417-1	The type of information required to be provided according to the organization's procedures with regard to products and services offered by the organization, and the percentage of significant categories of products and services subject to such requirements	42, 60		
		417-2	The number of cases in the reported period of failure to comply with binding regulation and/or with voluntary codes concerning information and labeling of products and services	60		
		417-3	The number of cases in the reported period of failure to comply with binding regulation and/or with voluntary codes concerning marketing communications	60		













Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs	
Social benchmarks	417 Marketing and labeling of products and services	G4-FS15	Policies for the fair design and sale of financial products and services	41-42 43-49 60	No specific CoP requirement		
		G4-FS16	Description of initiatives designed to promote financial education for Bank customers and for the public at large	70-72			
	418 customers privacy	103-1	Explanation of the material issue and limits thereof	57-59	No specific CoP requirement		
		103-2	Administrative approach and components thereof	57-59			
		103-3	Measuring the administrative approach	39-40 57-59			
		418-1	Total number of justified complaints regarding breaches of customer privacy and loss of customer data	40			
	419 Compliance with social and economic regulation	103-1	Explanation of the material issue and limits thereof	132-133	No specific CoP requirement		16.3
		103-2	Administrative approach and components thereof	132-133			
		103-3	Measuring the administrative approach	132-133			
		419-1	Significant fines and sanctions imposed on the organization for failure to comply with social and economic regulation	133			
	Control over policy and management of social and environmental risk	103-1	Explanation of the material issue and limits thereof	138-140	No specific CoP requirement		
		103-2	Administrative approach and components thereof	138-140			
		103-3	Measuring the administrative approach	138-140			

Material issue		Benchmark	Benchmark description	Report page	UNGC - CoP	SDGs
Social benchmarks	Control over policy and management of social and environmental risk	G4-FS9	Coverage and frequency of audits to assess implementation of social and environmental policy and processes for management of social and environmental risk	130, 140	No specific CoP requirement	
	Bank product profile	103-1	Explanation of the material issue and limits thereof	55-56	No specific CoP requirement	9
		103-2	Administrative approach and components thereof	55-56		
		103-3	Measuring the administrative approach	55-56, 61		
		G4-FS6	The value of the portfolio of products and services provided by the organization	26-28 55-56		
		G4-FS7	Monetary value of products designed to promote social goals	56		
		G4-FS8	Monetary value of products designed to promote environmental goals	55		



# Sustainable Development Goals (SDGs) in CSR 2017

Goal number and name	Subject in report and location (page)
The eradication of poverty in all its forms, everywhere 	Impact on Israeli society through involvement and volunteer work (64)
	Promoting financial education and training of business owners (70)
	Community involvement at Bank Yahav (70)
Ensuring a more healthy life and promoting well-being for people of all ages 	Promoting fair work environment and employment terms (93)
Ensuring high-quality education that is inclusive and equal for all and promoting educational opportunities throughout life 	Other activities to benefit Israeli society (70)
	Community involvement at Bank Yahav (75)
Achieving gender equality and empowering all women and girls 	Promoting fair work environment and employment terms (93) Diversity, equality and avoiding discrimination in employment (98)
Promoting inclusive, sustainable and accessible economic growth, employment and fair, respectable employment for all 	Financial performance in 2017 (8)
	Impact on Israeli society through involvement and volunteer work (64)
	Support for NGOs and businesses that promote social causes (69)
	Reinforcing Israel's economy through responsible supply chain management (81)
	Promoting fair work environment and employment terms (93)
	Diversity, equality and avoiding discrimination in employment (98)
	Ensuring employee rights (107)
Building immune, resilient infrastructure, promoting inclusive, sustainable industry and fostering innovation 	Development of environmental and social products (55)
	Support for NGOs and businesses that promote social causes (69)
	Management of environmental and social risk (138)

Goal number and name	Subject in report and location (page)
Reducing inequality within and between countries 	Fairness and transparency towards clients (41)
	A unique solution for diverse demographics (48)
	Accessibility for persons with disabilities (50)
	Reinforcing disadvantaged populations and assisting clients in crisis (52)
	Impact on Israeli society through involvement and volunteer work (64)
	Promoting financial education and training of business owners (70)
	Community involvement at Bank Yahav (75)
	Promoting fair work environment and employment terms (93) Diversity, equality and avoiding discrimination in employment (98)
Ensuring sustainable consumption and manufacturing patterns 	Group responsibility for the environment (114)
Taking urgent measures to deal with climate change and its implications 	Development of environmental and social products (55) Management of environmental and social risk (138)
Promoting companies to be inclusive, to promote peace and sustainable development, providing universal access to justice and building efficient, reliable institutions at all levels 	Corporate social responsibility management concept at Mizrahi-Tefahot Group (13)
	Group commitment to accountable conduct (127)
	Deployment of business ethics (142) Our commitment to preventing corruption (144)