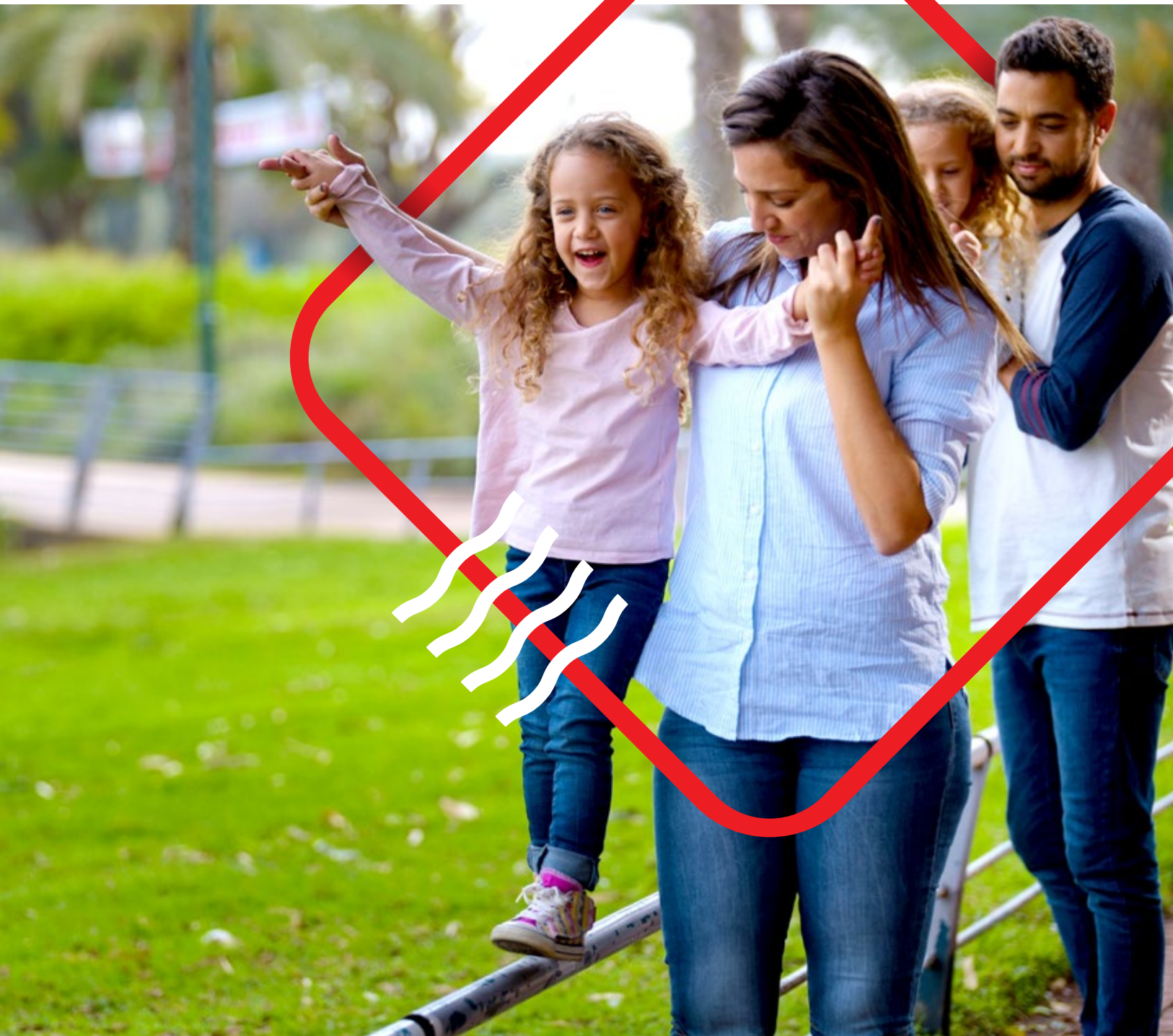


# SOCIAL, ENVIRONMENTAL, AND ECONOMIC RESPONSIBILITY REPORT, 2017



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## Letter from the Chairman and the CEO

We are proud to present the annual corporate social responsibility report of Bank Hapoalim for 2017, summarizing a year of extensive activity. This is the bank's eleventh CSR report – a testament to its ongoing commitment to corporate responsibility, and to the understanding that we have a duty, alongside the advancement of the sustainability and excellence of the bank's business, to promote corporate responsibility as an integral part of our activity. In 2017, the bank continued to lead the banking system in the promotion of social responsibility and responsible management, creating shared value—both social and economic for the bank and its stakeholders.

The implementation of a multi-annual strategic plan centered on providing significant value to customers began in 2017. The goal of the strategic plan is to enable the bank to continue to move forward on a trajectory of growth and further solidification of its leadership in the Israeli banking system, while maximizing value for all stakeholders. The strategy is

based on several key themes, including a personal, human, and technological connection, which refers to adapted, accessible, intuitive banking service that combines advanced digital services with personal service and advice when customers need to make decisions, and the promotion of sustainable, shared value with stakeholders. As part of this commitment, the Stakeholder Relations Division, currently in its second year of operation, is working intensively on a wide range of measures aimed at the creation of shared value—social and business.

Over the last year, we built a new strategic branding concept for the bank, after learning from our stakeholders about the aspects of their relationship with the bank that they consider most important. The new branding, introduced in early 2018 under the heading, "Poalim – with you in every decision" gives practical expression to the bank's aspiration to position the customer, and the customer's needs and financial well-being, as central. The bank's extensive accumulated experience and

customer feedback made it clear that good, informed financial decisions are key to the stable economic management of households and businesses. We are working to strengthen our standing as the first and most professional resource for customers making important financial decisions. In an age overwhelmed by information, experts, and opinions, we offer a professional response to customers' dilemmas, through the bank's expert advisors, who are equipped with the most advanced digital means and whose emphasis is on gaining familiarity with each customer's individual needs.

We have undertaken several processes for the benefit of our customers and of the general public, aimed at promoting financial freedom, a leading value in the vision of the bank. We founded the "Financial Growth Center", which will serve as a repository for financial tools and knowledge, open to the general public free of charge. Concurrently, we have continued to enhance the value offer for our customers, through a range of tools that support behavioral change aimed



at achieving astute financial conduct. This effort focuses on target populations such as adolescents and young people, "new seniors" (pre- and post-retirement), and the ultra-orthodox (Haredi) and Arab societies. We at Bank Hapoalim have seen the development of the Arab society over the years; we believe in the immense growth potential of Arab society, which, realized, would contribute to stimulating the Israeli economy and to a significant increase in quality of life. The bank's momentum in the Arab society has continued to change the competitive dynamics of the sector, reflecting the power and professional excellence of Bank Hapoalim. The bank has significantly increased the number of its branches in Arab and mixed communities in recent years, while expanding the range of products and services offered in this society.

This year, we continued our strategic activity in the small-business sector, based on the awareness that the thriving of this sector leads to growth for the economy as a whole and strengthens the Israeli economy. We further enhanced our value offer for small businesses this year, through a new business website, innovative management tools, a wide range of credit products, and professional advice for businesses in various life stages.

The rapid technological developments have presented us with significant opportunities to develop new services, processes, and products that benefit our customers; we continually work to adapt traditional business models to the evolving world. We plan to continue to innovate and develop technological capabilities, some still being formulated, while also nurturing our unique relationships with a large, long-standing customer base.

The bank has financed dozens of infrastructure projects since Israel's foundation, on a total scale of tens of billions of shekels. In recent years, the bank has led the banking system in financing of projects that help promote environmental sustainability and renewable energy, while also promoting domestic purchasing in Israel. The bank is an employer of thousands, in central Israel as well as peripheral regions, including employees from population groups characterized by under-employment. The bank's human capital is our most important resource, and we are committed to developing this resource while maintaining sound labor relations. This is a key factor in the growth of our business and in the bank's ability to continue to thrive. Bank Hapoalim holds one of the top ten spots in the ranking of the 100 best workplaces in Israel.

Our community activity is a source of pride for us. We focus our activity on areas in which we can offer added value, with an emphasis on education aimed at astute financial conduct, alongside our support for a wide range of organizations dedicated to various social causes. Within the bank's social engagement, as in every year, thousands of its employees and managers volunteered at venues across Israel.

Our extensive activity in the various areas of corporate responsibility has earned the recognition of both local and international rating organizations, positioning us on a par with the world's leading banks in this field. The bank also remains committed to the ten principles of the UNGC (United Nations Global Compact), which promotes economic development that is beneficial to the community and to future generations. As Israel celebrates its seventieth anniversary, we look proudly back at the key role played by the bank in the progress of Israeli society and in building the country of Israel. The bank's story is intertwined, to a great extent, with the story of Israel's success. At the same time, we look ahead, to the bank's commitment to create a robust, sustainable foundation today for the Israel of tomorrow.

**Oded Eran**  
Chairman of the Board of Directors

**Arik Pinto**  
CEO



## Corporate Social Responsibility at Bank Hapoalim: About the Report

This is the eleventh report to be published by Bank Hapoalim for its stakeholders. The CSR reports published over the years reflect the distance traveled by the bank in embedding social responsibility in its activity. Each report focuses on different highlights, according to the key areas of activity in the preceding year. In 2017, as part of the strategy of the bank, we continued to identify and realize business opportunities in this area, while promoting social and environmental benefits; improve service and fair, ethical conduct; form partnerships with stakeholders in Israeli society and in the community; and improve environmental and social risk management. A comprehensive, in-depth examination of the bank's activity in comparison to the Sustainable Development Goals (SDG) of the United Nations was performed for the first time in 2017. As one of the largest financial entities in Israel, the bank's routine activity contributes on the local level to the realization of some of the global objectives for sustainable development. This process, and the goals found relevant to the activity of the bank, are described extensively on pages 17-19.

For us, 2017 was a year of listening, learning, and implementation. During the year, we set in motion a large-scale process of dialogue with dozens of different stakeholders, internal and external to the bank, who illuminated various aspects of our activity and helped us understand and formulate new measures to strengthen our relationships with them. The first such measure is the expansion of channels for dialogue with our stakeholders: we launched a Facebook page for the bank, as a venue for continuous, unmediated dialogue with our customers and the public and as a new channel for routine service.

Another significant new initiative developed at the bank this year, reflecting its focus on stakeholders, is the "Financial Growth Center". The center is designed to provide customers and the general public with access to a wealth of financial knowledge and tools, on

a scale not yet seen in Israel. To us, this is another step towards realization of the vision of financial freedom. The activity and content of the center were developed during 2017, ahead of its opening and the beginning of full operation in 2018.

Over the last year, we also performed a strategic process to examine our community investments, based on the understanding that while the bank has extended broad support to the community over the years, its activity should be focused, in order to generate greater value, promoting the community and making the most of the strengths of the bank and its employees. We are therefore making progress towards improved effectiveness in this area, as in others.

Within the unique activity of the Shared Value Center, initiatives were developed and launched over the last year that combine business, social, and environmental aspects. The various initiatives are described in this report, including assistance for customers experiencing difficulties, using a unique approach, and other projects targeted to specific sectors, as well as continued work on relevant environmental issues, such as the ongoing promotion of energy efficiency, and more. The work will continue past this milestone, expanding to encompass new processes, initiatives, and projects derived from the principle of shared value.

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

This CSR report refers to the calendar year 2017. During the reported period, there were no significant changes in the type of ownership, structure, or size of the bank. This report was prepared in compliance with the Sustainability Report Standard (SRS) of the Global Reporting Initiative (GRI), at the most advanced level of transparency (In Accordance: Comprehensive). Most of



the data in the report were generated by information systems at the bank, in accordance with GRI reporting requirements. Information was collected regularly and routinely throughout the year. However, some of the data were collected after the end of the reported period. The information is organized in a comprehensive database encompassing data on the reported period as well as multi-year data. Data are presented using comparative analyses referring to the reported period and to long-term trends. A small part of the data involves the use of estimates and evaluations. Estimates and evaluations, where used, were stringently checked and validated, and are clearly noted in the report. The report does not address CSR impacts of Isracard Ltd. Isracard publishes an independent CSR report, in accordance with the directives of the Supervisor of Banks. We recognize the importance of auditing and external assurance of our work and of the accuracy of the data accumulated as the plan moves forward. Accordingly, we have decided to continue to maintain external auditing of the implementation of processes and of the fairness of our reporting, on four levels: the corporate social

responsibility implementation process; control over the fairness of the report; the completeness of the report on our carbon footprint; and compliance with GRI criteria for reporting on substantial subjects. GRI has found that the process of determining the subjects to be reported complies with the directives of the new reporting standard.

The readers of this report, our stakeholders, will use it to critique and judge our performance and the extent to which we have met their expectations. We are committed to making use of the comments and feedback we receive from our stakeholders in order to learn from them and continue to examine ourselves. This year's extensive sustainability and corporate social responsibility report is available in Hebrew and in English on a dedicated CSR minisite, along with an accessible version for people with disabilities.

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

**Yael Dromi**

Head of Stakeholder Relations Division

**Hagit Bechor**

Director of Shared Value Center  
Stakeholder Relations Division

**Sharon Alaluf**

Head of Corporate Social Responsibility  
sharon.alaluf@poalim.co.il

## The Bank Hapoalim Vision

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

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Over recent years, an ongoing process has been underway to instill the vision of the bank. The vision declares our commitment to our employees, our customers, and all of our stakeholders; imparts meaning and a connection with our values to the objectives and initiatives led by the bank; and empowers the bank in its leadership on the shared path to the challenges of the future.

### **Working to Promote Financial Freedom for Stakeholders – the Differentiating Value in the Bank's Vision**

As a business leader, Bank Hapoalim takes responsibility for the promotion of equal economic opportunities in Israeli society and economic sustainability among its customers, employees, and in the general public. The bank welcomes this duty, and believes in its mission to contribute to the empowerment of the society from which it draws its strength. Every person has different economic needs, according to the milestones in his or her life, and different financial resources available to meet those needs. In order to cope with such needs appropriately in the short and long term, it is necessary to obtain a solid understanding of the full range of existing financial needs and possibilities, and achieve optimized matching in order to eventually attain a good decision-making process and increase the realization of financial potential.

Bank Hapoalim works consistently to promote astute financial conduct among its customers and the Israeli public. Accordingly, the bank endeavors to provide high-resolution information regarding the full range of financial possibilities available to its customers, transparently and with maximum availability, according to customers' different life stages. A wide range of tools, products, services, information, knowledge, and guidance are offered by the bank in order to ensure that customers are thoroughly familiar with their position and with all of the alternatives open to them, so that they can make informed, independent decisions.

Bank Hapoalim promotes financial freedom for various target audiences, through a range of channels (extensive details regarding the financial freedom approach and its implementation are presented in the Customers chapter and in the Community chapter).

## Corporate Social Responsibility at Bank Hapoalim

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

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





**Organizing Model:  
The CSR Flower**

The bank's CSR concept has been formulated into an organizing model: "The CSR Flower". The model maps the entire CSR and sustainability field into a unified cognitive pattern, simple to communicate and absorb, organized, and consistent. The model presents CSR by organizing parameters and indicators from the different content areas and condensing them into a short, simple series in four central categories: customers, community, employees, and environment, which

constitute the four petals of the flower. These represent the areas in which the bank's CSR and sustainability activities and impact are focused. Each category (petal) of the model contains various activities. Each of the four categories is divided into two layers:

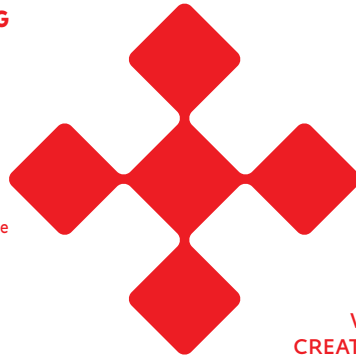
- ◆ **Value creation layer** – Focused on activity with the external stakeholders of the bank; creation of shared business value for the bank and its stakeholders, combined with social and environmental values, emphasizing:
  1. The best interests of the customer;
  2. Empowerment of the community.
- ◆ **Resource management layer** – Focused on the intra-organizational activity of the bank, with an emphasis on management of human resources as strategic partners and on the bank's environmental conduct:
  3. Employees' quality of life and well-being;
  4. Living with the environment.

The flower pg. 9

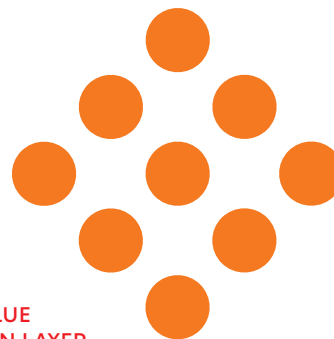
**THE CLIENT'S WELL-BEING**  
CLIENTS, PRODUCTS  
AND SERVICES

**Value creation for customers:**

- Answering the client's needs throughout the life cycle
- Providing accessibility to a variety of services - regardless of time and place
- Service, complaint management and customer satisfaction
- Designated service for special populations
- Enriching the financial knowledge of the customers



VALUE  
CREATION LAYER



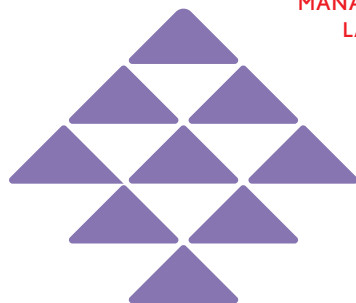
**EMPOWERING  
THE SOCIETY AND  
COMMUNITY**  
CREATING VALUE FOR THE  
ECONOMY AND SOCIETY

**Value creation in distant  
circles of influence**

- Suppliers
- Community
- Local economy

**EMPLOYEES' WELL-BEING**  
RESPONSIBILITY TOWARDS  
THE EMPLOYEES

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



RESOURCE  
MANAGEMENT  
LAYER



**LIVING WITH THE  
ENVIRONMENT**  
RESPONSIBLE  
ENVIRONMENTAL BEHAVIOUR

- Managing logistical resources while considering the environment: Energy efficiency, paper consumption, recycling and waste management, water, green building, transportation,
- Green products and services,
- Credit based on environmental consideration.

## Implementing and Instilling CSR Values in All Levels of Activity

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

**Structure and authority** – The head of CSR is the strategic leader for this area, in coordination and cooperation with the various unit heads. Each unit is responsible for implementing certain aspects under its authority, using its own resources.

### Processes, metrics, and information

Measurement is a fundamental element of management, allowing goals to be set, progress to be monitored, and performance to be compared. Improvement of the measurement infrastructure allows enhanced controls to be applied to the various activities, and is aimed at promoting efficient, effective management of the plan.

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

### Branding, communication, and developing awareness

Every initiative carried out within this activity is branded and communicated extensively across the various circles of managers and employees. The annual CSR report is available and accessible to all stakeholders in the Israeli and international economy: businesses, municipalities, non-profit organizations, academia, analysts, etc. The CSR zone of the bank's website, at [www.bankhapoalim.co.il/csr](http://www.bankhapoalim.co.il/csr), is the main window for the public to the bank's sustainability and CSR activities. The website presents an appropriate level of

transparency for stakeholders with regard to events at the bank and delivers the maximum possible amount of information, which is essential to dialogue and feedback.

### Dialogue and collaboration with stakeholders

Over the last few years, Bank Hapoalim has developed a range of channels for dialogue with various groups of stakeholders, with the aim of identifying needs and providing an optimal response to sustainability challenges in the bank's dynamic, complex environment. In addition, a dialogue-based process was conducted in 2017 in order to identify stakeholders' perceptions of the bank and map the topics they consider important in their relationships with the bank (for more extensive information, see below, in the subsection "Stakeholder Relations Division").

## Stakeholder Relations Division

The Stakeholder Relations Division was founded in 2016, in order to lead an advanced business philosophy based on the creation of shared value—economic, social and environmental for the bank and its stakeholders, and fortify its sustainable business success rooted in social, human, and environmental values. The division's work emphasizes meaningful impact on the environment and on society as a whole, with the aim of exerting a beneficial influence and strengthening the trust-based relationship between the bank and its stakeholders.

The division operates in three dimensions:

- ◆ Representing the voice of the bank's stakeholders, and helping the bank consider the overall impact of various actions on all stakeholders;
- ◆ Leading and initiating measures aimed at strengthening relationships with the various stakeholders, with a focus on dialogue, service experience, and value added ;
- ◆ Leading and initiating processes and actions aimed at generating shared value to benefit all stakeholders.

The following units operate within the division: the Shared Value Center, Social Networks, the Service Unit, the Ombudsman, Poalim in the Community, Poalim Volunteers, Poalim Campus, and the "Financial Growth Center". The wide-ranging activities of these units are described in detail throughout this report.

### Shared Value Center

The center, operating within the Stakeholder Relations Division, is currently in its second year. Various initiatives developed and carried out at the Shared Value Center in 2017 are described in this report (including Second Chance, Poalim Start, Accessibility Credit, Solar Credit,

Caregivers, and more). The common element of these initiatives is the ambition to create business value along with social value, leveraging the core competencies of the organization. The center also manages the bank's corporate responsibility, based on the principles that guide the activity of all of the units of the bank.



## Examining Achievement of Objectives

2017 Objectives	Status
In 2017, the Shared Value Center will focus on developing processes and initiatives with shared value for the bank and its stakeholders, including the development of methodologies and tools to promote this area of activity.	✓ <b>Completed.</b>
Management of ongoing relationships with stakeholders, including the development of an operational model, tools, and working routines for implementation. These activities will be based on control processes and measurement of the social impact, alongside the business and operational impact, and on internal and external collaborations in the public sector.	✓ <b>Completed.</b>

## LOOKING AHEAD

- Continued management and initiation of shared-value projects, with an emphasis on ventures that promote guidance of customers experiencing difficulties towards financial rehabilitation, collaborations for the promotion of growth in peripheral regions, credit for solar energy, promotion of responsible investments, and more.
- Instilling the shared-value approach at the bank through targeted workshops for employees.

### Dialogue with Stakeholders

Different stakeholders have different expectations for the bank, according to their unique characteristics and diverse needs. Ultimately, it is the bank's stakeholders who grant it its "social license to operate"; this social license is continually under challenge in the business environment in which the bank operates. Accordingly, in order to build and strengthen public trust over time, the bank accords high importance to listening to stakeholders and their expectations and to continuously addressing the challenges they present.

The Shared Value Center in the Stakeholder Relations Division led a process of in-depth dialogue with the bank's stakeholders in 2017, for this reason – to obtain as authentic an image as possible of the stakeholders' perceptions of the bank, and to learn from them about the elements of their relationship with the bank that they consider important. The following groups of stakeholders were mapped, as part of this process: business clients, retail customers, employees, suppliers, regulators, municipal agencies, and NGO's. Over 130 participants

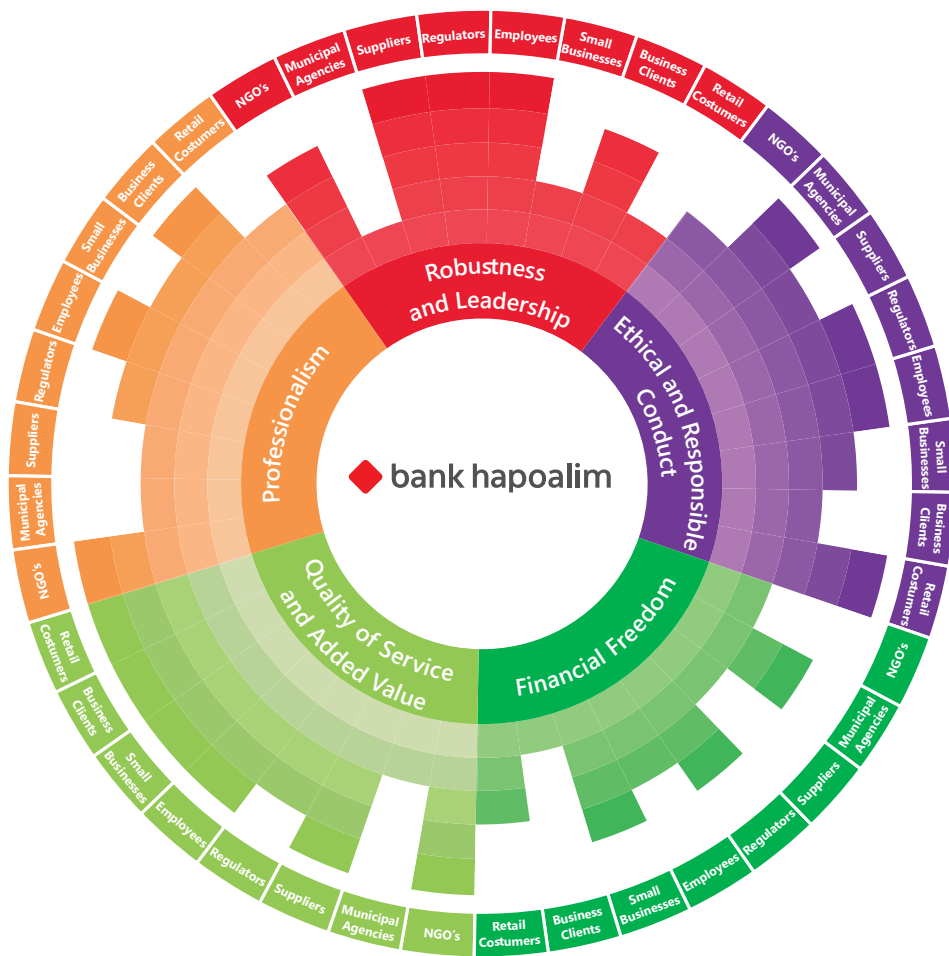
representing these different groups took part in focus groups and in dozens of open-ended, in-depth interviews designed to illuminate their positions, expectations, and needs with regard to the bank.

At the conclusion of the process, five key topics were identified as essential to all of the stakeholders, to varying degrees (the degree of importance is reflected in the graph):

- ◆ **Ethical and Responsible Conduct** – The sense that the bank is acting fairly, transparently, and responsibly towards me;
- ◆ **Quality of service and value added** – Receiving personal, human, adapted service, in addition to technological services;
- ◆ **Professionalism** – The benefit of highly professional products, services, and banking tools;
- ◆ **Robustness and leadership** – Belonging to a large bank that provides security, alongside innovation and progress;
- ◆ **Commitment to financial freedom** – Acquiring the tools, knowledge, and financial guidance that can help me achieve growth.

### An overview of stakeholder perceptions identified during this process:

- ◆ The bank's integrity and responsible conduct, based on mutual trust, is the most important topic for all stakeholders;
- ◆ Quality of service and value added are also of the highest importance to customers; this perception is primarily based on the quality of the interpersonal experience. Technology and digital services are perceived as threshold conditions, rather than differentiating factors;
- ◆ Professionalism is especially important to business clients; retail customers value;
- ◆ professionalism in cases of complex needs requiring financial expertise;
- ◆ For most stakeholders, the bank's robustness and leadership represent an opportunity to lead changes and have a positive impact;
- ◆ Activities aimed at promoting financial freedom strengthen connections with stakeholders when they include individual guidance, rather than only tools.



The results of this mapping process were presented to the relevant functions within the bank, and used to derive strategic focus areas for each group of stakeholders. These focus areas are included in the work plans of the bank for the coming years (some are reflected in the Looking Ahead sections of this report), with the aim of responding optimally to needs and strengthening and solidifying the trust-based relationship between the bank and its stakeholders. Concurrently, the bank continued to conduct ongoing dialogue with stakeholders through the various channels developed over the years. The following are selected examples of key groups of stakeholders and the ways in which the bank promoted dialogue and collaborations with them in 2017:



## Stakeholder

### Selected dialogue channels in 2017

#### Customers

- Promotion of financial freedom and deeper connection with customers – In 2017, a pilot program of the "Financial Growth Center" was held at the Poalim Campus, in advance of the full launch of the center in 2018;
- Customer conferences – The bank holds series of customer conferences offering added value for customers. Six regional conferences were held in 2017, attended by thousands of customers;
- Small businesses – Bank officials have met with representatives of various organizations promoting the cause of small businesses, alongside the continuous relationships maintained with business clients at branches and at the businesses;
- Encouraging growth in the Arab society – Throughout the year, the bank conducts dialogue with business and social organizations in this community, and leads various initiatives targeted to this society. Initiatives in 2017 included workshops on family budget management, holiday activities, and activity for youth;
- Management visits to branches – Division heads from the head office visit branches;
- Customer surveys – Continuous, uniform samples of customers at the branches and in the various channels are surveyed daily, with a breakdown by channel, line, and branch;
- Focus groups – Conducted with customers in order to obtain clarity regarding customers' needs and examine solutions on various matters;
- Social networks – The Social Networks Department was created in 2017, in the Stakeholder Relations Division, to allow another channel for dialogue characterized by openness, availability, and maximum transparency. The bank's official Facebook page was launched in July 2017.

#### Employees

- Feedback meetings with all employees of the bank and midterm meetings to track objectives with employees, were conducted in 2017 as in every year;
- An organizational climate survey is conducted annually to examine the level of employees' sense of connection and satisfaction;
- "Beshutaf" – An intra-organizational business network allowing employees and managers to stay up to date, share information, work in professional teams, and promote projects, quickly and easily. As of the end of 2017, approximately 1,000 employees were active users of this network, which also contained ten professional blogs and 280 knowledge communities;
- Employee union – Working relationships with management and employees are characterized by continual dialogue;
- Routine dialogue of the Human Resources Division with managers regarding staffing needs, organizational changes, and annual processes;
- Bankathon – As part of the ongoing dialogue with employees, and in order to stimulate innovation, the bank invited all employees to suggest creative initiatives promoting shared value-business and social, with an innovative technological component. 130 proposals were submitted by 250 employees;
- Dialogue with new employees of the bank – Onboarding meetings; orientation days; course opening, midterm, and closing sessions for introductions and mutual coordination of expectations.

#### Suppliers

- Conferences for the bank's suppliers, attended by hundreds of suppliers from various fields (consulting, transportation, construction, printing, sales promotion, office supplies, food, and more) ;
- Communication of the bank's CSR values to the general population of suppliers through periodic letters and the code of ethics for suppliers;
- In-depth interviews with suppliers as part of research on stakeholder perceptions.

## Stakeholder

## Selected dialogue channels in 2017

### Regulators, government ministries, and local authorities

- Meetings and lectures for the exchange of knowledge and insights with representatives of government and municipal agencies. Joint projects aimed at addressing environmental and social issues are promoted in this context;
- Collaboration with the Bank of Israel and the Association of Banks in preparation for Financial Awareness Week, in which bankers volunteered to teach thousands of ninth-grade students about financial subjects.

### Community and environmental organizations

- Dialogue and collaboration with a wide range of non-profits and social organizations working to promote various causes;
- Collaborations with companies operating in areas such as recycling, transition to natural gas, energy efficiency, solar energy, water, etc;
- Knowledge sharing and collaboration with approximately fifty non-profits and social organizations working in the area of diverse human capital and employment of population groups under-represented in the labor market, in order to promote diverse employment at the bank.

### Academia

Management and professors at universities and colleges, including the Technion, Tel Aviv University, the College of Management, the Academic College of Tel Aviv Yaffo, and Bar Ilan University.

### CSR community

- Contact and professional dialogue with Israel's leading business organizations and CSR managers;
- Maala – Shared discussion and mutual assistance in facing professional problems and challenges; Lectures on CSR at relevant venues (courses, conferences, etc.).

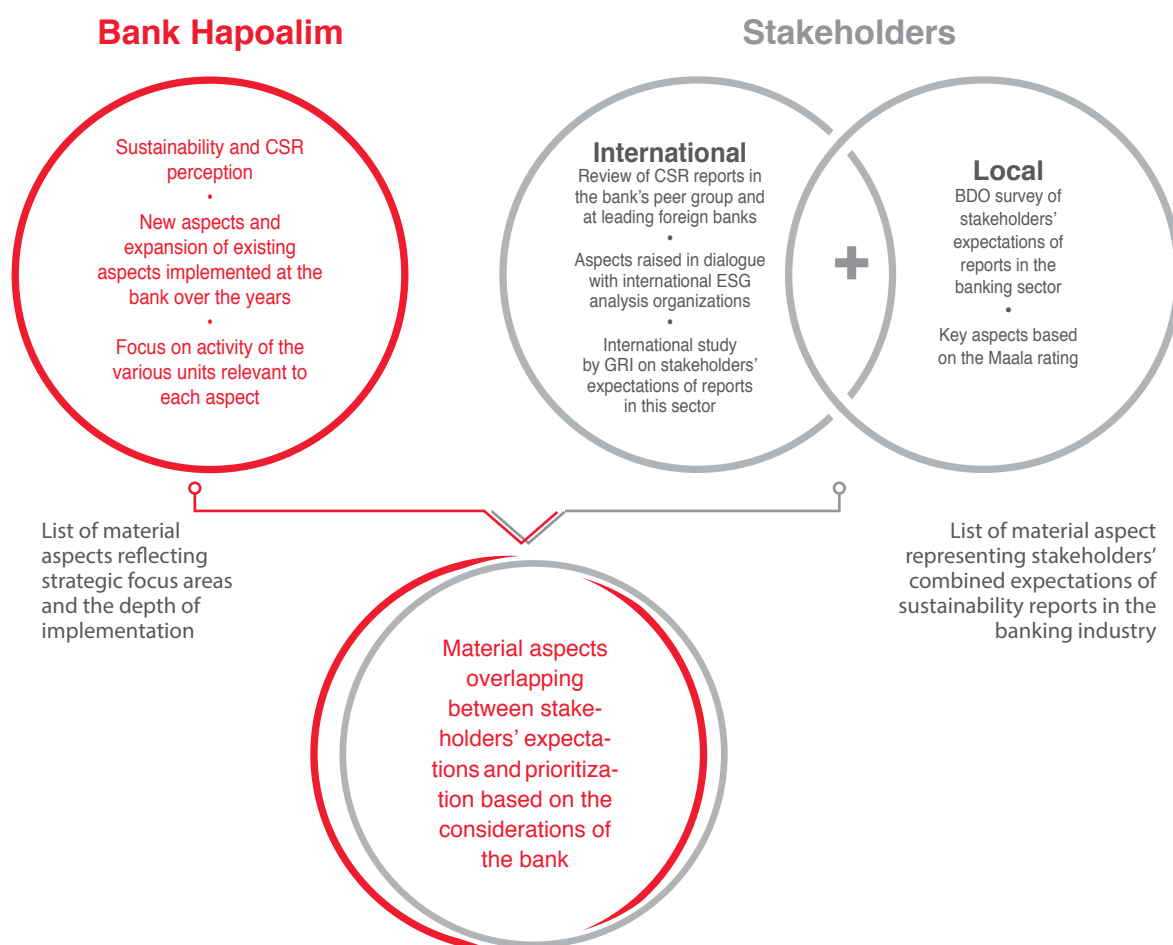
## Defining Material Aspects

Since 2007, the bank has reported on its impact and activities in the areas of sustainability and CSR, in compliance with the recognized GRI international reporting guidelines. The bank's reports have complied with the advanced reporting standard GRI:SRS at the highest transparency level, "In Accordance: Comprehensive," since 2016. According to the GRI guidelines, the bank is required to focus its report on the topics most material to its activity, while including the expectations of the various stakeholders, in alignment with its strategic approach. Material topics are defined as areas of activity in which the bank has a significant impact on its various stakeholders in the areas of CSR and sustainability, within and outside the bank. Material topics presented in the recent CSR reports of the bank were formulated

based on a materiality process performed in 2014. The process of validation of topics for the present report included the results of dialogue conducted by the Stakeholder Relations Area, which validated a substantial number of the topics already identified as material in recent years, and ongoing dialogue conducted throughout 2017 with the stakeholders of the bank and with local and international analysis and rating organizations. The number of topics in the report was reduced (some topics presented separately in previous reports are presented here as a single topic), in order to achieve better focus, for readers of the report and for the various stakeholders. The report also presents some topics that are important to the bank, but are not defined as topics in the GRI standards, such as innovation.

### List of Material Topics for Sustainability Reporting at Bank Hapoalim

In accordance with the CSR Flower model, the material topics represent four content areas: **the best interests of the customer, empowerment of the community, employees' quality of life and well-being, and living with the environment.** As each group of stakeholders perceives each of the material topics somewhat differently, and naturally accords greater importance to topics by which it is affected, a decision was made to refrain from presenting a hierarchical division of topics in this report. Instead, the report describes the field of topics material to the bank and its stakeholders.



**Material reporting topics:**

- 1. Promotion of customers' financial freedom** – Providing information, products and tools, individually adapted service and advice, education, and financial literacy for the various customer segments.
- 2. Service for a diverse range of customers and promotion of sectors of the economy** – Service targeted to specific customer segments, including small and mid-sized businesses, "new seniors," the Arab community, the Haredi sector, and people with disabilities; perception, implementation, and measurement of excellence in service; presentation of the various service channels (branches, website, mobile, etc.).
- 3. Information security and privacy** – Management of information security at the bank and instilling principles for the protection of customers' privacy.

- 4. Responsible supply-chain management** – Including social responsibility and sustainability considerations in purchasing.
- 5. Expansion of spheres of influence** – Direct and indirect influence on the economy and society of Israel and on various stakeholders, with the presentation of the bank's activity in the public sphere.
- 6. Investment in the community** – Promotion of the policies of Poalim for the Community and Poalim Volunteers for management of the bank's social action and involvement, its donation policy, and employee volunteering.
- 7. Promotion of appropriate work environments** – Development and promotion of human capital at the bank; instilling fair policies on remuneration and benefits, well-being, and caring for employees, in various aspects of the

- work environment and of their lives; intra-organizational communication channels; and partnership with employees in organizational and professional processes at the bank.
- 8. Promotion of diversity, equal opportunities, and transparency** – Promotion of gender and sector equality, prevention of discrimination, and promotion of diverse employment.
- 9. Training and individual development** – Presentation of the area of training and learning at the bank.
- 10. Reduction of environmental impacts**– Management of the protection of the environment at the bank: responsible consumption of resources (energy and paper); reduction of environmental impacts and carbon footprint.
- 11. Development of products and services**–for the promotion of

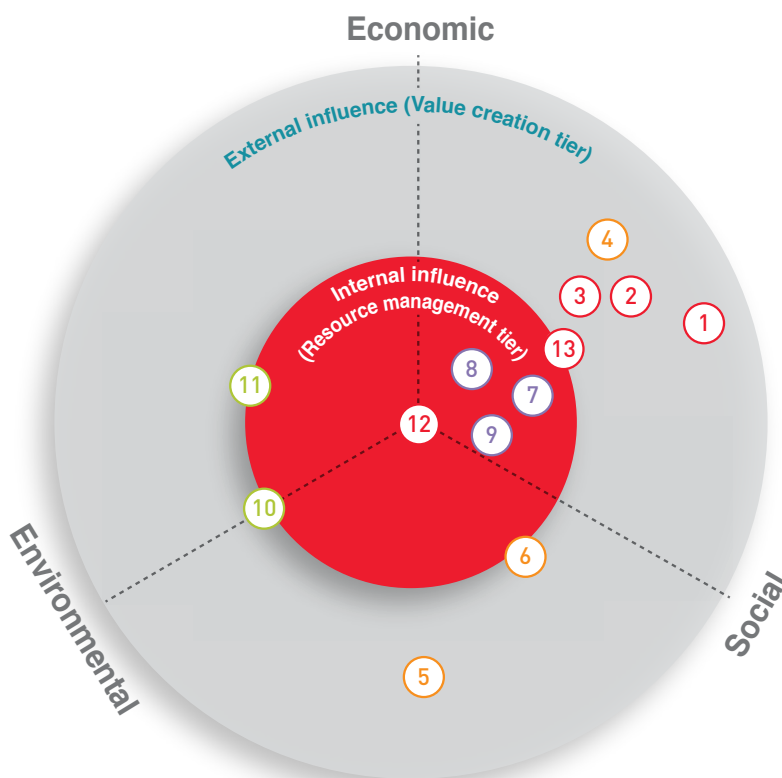
environmental sustainability and examination of environmental risks in financing – Financing of environmental projects, and management of environmental risks in financing.

**12. Corporate governance and ethics –** Presentation of the structure and activity of the board of directors, and instilling ethics at the bank.

**13. Prevention of corruption –** The bank's commitment to the prevention of corruption and money laundering; presentation of the activity of the bank's compliance unit.

As noted, in comparison to the preceding report, some material topics in this report have been consolidated, and reporting on some topics has been discontinued (this refers to topics already reported by the bank at a comparable level of transparency in its other reports or publications, so that repeated presentation in this report is superfluous). The changes in comparison to the preceding report are the following:

- Four topics presented separately in the preceding report are presented as one topic in this report, as they all concern the bank's service perception and different target audiences: (1) customer diversity, (2) accessibility, (3) measuring and instilling service, and (4) the range of service channels.
- The topics of financing for environmental projects and risk management in financing are essentially part of the same activity and the same impact of the bank, and were therefore consolidated into a single topic.
- The bank views business continuity as an important, critical topic, but it is already reported in the bank's financial statements, making its presentation in this report unnecessary.
- The topic of dialogue with employees, which is not defined as material in the GRI standard, is presented in this report within the topic of the promotion of an appropriate work environment.
- As the bank is an office-based organization rather than an industrial organization by nature, its impact on the environment as a result of the operational aspect of the organization is insignificant, in contrast to its activity in financing infrastructure and industrial projects; the bank has therefore continued to reduce its reporting in the environmental section while expanding the section on activity that affects customers.



### customers:

- Promotion of customers' financial freedom
- Service for a diverse range of customers
- Information security and privacy

### customers:

- Responsible supply-chain management
- Expansion of spheres of influence
- Investment in the community

### Employees:

- Promotion of diversity, equal opportunities, and transparency
- Training and individual development
- Promotion of appropriate work environments

### Environment:

- Reduction of environmental impact
- Development of products and services

### Ethics:

- Corporate governance and ethics
- Prevention of corruption





## Bank Hapoalim and the Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDG's) published by the United Nations in 2015 consist of seventeen goals and 169 secondary goals for the closure of global development gaps by 2030. The goals refer to issues including reduction of inequalities, education, infrastructures, economic growth, fighting climate change, and more.



Helping people, businesses, and communities thrive and grow is a priority for the bank in its business and social actions, with all of its stakeholders. As one of Israel's largest financial organizations, the bank's routine operations contribute to some of the Sustainable Development Goals, particularly those goals relevant to its core business, such as in the areas of economic development, reduction of inequalities, education, coping with climate change, and more. Among other means, the bank achieves this by making financial services accessible, financing renewable-energy and infrastructure projects, investing in the community, and promoting financial education.

In order to examine the activity of the bank in relation to the global development goals, the bank's activity was mapped, with reference to the Sustainable Development Goals and related objectives, to identify focus areas. In the second stage, an SDG map matrix was created, based on ratings on two parameters: the bank's ability to have an impact on each goal, and the relevance of each goal to its business. These parameters were rated based on both present and potential activities. The mapping and measurement were aimed at identifying relevance to the bank's actions in general, and to its core activities. This in-depth process was accompanied by the international consulting firm EY.

As part of its commitment to this issue, the bank also supports the "Sustainability Compass" project, an Israeli social project modeled on the global SDG Compass project. The goal of the Sustainability Compass is to adapt the seventeen development goals to Israeli society in general, and to the Israeli business sector in particular.

### 1. Objectives chosen as focus areas by the bank

The objectives presented below are the main areas chosen, based on their relevance to the bank's present and future activity, in both its business and social aspects. These objectives are consistent with the strategy of the bank and with the topics that are material for its stakeholders. Extensive information regarding each of the projects and activities derived from these objectives is presented throughout this report.

Sustainable Development Goals	Relevance to the activity of the bank	Examples of activities (detailed in the report)
	<p>As a leading financial entity, the bank makes financial services accessible, while promoting the idea of financial freedom for its customers. The bank is also a major employer in the Israeli economy, and contributes indirectly to employment through additional channels (financing, suppliers, support for the community, etc.).</p>	<ul style="list-style-type: none"> <li>•Ensuring accessibility of banking services (personal, human, and technological) for the entire population of Israel, with an emphasis on populations suffering from a lack of access to full banking services.</li> <li>•Small businesses – Providing assistance and financial tools, through targeted credit funds, financing solutions for small and mid-sized businesses, tools to aid financial management, and tools to guide growth.</li> <li>•Employment of thousands of workers throughout Israel, in both central and peripheral regions.</li> <li>Responsible supply-chain policies applied to thousands of suppliers.</li> </ul>
	<p>The bank works to adapt financial tools and services for diverse audiences, including senior citizens, the Arab and Ultra- Orthodox societies, , people with disabilities, and more. The bank also promotes diverse employment among its employees and in the supply chain.</p>	<ul style="list-style-type: none"> <li>•Hiring employees from population groups characterized by under-employment.</li> <li>Extensive educational and communications activity on the subject of astute financial conduct for various customer segments and population groups, aimed at promoting financial freedom for the bank's employees and customers, and for the general public in Israel. This includes the foundation of the "Financial Growth Center", which offers content to the general public, free of charge.</li> </ul>

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**Sustainable Development Goals****Relevance to the activity of the bank****Examples of activities (detailed in the report)**

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**4 QUALITY EDUCATION**

Within its community engagement, the bank invests resources in a range of educational initiatives, and in donations of cash and cash equivalents to educational and cultural institutions. The bank also conducts extensive educational activity on the subject of astute financial behavior.

- Launch of the "Financial Growth Center", which offers varied learning materials on astute financial conduct, free of charge, to the general public.
  - Support for a wide range of community projects in the area of education each year, with an emphasis on financial education; granting scholarships for higher education to thousands of students.
  - Operation of the "Read and Succeed" project, aimed to boost reading and writing skills among children, in the Arab and ultra-orthodox societies.
  - Teaching astute financial conduct to ninth-grade students during Financial Awareness Promotion Week, a joint project with the Bank of Israel.
- Investment of cash and cash equivalents in cultural and artistic institutions, in order to promote education complementary to formal learning.

**9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**

The bank grants credit for investment in infrastructures, development, and construction in Israel. This investment is crucial to economic growth and to the improvement of services accessible to the population, in the areas of welfare, education, and health care.

- Financing significant infrastructure projects, such as the Light Rail, development of the Tamar natural-gas field, the Cross-Israel Highway, and more.
- Developing innovative financial products that serve the general public, led by the Innovation Division of the bank.
- Managing environmental risks in financing and credit for infrastructure and real-estate projects in order to ensure sustainable development.

**7 AFFORDABLE AND CLEAN ENERGY**

The bank's involvement in leading financing solutions for its customers for projects in the areas of renewable energy and energy efficiency is highly important to the feasibility of such projects.

- Providing financing solutions for projects in the area of renewable energy: thermo-solar energy, pumped storage, wind turbines, and natural gas.




**6 CLEAN WATER AND SANITATION**

Access to water and sanitation is an essential challenge for sustainable development today. The bank is a leader in financing of water desalination and waste treatment facilities in Israel.

- Financing of 80% of water desalination facilities in Israel.
  - Financing of operators of waste treatment facilities, mainly producing water used in agriculture.
-



## 2. Additional goals promoted by the bank in its routine activities for stakeholders

Sustainable Development Goals	Examples of activities (detailed in the report)
<b>5 GENDER EQUALITY</b> 	<ul style="list-style-type: none"> <li>The bank establishes baseline salaries and benefits according to the employee's position and rank, regardless of gender.</li> <li>52% of the bank's management tier are women.</li> <li>The bank promotes initiatives to empower women, such as the initiative "A Business of Your Own" for the development of women's entrepreneurship in the Arab society.</li> </ul>
<b>11 SUSTAINABLE CITIES AND COMMUNITIES</b> 	<ul style="list-style-type: none"> <li>Granting credit and mortgages for the construction of residential properties.</li> </ul>
<b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b> 	<ul style="list-style-type: none"> <li>The bank has a green purchasing policy, in which environment-friendly product purchasing alternatives are examined.</li> <li>Mapping the various types of waste generated by the bank's activity, and examining the environmentally safest ways of treating the waste. Responsible waste collection and removal, including collection of electronic waste and construction waste, and recycling of bottles and cans.</li> </ul>

## Corporate Responsibility Performance Summary

Field	Metric	2013	2014	2015	2016	2017
<b>Bank profile</b>	Total income (NIS M)	13,664	14,022	14,362	14,721	14,630
	Number of employees of the bank	9,745	9,283	8,898	8,701	8,687
	Number of branches of the bank (retail and business)	286	277	267	257	259
<b>Credit granted for promotion of social/ environmental causes</b>	Total credit for small businesses (NIS B)	26.2	29.3	32.4	27.3	30.3
	Additional credit earmarked for small businesses beyond the ordinary course of business (NIS B)	2.15	3.5	3.5	3.2	4.8
	Cumulative credit for environmental projects and products (NIS B)	8.15	6.66	6.63	6.53	6
	Granting credit to promote shared value-business and social	-	-	-	NIS 2.04 billion	NIS 732 million
<b>Promotion of small businesses</b>	Number of businesses in the CashBack Club	5,000	7,000	8,000	10,000	5,000

Field	Metric	2013	2014	2015	2016	2017
<b>Financial freedom</b>	Number of users of budget management application (cumulative)	400,000	~500,000	~500,000	660,000	750,000
<b>Service in a multi-channel world</b>	Number of active online accounts	1,200,000	1,200,000	1,300,000	1,370,000	1,600,000
	Number of users of mobile banking services	650,000	650,000	735,000	906,000	1,000,000
	Number of active accounts at the call center	750,000	700,000	1,000,000	1,000,000	1,000,000
<b>Processing customer queries</b>	General percentage of justified queries – Bank of Israel data (%)	27.3%	14.4%	9.2%	6%	Not received as of the date of preparation of the report
	Percentage of justified queries concerning privacy and banking confidentiality (%)	10%	0%	7%	3.7%	0.7%
<b>Accessibility of service to a diverse range of customers</b>	Number of branches serving the Arab society	36	38	41	43	43
	Number of branches in towns with extensive religious and ultra-orthodox populations	23	23	20	21	21
	Number of accessible branches ( Branches with an Accessibility Seal from the Access Israel organization)	116	155	226	224	248
	Number of ATMs accessible to blind users	316	316	316	536	616
	Percentage of branches outside central Israel (beyond the area from Gedera to Hadera; in %)	45%	40%	35%	40%	40%
<b>Direct economic value for stakeholders</b>	Economic value distributed by the bank group to stakeholders (operational expenses, salaries and related expenses, donations and sponsorships, provision for taxes, dividends; in NIS M)	9,800	10,231	10,226	12,062	11,995
<b>Promotion of responsible purchasing</b>	Percentage of purchasing from Israeli sources	98%	98%	93%	92%	92%
	Percentage of purchasing from small and micro-businesses	30%	21%	15%	46%	45%
	Percentage of small suppliers (of total annual number of suppliers)	60%	70%	52%	81%	77%
<b>Investment in the community</b>	Community donations and investments (NIS M)	46	47	43	44	43
	Donations of computer systems (NIS M)	0.83	0.32	0.39	0.80	0.65
<b>Employee volunteering</b>	Number of employees of the bank who volunteer regularly	3,200	3,000	3,500	3,500	3,500
	Annual volunteering hours	125,000	124,000	148,700	152,200	154,000
<b>Employment profile</b>	Employees under a collective agreement (%)	93.1%	91.7%	91.3%	90.5%	90%



Field	Metric	2013	2014	2015	2016	2017
<b>Diverse employment</b>	Percentage of women at the bank (%)	65%	65%	64.6%	64.4%	65%
	Percentage of women executives at the bank (%)	51.7%	51.5%	52.1%	52.4%	52.6%
	Percentage of women on the board of directors of the bank (%)	33%	33%	33%	18%	30%
	Percentage of minorities at the bank (%)	5.3%	5.1%	5.4%	6%	6.3%
	Percentage of hires from under-employed sectors, of total annual hiring	20%	17%	20.5%	22%	17%
<b>Training and development of human capital</b>	Percentage of academic degree holders at the bank (%)	59.5%	62.4%	64.4%	65.8%	66.7%
	Number of learning days at the bank	56,200	61,400	49,600	49,776	43,211
	Average hours of learning per employee	46.1	43	38.1	42.5	42.5
<b>Channels for dialogue for employees</b>	Dialogue sessions for employees with the CEO and members of management of the bank	44	43	28	-	
	Percentage of employees who received feedback (%)	99%	99%	99%	99%	99%
<b>Energy consumption and efficiency</b>	Total electricity consumption (kWh)	90,616,904	86,567,004	84,579,103	86,388,184	86,232,616
	Electricity consumption per m2 (kWh)	294.1	284.6	278.4	280.7	268.1
	Percent annual change in electricity consumption (year on year, %)	-3.2%	-4.5%	-2.3%	2%	-0.18%
	Diesel fuel consumption (L)	11,752	10,840	102,275	13,547	9,898
	Gasoline consumption (L)	3,448,047	3,537,444	3,599,730	3,021,768	2,746,344
<b>Consumption of materials</b>	Paper consumption (tons)	1,668	1,458	1,421	1,378	1,209
	Annual savings in paper consumption (tons)	123	210	37	42	170
	Consumption of ink and toner cartridges	21,700	21,370	17,035	16,643	11,087
<b>Recycling and responsible removal of waste</b>	Paper recycling (tons)	987	1,352	700	783	760
	Cardboard recycling (tons)	18	40	13	9.3	15.3
	Recycling of electronic waste at the bank (tons)	15.8	44	28.7	38	94
	Recycling of bottles and beverage containers (units)	110,000	108,000	101,843	104,690	105,720
	Collection of construction waste (m3)	2,526	2,168	2,526	2,112	1,904
	Collection of batteries (kg)	960	280	240	765	100
	Collection of fluorescent bulbs (units)	18,560	6,740	2,680	2,340	1,230
<b>Carbon footprint</b>	Greenhouse-gas emissions – total (tons CO2e)	94,342	70,623	61,511	65,966	63,917
	Percent annual change in greenhouse-gas emissions (year on year, %)	-7.2%	-25.1%	-12.9%	7.2%	-3.1%

## Process Controls for Implementation of the CSR Plan at Bank Hapoalim

An external assurance process allows readers of this report to verify the bank's self-report based on an independent opinion from a professional observer. The expanded assurance process with regard to the adequacy of the report on sustainability and CSR and the involvement of additional sources of assurance enable the bank to learn from the feedback received from those conducting the process and provide verification of the reliability of the report for stakeholders. The current report underwent four assurance processes, each focusing on a different aspect of the report (for extensive details of the assurance process and methods and the criteria examined, see p. 132).



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

The CSR and Sustainability Group at the BDO accounting firm has guided Bank Hapoalim in the implementation of its sustainability and CSR program for the twelve years. The group's activities focus on monitoring the

process and progress of the program for sustainability and social, economic, and environmental responsibility. BDO consultants' close work with the bank allows a professional opinion to be provided based on an examination of the processes performed by the bank throughout 2017.

### The Corporate Social Responsibility Institute

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

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

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

This examination was performed by the Sustainability and CSR Group at the accounting firm BDO. The process of examining the bank's carbon footprint

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

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

This sustainability and CSR report for the year of 2017, was sent to the international organization GRI, which examined it and found that the process of establishing the topics to be reported by the bank complies with the directives in the reporting standard. This report has been prepared in accordance with the GRI Standards: Comprehensive option.



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

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

### **Maala –**

Bank Hapoalim joined Maala in 2006 as a member of the organization's business leadership. In ratings assigned by Maala for 2017, based on reported data for 2016, Bank Hapoalim was ranked at the top of the Platinum Plus class, the highest rating category; it therefore topped the Maala charts. The bank also appears on Maala's stock-market index, which consists of all of the public companies rated by Maala and traded on the TASE.

### **UN Global Compact –**

During 2010, Bank Hapoalim joined this UN initiative aimed at promoting economic development that is beneficial for the community and for future generations. Since then, the bank has ensured that the principles of the compact are implemented in its activities. The sustainability report also serves as a COP (Communication on Progress) for the Global Compact. Voluntary reporting system on greenhouse-gas emissions in Israel – In 2010, Bank Hapoalim was one of the first organizations to join the voluntary system for recording greenhouse-gas emissions. This system is a joint initiative of the Ministry of Environmental Protection and the Manufacturers' Association. The bank updates this data and reports to the ministry annually.

### **Bank Hapoalim's Sustainability and CSR Performance – International Analysts' Perspective**

Over the last two decades, the implementation of corporate responsibility has expanded in the Israeli and global financial sectors. Consequently, information has accumulated that allows financial corporations to be examined and compared based on their performance in this field. The major analyst reviews and international indices that include the bank (Sustainalytics, FTES4Good, Bloomberg, Robeco Sam and MSCI) encompass a smaller set of banking corporations. It is important to note that a prerequisite for inclusion in this group of companies is a demonstrated threshold of corporate responsibility performance, according to standards of transparency and quality (Bloomberg is the only one who analyzes a major numbers of companies regardless of their performance). Approximately 70-300 such banking corporations are reviewed. The group comprises a total of approximately 1.5%-6% of all banking corporations in the baseline group from The Banker magazine (the range of percentages results from the different number of banks reviewed or rated in each case).

Since the inception of the Bank Hapoalim sustainability and CSR plan, the bank has received inquiries from international analysts regarding its performance in these areas. The bank accords high importance to this

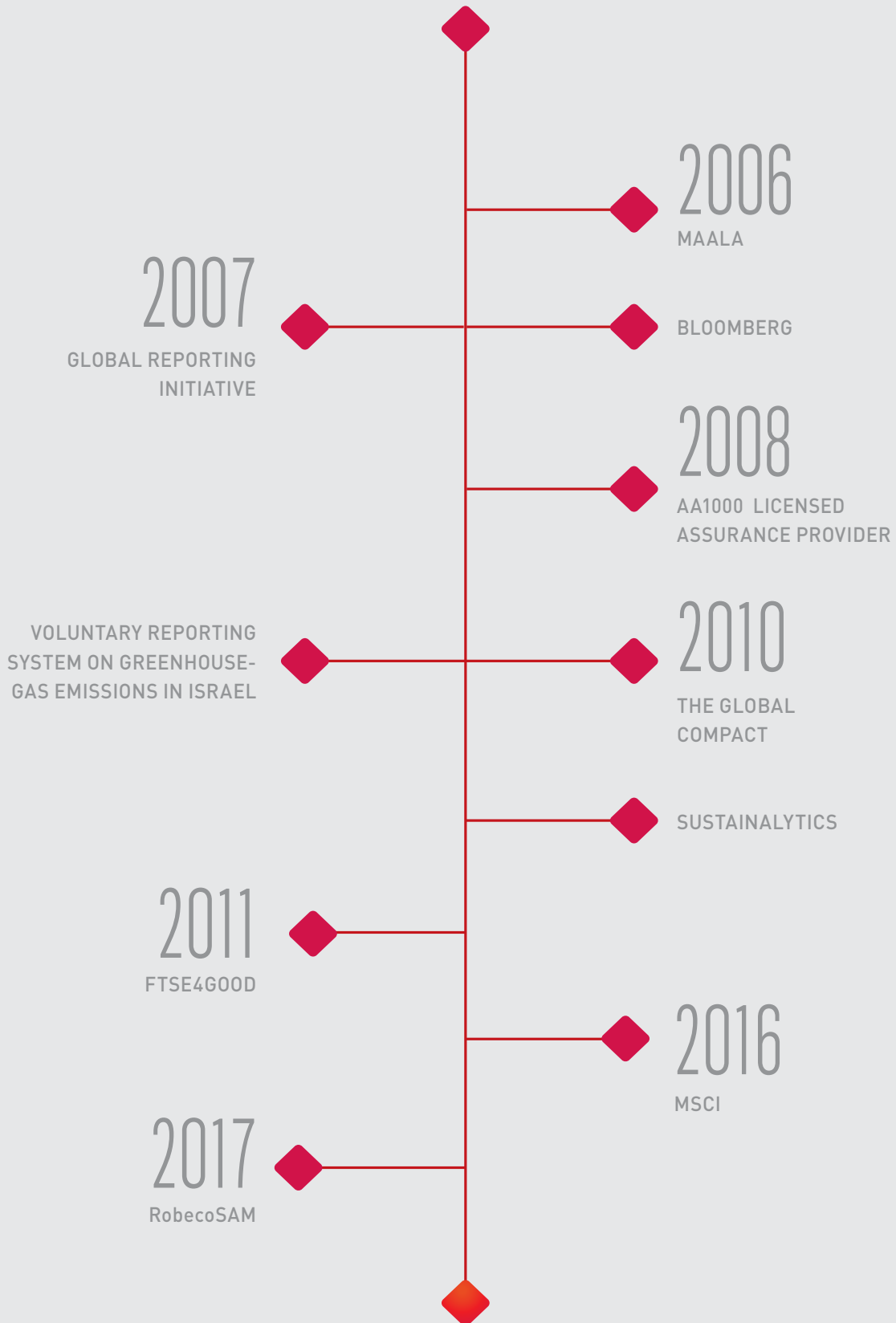
dialogue, for two main reasons:

Dialogue with international analysts who are in routine contact with corporations all over the world offers the bank valuable insights regarding current trends in the global CSR field and material issues for the banking sector.

An examination of the bank's scores on the various rating scales nourishes a continuous process of gap analysis in the management of CSR issues and a discussion of ways of improving performance on the various parameters.

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

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











**ACTING IN THE  
CLIENTS' BEST  
INTEREST**

## Meeting Customer Needs

This section describes the bank's relationships with its customers, the services and products offered to customers by the bank, and the ways in which the bank identifies opportunities and manages risks in the area of social responsibility, in a changing business environment. The bank strives to develop banking services and products based on a shared value approach, which makes it possible to create value for its stakeholders while simultaneously generating economic value for the bank.

**Bank Hapoalim recognizes that financial decisions at key crossroads in people's lives can have far-reaching consequences for their future, and for the future of those around them. Good financial decisions, made rationally and based in knowledge, have the power to promote financial freedom. In an age of a surfeit of information, experts, and opinions, it has become even more complicated to make the right financial choices in each life stage. The bank therefore works to give customers access to all of the information, tools, and financial services that can help them ask the right questions, reach informed decisions, and plan and execute financial moves at every stage, whenever they encounter a decision point.**

Beyond that, the bank operates in a changing business environment, where awareness of the social and environmental impact of the actions of both the bank and its customers is growing. The bank's role is to provide solutions on the financial plane, while also responding to the increasing demand for responsible conduct aligned

with sustainability values. Accordingly, the bank invests extensive resources in the development of financing solutions, deposits, and various investment products that encourage sustainable consumption and investment, and concurrently promote the financial freedom of the bank's customers and the prosperity of the economy.

### **Actions taken by the bank to create value for its customers:**

- ◆ Maintaining a multichannel network for communication with customers at any time and place, with appropriate accessibility;
- ◆ Providing optimal service to achieve customer satisfaction, and responding to and learning from customer communications;
- ◆ Responding to customers' needs in all life stages and at decision-making crossroads;
- ◆ Offering solutions tailored to the unique needs of different customer groups;
- ◆ Providing appropriate solutions for all of the needs that arise from developments in digital technologies, social networks, and the regulatory environment, in collaboration and dialogue with external suppliers and stakeholders.

### **Enhancing Value for Customers – the Core of the Bank's Strategic Approach**

Bank Hapoalim accords high importance to enhancing value for its customers, integrating personal, human, and technological connections. The bank invests extensive resources in developing a simple, accessible, intuitive customer experience. The bank will continue to invest in building long-term relationships with customers, based on trust and the creation of value, and on in-depth knowledge derived through professional expertise and smart data. The bank aspires to digital

empowerment of customers and bankers, alongside human advice for customers in complex actions and at significant decision points.

### **The bank is working on the following two levels to promote and strengthen this synergetic perception:**

- ◆ **Digital empowerment** – In order to enable customers to enjoy maximum convenience and accessibility, the bank works to teach and inform its customers about the advanced digital tools developed in recent years to improve financial conduct and save time. Dozens of branches have already completed the "Digital Empowerment" process, which includes guidance, coaching, and instruction for customers on the varied digital tools offered by the bank;
- ◆ **Personal and human banking** – As a leading financial organization, the bank understands that in addition to digital banking, the bank must stand by its customers when they need it and deliver uncompromising service grounded in thorough knowledge of the customer, attentive listening, professional excellence, commitment, and a long-term relationship based on trust. In order to do so, the bank offers a wide range of services provided to customers through in-person meetings.

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**The bank was chosen as Israel's best bank by the magazine Global Finance in 2017, for the sixth consecutive time.**

**The bank was named Bank of the Year in Israel for 2017 by the prestigious magazine The Banker.**

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## LOOKING AHEAD

In early 2018, the bank will launch a large-scale marketing campaign under the heading, "Poalim – with you in every decision." This campaign reflects the bank's commitment to being the most significant resource for customers facing important financial decisions, at every life stage.

### Working to Promote Customers' Financial Freedom

As a leading financial institution that draws its strength from the society within which it operates, Bank Hapoalim views the promotion of financial freedom as a key goal. The bank works consistently to promote astute financial conduct among its customers and the general public in Israel, by creating tailored solutions and advanced financial tools. The promotion of financial freedom creates shared value for the bank and its customers, and spurs shared growth; customers who manage their finances well and make use of the targeted products offered by the

bank create positive economic value for themselves, for the bank, and for Israeli society, which benefits from the fruits of growth and well-being.

The bank acts on three main levels to promote its customers' financial freedom: raising awareness of astute financial conduct; providing financial information and knowledge; and developing services, products, and tools that support behavioral change for the promotion of astute financial conduct.

#### Providing Financial Information and Knowledge

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

financial areas. The goal is to give customers an overview of their situation that is as comprehensive as possible, in order to enable them to balance their financial needs and abilities in the short and long term. The information includes details of transactions executed by the customer, a range of products and tools for financial management, and current market data and trends (on subjects such as pensions, savings, the capital market, and more). This information is accessible to customers through a variety of channels: the digital channels (the bank's website, call center, smartphone and tablet applications), bankers at the branches, and the bank's experts in each financial area.

### Financial Growth Center

The "Financial Growth Center" was established at the Poalim Campus in 2017, for the benefit of the public, in line with the bank's vision of promoting financial freedom for the general public, and the desire to strengthen the existing activity and consolidate it under one roof. By making knowledge and tools for astute financial conduct available in a clear, interesting, user-friendly format, the bank aims to enable every person in Israel to achieve financial growth in the personal, family, and business arenas. The content of the learning materials was developed based on a public opinion survey, and is organized according to significant financial crossroads, such as expanding the family, taking a mortgage, changing careers, planning for retirement, and more. The bank is also aware that each person's habits and capacity to learn are different; in order to cater to different preferences, the center will offer in-person teaching sessions throughout Israel, as well as teaching based on digital platforms, through a website

that will include tens of learning materials.

A successful pilot run was held at the center in 2017, ahead of the launch and full activity starting in 2018. The pilot consisted of thirty in-person teaching sessions nationwide; hundreds of private and business customers participated, and expressed very high levels of satisfaction with the activity.

Beginning in 2018, the center will offer workshops and courses, free of charge and fully subsidized by the bank, on a wide range of subjects matched to target audiences and based on life-cycle crossroads, such as retirement, financial education for children, capital-market basics, digital marketing, e-trading, and more.

The activity of the center will include collaborations with various stakeholders: professionals from within and outside the bank, such as the "Business Guidance Center"; business firms; and social organizations, such as the Paamonim foundation and the Adler Institute.

## Services, Products, and Tools that Support Behavioral Change for the Promotion of Astute Financial Conduct

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

Examples of tools that support the enhancement of customers' financial freedom:

- ◆ **The bank's website** – Offers a wide range of accessible, immediate possibilities for smart account management. Beyond the usual information about customers' accounts, the website presents various tools for improving financial conduct, such as dynamic comparisons of expenses to income, a display of the expected balance at the end of the month, details of investments and loans, reminders and tasks, alerts of approaching deviation from credit-facility limits, and a tool for setting goals and objectives and tracking attainment;
- ◆ **Poalim UP** – A range of services and products that help customers with smart management of their monthly budget, according to their income and financial aspirations. The service includes various online budget-management tools:
  - ◆ **UP Active** – Allows customers to set up customized automatic actions in their accounts, such as coverage of negative balances, orders of checkbooks, monetary transfers, and more, without the need for daily monitoring;
  - ◆ **UP Smart** – Allows regular current-account charges to be concentrated on a fixed day of the month;
  - ◆ **UP On Time** – Offers real-time alerts from the bank via text message or email, with various updates on the customer's account and/or the markets;
  - ◆ **UP Card** – An international card charged with funds from the customer's account, which can be transferred to a family member, as it is not imprinted with a name. The card allows control over expenses, and can be charged remotely if necessary;
  - ◆ **UP Mail** – Allows customers to receive messages securely, on the bank's website, saving paper and offering convenient filing options.
- ◆ **Budget management tool** – The bank has developed a series of unique tools designed to offer ongoing guidance and assistance with financial conduct for customers. This includes online tools for budget construction and management, which customers can use to examine their financial conduct in comparison to customers with a similar profile (the Poalim Like Me application), leading to more prudent behavior;
- ◆ **Customized personal advising** – The bank offers its private and business customers investment advising and tailored personal services in the areas of investments, credit, and savings. Subject to the provisions of the Law for Regularization of the Occupation of Investment Advising, Investment Marketing, and Investment Portfolio Management, 1995, the bank provides customers who have signed advising agreements with investment advising matched to their needs, based on its familiarity with the customers' individual needs, preferences, and goals;
- ◆ **Comprehensive pension advising** – The bank works to raise awareness of astute financial conduct after retirement among "new seniors" (see details in the subsection "New Seniors").

Over  
**54,700**  
customers use UP  
Control services

~  
**752,000**  
customers use the budget  
management application



### Raising Awareness of Astute Financial Conduct Among Children and Adolescents

As part of the promotion of financial freedom among customers and the general public, the bank is developing a range of channels for raising awareness and for financial education. The bank provides value offers for young customers, including:

- ◆ **Poalim Young** – Offers teenagers and their parents tools for teaching astute financial conduct. As part of this effort, a minisite was established under the heading, “Parents Teach Kids About Money.” The site presents instructional videos for children and adolescents, as well as tools and tips for parents on teaching their children habits for managing their money well;
- ◆ **Dan the Saver** – Developed by the bank for parents and children, this program offers a series of designated savings products that help manage savings plans matched to children's needs as they vary over different life stages, until they reach financial independence;
- ◆ **Instructional sessions to raise financial awareness** – In November 2017, the bank participated in an initiative of the Bank of Israel, the Ministry of Education, and parent and student organizations from across Israel to raise financial awareness among adolescents. Within this effort,

volunteer bankers visited dozens of ninth-grade classrooms, in central and peripheral parts of Israel, and provided thousands of students with knowledge and tools on the subjects of means of payment, budget management, savings, informed financial conduct, and more.

### Supporting Customers in Times of Crisis

As part of its social responsibility perception, the bank is conscientious about providing guidance to customers who encounter financial difficulties, and helping them emerge from the crisis and regain financial stability. The bank works to create solutions tailored to customers' needs, according to their ability to achieve financial rehabilitation. In this process, the bank uncompromisingly maintains customers' dignity, privacy, and right to manage their accounts according to their own judgment.

- ◆ **Poalim Recovery** – A process for working with private customers experiencing financial difficulties, in partnership and with the intent to retain the customer. This process, characterized by continuous dialogue, the formation of mutual trust, and the imparting of tools, reflects a conceptual change in relationships with customers who struggle to repay their debts to the bank. In order to

implement this change, a dedicated unit was established at the bank, charged with ultimately creating an appropriate solution, arrived at in cooperation with the customer and in congruence with the customer's profile of banking activity and financial capabilities. A successfully concluded process creates shared value for the bank and the customer, by helping customers towards an agreed solution structured to fit their circumstances, while reducing the number of bank customers transferred to the responsibility of collection units. The Poalim Recovery Unit consists of expert, experienced bankers who have undergone specialized training to respond to customers' needs appropriately and sensitively, with a commitment to resolve the problem. The unit works in full cooperation with the branches of the bank, and is responsible for managing and monitoring the process, using the bank's range of tools and services, including a computerized system built for this purpose;

- ◆ **Second Chance** – A unique initiative formulated at the bank's Shared Value Center, in collaboration with the Control and Debt Recovery Unit and the Enforcement and Collection Authority. In this initiative, the bank allows former customers currently in

~  
**3,000**

Ninth-grade students participated in instructional sessions run by Bank Hapoalim volunteers

Over  
**207,000**

Customers use Dan the Saver savings plans

Over  
**50,000**

Private customers participate in Poalim Recovery\*

\* Monthly average

Over  
**1,200**

Debtors settled debts to the bank totaling NIS 24 million, within the Second Chance initiative

Execution Office proceedings to more easily settle their debts, through a significant reduction of the debt and prevention of collection proceedings, expenses, and interest payments. Second Chance is primarily relevant for households which, due to Execution Office proceedings, are subject to financial and other restrictions in many areas of their lives. Along with the write-off of the debts, the bank offers people in this situation an opportunity for economic rehabilitation, with the assistance of tools and guidance for financial empowerment, in cooperation with non-profit organizations that specialize in this area and the new Financial Growth Center. The Second Chance initiative has a clear contribution

to shared value - social and economic, supporting the economic recovery of past customers while also generating monetary revenue for the bank. The program is rooted in the bank's key values-driven goal of being there for its customers, including during times of financial crisis or distress ;

◆ **Growth Opportunities** – Families coping with financial crisis are offered tools in the areas of financial education, behavior during a change, and growth from crisis. The families receive financial instruction and personal guidance, aimed at preventing financial deterioration and allowing a return to astute financial conduct. The original idea for this initiative emerged from letters written to the bank by customers

who had encountered financial and personal crises. During 2017, the project continued in various geographical regions throughout Israel.

Over  
**600**

families participated in the Growth Opportunities initiative, and received professional guidance on improving their financial behavior

## Examining Achievement of Objectives

2017 Objectives	Status
Establishment of an instruction center for customers and for the general public, offering knowledge and tools for improved financial conduct to various target audiences through in-person and virtual meetings.	A successful pilot program was conducted at the center in 2017. The center is planned to begin full operations in the first quarter of 2018.
Launch of an instructional website containing hundreds of segments of information on financial and finance-related subjects. The goal is to meet customers at the point where they need greater knowledge on a particular subject, based on advanced BI capabilities, in order to provide the highest added value.	Completed. Scheduled for activation in the first quarter of 2018.
Promotion of additional initiatives in cooperation with the banking system and the Association of Banks, originated by the Bank of Israel.	✓ <b>Completed.</b>
Development of additional collaborations with media outlets to raise public awareness.	✓ <b>Completed.</b>
Continued promotion of instructional sessions with customers, provided by hundreds of volunteers from the bank.	✓ <b>Completed.</b>

## LOOKING AHEAD

Expansion of the Poalim Recovery program to include business clients.  
Beginning of full activity of the "Financial Growth Center" at the Poalim Campus and opening it to the general public.



## Serving a Diverse Clientele

### Sectors Served by the Bank

The activity of the bank is managed through several segments of activity. The division into segments of activity is based on types of products and services or on types of customers. The management of the bank uses this division to make decisions and to analyze the group's business results. The division into segments based on the approach of the management of the bank is presented below. Pursuant to the directives of the Banking Supervision Department, a banking corporation wherein the activity segments based on the approach of its management are substantially different from the supervisory activity segments is

required to provide additional disclosure of segments of activity based on the management approach (for segment definitions and more extensive information, see the annual financial statements of the bank for 2017, p.48).

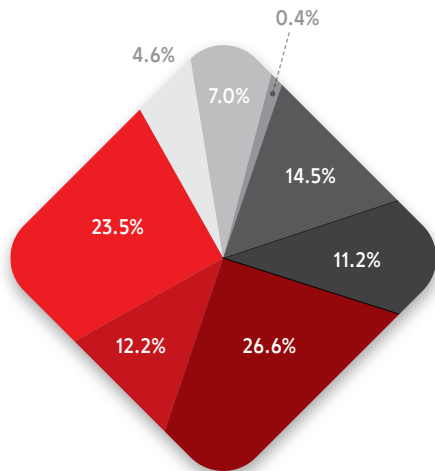
### Segmentation of Borrowers

Total credit to the public amounted to approximately NIS 279 billion in 2017, increased approximately 2.5% from 2016 (for information regarding the developments in balance-sheet balances of credit to the public by segment of activity based on the management approach, see the financial statements for 2017).

### Granting Credit to Promote shared value- Business and Social

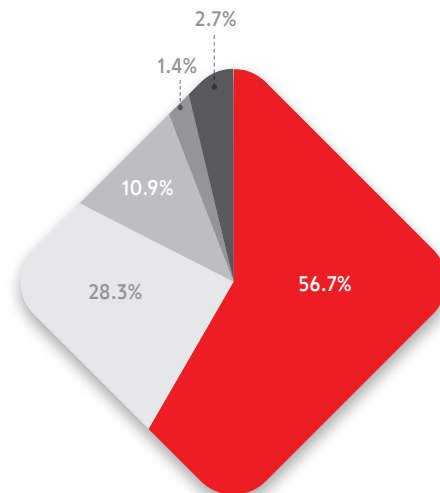
Within the bank's core business of granting credit, some of the financing supports the promotion of social causes, concurrently with the benefit to the business of the entity or organization that receives the credit. In 2017, the bank granted credit through funds for small businesses, micro-finance for microbusinesses, financing of non-profits and community organizations, and funding for a product designed to resolve a need in the area of housing in the Arab society. Total credit in these channels reached NIS 732 million.

Net credit to the public by segment of activity, 2017



- Housing loans
- Commercial segment
- Corporate segment
- Private customers
- International activity
- Isracard Group
- Financial management
- Small business segment

shared value- Business and Social



- Poalim Small Business Fund, in collaboration with Clal
- Social organizations and non-profits
- Funds for small businesses in collaboration with the Manufacturers' Association
- Korat Foundation microfinance fund
- Reduced-collateral mortgages for the Arab society

### **Bonds to Promote Social Causes**

Social bonds serve as a business and social investment tool that generates shared value: returns as well as the advancement of solutions for social issues. This tool makes it possible to grant financing for the solution of social problems that entail economic costs, with the expectation of a return on the investment, dependent upon attainment of the goal. The returns on the investment will come from the government, or from the public or social entity for which economic value is generated by the investment and its outcomes, if the social goal is achieved and has concomitant economic value.

Bank Hapoalim has invested in social bonds dedicated to the prevention of diabetes. Approximately 500,000 Israelis suffer from diabetes, at various levels of severity, and another 400,000 are at high risk of developing the disease. The direct annual cost of treating a diabetes patient is approximately NIS 10,000. The proposed plan to prevent and reduce the risk of diabetes involves changes in nutritional habits and exercise, a preemptive methods which have been found highly effective in preventing the development of the disease. Funds are being raised by SFI (Social Finance Israel), a public-benefit company headed by senior professionals in the business sector and non-profit sector.

### **Financial Freedom for New Seniors**

There are approximately 978,000 people in Israel aged 65 or older, constituting about 11% of the population, while 43% of them are aged 75 and more<sup>1</sup>. This group is expected to double in size by 2035, and is already a highly significant force in the Israeli economy. The accelerated growth of the seniors sector is expected to have a substantial impact on the economy, leading to the development of new markets in areas such as leisure, culture, education, health care, and more.

The life stage of people in this age group is characterized by dramatic changes: retirement leads to a drop in income, expenses shift to align with new needs, and financial routines are deeply transformed. Seniors are interested in studying, personal development, and new experiences, yet they also worry about their financial future. They seek financial security and stability, to serve their future needs as well as their family obligations, including the wish to provide financial support to children and grandchildren. This creates a complex matrix of financial needs and considerations that requires comprehensive financial planning, and merits the creation of an array of designated services and products. As part of the shared-value approach, and in response to the needs of new seniors, the bank has launched a broad strategic initiative for the pre-retirement sector, the first of its kind in Israel. This drive includes a network targeted to seniors, consisting of comprehensive pension and financial planning, products and solutions for families (with retirement considered an important milestone for the family as a whole), a customer club, and more, centered on the bank's belief that retirement opens the door to a new era of life in which seniors can reap the fruits of their labors, after years of hard work. The bank's activity in this area includes ongoing collaboration and dialogue with relevant stakeholders such as the JDC, the Israel Association of Community Centers, Club 50, the organization Vehadarta, entrepreneurs in the seniors market, sources in academia, various non-profit organizations, expert professionals, professionals engaged with the financial aspects of the seniors sector, assisted-living residence organizations, and more. This effort targets three pre-retirement segments, emphasizing pension and financial advising:

◆ **Ages 55 and over** – Focused on easing worries over retirement. The essence of

this stage is examination of the current situation, in advance of retirement, including preparedness for the future and optimization of conditions for retirement, and a look at the future that will follow the period of work;

◆ **Approaching retirement** – This stage is devoted to planning the optimal transition to retirement, with an emphasis on assistance in realizing the various forms of pension moneys (allowances, capital, tax considerations, etc.) and initial financial planning for the post-retirement period;

◆ **Post-retirement** – This stage is dedicated to long-term financial planning and monitoring, budget management, and achievement of objectives, based on the customer's needs, assets, and sources of present and future cash flows.

Within this strategic effort, the bank is promoting activities through several channels:

◆ **"Poalim Advisor"** – Adults approaching retirement often become aware of the extent of their savings and assets for the first time during the advisory session with the bank, and realize that they are insufficient to provide the lifestyle they envisioned after retirement. The bank has developed an innovative advising system, "Poalim Advisor", for this process. The system performs a simulation that examines all assets, regular cash flows after retirement, and needs (including unexpected expenses), and analyzes income and expenses. Dialogue is conducted with the customer based on the simulation, enabling customers to understand their present position and plan ahead, including setting the financial goals that suit them and finding solutions aimed at achieving these goals;

◆ **Poalim "Gold Club"** – Benefits for the bank's customers who are "new seniors." The club grants special offers and

1. According to the Central Bureau of Statistics, 2017



benefits in the areas of consumption, leisure, entertainment, and vacations to approximately 400,000 senior customers. The hundreds of thousands of customers over the age of 65 are automatically members of the club, which is developing into a marketplace where suppliers and entrepreneurs offer unique services to the senior-citizen sector;

- ◆ **Pension advising centers** – The retirement planning advisory service was expanded during 2017; the service is provided by the bank's fifteen pension advising centers nationwide. Pension advisors, trained during 2016-2017, began offering individual advisory sessions to the entire population of salaried employees. Within this service, advisors present customers with information about the current savings necessary in order to meet their obligations and future objectives. During the year, relevant customers received pension advisory calls, free of charge, regarding long-term objectives and goals and solutions for achieving them;
- ◆ **Targeted customer conferences** – Conferences for new seniors on future pension and financial planning;

- ◆ **Mobile branch** – The bank's first mobile branch was launched in September 2017, to provide banking services to customers who find it difficult to visit a branch. The mobile branch visits six retirement homes throughout Israel, every two weeks. Its activity is planned to expand in 2018;
- ◆ **Assistance for the seniors sector by attendants at the branches** – Attendants have been stationed at branches of the bank that tend to serve an elderly population, to assist and guide these customers, and to provide information and digital empowerment through familiarization with the direct channels;
- ◆ **Establishment of dedicated cash unit** – In order to improve efficiency and shorten wait times at the branches, a banking office adjacent to the central branch in Netanya opened in September 2017, to take in teller services from the branch, specializing in cash and general teller services. This office, staffed by bankers and attendants, primarily serves older customers who prefer personal, human service over use of the self-service stations;
- ◆ **Dedicated rapid call center** – The bank has launched a call line for customers

above the age of 75, which provides a human response by a banker within ten seconds. This is an extended implementation of the Senior Citizens Law, which mandates the provision of public services without queues for customers above the age of 75;

- ◆ **Informing customers of structural changes at branches** – The bank places proactive telephone calls to customers above the age of 75 to inform them of mergers of branches, and ensures that the customer's information is updated at the new branch. If the new branch is not suitable for the customer, for any reason, the bank transfers the customer to another branch, through dialogue and an understanding of needs;
- ◆ **Senior Citizen Month** – As International Senior Citizen Day is October 1, the bank declared October Senior Citizen Month. A range of unique activities for stakeholders in this sector were held at the bank in 2017, including customers, community partners, employees, and more. Dozens of instructional sessions on the digital services experience were offered during the month, attended by thousands of senior citizens at senior centers and centers for Holocaust survivors.

### Examining Achievement of Objectives

2017 Objectives	Status
Launch of the UP Card for customers caring for an elderly relative. The card can be preloaded with a sum of money, in order to reduce the use of cash by caregivers and allay family members' worries over misuse of the elderly person's funds, allowing monitoring of the charges and more convenient payments.	✓ <b>Completed.</b>
Launch of a retirement kit, with a user-friendly summary of information for retirees (including proper handling of compensation pay, tax aspects, regulation, etc.). Use of the kit will raise customers' awareness of astute financial conduct surrounding retirement, and can contribute to optimal economic benefit and sound financial planning for retiring customers.	✓ <b>Completed.</b>

## LOOKING AHEAD

- Expansion of activity of the mobile branch, in terms of the frequency of the service as well as its geographical distribution.
- More in-depth enrichment activities for senior citizens, in collaboration with the new "Financial Growth Center" at the Poalim Campus.
- Increased presence of attendants at branches oriented to the elderly customer segment.
- Opening of approximately six new pension advising centers nationwide, which will expand their services to retirement planning.
- Opening two additional offices specializing in general teller and cash services, adjacent to branches in Jerusalem and Beer Sheba.
- Automation of the dedicated rapid-response call line, so that customers do not need to identify themselves in order to advance in the queue.

## Financial Freedom for Small Businesses

The small-business sector, which contributes about half of Israel's gross domestic product and provides jobs for some 61% of the Israeli job market<sup>2</sup>, is one of the pillars of the Israeli economy and one of its key growth drivers. In recent years, the bank has set a strategic objective of increasing its activity in the small-business sector, based on the understanding of this sector's key role in the growth of the Israeli economy, creation of jobs, and strengthening of community ties. As a function of this objective, the bank has worked extensively to enhance and promote the financial freedom of its customers in the small-business sector, through the development of adapted tools and services, an in-depth understanding of the challenges facing businesses in various stages, and the delivery of personal, professional service. Activity targeted to small businesses encompasses several aspects, described below.

### Credit

The bank grants credit to small businesses, as part of its routine activity, both within its credit portfolio, the largest in the Israeli banking system, and through funds that specialize in credit for small businesses. In 2017, the bank considerably expanded credit offered to its customers, through the following means:

◆ **Establishment of dedicated assistance funds for businesses** – The "Poalim Business Fund" is a credit fund for small businesses, in collaboration with Clal Insurance, at a volume of approximately NIS 8 billion. The goal of the fund is to support small and mid-sized businesses that find it difficult to obtain credit in the ordinary course of business.

The bank thereby helps more small businesses in Israel grow, develop, and create new jobs. In 2017, the target audience of the fund was expanded to customers with annual revenue of up to NIS 50 million; 1,375 loans were granted through the fund, at a total of NIS 415 million. The bank also has joint funds with the Manufacturers' Association – the "Manufacturers' Association Fund", and with the "Korat Foundation", offering microfinance loans with special terms for micro-businesses, in amounts of NIS 1 million;

◆ **Instant Credit for Businesses** – This quick and simple service is available to

customers at any time on the bank's website, via mobile, or at the branches, without additional collateral and without bureaucratic procedures. Credit for customers is approved in real time, significantly shortening the process of applying for and approving credit. The bank thereby provides an immediate solution for small businesses, allowing continued routine operations and rapid, smooth decision-making at significant crossroads in the life of the business. **Up to the end of 2017, the bank granted approximately NIS 4.8 billion in credit through this service.**

**Poalim Start** – An innovative crowdfunding venture, the first of its kind in Israel, sponsored by the bank, at the Headstart website. The goal of the initiative is to make it easier for young entrepreneurs to raise the initial capital necessary to found the business they dream about. Within this effort, the bank encourages entrepreneurs to post their business initiatives on the Headstart platform and use the bank's social-media presence to invite supporters to invest in their idea. If they meet their funding targets, the bank grants the entrepreneurs a significant discount on commission paid to the site, fully subsidized by the bank. Interested entrepreneurs also receive a package of benefits, comprehensive business guidance, and preferred terms in credit and in business account management.

# 30.3

**Credit for small businesses – The total balance of credit granted to the small-business sector as at the end of 2017 is NIS 30.3 billion.**

# 842

**Poalim Business Fund – From the inception of the fund to the end of 2017, the bank granted 2,679 loans in a total amount of NIS 842 million through the fund.**

2. Periodic Report on the Condition of Small and Mid-Sized Businesses in Israel – January 2017, Ministry of Economy and Industry.



### Tailored Advising and Service

In accordance with the needs of small businesses, the bank has initiated a range of innovative services and information channels designed to promote the financial freedom of this sector, through the direct channels and digital platforms:

- ◆ **Extensive distribution of specialist business service** – In addition to the deployment of the business departments of the bank, eighty retail-banking branches have been declared anchor branches offering an especially broad range of solutions for small businesses;
- ◆ **Innovative channels for business account management** – The bank has developed a range of innovative services for the management of business operations, at any time and place, on the website or through dedicated applications;
- ◆ **Professional banking solutions and unique benefits** – Through experienced professional advisors who guide the business, with knowledge based on financial and economic research in Israel, adapted to the needs of the business. In addition, branch managers' authority to grant credit to businesses has been expanded, at all branches of the bank;
- ◆ **Business Guidance Center** – The bank's Business Guidance Center is in its second year, operated in collaboration with the College of Management, Lahav, and the Sachal Fund. The center offers knowledge and a wide range of tools

for business management and growth to small businesses throughout Israel;

- ◆ **Business Setup Guide** – The bank offers the Business Setup Guide to small businesses taking their first steps. The Business Setup Guide provides guidance for the foundation stages of a business, encompassing all of the information and tools necessary for business owners, in the form of an online digital resource open to customers of all banks;
- ◆ **Current-account benefits for small businesses in the setup phase** – In order to strengthen new small businesses in Israel, Bank Hapoalim offers the Easy Start Package to small businesses in their first two years of existence. The package provides an exemption from current-account fees for one year for businesses in the setup phase, and offers assistance with financial management;
- ◆ **Poalim Business Club** – A club for small and mid-sized businesses, which lowers business management costs by up to thousands of shekels annually and grants unique benefits to business owners and employees.

### Marketing Assistance for Small Businesses

The bank has initiated and established several marketing formats and channels to help promote the public visibility of small businesses across Israel, assisting

them with the challenges of exposure and advertising:

- ◆ **Small Business Day** – Bank Hapoalim held its fifth consecutive annual "Small Business Day", during which Israelis are urged to patronize small businesses and encouraging domestic growth. Thousands of small businesses across Israel benefited from the various means of exposure provided on this day, enabling the businesses to advertise discounts and special offers for potential customers. Participation in Small Business Day is open to all small businesses in Israel, regardless of the bank they use;
- ◆ **Poalim CashBack Club** – The largest customers' club in Israel, launched during 2012, provides all customers who use the bank's credit cards with cash rebates to their current accounts on purchases from thousands of businesses. Approximately 5,000 small and mid-sized businesses nationwide participate. Participation in the club allows small businesses to benefit from a broad advertising and marketing platform reaching a large number of customers, through a range of media channels, within and outside the bank.

## Examining Achievement of Objectives

2017 Objectives	Status
<p>During the year, the bank will launch focused efforts aimed at connecting with the bank's mission: "Acting to help people, businesses, and communities thrive." The bank will work to provide tools to assist in the foundation of new businesses in communities, improve the businesses' survivability, and enrich community life, while positioning the branch as a key value element in the life of the community, helping it thrive.</p>	<p>✓ <b>Completed.</b></p>
<p>The bank will work towards digital empowerment of small businesses that are its customers, and introduce new, advanced technological tools to help business owners manage their business accounts and the various financial components of the business in a simple and convenient way, all in one place, directly from their mobile devices or computer desktop.</p>	<p>✓ <b>Completed.</b></p>
<p>The bank will launch a platform to identify needs related to the establishment of small local businesses, in order to improve the survivability of such businesses.</p>	<p>Due to the prioritization of the needs of small businesses, the need for this platform and its potential contribution to the survivability of small businesses will be reevaluated in 2018.</p>

## LOOKING AHEAD

**Launch of the Poalim Business Grow system** – Business Grow is designed to help owners of small and mid-sized businesses achieve a competitive advantage. The system "learns" about the business, adapts itself to the owner's needs, and offers the possibility of carrying out transactions from a computer, mobile phone, or tablet. Business Grow serves as a one-stop shop for management of the activity of the business, including a central desktop for activities such as customer management, sales management, digital promotion, financial management, and bookkeeping, in a convenient, user-friendly format tailored to the business owner needs. Business Grow offers prioritization and reminders of tasks, and serves as an advanced smart personal assistant so that business owners can manage their everyday operations easily and simply. Further to a successful pilot project in 2017, the system will become available to customers of all banks in 2018.

### Poalim High Tech

The Poalim High-Tech program was established three years ago with the aim of responding to the needs of the start-up and high-tech industry, from the initial stages of development to advanced stages of growth. Poalim High-Tech has locations in ten branches of the bank, across Israel, staffed by high-tech bankers specially trained to serve this sector. The extensive service and product offering is tailored to the needs of start-up companies, based on an understanding of entrepreneurs' language and DNA. Services include a personal banker; assistance in opening an account, addressing complex legal and regulatory aspects; connection to a dealing room; credit solutions for various

stages; customized deposits; international banking services; direct banking; links to investors; and more.

Additionally, Poalim High Tech acts in the following ways to create value for the entrepreneur community:

- ◆ **Meet-ups and conferences** – The bank harnesses its extensive network of relationships and holds dedicated conferences and meet-ups with venture-capital funds, accelerators, investors, hubs, and more, in order to expand the matrix of connections and collaborations between entrepreneurs and potential investors;
- ◆ **Mentoring and advisory services** – Provided to entrepreneurs free of charge;

- ◆ **Screening and mentoring** – The Poalim High-Tech team has an important role in the process of screening companies for various accelerators. A large number of accelerators currently offer a wide range of programs for entrepreneurs. Team members participate in these programs as judges, lecturers, and mentors;

- ◆ **Investment in venture-capital funds** – The bank has invested in nine venture-capital funds, with the aim of promoting the ecosystem, expanding the bank's portfolio, and aiding the expansion of high-tech customers' network of relationships. These investments were performed in collaboration with Poalim Capital Markets.



## The Arab and Haredi Societies

Bank Hapoalim accords high importance to cultivating a stronger relationship with its customers in the Arab and ultra-orthodox (Haredi) societies, and views these communities as catalysts for growth of the Israeli economy. As part of the bank's vision of acting to help people, businesses, and communities thrive, the bank continually works to initiate value offers and develop services attuned to the needs of differentiated target audiences.

### The Arab Society

The Arab society is experiencing accelerated change and growth processes; Bank Hapoalim sees strategic importance and a values-driven commitment to be active in this community and support its development. The bank's effort to expand its deployment and its product and service offering in this society stems, first and foremost, from recognition of the national importance of the inclusion of diverse population groups in employment in Israel and of the development of peripheral regions. The bank has 28 branches in towns in the Arab society, and fifteen additional branches located in mixed cities or adjacent to Arab towns. An Arabic-language website is available to the bank's customers. The site contains changing information regarding new and existing products and services of the bank, at: [www.bankhapoalim.co.il/arabic](http://www.bankhapoalim.co.il/arabic).

In 2017, the bank introduced several processes, products, and services unique to this society, accompanied by the message, "Always With You." These include:

- ◆ **A Business of Your Own** – A training program run by Bank Hapoalim and the non-profit organization "Economic Empowerment for Women", for women interested in founding a business, turning a talent into a source of income, or developing an existing business. Participants received specialized instruction through group and individual sessions guided by leading lecturers in their fields, presenting knowledge and tools to help them establish their own businesses, from the construction of a business plan to management, branding, and marketing. The six-month program was held in three locations: Nazareth, Sakhnin, and Baqa al-Gharbiyye. Women who successfully completed the course received a certificate and a grant for NIS 1,000;
- ◆ **Small Business Day** – Held in the Arab society as well, as it is every year, with translation and adaptation of materials into Arabic. On Small Business Day, the management of the bank visited the towns of Maghar and Nazareth, and other senior bank officials visited Arab towns throughout Israel;
- ◆ **A unique solution for housing loans** – Use of a solution that allows a mortgage to be taken based on a partial lien on the property continued in 2017. This option provides a response to a barrier to mortgages in Arab society, due to a restriction on full liens on properties;
- ◆ **Activities aimed at further strengthening and deepening the connection with the community** – Workshops on family budget management were organized for workplace groups, such as local municipalities employees, teachers, etc;
- ◆ **Sponsorships of conferences and conventions** – The bank sponsored various conferences held in the Arab society, including architects' conferences, a convention for driving teachers, a conference on social change for Jewish and Arab women, conferences on leadership, and more;
- ◆ **Holiday activities** – Holiday feasts were held for customers from the Muslim, Druze, and Christian communities, attended by senior bank officers; flowers and greeting cards were distributed on the Arab community's Mother's Day.

### Projects for Arab youth

- ◆ **Incubator for adolescents** – An incubator for adolescents was established in collaboration with the company "Teen Arab", aimed at gaining better familiarity with the needs of young people in Arab society. Three thinking sessions were held at the incubator, with eleven adolescents participating. In these meetings, participants discussed subjects such as astute financial conduct, as well as adolescents' perceptions of the bank, the characteristics of an ideal bank branch for young people, and more;
- ◆ **Visit to the bank's dealing rooms** – Approximately 150 Arab high-school students visited the dealing rooms and digital branches of the bank, within the pre-academic guidance program of the Israel Association of Community Centers, in collaboration with "Kav Mashve", a non-profit organization which promotes equal employment opportunities for Arab university graduates;
- ◆ **Read and Succeed** – This activity, aimed at boosting reading and writing skills of children in the Arab society, was held in 26 towns, and included an arts event and subsidized book sales. The bank also held a Young Author contest, in which a professional committee of the Academy of the Arabic Language in Israel selected ten winning stories, of the 190 entries submitted. The winning stories were collected in a book, published with an enclosed audio version on CD as a solution for children with visual impairments.

### The Haredi Society

The bank has 21 branches in towns characterized by significant religious and ultra-orthodox (Haredi) populations. The bank respects religious lifestyles, and has adapted 11 branches serving predominantly Haredi customers to this segment, in terms of the appearance of the branch, the videos played on screens, and the marketing materials displayed.

The bank's activity in the Haredi society has led to initiatives, development, and adaptation of a set of products and services targeted to this population in recent years. The bank has a targeted website, at [www.bankhapoalim.co.il/bsd](http://www.bankhapoalim.co.il/bsd), adapted to the rules prevalent in the observant public. Customers can use the site to access their accounts, receive routine banking information, and execute various transactions. During the year, the

bank initiated several processes aimed at making the public aware of the existence of this website and its possibilities, which can save users time, hassle, and money.

Unique projects in the Haredi society in 2017:

◆ **Wise Living project** – Wise Living, a joint initiative of Bank Hapoalim and the newspaper Hamodia, was held for the third time in 2017. The goal of the project is to promote deeper awareness of the importance of astute financial conduct and to provide supporting knowledge and tools. Five families representative of the diversity within the target population were selected to participate. Over the period of the project, each family met with a manager of a branch of the bank, an economic advisor, and journalists at the newspaper for a weekly consulting session, in which

progress in their financial conduct was tracked. During this time, Hamodia also ran articles about astute financial conduct and introduced the participants to its readers, over the stages of the project;

◆ **Read and Succeed project** – The Read and Succeed initiative was expanded to the Haredi society in 2017, in collaboration with the organization "Or Hachaim". During this project, 60,000 children's books were sold at a subsidized price of NIS 10, to encourage reading among children and youth. In addition, in the competition "An Author is Born", Haredi children were invited to write and submit a short story to the bank about "Havurat Taryag" (the "613 Mitzvah Crew"), well-known fictional characters in the Haredi community.

### Examining Achievement of Objectives

2017 Objectives	Status
A Business of Your Own – The bank plans to launch a unique training program to encourage women in Arab society to turn their talent into a microbusiness, in collaboration with the non-profit organization Economic Empowerment for Women in Israel. In the six-month program, women will receive tools and knowledge through group and individual sessions with leading lecturers and mentors in various content areas.	✓ <b>Completed.</b>
The world of Arab youth – The bank is working to establish an incubator for Arab adolescents, in collaboration with Teenk Arab, aimed at gaining better familiarity with and understanding of the unique needs of teenagers in Arab society.	✓ <b>Completed.</b>
In late 2017, the bank plans to hold a large-scale conference in the Arab society, in collaboration with Calcalist, with the participation of leading, well-known speakers.	The conference will be held in early 2018.

## LOOKING AHEAD

- Expansion of the program "A Business of Your Own" for economic empowerment of women in the Arab society to additional towns.
- Providing tools for astute financial conduct to students in the Arab society, through lesson plans developed and translated in collaboration with the ORT network.
- 50 scholarships in the amount of NIS 6,000 each for Arab youth. The goal of the scholarship fund, which is managed by the non-profit organization Amanina, is to encourage higher education among young people in this society. Scholarship recipients will volunteer in providing instruction and guidance on astute financial conduct to families.
- Digital empowerment and the development of services adapted to the Haredi lifestyle, based on the assumption that these processes will lead to increased openness to digital services in this sector.





## Accessibility

Access for people with disabilities is a crucial issue and the duty of a business, in the eyes of the bank; it is an inseparable part of the bank's service perception. The bank takes action to realize the basic right of every customer with a disability to receive the full range of offered services, as independently as possible, while maintaining human dignity. This includes disabilities in mobility, vision, hearing, cognition, or the weakening of various functions, as a result of old age or a permanent or temporary incapacitation. The bank has an obligation, derived both from regulation and from the standards it voluntarily adopts, to adapt and create dedicated solutions for various types of disabilities, and to enable all customers to receive optimal service. Accessibility processes are performed routinely and continuously, including physical accessibilization of buildings and virtual accessibilization of technology for the customers and employees of the bank. The accessibility process is based on dialogue with relevant stakeholders and professionals in this field, and closely accompanied by the Access Israel foundation. Concurrently, the bank routinely reviews the relevant legislation and the advanced options available for accessibilization, and continually strives for improvement and adaptation.

### The Process of Accessibilization of Branches and Buildings

The accessibilization process includes a thorough examination of all obstacles and barriers facing customers with a disability, from the environment in the street to the branch, and finding solutions for unobstructed movement and accessible

service. Means of accessibilization include ramps, wide entryways, sufficient space for movement inside the branch, appropriate signage, accessible service stations with the option to comfortably use a desk, adapted chairs with armrests in the waiting area, accessible restrooms, and more.

As at the end of 2017, 91% of the bank's buildings were accessible – 267 buildings, of a total 297, had received accessibility certifications. Due to an unforeseen delay in the receipt of construction permits from local authorities and municipalities, full accessibilization has not yet been completed in 9% of the buildings. At these buildings, an expanded emergency program has been implemented as an interim solution, with the guidance of the Access Israel Foundation. The emergency program includes the establishment of accessible service stations in each department and for every type of service at the branches, restrooms for disabled persons, and accessibility solutions for the doors used to enter the buildings.

#### Every accessible branch has:

- ◆ Convenient accessible entry;
- ◆ Accessible parking, or the local municipality has been contacted via official mail to request accessible parking;
- ◆ Signage in compliance with legal requirements;
- ◆ Accessible restrooms;
- ◆ Branches with more than one floor have elevators, wheelchair lifts, or elevating platforms;
- ◆ Accessible service stations compliant with accessible service standards and supplied with the following devices:
  - ◆ **Inductive Loopset** – A system designed to improve dialogue with customers who have auditory impairments, allowing them to hear only the banker through a hearing aid, without superfluous background noise;
  - ◆ **Step Hear aid systems** – An active voice guidance system providing voice instructions for people with visual impairments, to help them locate branch entrance doors and accessible ATMs;
  - ◆ **Call Hear** – A device designed to alert the banker stationed at the accessible service desk of the branch that a customer with visual impairment is at the entrance to the branch and in need of assistance.



### **ATMs and Self-Service Devices Accessible to People with Visual Impairments**

All of the bank's locations where self-service devices are available have been adapted for physical and technological accessibility. Self-service devices adapted for people with disabilities have been marked with an accessibility symbol, and Step Hear voice instruction systems have been installed to easily guide customers to the accessible devices.

People with visual impairments can operate the accessible devices using headphones to receive voice instructions, and/or using an accessibility setting with an adapted display. These devices can also be operated using an accessible physical keyboard. Instructions are provided in four languages: Hebrew, English, Russian, and Arabic. At the end of 2017, 99% of the bank's ATMs were fully accessible.

### **Virtual Channels and Interfaces for People with Disabilities**

Technological innovations, which are an integral part of the service offering for customers, allow access to the full range of products and services, at any place and time, through call centers or through a computer or smartphone, using advanced, convenient interfaces. Beyond the benefits to customers and to the environment, these channels represent a leap forward in possibilities for people with disabilities to consume banking services in ways convenient to them. **The bank's website, including marketing content and banking services, is in compliance with the requirements of the Israeli standard, at Level AA, Grade 2.**

A page on the bank's portal has been set up to aggregate all of the information on accessibility at the bank's buildings, as well as basic guidelines for serving people with disabilities, information regarding accessibility of the bank's website, and an explanation of ways of serving people with various disabilities during routine operations. News and procedures related to the accessibility of buildings and of service are communicated to employees each year. The employees of the bank have undergone training on service for customers with disabilities, and have been required to complete a tutorial developed by the bank to help understand these customers' needs.

The bank makes options available to customers for accessible information, in accordance with their requests and needs:

- ◆ **Reading forms aloud** – At the customer's request, a banker at a branch will read the relevant forms aloud. Audio files of long forms have been uploaded to the bank's website;
- ◆ **Accessible mail** – Customers unable to read mail received from the bank can contact their branch, or a banker at the call center, and ask for the mail to be read aloud to them;
- ◆ **Translation into sign language** – On complex financial subjects that require extensive discussion, a meeting can be held at the branch in the presence of a translator into sign language;
- ◆ **Accessible print** – At the customer's request, forms will be supplied in accessible print or in Braille, in coordination with the relevant branch.

### **Encouraging Accessibility of Businesses**

**Granting credit for the promotion of accessibility** – Within the promotion of accessibility, the bank offers credit in amounts of up to NIS 50,000, with preferred terms, for accessibilization of a business, thereby helping small businesses meet the requirements of the Accessibility Law. While demand for this product was low in previous years, as the law takes effect and enforcement increases, significant growth is expected in the number of small businesses that make their services accessible to people with disabilities and therefore have a need for the targeted credit. In 2017, the bank raised public awareness of this subject and offered the product to tens of thousands of small businesses in Israel, including through the bank's Business Club, its marketing website, media items in the general press and in professional publications for various business sectors, advertisements, and more. In addition, in view of the responsibility undertaken by the bank and the importance it accords to the promotion of accessibility of businesses, the bank initiated the production of three videos on accessibility of businesses, for stores, restaurants, and offices. The videos are used by small-business owners to train their employees, according to the requirements of the law, and help with the adaptation and improvement of service for people with disabilities. The videos were distributed to the general public via social media and the press, and are available for viewing on the bank's marketing website, on the website of the Access Israel foundation, and on YouTube.



### Examining Achievement of Objectives

2017 Objectives	Status
<p>In 2017, the bank will continue to implement its accessibility plan, based on its multi-year plan and in accordance with regulatory directives, completing the accessibilization of all branches of the bank.</p>	<p>Partial. Due to an unexpected delay in receiving permits, 91% of the bank's buildings were accessible by the end of 2017. At branches not yet accessible, expanded emergency plans have been implemented.</p>
<p>The bank will work to raise awareness of accessibility requirements for businesses, while providing tools as well as assistance with credit for the implementation of the legal requirements.</p>	<p>✓ <b>Completed.</b></p>
<p>The bank will promote collaborations and conferences for raising awareness of the importance of accessibility, as well as improved access to information on this subject to the general public.</p>	<p>✓ <b>Completed.</b></p>

## LOOKING AHEAD

- Setting up a simulator for serving people with disabilities at the Poalim Campus, in order to train employees and improve their familiarity with accessibility means installed at most of the bank's branches.
- Further to the pilot project scheduled in collaboration with the Milbat Foundation, the bank will consider introducing robotic equipment to open doors to the bank's buildings for people with disabilities.

## Commitment to Personal Service and Satisfied Customers

Bank Hapoalim recognizes that customers' expectations regarding the quality of service are progressively rising, particularly where the organizations that manage their money are concerned. Based on its knowledge of the complex financial arena that forms the setting for its activity, the bank plans to create differentiation in the customer experience, grounded in the understanding that continual improvement of service is the key to the growth of the bank's business. In 2017, various processes and changes in organizational structure, measurement, internal service culture, and investment in human resources occurred at the bank, aimed at serving this goal. The processes designed to improve service begin with the direct encounter with both internal and external customers, which is the initial stage in the service cycle, based on which information is collected and processed. The analysis of this information makes it possible to draw conclusions, learn, and improve, contributing to the development of work processes. This service cycle enriches the value offer for the various customers, creates a flexible organizational framework open to feedback, and expresses the bank's organizational commitment to customer satisfaction.

### The Service Concept

The bank's service perception is derived from the strategy of enhancing value for customers, the essence of which is forging a continuous holistic relationship with

the customer and creating meaningful encounters at important crossroads in customers' lives. Several large-scale organizational moves were implemented in 2017 with the aim of improving internal and external service, including the following:

#### ◆ **Instilling positive attitudes and language**

– An intra-organizational process for instilling positive language and attitudes at the units of the bank, with the aim of influencing organizational culture. This also included efforts to improve bank employees' professional appearance and institute a business dress code for bankers;

#### ◆ **Guidance for bank's divisions**

– Based on the strengths and weaknesses mapped in the internal service survey, each division of the bank is closely mentored to achieve improvement of the service it provides to its internal and external customers;

#### ◆ **Improving the service experience at the branches**

– 2017 was characterized by changes in the deployment of the branch network, changes in consumer habits, branches crowded with customers, and negative sentiment on social media. To cope with these challenges, new objectives were set for the reduction of wait times, and customers were offered information on the expected wait time when joining the queue at a branch, or on the application, with messages to provide updates on the progress of the queue. Customers were also sent alerts of unusually long wait times at

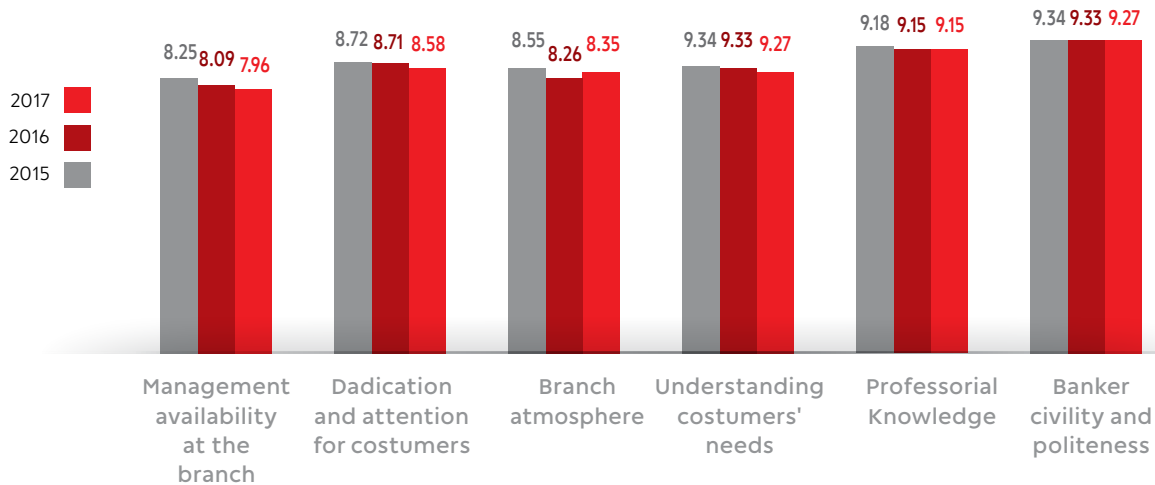
branches, and in the head office. In addition, attendants were posted at the branches to assist customers in using the direct channels or self-service stations to perform transactions, with a focus on increased assistance for elderly customers. A dedicated contact center opened in 2017, for the first time, to address inquiries and complaints through social media (see additional information in the subsection on social media); instruction days were held at the branches, focusing on the experience of customers waiting at the branch, among other issues.

### Service Experience Measurement

The bank invites its customers to take an active part in the process of improving service, and therefore continuously monitors the service experience both at the branches and in the digital channels. The service experience is surveyed through daily samples, for research and feedback purposes, using means including focus groups, telephone surveys, social-media surveys, and more. In 2017, "mystery" customer visits were conducted, to examine the degree of digital empowerment granted to customers at the branches by bankers.



### Customer Satisfaction Survey



### Examining Achievement of Objectives

2017 Objectives	Status
Continued implementation of the bank's "Human, personal, and technological" approach with its customers; establishing and adapting language, perception, and measurement.	✓ <b>Completed.</b>
Continued measurement of internal service, integration of measurement into the control mechanisms of the areas of the bank, and implementing the improvement in mutual service as part of the chain reaching the end customer.	✓ <b>Completed.</b>

## LOOKING AHEAD

- Implementing a service strategy aligned with the values of the new brand strategy, "Poalim – with you in every decision" – fairness, responsibility, humanity, caring, simplicity, and professionalism, in processes, behavior, and language.
- Instilling new customer-centric service models and adapting the characteristics of services and value offers to the nature and volume of activity of the customer.
- Building a new platform for optimal management of service and sales processes at the branch, through digital empowerment.

## Responding to Complaints and Requests

The bank's public contact center operates in accordance with Proper Conduct of Banking Business Directive 308A of the Bank of Israel, which took effect on April 1, 2015. The directive formalizes the obligation of a banking corporation to address customers' inquiries in a fair, reliable, and efficient manner, and is designed to provide uniform rules for addressing and reporting inquiries throughout the banking system. The directive establishes detailed rules with regard to the existence of the unit, the ombudsman at its head, the ombudsman's authority, the procedure for processing customer complaints (including timeframes), and detailed reporting to the board of directors, management, the public, and the Supervisor of Banks. The public contact center processes incoming contact (including complaints) from customers through all channels, including mail, Internet, fax, telephone, etc. The offices of the bank devote focused attention to processing complaints, with high alertness and awareness to accurate and appropriate response to complaints within a reasonable period. The service concept with regard to processing of queries from the public is communicated to the employees of the bank in training programs at the Poalim Campus, through intra-organizational communication, and through lessons learned.

## Processing of Inquiries – From Localized Resolution to Organizational Learning

### ◆ Processing of customer inquiries –

Every contact, whether it is a request or a complaint, is addressed by the business functions relevant to the issue raised by the customer. Some inquiries are transferred to a branch for processing, when it is found that the branch has the ability to provide the best and quickest solution. Others are processed by the public contact center, which replies to the customer when its investigation is complete. If necessary, the branch or the business function is also issued with recommendations for improvement and instructions for action aimed at avoiding similar incidents in the future;

◆ **Organizational learning** – Occasionally, the processing of an inquiry reveals implications beyond the individual customer, such as recurring events at various units, problems in organization-wide procedures or work processes, and more. Inquiries of this kind are presented to the business functions at the bank for learning and improvement of the relevant procedures and processes. When an inquiry is classified as systemic, the process and progress of resolution are monitored;

Customer inquiries: The public contact center processed

# 7,412

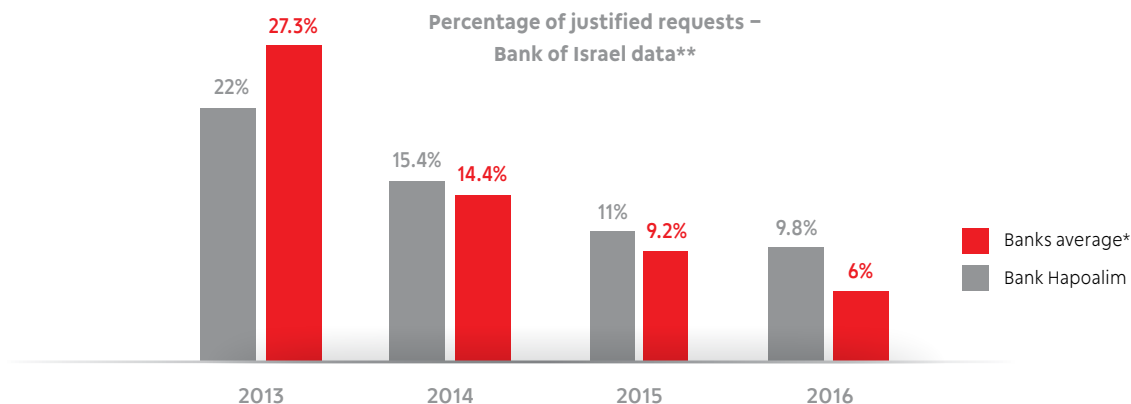
**customer inquiries** in 2017, of which approximately 5,193 complaints. Complaints decreased by 2.1% compared with the preceding year.

### ◆ Percentage of justified complaints:

Of the total number of complaints regarding which the bank determined its position, only 8% were found to be justified; in these cases, the bank apologized, performed the necessary remedies, and compensated the customers if necessary. The percentage of justified complaints rose this year, from 6% last year;

### ◆ Queries by law-enforcement agencies:

23,934 queries by law-enforcement agencies were processed in 2017.



\* The data are relative to the average of the five major banks in Israel (Hapoalim, Leumi, Discount, FIBI, and Mizrahi-Tefahot). Data for 2017 have not been released as at the date of publication of this report.



## Information about Banking Products and Services

The bank is subject to laws that impose due-disclosure regulations concerning information to be provided to customers regarding banking products and services. These directives apply to all products and services. Bank Hapoalim maintains full compliance with the directives, through designated mechanisms subject to controls and audits, including training for employees. Essential principles that form the foundation for consumer-protection directives include the duty of due disclosure (transparency) to customers, and protection of customers' right to receive advice and service from the bank. Accordingly, the bank, as a leading organization in the economy, exercises extreme caution in its advertising, marketing, and sales promotions, applying several levels of strict screening and controls. All messages published by the bank conform to the law – the first and most essential level. In addition, the bank consults with advertising experts on the essence, content, and style of its advertisements, according to the service or product and the target audience of the messages. The third level consists of internal controls applied by the bank's experts in this field, including further review of the preceding two stages.

The bank has formulated a document of principles regarding ethics in marketing and advertising, in addition to and beyond the requirements for legislative and regulatory compliance. Prevalent ethical rules, such as those of the Second Authority for Television and Radio, have been adopted, and the bank collaborates with advertising firms committed to these ethical rules. The document describes ethical principles such as responsibility, fairness, transparency, customer privacy, accessibility, adaptation to diverse population groups and sectors, and more. The document is displayed in

the social responsibility area of the bank's website. There were no cases of non-compliance concerning the publication of information regarding products, services, or marketing communications during 2017.

## Privacy and Information Security

The bank accords high importance to information security, and invests extensive resources, both technological and human, to maintain the confidentiality and privacy of customers' information and banking information on the Internet, through the use of highly advanced security methods and some of the strongest encryption systems available. Information security is managed in compliance with the directives of the Bank of Israel and with the Protection of Privacy Law, 1981, and other relevant laws, in order to protect the information-technology system and minimize information security risks.

This area is under the responsibility of the Information Systems Security and Cyber Defense Department, which reports to the Head of Information Technology. The Information Security Department ensures that it employs the best professionals with the necessary knowledge, experience, and authority in the field of information security, and regularly conducts training, enrichment, and awareness programs to all employees of the bank. Information security in the bank's systems is maintained on several levels and circuits, in order to ensure that the bank's systems are properly protected from penetration, unauthorized access, or harm. Information-related projects are accompanied from their inception by an information-security team that ensures strict compliance with the rules, including protection of the privacy of information and restriction of access to information. Security events in IT systems are referred in real time to a dedicated center, addressed and documented from the initial stage of the

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

The Information Security and Cyber Defense Unit of the bank has grown increasingly sophisticated and developed over the years, in order to contend with a constantly shifting landscape of threats. Subject to changes in the cyber domain and in regulation and legislation in this field, the unit applies technological and business controls in the various IT strata, based on some of the most advanced solutions in the market. The bank has also adopted methodical, orderly implementation of cyber defense processes, using experts with a range of specialties in the areas of information security and cyber defense.

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

systems. Most information is accessible to customers for viewing only, with the exception of specific instances of management of account beneficiaries, in transfers via the website.

The bank and its employees are not permitted to disclose information regarding the customer's account, business, conduct, or any other matter related to the contractual engagement between the bank and the customer. The bank's duty to maintain confidentiality in banking is not limited to the period of the legal contract or relationship between the bank and the customer; it also applies to the period following the closure of a customer's account, or following a customer's death, for an unlimited duration. Access to information regarding the bank's customers on the bank's computers is permitted to employees of the bank solely for the purposes of their work, and only to authorized personnel. The bank takes action to protect customers' privacy through ordered procedures, in accordance with the Protection of Privacy Law, which details conditions for holding and retaining information and processes for transfers of information among public entities. In 2017, 3 justified complaints regarding privacy infringement and bank secrecy, were received. The bank compensated the customers as a response.

## LOOKING AHEAD

- Monitoring changes in this arena and finding adapted security solutions, while validating the bank's information-security strategy and policy.
- Expanding the process of collecting cyber intelligence, in order to improve the analysis of strategic trends and tactical alerts, by taking advantage of existing sources and developing new sources.
- Performing periodic information-security surveys, in accordance with regulatory directives and based on needs and the sensitivity of the systems, while also validating the methodology for conducting these surveys. Expanding the treatment and analysis of security patches and their installation on IT infrastructures.
- Continuing to raise awareness of cyber risks among the employees of the bank, and imparting basic tools for understanding the form taken by these risks and the preferred defensive measures.

## Innovation

Bank Hapoalim recognizes that the pace of global change in banking, technology, and customer expectations necessitates extensive investment in the promotion of innovation. The innovation displayed in the bank's activities enables it to continually introduce new, original products and activities for its customers, reinforcing its standing as Israel's leading bank. In early 2016, the bank announced the creation of the Innovation Division, responsible for planning and building the Bank Hapoalim

of the future, with the assistance of all units of the bank. Within this process, the division drafted a strategic plan for the coming five years, rooted in the goal of establishing the bank as a Smart Trusted Financial Advisor (STFA) in customers' perception. This strategy is founded on three key elements:

◆ **A smart bank**, reliant on information and advanced analytical capabilities that allow the bank to gain a better understanding of the customer and

proactively create value adapted to the customer;

◆ **Creation of an advanced customer experience**, so that every customer feels like a VIP;

◆ **Open banking**, partnerships, and innovative, quick, agile processes, allowing advanced development methods, and the adoption of innovative external technologies that are embedded at the bank.





### FinTech (Financial Technology) at the Information Technology Division

Within the division's operations in the fintech field, it examines the local and global markets, and works to implement technologies that provide solutions for the digital strategy advanced by it. The division also endeavors to forge connections between technology companies, financial companies, and Israeli and foreign academic institutions, and promotes dozens of initiatives to benefit the bank's customers. The relationships and partnerships developed by the division help in understanding market dynamics, increasing the productivity of the bank, and improving its response to the competition in the market, with an emphasis on TTM. The strategic collaborations described below were highlights of this effort in 2017.

**Innovation lab on the Technion campus** – The collaboration between the bank's innovation Unit and the Technion was strengthened in 2017, in the areas of data sciences, the Internet of Things, blockchain technology, and more. The innovation lab at the Technion, which is the outcome of this collaboration, has conducted research aimed at coping with various challenges in the realm of banking technology, such as advanced risk management and forecasting the financial activity of business and private customers.

**Blockchain-based financial contracts** – Bank Hapoalim and Microsoft formed a collaboration this year that is the first of its kind in Israel and unique worldwide. A platform was created for issuing digital guarantees to private and business customers using blockchain technology, which has been proven to provide the highest level of security and reliability. Bank Hapoalim is the first bank in Israel to harness this technology (which, among other matters, is the foundation for trading in Bitcoin) for financial contracts. The sweeping consensus in the technology industry is that blockchain has a crucial role in the smart economy and financial systems of the future. Blockchain technology essentially creates a smart, secure digital contract between all of the business functions involved in a process. Experts in the field estimate that in the near future, blockchain-based systems will be used to monitor commodities and resources, electronically generate and realize contracts, transfer ownership of real estate and other assets, securely transmit medical records, and more. This pioneering project allows knowledge sharing, improves the customer experience, and can transform various banking activities so that they become digital, user-friendly, and short.

### Examining Achievement of Objectives

2017 Objectives	Status
Creation of new growth drivers; a smart bank in information and analytics.	✓ <b>Completed.</b>
Development of Agile-based work processes, to improve efficiency, flexibility, and speed.	✓ <b>Completed.</b>
Continued development of tools for investment advising and payments.	✓ <b>Completed.</b>
Development of new banking models, and improvement of the customer experience and the digital and mobile tools offered to customers.	✓ <b>Completed.</b>

### LOOKING AHEAD

- Leveraging opportunities arising from new regulation, through innovative digital tools and services for the bank's customers.
- Realization and implementation of the strategy of enhancing value for customers in the bank's digital services.
- Developing "Poalim Brain" system- a financial learning system, designed to enhance value given to the costumers based on the largest financial data in Israel's banking system.

## Multi-Channel Banking Services

Bank Hapoalim is dedicated to assisting its customers with the full range of financial aspects of their lives. In view of this commitment, the bank offers its customers full availability and accessibility of banking information and financial services, through a variety of service interfaces: the website, applications, telephone, and, beginning in 2017, social media. These venues join the network of branches adapted to customers' characteristics and needs, and a range of direct self-service channels available at any place and time.

### Website

The bank's website offers a comprehensive package of services for its customers. The website provides customers with access to extensive information and a range of self-service options, designed to grant customers full, informed control over their banking activity. In order to provide solutions for its wide variety of customers, the bank offers secondary sites adapted to the needs of different target audiences: a site for private customers; a site for business clients and customers of the business division; an international site for foreign residents; sites in English, Spanish, Russian, and French; and a site adapted for the Haredi society.

### New Features on the Bank's Website

◆ **New business website** – The new business website was launched in pilot form for selected customers in 2017. The new site offers a significantly improved customer experience, simpler tools and processes, and a greater depth of knowledge. The website also makes a range of advanced tools available to business owners, enabling them to complete financial tasks with maximum convenience; the main emphasis is on customization to each business owner's needs;

◆ **Cash management** – A smart, integrative financial tool that enables business clients and their financial staff to obtain a full financial overview in real time, analyze business information, and manage cash flows and cash-flow forecasts in their accounts, at any time and from any place in the world. The system provides customers with aggregated information from multiple banks, regarding all of their accounts, including accounts with banks overseas.

### New Features in Mortgages

Beginning in 2017, customers can perform a range of actions relevant to new or existing mortgages using the bank's website, including updates on new applications, requests for early repayment of a mortgage, and requests for a "letter of intent."

### New Features in the Capital Market

Beginning in 2017, standing orders in mutual funds can be set up, updated, and canceled using the website. Customers can also view the status of their portfolio of holdings at the end of every day.

**Be Online** – An online account allowing customers to manage basic banking activities through mobile devices and over the Internet, without paying current-account fees for transactions performed using the direct channels. Within this service, customers can consult with a banker via email and contact technical support at a dedicated call center.

### Applications

Bank Hapoalim is committed to offering its clients the most advanced banking service, on every platform and through any channel they choose. The bank aspires to serve as the customer's smart financial partner and to provide added value in a wide range of financial and consumer arenas. The bank accords immense importance to products that are accessible to customers at all times, and can be used at any moment, from anywhere.

As part of its routine activity, Bank Hapoalim has continued to develop a variety of new applications, for a broad spectrum of customers, emphasizing the simplification of processes and an easy, convenient customer experience.

### New features in the bank's applications in 2017

◆ **Depositing checks from any bank through the account management application** – The Photo Check Deposit service, launched four years ago, was expanded in 2017, and now offers the option of depositing checks from any bank in Israel;



- ◆ **Sharing account information** -Beginning in 2017, customers with Android devices can share information from the current account and credit card screens in the account management application, easily and without the need for a screenshot;
- ◆ **Shake to disconnect** - Beginning in 2017, users can log out of their accounts securely by simply shaking their mobile devices.

**A wide range of targeted applications**

Bank Hapoalim has continued to develop a variety of new applications, for a broad spectrum of customers, emphasizing the simplification of processes and an easy, convenient customer experience. This year, several new features were added to existing applications, alongside launches of new applications:

**Bit**

Bit has become the leading application in Israel for monetary transfers to customers of all banks, with approximately 720,000 registered customers in the end of 2017. The range of services offered to the application's users expanded; customers can collect money as a group for various purposes and needs, such as common charges in an apartment building, a birthday gift for a friend, and more. There is also an option for requesting payment from a single contact, which can avert the unpleasantness of asking for the money directly.

**Digital Personal Assistant**

In 2017, the bank took a leap forward in the options accessible to customers through this application. The Digital Personal Assistant offers customers

customized tips and smart alerts based on artificial intelligence, big data, and learning machine systems.

A pilot project with 50,000 participants was held in the last quarter of the year. The customers received a range of tips and smart alerts on astute financial conduct in the personal area of the account management application. The system scans customers' information daily, compares their behavior to that of other customers, and applies a set of algorithms based on transactions in the account, balances, and credit-card charges to post dozens of messages relevant to the customer. This capability is an expression of the revolution led by Bank Hapoalim in the use of mobile phones as a tool helping customers save money and manage their finances more wisely.

**Poalim Business 2**

The new application launched for business clients, Poalim Business 2, allows customers to manage their business accounts from a mobile device, and to easily perform transactions including salary payments, monetary transfers, check deposits via photo, currency conversions, taking loans, and more, while out of the office or not near a computer.

**Poalim Pass**

The Poalim Pass application was launched for customers of the Corporate Banking division at the bank. The application allows customers to connect to their business accounts easily. Customers can use the application to operate their accounts conveniently and safely, on any operating system, without the need for mobile reception or an available Internet network.

1,600,000

Number of customers who are active users of the bank's website

1,000,000

Number of customers who use the bank's mobile services and applications

## Social Networks

The Social Networks Department, established in the Stakeholder Relations Division of the bank in 2017, has carried out an incremental, multi-stage process of increasing the bank's social-media presence. This effort reflects the bank's ambition to implement an open banking model and create value in the arena where the stakeholders are. As part of this process, the bank launched an official Facebook page, which serves as a channel for dialogue and service, characterized by transparency and maximum availability. The Facebook page functions as a one-stop shop for all of the bank's target audiences, including youth, students, seniors, small businesses, and more. Its organizational assignment to the Stakeholder Relations Division strengthens the mission of this activity to create value for Internet users, as differentiated from marketing activity. Presence in this space enables the bank to take an active part in dialogue that concerns it – to listen, respond, and when necessary, take action to ensure a positive customer experience.

Principles of activity on social networks:

◆ **High-quality efficient service** – Each month, thousands of customers and other stakeholders receive professional service from a dedicated team composed of representatives of the service units at the bank (Poalim by Telephone, the central back office, the Retail Banking Division, the Service Unit, and the Ombudsman). In order to deliver optimal, rapid, efficient service, this team has come together to formulate a uniform operational concept encompassing work processes, the establishment of an SLA, and writing of potential scripts for conversations characterized by responses in positive language. Within this process, an objective of a

100% response rate has been set – in other words, every message, reply, post, or tag receives a response. The online service has extensive availability and functions beyond the operating hours of the branches. In addition, the channel is continuously monitored for communications requiring an immediate response, even outside the operating hours of the service centers.

◆ **Breaking down walls** – Through respectful, unmediated dialogue, the bank aspires to create relationships of trust, improve processes, and make better business decisions, adapted to the needs of its customers and of the public. As at the end of 2017, communication with the public via social media has led to improvement in dozens of processes at the bank, such as the distribution of ATMs and self-service stations, response in additional languages at the call center, resolution of malfunctions on the bank's website, and more.

◆ **Creating value for customers through accessible, enriching content** – The Social Networks Department regularly posts content on economic subjects, updates on events in the Israeli and global capital markets, and the bank's extensive activity for the community, maintaining a balanced mix of varied, interesting, relevant content for stakeholders.

◆ **The faces behind the brand** – Activity on social media allows for maximum exposure of senior executives and experts at the bank through interviews, videos from the life of the organization, blog posts, and real-time tweets. Through these means, customers and the general public can grow familiar with the real people at the bank, leading to more in-depth dialogue and solidifying trust.

# 20,000

interactions

with customers

since the creation of the bank's Facebook page, as at the end of 2017. Each application or complain received an answer within few minutes, while 97% of the surfers expressed high satisfaction by the service

# 155

posts

15 million views of 155 posts and content posted by the bank

# 32,000

followers

of the bank's Facebook page at the end of 2017 (the Facebook page was launched in July 2017)



### The Call Center

The bank's call center offers a multi-channel comprehensive banking services in a convenient, available form. The center allows customers to perform varied actions in their accounts, receive technical support for the bank's website and mobile applications, or open an account from home via video chat. The service is also offered in Arabic and Russian, and allows all customers, including people with disabilities and the elderly, to receive

professional service without visiting a branch. A voice response system is available 24 hours a day for information and various transactions. Services offered through the voice response system include:

- ◆ **Poalim Voice** – identification and account management via voice, without the need for passwords;
- ◆ **Ordering a call back** – a service allowing customers to hang up while the system keeps their place in line;

- ◆ **UP Mail** – a service for communication with customers via email;
- ◆ **Poalim Connect** – a center that manages interfaces with customers and allows them to request service using email, chat, telephone, or text message, directly to a personal banker.

### Examining Achievement of Objectives

2017 Objectives	Status
Replacement and upgrade of voice response – In 2017, a transition is planned to a newer, faster system allowing customers to perform transactions via telephone more clearly and simply. In addition, new services are expected to be added for completion through the voice response, without the need to wait for a banker, such as transfers to third parties, as well as various additional products.	✓ <b>Completed.</b>
Receiving a response in a single call – In 2017, service processes in telephone calls will continue to improve, so that customers can receive maximum service during their first call, without the need for follow-up or a wait for a solution. The objective is to complete the treatment of the issue in the first call, in 90% of calls.	✓ <b>Completed.</b>
Granting preferential service to customers aged 75 or older on Poalim by Telephone – In 2017, an emphasis will be placed on service in which a banker can be reached by pressing a small number of keys, precedence in customers' wait times for a banker such that the wait is around ten seconds, and an option for scheduling an appointment at the branch.	✓ <b>Completed.</b>

1,000,000

customers are active users of Poalim by Telephone

21,000,000

calls received by the call center in 2017

## LOOKING AHEAD

- Improvement of synchronization among the different service channels, and maintaining uniform language between the branch network and the service-center network.
- Expansion of financial and administrative activities available through the self-service channels.
- Adaptation of automated and human work processes in the service-center network to the new standards and guidelines of the Bank of Israel, while positioning the customer's needs as central.
- Launch of a chat bot, allowing customers to contact the bank and receive a response on any subject, at any time of day, using messaging applications.

## Poalim Branches

230 retail branches of the bank are available to customers, in the most extensive branch network of the Israeli banking system. The bank's branches are located in both city centers and peripheral regions nationwide. Bank branches serve as an anchor for customer relationships and as a point of service for customers interested in face-to-face service. The bank is working to optimize the location of existing branches, with the aim of further improving the branches' accessibility for customers. The bank continually considers opening branches in new regions, with a focus on strategic population segments with growth potential. The extensive distribution of the bank's branches, alongside its wide network of ATMs and self-service stations for transactions and information, allow customers to visit a branch near their home or use self-service options comfortably, while minimizing environmental impact.

## Network Deployment

The bank continued to develop its branch network during 2017, maintaining its leadership in network reach in the banking system. An additional digital branch also opened this year, offering innovative tools, products, and services, along with guidance from professional bankers. This branch joined the four advanced digital branches launched in 2015. The bank's first mobile branch opened in the last quarter of the year (see details in the section, "New Seniors").

The bank is also working to expand the services provided through its branch network; for example, additional pension advising centers and centers serving foreign residents have opened nationwide. As part of its routine operations, the continues to consider possibilities for branches in new regions, focusing on strategic population groups with growth potential.

Within the "Personal, Human, and Technological" strategy led by the bank, it has endeavored to instill the use of digital

services among customers and employees; attendants are posted at the branches to provide assistance, explanations, and direction to customers as they gain hands-on experience in the use of the direct channels. Concurrently, the bank has continued to focus on the needs of senior citizens, through human responsiveness alongside guidance and assistance in the assimilation of the digital services.

## Branch Specialties

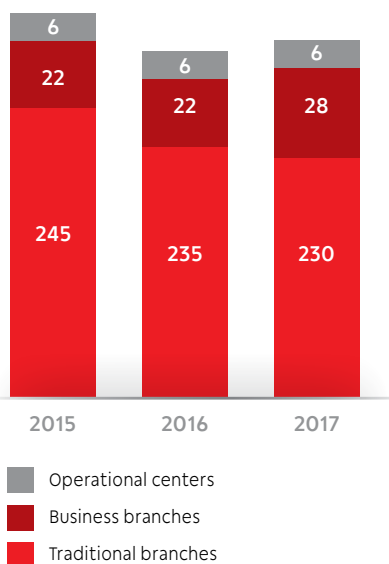
Some of the branches of the bank offer special services, such as:

- ◆ **Pension advising centers** – The bank has fifteen pension advising centers nationwide. The purpose of these centers is to provide professional advisory services for retirement, as part of the effort to strengthen the financial future of all of the bank's customers;
- ◆ **High-tech units** – The bank has ten units specializing in high tech, aimed at expanding services offered to startups and mature technology firms;
- ◆ **Foreign resident centers** – The units specialized in foreign residents were established to improve service for this population group and enhance employees' professional skills in this area.

## Services directed for the Business Division clients

- ◆ **Business centers for customers in growth (targeted to middle-market business clients)** – In 2017, six new business centers were established for middle-market business clients in the process of growth. The centers offer a professional and personal service experience in all areas of banking, with an emphasis on professional solutions matched to needs. The service offering at these branches was developed based on a comprehensive study of customers' needs and expectations. The business centers for customers in growth are complementary to the network of twelve business centers in the Commercial Division, creating a service offering adapted to each type of customer in the mid-sized business sector.
- ◆ **Business branches** – The Corporate Banking Division operates a network of branches targeted exclusively to mid-sized and large business clients, as another element of the service package for its customers.

Distribution of branches of the bank



## LOOKING AHEAD

Three service centers will be established in 2018, consolidating the activity of the existing business branches. Face-to-face points of service will be added, to complement the network of service centers. This network will specialize in service at a high level of professionalism, based on digital tools and advanced work processes, aimed at improving the service experience for customers.



**The Self-Service Channels**

Self-service stations, available throughout Israel, operate independently of branch opening hours and allow customers to execute a wide range of transactions at the hours convenient to them. The use of self-service stations saves time, hassle, and resources, and enables the bank to provide better, more advanced service. Customers are increasingly using the self-service channels to perform transactions previously conducted through bankers.

**Adaptation of Self-Service Stations for Additional Uses**

ATMs offer cash withdrawals, balance inquiries, cash and check deposits, payments into certain deposits, and more. The bank's ATMs are widely and extensively distributed throughout Israel. The bank's

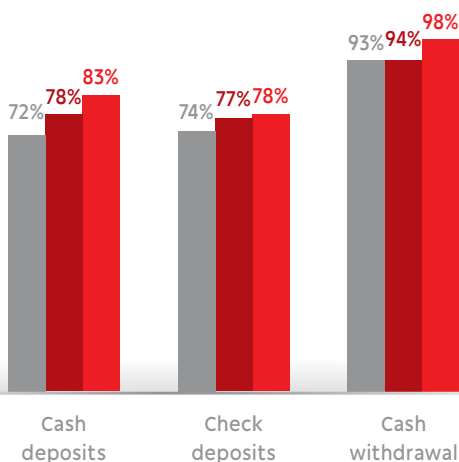
relative share of total ATMs in Israel is greater than its market share in the Israeli banking sector. ATMs offer service in four languages: Hebrew, Arabic, English, and Russian, across the self-service station network.

**623** ATMs

**ATM deployment:** The bank has the most extensive distribution of ATMs in the Israeli banking system, with 623 ATMs – 550 at branches of the bank and 73 on clients' premises, of which 540 ATMs provide an option for depositing cash without using an envelope

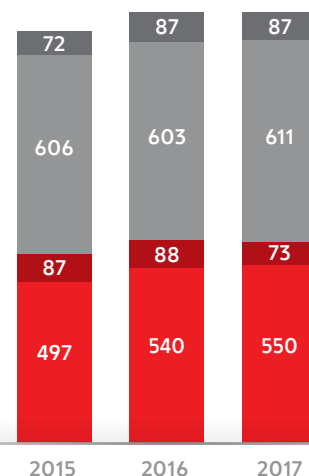
Beginning in 2017, 243 self-service devices offer customers a new service, in which several checks can be deposited in a single transaction. An option has also been added for depositing checks without a credit card. In addition, when withdrawing cash, customers can select the composition of bills, depending on availability in the ATM

Self-service transactions as a percentage of total transactions



- 2017
- 2016
- 2015

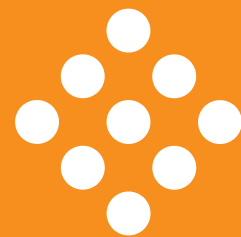
Distribution of self-service stations



- "Adcan"-updating stations
- Check deposit stations
- ATMs on customer premises
- ATMs on bank premises







**ACTING RESPONSIBLY  
FOR THE SOCIETY AND  
THE COMMUNITY**

## Our Impact on the Israeli Economy and Society

As Israel's leading bank, Bank Hapoalim has an extensive, significant impact on the Israeli economy and society. This section of the report reviews the extensive economic impacts of Bank Hapoalim, and describes its added value and its wide-ranging activity aimed at promoting Israeli society and communities. The economic impacts of the bank are not limited to direct economic value, which is primarily targeted to shareholders and investors,

but also take the form of indirect impacts on stakeholders, such as the payment of taxes, local purchasing, and employment of workers. Beyond its routine business operations, the bank perceives itself as an integral part of the community. Accordingly, the bank is committed to the advancement of the community within which it operates. This commitment is expressed in practical terms through investment in the community, in several

channels:

- ◆ A wide range of socially oriented activities in the public sphere, based on dialogue and numerous collaborations with organizations from all sectors.;
- ◆ Continuous volunteering by employees of the bank;
- ◆ Donations and sponsorships.

Through all of these means, the bank expands its sphere of influence and promotes social and environmental values.

### Economic Impact

The following table presents key data regarding the economic performance and value added generated by the bank (based on the consolidated financial statements of the bank, in millions of NIS).

	Profit from financing activity	Total income (financing profit + operating income)	Operating costs	Salaries and related expenses*	Donations and investments in the community	Shareholders' equity	Dividends paid to shareholders of the bank	Interest to debt or bond holders	Provision for taxes (tax benefit) on operating profit	Provision for credit losses
<b>2017</b>	<b>9,334</b>	<b>14,630</b>	<b>9,616</b>	<b>4,843</b>	<b>43</b>	<b>35,863</b>	<b>861</b>	<b>1,051</b>	<b>2,077</b>	<b>323</b>
<b>2016</b>	9,345	14,721	9,490	4,783	44	34,047	685	1,061	2,358	269
<b>2015</b>	8,929	14,362	8,790	4,934	43	33,032	569	1,058	2,097	475
<b>2014</b>	8,684	14,022	9,140	5,300	47	31,361	448	1,361	1,729	425
<b>2013</b>	8,423	13,664	9,024	5,434	46	28,834	276	2,065	1,271	874

The following table presents the economic added value of the bank, which includes gross wages (including wage-related items), taxes, profits, and more (in millions of NIS). This value reflects the contribution of the bank to the Israeli economy – a consequence of its position as a large organization in economic interaction with numerous stakeholders (employees, suppliers, the community, government agencies, etc.). Bank Hapoalim pays state and municipal taxes, and receives no financial aid or support from the state.

**The total economic value returned to the various stakeholders of the bank in 2017 stood at approximately NIS 12 billion.**



### Economic Value of Bank Hapoalim (in NIS millions)

	Description	2013	2014	2015	2016	2017
<b>Economic value created by the group</b>	Total income (including extraordinary income)	13,664	14,022	14,362	14,721	<b>14,630</b>
<b>Economic value distributed to stakeholders by the group</b> (operating and other expenses plus provisions for taxes and dividends)*	Operating and other expenses (including municipal taxes; excluding depreciation)	8,350	8,502	8,129	8,839	<b>9,014</b>
	Salaries and related expenses*(within operating and other expenses)	5,434	5,300	4,934	4,783	<b>4,843</b>
	Donations and sponsorships (within operating and other expenses)	46	47	43	44	<b>43</b>
	Provision for taxes	1,271	1,729	2,097	2,358	<b>2,077</b>
	Dividend paid**	276	448	569	685	<b>861</b>
	Total	9,897	10,679	10,795	11,882	<b>11,952</b>
<b>Economic value retained</b>	Difference between the group's income and its operating and other expenses, provisions for taxes, and dividends	3,767	3,343	3,567	2,659	<b>2,678</b>

\* Of expenses, in the component of wage expenses, the bank paid the state a total of NIS 734.7 million in taxes on wages and employer contributions in 2017. In addition, the component paid by employees to the state out of their wages totaled NIS 761.8 million (income tax on employees' wages and deductions from employees' wages). This component contributes to the economy through the direct payment of income tax as well as through employees' demand and expenses. The sum of both amounts is NIS 1.5 billion. This is in addition to corporate tax paid by the bank in 2016, in the amount of NIS 2.07 billion.

\*\* Dividend distributed for the 2017 profit was 1,065 million NIS.

#### A Nationwide Employer

Bank Hapoalim has a network of 230 branches for retail customers, as of the end of 2017, with broad geographical distribution. About 40% of the branches are outside Gedera-Hadera (the area of central Israel bounded by the towns of Hadera to the north and Gedera to the south). Employees and managers at the branches usually reside in the vicinity of the branch. Hiring practices are identical in all locations, so that the bank's employees come from every part of the country.

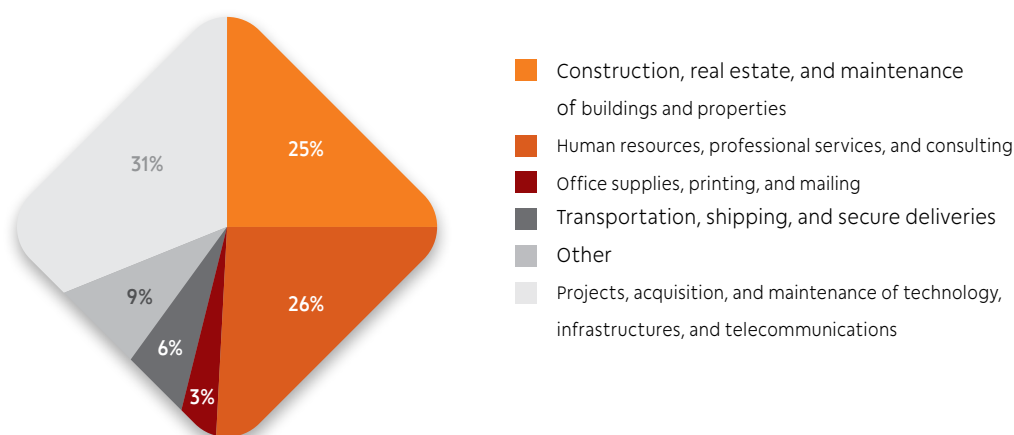
Bank Hapoalim operates three call centers and a central back office, which collectively provide more than 1,500 jobs. Two of the call centers is located in central Israel, at the industrial zone in the Azor Regional Council, and the other, for reasons including social responsibility considerations, is in the northern town of Neshet. The central bank office is located in the Beit Dagan region, near the town of Rehovot. The central back office operates through regional offices throughout Israel, located in Beer Sheva, Neshet, Givat Olga, Hatzor Haglilit, and Jerusalem.

# Responsible Supply Chain Management

## Profile of the Bank's Supply Chain

The operational activity of Bank Hapoalim, as a banking organization, is based on a supply chain that consists of a pool of suppliers of goods and services, encompassing thousands of companies in fields such as logistics, technology, consulting, and more. Contractual engagements were executed with approximately 2,800 suppliers from this pool during 2017. The bank's supplier pool contains suppliers of varying sizes (large, mid-sized, small, and micro businesses), operating throughout Israel and in additional countries. Approximately 92% of purchasing at Bank Hapoalim is from suppliers who are located in Israel and employ workers here.

Distribution of Bank Hapoalim purchasing in 2017



The five main categories in the bank's supply chain, which in aggregate account for 91% of its total annual purchasing, are:

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

In addition to these five categories, additional purchasing groups are aggregated above under the category "others," such as advertising and sales promotion, information services, professional literature, and more.

Purchasing at the bank is managed by corporate purchasing, an integrative

function that oversees the interfaces composing the supply chain of the bank. Purchasing is a defined, uniform, orderly process, with clear parameters established for examination of the quality of the purchased item, separation of authority in critical stages of the procurement process (such as specification of demand, selection of supplier, and payment), establishment of authorizations for approvals, and documentation of information and decisions made at each stage of the process within the purchasing system, based on advanced ERP technology. All of these practices are aimed at improving the efficiency and quality of purchasing management, in order to allow controls to be applied and conclusions to be drawn, and prevent, in advance, any conflicts of interest in work processes. 92% of bank's procurement is made from Israeli suppliers who employ workers in Israel.

### Responsible Purchasing

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



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



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

### Responsible purchasing policy

Mandatory	Optional
<p><b>Binding criteria for all suppliers (required norms of responsible conduct)</b></p>	<p><b>Preference criteria (additional quality sections) in the evaluation of proposals for significant contractual engagements</b></p>
<p><b>Binding criteria adapted to the unique characteristics of each of the different</b></p>	

#### Embedding CSR Principles in Supplier Agreements

Corporate purchasing frequently applies controls (including through entities external to the bank) to ensure that suppliers engaged by the bank comply with the requirements of the law and with the criteria established by the bank. Since 2015, the bank has carried out an orderly plan for the implementation of a responsible purchasing policy, based on in-depth analysis of purchasing patterns and of the characteristics of the bank's suppliers. The goal of this plan is to extend the management of third-party risks in the bank's resource allocation, and to expand suppliers' concept of responsible conduct. Within this effort, the bank has established binding criteria for working with suppliers, as well as criteria that form a part of the quality metrics in request for proposal processes, prioritizing suppliers who have internalized sustainability and corporate responsibility principles in their routine operations.

In addition, as part of the contract with the bank, suppliers in ongoing working relationships and new suppliers sign a corporate responsibility document, which includes a commitment to the prevention of bribery and fraud, compliance with wage and benefit terms for employees, prevention of harassment and promotion of equal opportunities, maintaining security and safety, and protection of the environment and use of environment-friendly materials. Furthermore, since 2014, every supplier in a working relationship with the bank has signed a document derived from the bank's code of ethics, and has made a commitment to act accordingly.

#### Green Purchasing

During 2017, the bank continued to examine and choose purchasing alternatives beneficial to the environment when acquiring products. Accordingly, the bank began to purchase recycled paper for direct mailings to customers, and recycled paper products (such as writing pads and

note paper) were added to the office-equipment catalog.

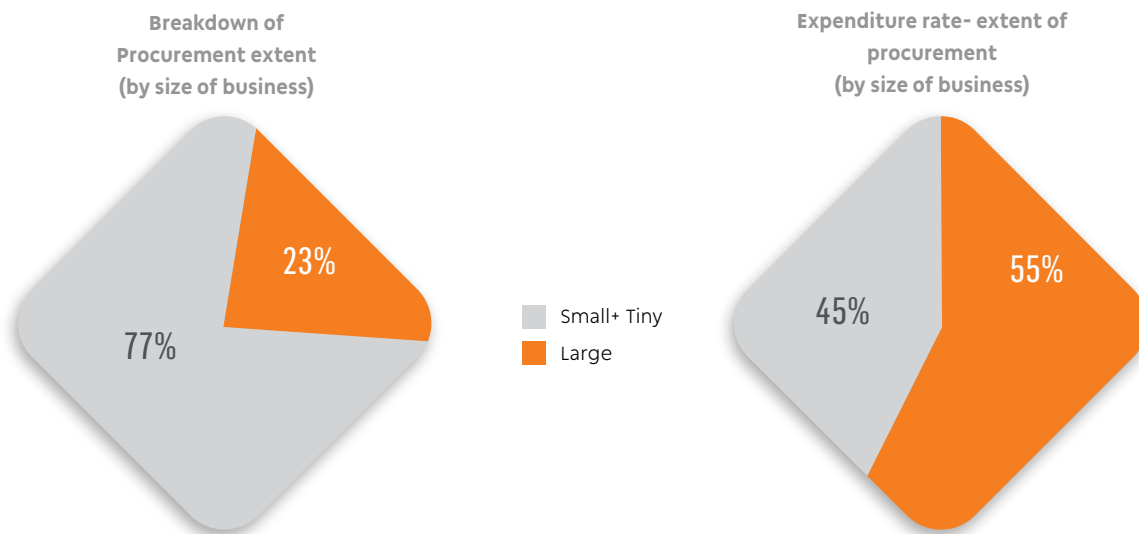
#### Empowerment of Socially Conscious Suppliers

A pool of socially conscious suppliers is available to the bank, in areas such as the production of teambuilding days and conferences for the various units of the bank and supplying gift packages and flowers for the bank's employees and customers. This pool, compiled by the bank, consists of small businesses throughout Israel that have embedded social values and content in their activities, such as through the employment of at-risk youth, assistance to people in need, employment of people with disabilities, and more. The pool is routinely updated with suppliers and additional content areas.

In 2017, purchasing from socially conscious suppliers (organizations that primarily employ workers with disabilities) reached NIS 1.36 million.

### Promoting Small Businesses in the Supply Chain

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



### Promotion of Professional Knowledge for Suppliers of the Bank

The bank's purchasing staff is diligent about sharing professional knowledge with suppliers who work with the bank, on subjects such as internal efficiency, cost savings, and more. Purchasing staff members also give talks on responsible purchasing for various stakeholders, such as suppliers, community organizations, and others.

Two supplier conferences were held in 2017, attended by both large and small main suppliers of the bank. The purpose of the conferences is to share the bank's work plans (as relevant) with the suppliers, to forge connections between purchasing and business staff and the suppliers, to provide suppliers with enrichment in relevant areas, and to communicate content and points of emphasis regarding the suppliers' interactions with the bank.

In addition, the Purchasing Managers' Forum was founded in 2017, in cooperation with the Chamber of Commerce. The forum, which convened three times during the year, serves as a platform for knowledge sharing between suppliers and the bank and among the suppliers. Professional content was presented to the forum by the suppliers and/or relevant external parties.

### Creation of Value in the Community through Corporate Purchasing

Corporate purchasing operates in the community and maximizes value for a wide circle of people through its tools, knowledge, and extensive relationships. In 2017, the corporate purchasing unit initiated a relationship with a residential village for at-risk youth in southern Israel. Collaborations with external parties brought into the process by corporate purchasing expanded the effort to benefit the youth village, leading to contributions of various products to the village, including lighting fixtures, cold-beverage dispensers, and more. Professional functions within corporate purchasing have also contributed their experience, by advising the administration of the youth village on more economical management. In addition, the bank assisted the youth village in generating its own income by including it in its network of suppliers, as the host of a conference for bank customers in the South and Negev regions.

3. Breakdown includes controlled suppliers only and excludes suppliers such as municipal agencies that the bank does not choose to contact



### Protecting the Rights of Workers Employed by External Contractors on the Bank's Premises

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

In order to protect the safety of contractor workers in the area of construction, such as in the construction of new branches and buildings, an orderly procedure is maintained, including the formulation of a safety plan for the project by a safety engineer, approval by the National Fire

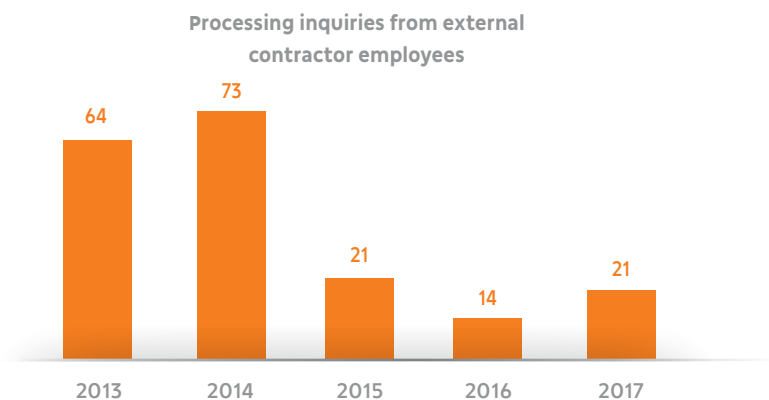
and Rescue Authority, and supervision by a regional security officer. An annual seminar on safety and security is held at the bank. In 2012, with the implementation of the Law for Increased Enforcement of Labor Laws, 2011, based on the existing processes at the bank, the infrastructure was adjusted to the provisions of the law, which took effect in June 2012. The process of applying controls began before the inception of the law, and is currently conducted in accordance with the provisions of the law. This move included updates of the bank's purchasing contracts, the establishment of a system for inquiries by external contractor employees at the bank's Human Resources Division, and the appointment of a supervisor responsible for ensuring the protection of the employees' rights and response to their inquiries during their employment on the premises of the bank. As part of its efforts in this area, the bank collaborates with Hilan, which monitors the terms of payment by suppliers to their employees. During 2017, controls were applied by Hilan at all of the employment contractor companies engaged by the bank (10 suppliers).

To ensure that the rights of contractor workers employed on the bank's premises

are protected, the bank operates a dedicated contact center in the Human Resources Division. The bank informs contractor workers of the existence of the contact center, and has them sign a document explaining their rights. 21 inquiries from external contractor workers were processed by the center in 2017.

### Code of Ethics for External Contractor Employees

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



## LOOKING AHEAD

- Within the activity of the Financial Growth Center, study programs for the bank's suppliers will be developed.
- The bank's responsible purchasing policy will be refreshed.

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

As part of the drive to promote the values of sustainability and social responsibility, the bank works to expand its influence in Israeli society and in the public arena, by instilling social and environmental values in progressively growing circles. Two key principles guide the bank in its community activities: dialogue and the creation of shared value. The bank conducts dialogue with stakeholders to understand their needs; provide an accurate, adapted response; and improve activities in order to achieve a positive, effective, long-term impact. Based on this dialogue, the bank has launched a range of programs and projects based on inter-sectoral initiative and cooperation, aimed at advancing various areas in Israeli society and generating shared value – social, environmental, and economic value for the bank and for its various stakeholders.

### Activity in the Public Sphere to Benefit Senior Citizens

Within its strategic effort for the promotion of the senior-citizen population in Israel, the bank has introduced a set of unique services and products matched to the challenges faced by this sector. Alongside targeted financial services (as detailed in the Customers chapter), the bank also responds to the social aspects of seniors' needs. The bank's commitment to this population segment stems from its position as a central crossroads in the economy and its large market share in the senior sector. The bank's activities are conducted in collaboration with many other parties, such as non-profit organizations, community organizations, the public sector, and business organizations. Selected initiatives of the bank in 2017 are described below.

#### Promotion of Solutions for Caregivers

Approximately one and a half million

Israelis are caregivers for elderly family members. Family members often find themselves thrust into the caregiver role without preparation, lacking the necessary background and knowledge. Market analysis indicates that while a great deal of information exists on this subject, it is not conveniently accessible to the public, and family caregivers cannot obtain focused, organized instruction on the problems they face in real time.

The bank, in cooperation with the non-profit association CareGivers Israel, has therefore initiated the establishment of an online repository of information regarding the range of issues relevant to family caregivers. The new guide was launched in 2017, with the full sponsorship of Bank Hapoalim. The guide offers a comprehensive and user-friendly platform for information, enabling caregivers to save time and resources and more easily navigate the bureaucracy involved in caring for aging family members.

#### Promoting Financial Freedom

The bank considers digital empowerment an essential tool for enhancement of the financial freedom of the senior-citizen population. In collaboration with the Financial Growth Center at the Poalim Campus, Poalim for the Community, and the Shalem volunteering organization, the bank is training a group of volunteers, some of whom are retirees of Bank Hapoalim, to provide instruction to seniors on astute financial conduct and the use of technological means. The instructional activities are open to the entire relevant population, free of charge, and held at community centers nationwide.

#### Promotion of Technological Social Initiatives

As part of the expansion of its sphere of influence in the general public in Israel,

the bank works with various community organizations, non-profit organizations, and academic institutions to promote technological initiatives that create shared value – economic, environmental and social value. Selected initiatives of the bank in 2017 are described below.

#### Technological Entrepreneurship Tracks of the 8200 Alumni Association

The bank has worked with the 8200 Alumni Association for several years, helping to promote technological, social, and business entrepreneurship in Israeli society. The 8200 Alumni Association, for veterans of the elite IDF Intelligence Corps Unit 8200, is dedicated to preserving the unit's heritage, supporting its alumni community in civilian life, and harnessing the alumni network to benefit Israeli society and the general public. The association's activities include three accelerator programs for early-stage technological initiatives in Israel: **Social, Hybrid, and EISP**. Bank Hapoalim has supported the programs within this project for several years, and has also hosted meetings in which the initiatives are pitched to potential investors.

◆ **8200 Alumni Association Social Program** – The Social Program operates the first accelerator in Israel for early-stage social technology ventures. This program is open to all social technological entrepreneurs in Israel (not only to 8200 veterans). It offers five months of training, comprising lectures, individual advisory sessions, and connections with investors and with the exclusive 8200 alumni network. The accelerator promotes initiatives aimed at solving social problems using technology, in areas including people with disabilities, the elderly, gender equality, education, parenting, and more. The program is funded by six leading partners: Bank Hapoalim, ICL, the law





firm Naschitz Brandes Amir, Amdocs, KPMG, and Nefesh B'Nefesh. Ten social technological ventures participated in this track in 2017. Entrepreneurs who completed the program raised a total of approximately USD 30 million; they also won grants and international competitions, and gained extensive media exposure;

◆ **Hybrid Program** – For entrepreneurs in the Arab sector. Entrepreneurs participate in a training program over the course of five months, receive individual guidance and mentoring from twenty industry leaders, and develop an extensive network of connections that will assist them in the future. In addition, participants have the use of office space in Tel Aviv, Nazareth, Beer Sheba, Jerusalem, and additional cities. In recent years, approximately twenty registered companies have grown out of the Hybrid Program, successfully recruiting customers and investors;

◆ **EISP** – Promotes and empowers technological entrepreneurs in various fields in their first steps, while connecting them to the 8200 alumni network and an ongoing guidance system. Since the inception of this program, which is supported by the bank, its 120 graduates have joined 100 startup companies, obtained USD 400 million in funding, and employ 450 workers. This program has been highly successful, with four exits recorded up to this point. Fourteen companies participated in the 2017 session of the program, of which 80% raised over USD 8 million in funding, cumulatively, within just six months.

**Solar Trees Project**

Solar Trees are solar-powered stations in the public spaces of academic campuses throughout Israel that allow twelve mobile phones and tablets of various kinds to be charged simultaneously, using energy

generated by solar panels. The initiative is led by students at the Novus Center for Entrepreneurship, in the College of Management's School of Business Administration. As part of the ongoing collaboration with the college's Corporate Responsibility Center for the promotion of an environmental and social agenda, the bank's CSR Unit took part in joint development of the project.

The bank began to install the charging stations in 2014. Beyond their functional purpose of charging mobile devices, the Solar Trees communicate an environmental message and raise students' awareness of the advantages of solar energy. Eight stations were installed in 2017, bringing the total in the project to thirty.

**Examining Achievement of Objectives**

2017 Objectives	Status
Launch of new initiatives to promote the senior-citizen sector, including the launch of the website for caregivers.	✓ <b>Completed.</b>
Continued support for platforms that help promote social technology initiatives.	✓ <b>Completed.</b>
Installation of Solar Trees at academic institutions and in city centers.	✓ <b>Completed.</b> eight Solar Trees were installed at academic institutions.

**LOOKING AHEAD**

- Development and expansion of the caregivers' guide in additional areas of knowledge relevant to additional population groups, beyond the category of elderly parents.
- Continue to support platforms and promote technological-social initiatives.

## Community Investment

### Committed to Social Involvement in Line with the Strategy and Vision

As part of the Bank Hapoalim Group's vision and values, the bank is committed to active involvement in the community, alongside its business leadership. This involvement is carried out through Poalim for the Community (Registered Non-Profit Association). The bank maintains extensive, varied community activities, in the form of community involvement, monetary donations, cash-equivalent donations, and wide-ranging volunteering. Management and employees participate together in these activities, which are an important element of employees' sense of pride and cohesion.

In 2017, Poalim for the Community began a large-scale strategic effort to construct a renewed work plan aimed at focusing its areas of investment. This process included an industry-level benchmark study of the community activity of other banks around the world, as well as mapping of community needs on the local and global levels, based on a United Nations survey and surveys by leading research institutes.

### Creating Strategic Partnerships

The community involvement of Bank Hapoalim is exercised through a range of nationwide projects, including projects targeted to geographical, economic, and social peripheries, with the assistance of experts in the understanding of community needs. These projects are aimed at social and community advancement and development, based on the following principles:

- ◆ A focus on areas essential to Israeli society and aligned with the bank's core activity;
- ◆ Investment in ongoing projects and creation of long-term partnerships;
- ◆ Responsible, measurable, effective

investment, with lessons learned and continual improvement;

- ◆ Formation of strategic partnerships with elements of the community, including professional partners.

The strategy of Poalim for the Community is implemented with the Israeli public in two ways:

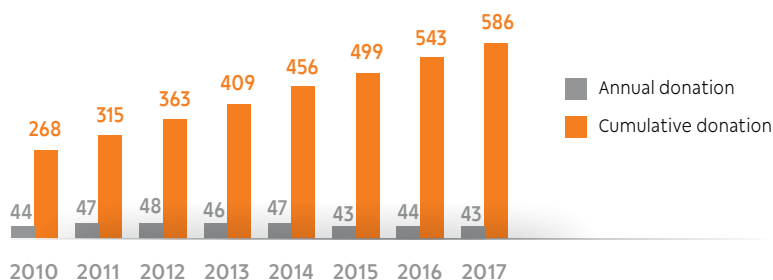
- ◆ Directly, through the committees and employees of the bank;
- ◆ Through partnerships and support for non-profit associations and specialist community organizations.

### Financial and Cash-Equivalent Community Investments

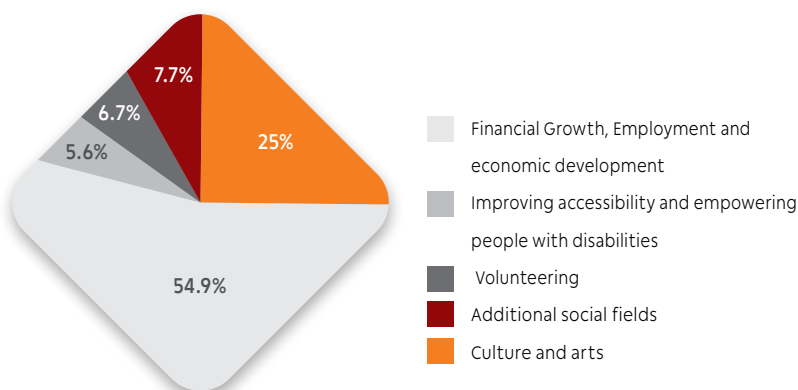
Assistance to the numerous organizations supported by the bank is given via the Poalim for the Community Forum only; no

other units of the bank make donations. The forum, which consists of the bank's senior executives, manages all of the bank's monetary donations, in accordance with criteria established in the policy of Poalim for the Community (Registered Non-Profit Association). In 2017, as in previous years, the foundation contributed to a large number of causes, including education, specifically financial education; culture and the arts; welfare and health care; and various other social issues. The bank avoids donating money or cash equivalents to political parties, politicians, or political institutions. **The investment in the community of Bank Hapoalim stood at NIS 43 million in 2017.**

Cumulative donations of over half a billion NIS in 2004-2017 (in NIS millions)



Breakdown of the bank's donations budget, 2017





### Cash-Equivalent Donations

As part of its focus on the accessibility of technology and digital literacy to various target audiences in Israeli society, the bank recognizes the high importance of advanced technological equipment in education and for the advancement of children and adolescents. Accordingly, the bank contributes hundreds of computers and auxiliary equipment no longer used in its routine operations each year, through the Technological Purchasing Center. In 2017, the bank donated 727 computer systems and auxiliary equipment, at a total value of NIS 652,000. The monetary value of the donations of computer systems by the bank in 2007-2017 is approximately NIS 8.15 million. The bank also donates office furniture, based on needs that arise in the community.

Donations of computer systems (in NIS thousands)							
2008-10	2011	2012	2013	2014	2015	2016	2017
2,554	921	500	831	361	393	801	652

### Results of Community Investments in 2017

Within the bank's responsible investment, and in order to assess its influence on Israel's society and community, the bank, as in recent years, continued the process of monitoring its activity and measuring the effectiveness of its community investments. This process includes an examination of the organizations' areas of activity and goals, their target populations, their methods, and the results of their activities (outcomes and effectiveness). The measurement process was conducted through ongoing dialogue, using surveys addressed to community partners that received significant donations in 2017<sup>4</sup>.

Main findings of this dialogue:

- ◆ The absolute majority of foundations provide an orderly presentation of their area of activity, objectives, methods, and target audience;
- ◆ The foundations to which the bank donates can be classified into a number of areas of activity:

**A. Education and promotion of peripheral regions** – Non-profit organizations active

in this area help people in the social and/or geographical peripheries of Israel realize their potential and leverage their individual abilities. Through participation in a wide range of educational activities, beneficiaries expand the impact of these activities and create positive change within their environments. The survey found that all of the foundations in this group measure outcomes (the number of participants in the activity and the volume of the activities), and many measure effectiveness (e.g. improvements in students' grades, school dropout prevention, continued academic studies, positive change in the environment, etc.).

**B. Employment and economic development** – Non-profit organizations active in this area help bring positive economic change to the lives of tens of thousands of individuals, families, and entrepreneurs, through the promotion of employment and entrepreneurship and through guidance towards economic growth and astute financial conduct, thereby contributing to the reinforcement of social resilience and the reduction of

inequalities. These organizations provide participants in their various programs with tools, guidance, training, and digital empowerment, which support their attainment of suitable employment and of economic fulfillment and balance. The survey found that the foundations in this category measure outcomes (the number of participants in the activity and the volume of the activities), and many measure effectiveness (e.g. percentage of job placement and ongoing employment, improvement in financial conduct and condition, a sense of personal capability, and more).

**C. Culture and the arts** – Non-profit organizations active in this area promote culture and the arts in Israel, making them accessible to broad target audiences. The survey found that foundations in this category primarily measure the quantity of performances or exhibitions held, and the number of attendees at these events, as the main metrics for examining the outcome of their activity.

4. Donations above NIS 100,000, which constitute 65% of the bank's total annual community investment.

**D. Improving accessibility and empowering people with disabilities –**

Non-profit organizations specializing in this area operate therapeutic facilities and maintain a wide variety of rehabilitation and other programs designed to help people with disabilities realize their individual potential and be included in mainstream society. The survey found that all of the foundations in this group measure outcomes (the number of participants in the activity and the volume of the activities), and some measure effectiveness (e.g. progress in treatment and rehabilitation programs, degree of inclusion in the community and in independent-living settings, and more).

Approximately 95% of the foundations surveyed channeled donated funds into dedicated projects or programs specified in collaboration and dialogue with the bank, and congruent with the bank's areas of social investment

**Poalim for the Community maintains long-term partnerships and invests in a range of additional non-profit organizations, through which the bank helps to promote other social causes, such as empowerment of women, health care, protection of the environment, assistance for at-risk youth, leadership, and more.**

**Education and promotion of peripheral regions**

The key focus area for the bank's community investment is education, with an emphasis on financial education, primarily in the social and geographical peripheries of Israel. The bank invests in a large number of projects in formal educational settings (educational and academic institutions) and in informal educational programs.

In 2017, the bank invested in dozens of non-profit organizations and community groups active in the area of education and progress in peripheral regions, which helped more than 198,000 beneficiaries. The bank's contribution directly affected approximately 98,500 participants.

**Examples of the bank's investment in education in 2017:**

**Read & Succeed**

Starting in 2004, the Poalim for the Community Forum has led an initiative aimed at changing the reading habits of Israeli children and youth. This project, which continued in 2017 and was expanded to the Arab and Haredi communities, includes distribution of books, funding for story hours across Israel, writing contests, activities during National Book Week, and more. The project also encompasses mobile libraries, operated in collaboration with the Key Books Foundation. These book-truck libraries visit towns throughout Israel, allowing children and adolescents to enjoy reading, story hours, plays, and more; the activities and books are chosen to fit the characteristics of the local population.

**Results in 2017:**

22,000

A total of 22,000 people signed up for the mobile libraries across Israel

**ORT Network**

Bank Hapoalim, in collaboration with the ORT Israel Development Center, offers a financial education program for high-school students, designed to impart tools

and prepare students for independent adulthood. The fifteen-hour program consists of a combination of in-person and online instruction.

**Results in 2017:**

4,000

participated in this activity and completed the educational program

**Dan the Saver – Education on Savings**

As part of the drive to provide financial education to its customers and to the next generation, the bank is leading an economic education project designed to strengthen and promote the value of savings among parents and children. Activity targeted to parents is focused on encouraging the practice of saving, while activity with children focuses on creating a positive experience during their first encounter with a banking organization, and on building a beneficial, empowering relationship. On the Dan the Saver portal, children and adolescents can enjoy games and quizzes with prizes, financial tips, videos on savings and astute financial conduct, articles, and more. Leisure activities and day camps are also held as part of this activity, aimed at encouraging children to practice astute financial conduct.

**Results in 2017:**

Approximately 8,000 children participated in Dan the Saver summer day camps, in over thirty towns in Israel's social or geographical periphery

Approximately 83,900 children have participated in Dan the Saver day camps since 2010



### Employment and Economic Development

The bank invests in non-profit organizations that work to promote appropriate employment, entrepreneurship, and economic development, based on its conviction that these are tools that can help participants improve their financial condition for the long term and expand the positive impact on their environment.

**In 2017, the bank invested in dozens of non-profits and social organizations in the area of employment and economic development, which, in aggregate, helped over 53,000 individuals, families, and entrepreneurs. The bank's contribution directly affected approximately 9,400 participants**

#### Examples of bank's investment in this field in 2017:

##### Jasmine Association

The non-profit organization Jasmine works to develop businesses owned by Jewish and Arab women in Israel, promoting equal opportunities and coexistence of the different segments of Israeli society. The organization maintains a wide range of programs aimed at imparting life skills, improving access to sources of financing, enabling business networking, and promoting awareness of diversity in the supply chain in Israel's business sector.

#### Results in 2017:

Jasmine assisted 1,072 self-employed women in developing their businesses

Twelve women gained positions on boards of directors or management teams of companies, and forty women became suppliers of large organizations

##### Yedid Association

The non-profit organization YEDID – The Association for Community Empowerment operates centers for the maximization and realization of economic and social rights, with the aim of reducing inequalities in Israeli society. The organization offers individual assistance and community activities in the areas of employment and family budget planning at rights realization centers located throughout Israel.

#### Results in 2017:

As a result of the bank's contribution:

680

families and individuals received personal aid to repay debts and improve their financial situation

280 families and individuals participated in family budget planning courses

98 families and individuals participated in an occupational empowerment course

##### Paamonim Association

Paamonim is a non-profit organization working to strengthen the financial responsibility of families and individuals in Israel. The foundation provides guidance, advice, rehabilitation, and instruction on the subject of astute financial conduct for people experiencing financial distress; it also works to raise awareness and provide tools and information regarding astute financial conduct to the general public.

#### Results in 2017:

623 families began individual guidance and advisory processes, made possible by the bank's donation

5,860 people participated in group instructional activities as a result of the bank's donation

##### The College for Economic Growth – Chasdei Lev

The Chasdei Lev foundation works to strengthen the financial resilience of families in Israel, particularly in northern Israel, and to impart financial education and values to children and adolescents. The Growth Opportunities project for the economic empowerment and development of individuals, families, and businesses has been operated jointly by Chasdei Lev College and Bank Hapoalim for several years. A different target group is chosen as the focus for this activity each year; in 2017, the project was dedicated to the empowerment of Haredi women.

#### Results in 2017:

64 people received individual guidance and/or professional training, including Haredi women, IDF soldiers from the Haredi sector without family support, and young couples

##### Interdisciplinary Center Herzliya

The goal of the Interdisciplinary Center Herzliya is to train the future leadership of the state of Israel through interdisciplinary education. The center upholds excellence in research and teaching, while emphasizing social responsibility and community involvement.

The center's clinical education program operates economic clinics sponsored by the bank. At the clinics, economics students provide financial advice and guidance to **people in disadvantaged populations and to small and social businesses**. Academic and clinic-based guidance is also offered for the promotion of policies that support these population segments.

#### Results in 2017:

Six Haredi women with independent businesses participated in the business incubator clinic, which helped them expand sales dramatically

The financial education workshop for people experiencing financial difficulties helped approximately 70% of participants cut back their routine expenses

#### Promoting Culture and the Arts

The bank assists prominent cultural institutions that have made a commitment to leadership and excellence in their fields, with an emphasis on institutions that have created social programs to promote culture and the arts among a wide range of audiences. The bank also works to make cultural events accessible to disadvantaged children and youth.

**In 2017, over 430,000 beneficiaries attended cultural and artistic events supported by the bank.**

#### Examples of the bank's investment in culture and the arts in 2017:

##### Poalim for Culture and Nature in Israel

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

#### Results in 2017:

# 350,000

More than 350,000 people visited dozens of museums and other sites free of charge, sponsored by the bank at its initiative, during the Passover

#### 2017 Israeli Art Exhibition

For several years, the bank has arranged exhibitions in its head-office building as fundraising efforts for important community causes. The bank leverages its network of relationships to bring an audience of stakeholders and donors to these events. In the Israeli art exhibition, held for the eighteenth time this year, artwork by hundreds of leading artists who donated their creations was displayed. The proceeds of the exhibition were dedicated to battling and raising awareness of AIDS. A record number of visitors attended the exhibition in 2017, while 750 pieces by 600 artists were shown.

#### Results in 2017:

# 943,000

A sum of NIS 943,000 was collected at the exhibition held by the bank in support of the Israel AIDS Task Force

Approximately 18,500 adolescents participated in workshops and educational activities held by the Israel AIDS Task Force at over 100 schools and centers for at-risk youth

**In addition to these activities, the bank works to promote culture and the arts in Israel in collaboration with the Cameri and Habima theaters and the Israel Museum of Art.**

#### Working to Improve Accessibility and Empower People with Disabilities

The bank invests in a wide range of non-profits and social organizations dedicated to people with disabilities, with the aim of helping them realize their individual potential and be included in mainstream society.

**In 2017, the bank invested in dozens of non-profits and social organizations helping people with disabilities, which in aggregate worked with approximately 398,000 people. The bank's contribution directly affected approximately 158,000 participants.**

#### Examples of the bank's investment in this field in 2017:

##### Access Israel Foundation

The foundation works to promote accessibility in public spaces in Israel, in order to improve the quality of life of people with disabilities and support their independence and inclusion. Access Israel provides consultation and guidance to thousands of local authorities, businesses, and public institutions regarding the implementation of accessibility programs, and works to raise awareness of the needs of people with disabilities.



**Results in 2017:**

Access Israel expanded its activity into the field of accessible technology, established an information section to assist local authorities, and launched a unique campaign to raise awareness of disabled parking spots

Approximately 350,000 people used the foundation's website, which offers information, a wide range of content, and tools related to accessibility

**Beit Issie Shapiro Association**

The bank provides financial support for the routine operation of Beit Issie Shapiro, an organization that works towards the inclusion of people with disabilities in society and improvement of their quality of life. The organization serves approximately 3,000 adults and children each year. Among other activities, Beit Issie Shapiro has developed educational and therapeutic programs for young children, a special-education school, clinic services for the general community, and special services offered to children with disabilities.

**Results in 2017:**

In 2017, the foundation assisted 847 patients through a wide range of therapies (hydrotherapy, speech therapy, physical therapy, occupational therapy, emotional therapy, and more)

Over 85% of children who benefited from the array of treatments offered by the foundation showed improvement (over the course of three years)

**Etgarim Association**

The non-profit organization Etgarim works towards the rehabilitation and empowerment of people with disabilities.

Through challenging activities in nature, the organization helps children, adolescents, and adults with disabilities realize their individual potential and find their place in the community.

**Results in 2017:**

The bank's contribution made it possible for 190 beneficiaries to participate in activities held by the foundation, mostly in socially and geographically peripheral regions.

The bank's contribution enabled the organization to conduct the Wheels of Hope bicycle ride, for the eleventh year. The annual bicycle ride promotes inclusion, with people with and without disabilities riding side by side. In 2017, the bank's donation made it possible for 7,000 people to participate.

**NGO's Empowerment**

Within the ongoing dialogue with the bank's community organization partners, it emerged that many organizations encounter difficulties in the area of resource development and struggle to reduce their dependence on charitable donations. Accordingly, in 2017 Poalim for the Community entered a new strategic field: empowerment of the third sector and the provision of business and managerial tools to non-profits and community organizations, with the aim of promoting long-term financial robustness. This area of investment is also consistent with Poalim for the Community's strategic approach of promoting the third sector, in alignment with the bank's core activities, through financial education.

**Examples of bank's investment in this field in 2017:**

**Non-Profits Exhibition**

The bank invited all Israelis to participate in the eleventh annual Non-Profits Exhibition. Dozens of non-profit organizations offered gifts for sale, made and/or packaged by people with special needs. The exhibition allows the organizations to develop independent sources of income, expose the public to their activities, and form relationships with businesses interested in promoting socially conscious purchasing. All income from the sale of these products is dedicated to the activity of the foundations. Thirty foundations participated in the exhibition organized by the bank at Shefayim in 2017.

**"Erech Laderech" Initiative**

The innovative program Erech Laderech was held in 2017, in collaboration with the non-profit organization Topaz and the Poalim Campus. In the first cycle of the program, over twenty non-profit organizations participated in a guidance process over a period of one year, and gained exposure to tools for resource development and creating an income-generating arm for the non-profit. Beyond the professional instruction, each participant was also paired with a mentor, reflecting the innovation and value added of the initiative. This project reached a wide range of organizations nationwide, in varied areas of activity and of various sizes, with an emphasis on the participation of non-profits from all sectors of Israeli society. In another new element of this project, people from diverse occupational backgrounds were recruited, trained, and placed in jobs at the non-profit organizations. The Shefayim Campus, which guided and hosted the sessions of this program, also acts to include lecturers from within and outside the bank, provides professional guidance to the leadership of the initiative, and examines the outcomes and effectiveness of the process.

## Examining Achievement of Objectives

2017 Objectives	Status
Poalim for the Community will continue to focus on education, with an emphasis on financial education and education for astute financial behavior, while also continuing to promote strategic projects of the bank such as Read and Succeed, the Passover project, the Non-Profits Exhibition, and more.	✓ <b>Completed.</b>
Within the activity of Poalim for the Community, a strategic process will be carried out in order to examine focus areas and work methods for the future, including additional fields and innovative practices.	✓ <b>Completed.</b>
A new strategic focus area of Poalim for the Community is empowerment of the third sector and provision of business and management tools to non-profits and social organizations. As part of this activity, the bank launched the program Erech Laderech, which trains development and fundraising executives at social organizations. The program begins in May 2017.	✓ <b>Completed.</b> eight Solar Trees were installed at academic institutions.

## LOOKING AHEAD

- Expansion of the Non-Profits Exhibition, which promotes financial freedom for non-profit organizations, nationwide, in cooperation with Azrieli Malls. Over five weeks, the Mobile Non-Profits Exhibition will visit leading malls in the Azrieli chain, for two days each. All income from the sales will be dedicated to the activities of the participating organizations.
- Three sessions of the Erech Laderech initiative are planned in 2018: at Shefayim; in Jerusalem; and a session targeted to organizations in the health-care field, in collaboration with a pharmaceutical company.
- Within the drive to increase the financial freedom of non-profit organizations and gain exposure of their activities to the public, Poalim for the Community will open a social online store, in collaboration with the online shopping site Marmelada. This portal will allow non-profits to sell their products around the clock, thereby developing new independent sources of income.
- Launch of a new scholarship fund, Poalim for Success, which will grant seventy undergraduate scholarships annually for students from peripheral regions.

## Volunteering

The values of volunteering, giving, and helping others are integral parts of the bank's DNA.

The bank has established a nationwide network of volunteers, encompassing thousands of its employees from various parts of the country. The frequency and type of volunteer work vary widely among the units, including weekly, monthly, or quarterly activities, activities held on holidays, and activities on Good Deeds Day. The bank's broad geographical deployment

makes it possible to respond to the needs of local communities and volunteer for a wide range of activities, so that the local branch becomes a center for social improvement and aid during times of distress. Employees and executives volunteer in their spare time, some privately and independently, and some with the leadership of the bank, in collaboration with the various foundations. Volunteer activities are varied, with numerous community partners; employees can choose a continuous activity throughout the year, or specific events where they can contribute according to

their constraints. Among other efforts, employees of the bank volunteer with children and adults with special needs; work with Holocaust survivors; mentor IDF soldiers with no family in Israel; mentor women who are victims of violence; provide assistance and training for the promotion of employment; adopt centers for children and for the elderly; assist at group homes for children at risk and at foster homes; package and distribute food to people in need; and give talks throughout Israel on astute financial behavior for adolescents, families, students, soldiers, and seniors.





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

- ◆ **Senior manager** – Appointed within the bank to oversee this area;
- ◆ **Steering committee** – Over the first year, this activity was guided by a steering committee that provided strategic support, selected models and potential strategic partners in the community, and formulated policies for recognition and appreciation of volunteers;
- ◆ **Core social leaders** – 46 leaders selected by division/region heads, responsible for promotion of the Poalim Volunteers program and its goals and objectives in their division/region, development and management of partnerships and volunteering programs on the regional and local level with community partners, motivation of employees, and management and guidance of the network of social leaders;
- ◆ **Social leaders network** – 410 leaders selected by department and branch heads, serving as a direct liaison to all employees and leading the volunteering drive at the level of the units and branches.

## Volunteer Activity in 2017

### Promoting Financial Education

The bank's volunteering efforts emphasize the promotion of financial education, in alignment with its core activity. Within this effort, bank employees volunteered in several areas in 2017:

- ◆ **Lectures on financial education and family budget management** – Given for various target audiences by employees of the bank. Within the activity of the non-profit organization Shiur Acher ("A Different Lesson"), hundreds of employees of the bank also taught enrichment classes at schools

throughout Israel on financial and other subjects. Parents and retirees of the bank gave talks for children within the Enriching Parents program; lectures were held for ninth-grade students, in an initiative of the Bank of Israel and the Ministry of Education.

- ◆ **Children's Bank** – Children's Banks were set up at five residential villages and group homes for at-risk youth, in collaboration with VeriFone. Hundreds of children who receive an allowance can deposit it at the Children's Bank, check their balance at any time, buy products at the village store, and pay with a magnetic card issued to them. The project offers children their first practical experience with banking and finances. Bank volunteers accompany the project with lectures on astute financial conduct.
- ◆ **Promotion of financial stability through individual guidance and mentoring** – Bank employees volunteer to help teen entrepreneurs formulate a business plan, within the activity of the non-profit organizations Yazamut Premium and Taasiyeda. In addition, twenty managers at the bank were trained to mentor heads of non-profit organizations, in cooperation with the Matan – Investing in the Community foundation, and bank employees were trained to serve as "life mentors" for discharged IDF soldiers without families in Israel embarking on civilian life.

### Summer Youth

Within the goals of giving to the community and instilling the values of giving and helping others among adolescents, 1,300 children of bank employees aged 15-18 participated in a wide range of community activities during the summer vacation (in accordance with the Youth Employment Law, 1953). Summer Youth is an initiative

of Poalim Volunteers, fully financed by the bank, in collaboration with the employee union, the human resources division, and the Poalim Campus. The participants learn about the underprivileged parts of Israeli society and experience volunteering over the course of a week. Five six-day sessions of this project were held during the summer. Each session opened with an introduction to content areas relevant to Israeli society and experience-based enrichment. In 2017, the emphasis was on accessibility for people with disabilities (in cooperation with Access Israel). The participants then proceeded to volunteering in practice. The employees' children were praised and honored by the foundations and community partners, who welcomed the activity and initiative of the bank's management and the sense of partnership and values demonstrated by the participants. Many adolescents expressed a sense of fulfillment as a result of this activity. Large numbers of the participants returned to their summer volunteering venue during the school year, sometimes expanding the circle of volunteers by bringing friends.

### Volunteer Activity Management System

A specialized computer system was set up in 2013 to manage the bank's volunteer operation. This system enables employees who volunteer to enter information regarding their activity, making it possible to measure the aggregate volume of employee volunteering. The system also serves as a platform helping employees who wish to volunteer near their homes find an appropriate venue, through a user-friendly search interface. Registration of employees on this system continued in 2017.

# 3,500

## **volunteers**

Approximately 3,500 employees volunteered on a regular, ongoing basis in 2017. Overall, approximately 40% of the bank's employees volunteered on a regular basis

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# 120,000

## **gift packages**

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

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## **thousands of food packages**

In preparation for Passover, the bank purchased thousands of food packages from the organization Kamcha Depascha for distribution to people in need across Israel

# 42

## **courses**

Within the Shiur Acher program, 42 courses on financial and other subjects were taught at 32 schools, to 1,200 students, by more than 400 bank employee volunteers

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# 53

## **day centers for the elderly**

On Senior Citizen Day in October, enrichment lectures were held at 53 day centers for the elderly and retirement homes nationwide

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# 6,200

## **employees volunteered**

On Good Deeds Day, held for the tenth time, some 6,200 employees volunteered in a wide range of activities

# 100

## **lectures**

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

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# 154,000

## **hours**

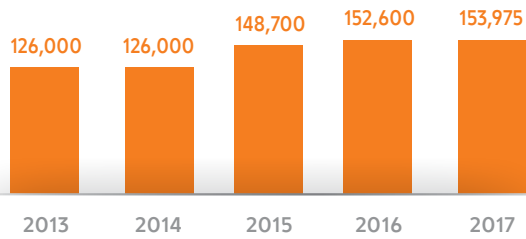
6,000<sup>5</sup> managers and employees of the bank performed approximately 154,000 hours of community volunteer work (this includes approximately 46,475 hours devoted to community activity by employees' children in the summer program). Approximately 27% of the hours volunteered were paid for by the bank

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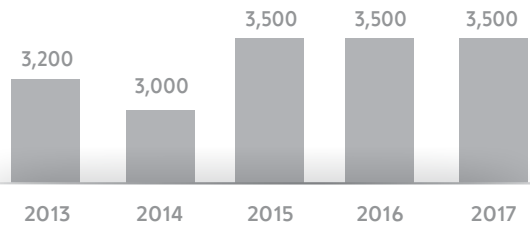
5. This figure refers to employees who volunteered both regularly and on a one-time basis.



Volunteering hours in 2017\*

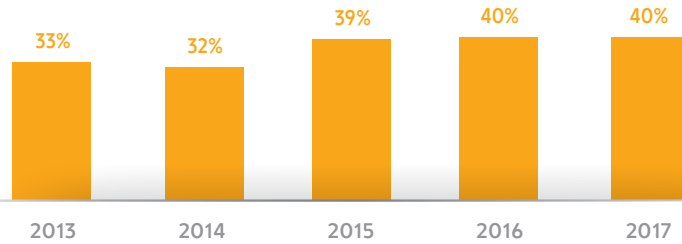


Number of regular volunteers



\*Volunteer hours include employees' children's activities in the Summer Youth program, at approximately 46,000 hours annually.

Regular volunteers of total bank employees



### Examining Achievement of Objectives

#### 2017 Objectives

In 2017, Poalim Volunteers will focus on expanding the circle of employee volunteers, to include family members and beneficiaries.

#### Status

✓  
**Completed.**

Community activity leaders will be trained at the bank during 2017.

✓  
**Completed.**

## LOOKING AHEAD

Measurement of the effectiveness of volunteering through a survey for community partners.





**EMPLOYEE  
EMPOWERMENT  
AND WELL-BEING**

# HUMAN CAPITAL MANAGEMENT CONCEPT

The bank applies long-term thinking based on the principles of sustainability and social responsibility to the management and retention of its human capital, treating its employees as key stakeholders and conducting its relationship with them based on mutual commitment and long-term partnership. The bank promotes an appropriate and responsible employment environment, and ensures compliance with the provisions of the law with regard to the terms of employment of its employees and of all workers employed on its premises. The bank also honors and adheres to the universal norms and principles of the protection of human rights in employment, as described in the United Nations Global Compact (UNGC); the UN International Bill of Rights; the UN International Covenant on Economic, Social, and Cultural Rights; the UN Guiding Principles on Business and Human Rights; and the covenants of the International Labor Organization (ILO). These principles encompass the freedom of association and the right to conduct collective negotiations, and the prevention of discrimination and inequality.

Human-resources strategy is multi-annual, and is derived from the strategy of the bank, its business needs, and trends in the banking industry and in the labor market. The strategy is centered on nurturing and management of human resources, and on the creation of a supportive, flexible organizational infrastructure. Accordingly, the Human Resources Division has set itself the mission of leading human capital into the new world of work; shaping the employee experience; providing sophisticated management tools; and creating strategic shared value for employees, managers, and the bank.

The strategy consists of five main elements:

- 1. The new world of work** – Formulation and implementation of plans and processes to increase organizational flexibility and mobility; processes for quantitative and qualitative planning of human resources, including construction of a banker profile; updating and simplifying the system of occupations and positions; and adapting remuneration and wage systems.
- 2. People analytics** – Developing models for people's insights.
- 3. Employee experience** – A new development approach and enhancement of value offers for employees.
- 4. Advanced management tools** – Technological tools to aid decision-making and rational management of human resources.
- 5. Strategic shared value** – Promotion of social business ventures and encouragement of diverse employment.

Bank Hapoalim is one of the largest employers in the Israeli economy, with 8,687 employees as of the end of 2017.

**The work culture at the bank is characterized by:**

- ◆ **Equal opportunities and the prevention of discrimination** – The bank encourages hiring and inclusion of workers from population groups under-represented in the job market, as part of its recruitment policy. The bank collaborates with non-profit organizations specializing in the empowerment and inclusion in the job market of these population groups;
- ◆ A variety of opportunities for personal, managerial, and professional development, creating shared value for the employees and the bank;
- ◆ **Continual learning** – The bank invests substantial resources in professional and executive training and in individual development, and provides support and tuition aid to employees for academic education;

◆ **Excellent performance** – The bank aspires to create congruence between its employees' best interests and the best interests of the bank, while maintaining fair employment, encouraging excellence, and cultivating a culture of performance. Remuneration plans are a significant means of strengthening working relationships and partnerships with employees. The remuneration packages of the bank's employees comprise both fixed and variable components, aimed at incentivizing employees to achieve excellent performance over the long term. The bank holds appreciation events to recognize the achievements of outstanding employees;

◆ **Caring for the well-being of employees and their families** – Employees of the bank have access to well-being services adapted to their preferences and responsive to a wide range of needs: leisure, healthy lifestyles, enrichment for employees and the members of their families, professional assistance in times of personal or family crisis, and more;

◆ Maintaining a working relationship of dialogue and partnership between management and the employee union;

◆ **Flexibility between work and home** – The work week at the bank has been shortened, relative to the weekly working hours specified in Israeli labor law. The bank does not encourage overtime work and ensures that its employees do not exceed their legally allotted overtime hours.

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Bank Hapoalim is rated among the top ten employers in Israel on the BDI list of the 100 best places to work in Israel.

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8,687<sup>6</sup>

The bank had 8,687 employees in 2017

44.7

The average age of employees of the bank

17.9 Years

The average length of service of employees at the bank is 17.9 years

95%

**Internal and external employees:**  
95% of employee positions were of workers

98%

**Full-time and part-time employees:**

Approximately 98% of the bank's employees are employed full time, while 2% are employed in part-time positions

463

**Absorbing external employees:**

In 2017, the bank hired 463 external workers as regular employees, accounting for 58.3% of all employees hired by the bank during the year

393

**Parental leave:**

393 employees took parental leave in 2017, while 377 returned to work following parental leave. Employees returning from parental leave generally resume their previous positions; any changes are performed in coordination with the employee

90%

**Collective agreement:**

The bank recognizes its employees' right to unionize and conduct collective negotiations. A collective agreement applies to the decisive majority of employees of the bank (90%), excluding those employed under personal contracts

66.7%

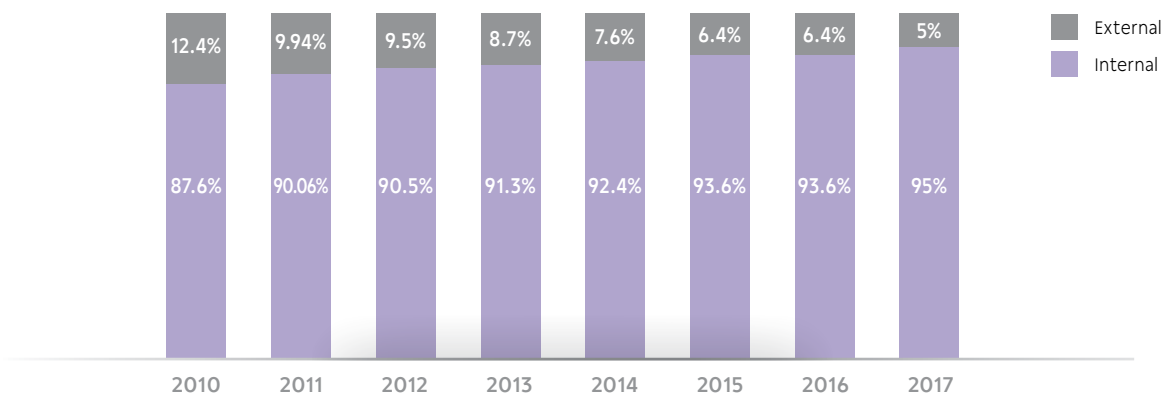
The percentage of employees who hold academic degrees rose from 65.8% to 66.7% in 2017. 39.2% of degree-holding employees of the bank, or 26.2% of total bank employees, have master's degrees or higher. More than 300 employees were enrolled in academic degree programs this year, with tuition financed by the bank through a joint fund of the board of management and the employee union. This achievement reflects an ongoing long-term positive trend of rising proportions of degree holders at the bank, due to factors including the bank's encouragement of employees to study towards undergraduate and graduate degrees, through tuition aid and added vacation days for examinations. Overall, from 1997 to the end of 2017, the percentage of degree-holding employees at Bank Hapoalim rose from about 26% to 66.7%; in 2017, 404 employees received tuition aid for undergraduate and graduate studies. 31 employees received tuition aid for courses and language studies.

Segmentation of employees of the bank by age and gender

Age	Female	Male	Total	Percentage
Up to 30	772	241	1,013	12%
31-50	3,340	1,672	5,012	58%
Over 51	1,538	1,124	2,662	31%
<b>Total</b>	<b>5,650</b>	<b>3,037</b>	<b>8,687</b>	<b>100%</b>

6. This does not include employees on parental leave or on bed rest during pregnancy. The data do not include external personnel (including delivery drivers) or employees of subsidiaries.

### Ratio of bank employees to employees of external staffing agencies



### Employee turnover, 2015-2017 (employee departure/retirement and hiring)

Departure/retirement					Hiring				
Year	Age	Female	Male	Total	Percentage	Female	Male	Total	Percentage
2017	Up to 30	172	59	231	27%	416	141	557	70%
	31-50	170	115	285	33%	123	103	226	28%
	50+	212	131	343	40%	5	6	11	1%
	Total	554	305	859	100%	544	250	794	100%

### Distribution of employees by type of employment agreement

		Permanent employees	Temporary employees	Senior employees	Total
2017	Collective contract	76.6%	13.4%		90%
	Personal contract	0.1%	8.6%	1.3%	10%
2016	Collective contract	80.5%	10.0%		90.5%
	Personal contract	0.1%	8.2%	1.2%	9.5%
2015	Collective contract	81.8%	9.5%		91.3%
	Personal contract	0.13%	7.2%	1.3%	8.7%

### Data on absences, 2017 (days of absence)

Type	Sick day*	Vacation**	Reserve military duty	Total
Total	119,895	211,002	2,367	333,264

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

\*\* Excluding unpaid leave and parental leave.



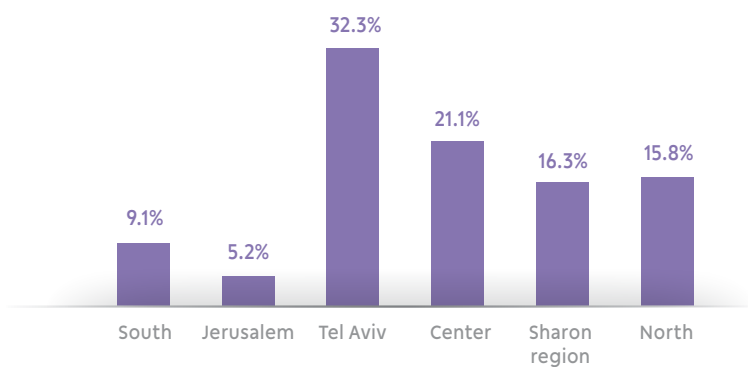


**Education and Age**

The following table presents a breakdown of 8,687 employees of the bank in 2017, by age and level of education.

Age \ Education	No academic degree	Academic degree			Total	Age group distribution	Percentage of degree holders in each age group
		B.A.	M.A.	Ph.D.			
18-21	57	1			58	0.67%	2%
22-30	453	437	65		955	10.99%	52.6%
31-40	431	1147	690	1	2269	26.12%	81.0%
41-50	644	1121	970	8	2743	31.58%	76.5%
51-60	970	642	454	6	2072	23.85%	53.2%
60+	339	173	78		590	6.79%	42.5%
<b>Total</b>	<b>2,894</b>	<b>3,521</b>	<b>2,257</b>	<b>15</b>	<b>8,687</b>	<b>100.00%</b>	<b>66.7%</b>
<b>Education</b>	40.5%	26%	0.2%	33%	100%		

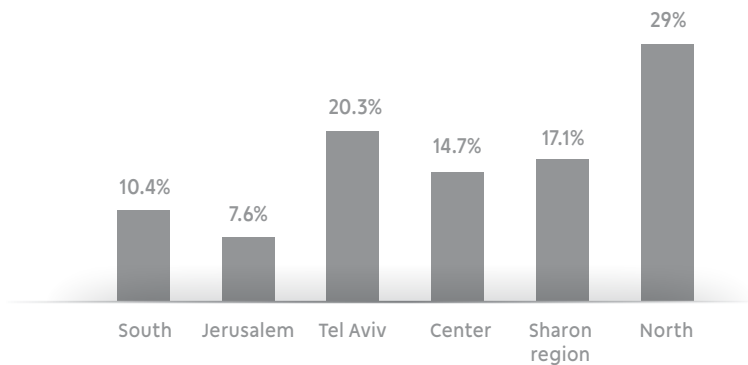
Permanent employees of the bank, by region of residence



Temporary bank employees

Temporary employees	Male	Female
Personal contract	477	376
Collective contract	334	829

Temporary employees of the bank, by region of residence



## Promoting a Culture of Dialogue and Openness

Bank Hapoalim considers its employees to be full partners who contribute to business and organizational processes. Employees become engaged partners in the bank's endeavors through organization-wide communication on all levels: dialogue between managers and employees, and direct communication between the various units. The range of methods applied at the bank to achieve these aims includes face-to-face meetings; the organizational portal; promotion of a culture of sharing and innovation; and processes of feedback, assessment, and drawing conclusions. The bank also works to strengthen organizational dialogue through surveys, webinars, forums, and more.

### Strengthening Connections with Employees

◆ **Beshutaf ("In Partnership")** – An intra-organizational business network administered on the organizational portal, with the goal of boosting intra-organizational communication through knowledge sharing and work in communities. The network allows employees and managers to stay up to date, share information, work in professional teams, and promote projects, quickly and easily. As in social and business networks outside the bank, the intra-organizational network offers the opportunity to set up a blog, form a community, add tags according to professional content areas, and more. As of the end of 2017, approximately 1,000 employees were active users of this network, which also contained ten professional blogs in various content areas and 280 knowledge communities. In addition, two forums attended by the CEO of the bank and hundreds of employees, a forum with the Human Resources Division, and several internal

forums with the heads of various areas at the bank were conducted via Beshutaf.

- ◆ **Organizational portal** – A key arena for intra-organizational communication and for disseminating messages throughout the bank. The portal offers:
  - ◆ Management of and access to organizational knowledge (work processes, rights and obligations, etc.);
  - ◆ Management of and access to professional knowledge (processes, data, and supporting information);
  - ◆ A professional desktop with access to systems and applications within the organization;
  - ◆ An infrastructure for organizational collaboration and dialogue among employees, through forums, surveys, and comments;
  - ◆ Through the portal, the bank has achieved improvement in employees' professional skills, increased synergy between the head office and the units on the ground, stronger organizational engagement among employees, and dialogue through the range of tools available on the portal.
- ◆ **Round-table meetings** – The CEO of the bank holds quarterly round-table meetings attended by 40 bank

employees whose birthdays fall in that quarter. The meetings provide an opportunity to raise topics and discuss relevant issues;

- ◆ **Management-employee meetings** – A series of meetings of the bank's management with employees, held regularly, with the aim of strengthening management's connection with the situation on the ground;
- ◆ **Feedback and evaluation** – In 2017, as in every year, managers provided feedback to employees on their individual performance at their positions. The performance evaluation process takes the form of a dialogue between the manager and the employee, and supports a number of goals, including employee development, coordination of expectations, and improvement of performance. The process helps empower and nurture employees, and promotes excellence. The performance evaluation process includes an examination of performance over the last year and setting of professional and personal objectives for the coming year. Midyear talks to track progress on the objectives and development are held about six months after the feedback sessions.

**Bankathon** – For several years, the bank has led processes aimed at encouraging employee innovation, as part of the promotion of dialogue and partnership with employees. The Bankathon, held in 2017, was the result of collaboration between the Stakeholder Relations Division, the Innovation Division, and the Technology Division. Bank employees were invited to present innovative technology-based initiatives with **shared value- both business and social**. 130 initiatives were submitted to the competition by 250 employees; seventeen finalists were selected for the development stage. The competition culminated in a two-day marathon, at the end of which the teams presented their initiatives to a panel of judges headed by the CEO of the bank. The common feature of the initiatives that won the top three places is that they provide a solution to issues related to the bank's core business – enhancing customers' financial freedom and making the bank's services accessible to unique target audiences. The first-place winner was the initiative Poalim Your Way, aimed at making digital banking services accessible to the ultra-orthodox community. This project is currently under development.



99%

**Feedback and evaluation:** 99% of the bank's employees participated in an evaluation process in 2017, based on their performance in 2016. Mid-year follow-up talks to check progress on objectives and discuss development were held with 65% of employees.

1,040

The I Care project, launched within the effort to promote innovation, invites employees in any position to submit suggestions for activities that can be streamlined, improved, or renewed, in their opinion, to the relevant parties at the bank. A total of 1,040 proposals were submitted by 620 employees in 2017. From the launch of this program in 2009 to the end of 2017, 22,000 proposals were submitted by 5,500 employees, of which 7% are in implementation process.

### Examining Achievement of Objectives

2017 Objectives	Status
Portal homepage – Launch of a new homepage, with an emphasis on the user experience on the portal.	To be launched in the first quarter of 2018.
Internal pages on the organizational and banking portal – Gradual improvement of the user experience, including the use of new and existing displays, and rewriting of content to match the styles currently used on the Internet.	✓ <b>Completed</b>
Portal To Go application – Improvement of the user experience and the log-in experience; expansion to new audiences of retirees and employees on unpaid leave; connection to some of the bank's systems and to the organizational directory.	A process of testing and specifications of the application was performed during 2017. The changes are expected to take effect in 2018.
Beshutaf – Embedding the intra-organizational business network throughout the organization; use of the network as a new platform for intra-organizational communications and for the promotion of projects within the organization.	✓ <b>Completed</b>
Poalim for Good – Continued implementation of the Poalim for Good model, for the second year.	✓ <b>Completed</b>

## LOOKING AHEAD

Launch of the new organizational portal, aimed at increasing the efficiency of work processes with the bank's customers and improving employees' user experience. A complete transformation is planned for the new portal, encompassing design, approach, and functionality.

## Promoting Diversity, Equal Opportunities, and Transparency

### Non-Discrimination

From the Bank Hapoalim code of ethics: "The bank treats its employees fairly and without discrimination. The policy of the bank is to employ, promote, and make decisions regarding employees based on pertinent considerations, such as qualifications and performance, with no discrimination due to religion, race, sex, age, political views, sexual orientation, disabilities, etc. The bank does everything in its power to implement this policy." Any claims of discrimination brought before the responsible parties are addressed by the bank immediately, in order to investigate the allegation. No complaints of discrimination found to be justified were filed at the bank in 2017.

### Transparency from Step One

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

### Equality in Wages and Terms

In general, salaries and terms of employment for bank employees are determined according to a role book.

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

### Equal Wages for Men and Women

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

### Gender Equality and Equal Opportunities

Data on the employment of women at the bank indicate that the percentage of female managers at the bank as a whole is on an upward trend. The pool of female employees with management potential (at the first tier of management) is large, and has a positive effect on the growth of talented female managers and on the rising proportion of women in senior management.

### Prevention of Sexual Harassment

From the Bank Hapoalim code of ethics: "Within its commitment to values, the bank considers it of the utmost importance to prevent sexual harassment and abuses related to sexual harassment, in order to ensure a safe, pleasant, respectful work environment for all of its employees. The bank has therefore adopted a zero-tolerance policy for sexual harassment. Every complaint is addressed seriously and responsibly, and in accordance with Regulation 750/275, which concerns the prevention of sexual harassment in the workplace."

Upon the publication of the law in 1998, the bank appointed an official responsible for the prevention of sexual harassment. In addition, operations managers at the branches were appointed sexual harassment prevention trustees, charged with identifying incidents and receiving complaints not submitted through a direct supervisor; the complaints are handled by the supervisor. Over the last two years, the bank has focused and deepened the absorption of this issue among its managers. Within this effort, active discussion sessions were held, in which participants viewed the play Gvul ("Boundary") and attended a discussion led by the official responsible for the prevention of sexual harassment at the bank. These training sessions were attended by branch managers as well as division heads and deputies from the head office, divided by region and area, and by representatives of the employee union in each unit.

- ◆ Distribution of the procedure and regulations on the prevention of sexual harassment: The procedure is available on the organizational portal and in the bank's procedures system; it is also mandatory to post the procedure and regulations in a prominent place at the branches and departments. In addition, this subject is communicated to managers. An updated procedure and regulations are sent once a year, on average ;
- ◆ Communication through the organizational portal: This topic receives extensive exposure on the organizational portal, addressing the law, the process for handling sexual harassment, frequently asked questions, and do's and don'ts. Each year, organizational learning is conducted throughout the bank, using a tutorial. Over recent years, the percentage of employees completing the tutorial has increased to 95%.



### Promoting Workplace Diversity

As a values-driven employer, the bank accords high importance to diverse employment and inclusion of employees from diverse population groups, both as part of its social commitment and as a justified business practice. The bank encourages recruitment and inclusion of employees from population groups under-represented in the labor market (according to the definition of the Israeli Forum for Diversity Hiring, these groups primarily include the ultra-orthodox community, the Arab sector, people of Ethiopian descent, and people with disabilities).

Approximately ten percent of the bank's employees today are drawn from these population groups. As part of the long-term work plan formulated by the bank, several processes are being promoted in this area, including focus and adjustments in the recruitment and absorption process, as necessary; activities designed to instill a diversity approach in the bank's management culture, as part of its leadership philosophy and the structuring of its work processes; and collaborations with non-profits specializing in empowerment and inclusion of under-represented population groups in the job market.

### Encouragement of Employment of Male and Female Employees from the Arab Society

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

- ◆ **Recruitment** – Available positions are advertised in Arabic on the bank's Arabic-language website. Relevant non-profits and employment organizations are also

contacted. A significant element of the recruitment process is the involvement of bank employees from the Arab society, who help through contact with potential employees and with community leaders ;

- ◆ **Screening** – Evaluation centers targeted to the Arab community were held in Northern Israel and in Haifa during the year, for easier access to candidates. Candidates had the option of taking skills tests in Arabic. All participants in the screening process were given training on multicultural interviewing ;
- ◆ **Training** – The Poalim Campus thinks ahead about adaptations and emphases needed in various professional courses, in cooperation with the head of Arab-society outreach at the bank and external experts who consult on this subject as necessary. A Hebrew-Arabic dictionary of banking terms is available to course participants and to all employees of the bank. In 2017, sixteen bankers participated in a course on the Arabic language and culture, designed for employees working at branches serving high percentages of Arab customers ;
- ◆ **Promotion** – Within the activity of the branches of the bank serving the Arab society, in view of the need for highly qualified and experienced employees to staff a range of positions at the branches, Arab employees of the bank have been promoted to management positions, such as branch managers and division heads.

### Targeted Mentoring Program for the Development of Young Arab Employees

2017 was the second year of a mentoring program for young Arab academics and employees of the bank identified as having potential for future development at the bank, in collaboration with Tevet – Joint Israel. Mentors selected for this program were branch managers motivated to volunteer and willing to guide an employee through a significant personal development process and serve as a stable, inviting source of advice. When the program opened, two training sessions were held for the mentors, to impart practical coaching skills.

### Encouraging Employment of Workers with Disabilities

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

An agreement concerning the employment of people with disabilities was signed by the Histadrut Labor Federation and by employers in June 2014.

The Minister of the Economy signed an expansion order in September 2014, applying these directives to the Israeli economy as a whole. In 2015, the bank's Human Resources Committee approved the appointment of the hiring coordinator as the function responsible for the employment of people with disabilities. In addition, a human-resources policy has been approved by the Human Resources Committee and updated on the portal. According to the policy:

- ◆ Employment or promotion of people with disabilities who are qualified for the position and who have similar skills to those of other candidates will be granted precedence ;
- ◆ When recruiting employees from outside the bank, the hiring coordinator will contact at least three different organizations specializing in the placement of people with disabilities.

The bank currently employs hundreds of employees with disabilities. Extensive efforts are invested in recruiting people with disabilities, through ongoing relationships with the Rehabilitation Division of the National Insurance Institute; the Ministries of Welfare, Health, and Defense; the employer support center at the Center for Integration of People with Disabilities in the Ministry of the Economy; the Rehabilitation Division in the Ministry

of Defense; and numerous placement organizations that specialize in employees with disabilities. In order to retain employees with disabilities and ensure their continued work at the bank, these employees receive guidance, adaptation at their units, and individual meetings of the employees' supervisors with their contact people at the various placement organizations.

**65%**

65% of the employees of the bank are women, versus approximately 56.9% in the workforce<sup>7</sup>

**2%**

Ultra-orthodox employees constitute approximately 2% of the bank's manpower<sup>8</sup>

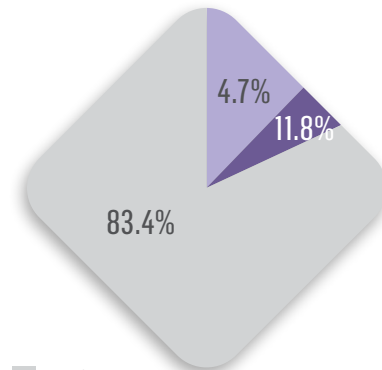
**6.3%**

Arab-society employees constitute approximately 6.3% of the bank's manpower

**133**

Hiring of employees from population groups under-represented in the job market: In 2017, the bank hired 133 employees from under-represented groups, constituting 17% of total hires

**Segmentation of minority employees by rank\***



- Employees
- Middle management
- First-tier management

\* Bank employees only, excluding workers employed by staffing agencies.

**52.6%**

The proportion of women in management positions at the bank is 52.6%, versus approximately 34% in the Israeli workforce<sup>7</sup>

**Comparison of men and women at each rank**

Bank employees by gender				
	Female	Male	Total	Percentage of total employees of the bank
Board of directors*	3	7	10	0.11%
Senior management	28	52	80	0.92%
First-tier management	332	343	675	7.7%
Middle management	921	747	1668	19.2%
Employees	4367	1883	6250	71.9%
<b>Total</b>	<b>5650</b>	<b>3037</b>	<b>8687</b>	<b>100%</b>

\* Members of the board of directors (excluding the chairperson) are not employees of the bank. The data are current as of the date of publication of the annual financial statements for 2017.

**Segmentation of hiring of employees from under-employed population groups:** In 2017, approximately 11.3% of total employees hired were drawn from the Arab society, 2.8% were from the ultra-orthodox society, 1.5% were of Ethiopian descent, and 1.4% were people with disabilities

7. Central Bureau of Statistics employment survey for January 2017: [http://www.cbs.gov.il/reader/newhodaot/hodaa\\_template.html?hodaa=201720056](http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201720056).

8. Based on an estimate.



### Examining Achievement of Objectives

2017 Objectives	Status
Plan to encourage employment of people with disabilities – The bank will continue its efforts to hire people with disabilities, in collaboration with the various organizations in this field (noted above); in 2017, this issue will be communicated and highlighted in order to raise awareness, through executive conferences and publications on the organizational portal.	✓ <b>Completed</b>
Candidates from population groups under-represented in the job market – Within the policy of diverse human capital, an internal target has been established according to which diverse hiring should constitute at least 10% of total hiring.	✓ <b>Completed</b> approximately 17% of employees hired in 2017 were from under-represented population groups.
Continued implementation of the diversity perception, within the Doing Good Model by Shari Arison – A drive to communicate and instill diversity is planned for August 2017, as part of the value We Are All One, using videos, a quiz game, and more, aimed at creating closeness, tolerance, and a more fair and balanced society.	✓ <b>Completed</b>

## LOOKING AHEAD

- Development and implementation of a new tutorial on the prevention of sexual harassment.
- Development of a mentoring program for people with disabilities, in collaboration with the Ministry of Labor and Tevet – Joint Israel.
- Launch of a program to instill an organizational culture of workplace diversity, with an emphasis on inclusion of people with disabilities and acceptance of differences.
- Approval and implementation of a program for increasing the percentage of women in senior management positions at the bank.

## Individual Development and Learning

The bank cultivates a culture of learning and invests in professional and management training to empower its employees and managers. Most of the bank's professional and management training is conducted through the Poalim Campus. The Campus serves as the central arena for change-generating learning, leading to personal, organizational, and professional growth, with the goal of ensuring professional and managerial excellence for the bank's employees and managers. The Campus represents the synergy between the need for high-quality, professional employees and employees' desire for development over the long term, and promotes an organization-wide culture of ongoing learning. This culture emphasizes the ambition to decentralize learning to the

regional administrations, and further, to the branches and to each employee's workstation. The Campus is a key partner in a range of strategic processes at the bank, from the initial stage of examining needs, through the development of training methods, team development, and implementation of changes, to testing their effectiveness after training. During process development, the Campus uses all of the tools at its disposal, integrating a range of methods, such as online learning, use of videos and simulations, use of the portal, and frontal instruction. The Campus routinely assesses the effectiveness of its courses and development programs, field training programs, and training sessions within systemic projects. The assessments are conducted using questionnaires administered at the midpoint and end of the course, aimed at measuring and evaluating the effectiveness of learning

processes. Several key performance indicators (KPIs) are established within this process, such as attainment of objectives, feasibility, satisfaction, personal/professional development, and connection. Another measurement is performed sometime after the course, to evaluate absorption and implementation of the knowledge and skills learned in training, and the extent of change in the employee's behavior following participation in the program. This evaluation makes it possible to assess the extent of support received by the employee in implementing skills, the extent of application of the tools and processes learned, and the main barriers to such implementation and absorption. The feedback enables the Campus to improve the quality and precision of its training programs. The Campus also works to map employees' knowledge gaps, with the aim of identifying the main areas of professional gaps and designing focused

training programs to close the gaps. An ongoing process of mapping knowledge gaps is conducted at the bank.

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

- ◆ **Central back offices** – The central back offices conduct basic training for all new employees, to familiarize them with the range of activities performed at the centers and impart basic knowledge. Advanced training for experienced employees is also conducted, in order to create specialization in specific knowledge areas. In addition, brief professional training sessions are conducted each year for all employees, to refresh professional content and teach skills needed to work with new software;
- ◆ **Call centers** – Approximately 11,000 training and instruction hours were held at the "Poalim by Telephone" call centers in 2017. Learning processes were improved and shortened relative to previous years, by focusing learning and adapting it to the learner's needs. Some of the training was transferred to an independent study format, in addition to real-time learning through face-to-face instruction and individual coaching assisted by managers and sales enhancers.

### Poalim Campus

The following activities were held at the Campus in 2017:

- ◆ **Digital empowerment** – The Retail Banking Division, in collaboration with the Poalim Campus and the Process Improvement Unit, led a drive for empowerment of branch employees in the digital sphere, with an emphasis on the banker's role and value to the

customer in a time when many actions are performed through digital channels. Within this effort, all employees were taught and authorized to perform actions using the website and application;

- ◆ **Massive open online courses (MOOC)** – In 2017, 449 employees and managers at the bank participated in online courses offered by prestigious universities overseas. The courses are announced on the bank's website. Registration is open to all employees; participation is based on a unique model developed at the bank, combining group study with independent study online. New courses opened in 2017 were on the subjects of cyber security, global financial crises, Excel skills, cloud technology, Docker, and study skills. Course participants reported high levels of satisfaction with the learning experience and its contribution to their professional and personal development;
- ◆ **Campus in the Field and e-learning** – The Campus is working to decentralize learning and training and transfer them to the units, with guidance and support from the Campus for the development of learning materials. Key processes at the bank are studied and implemented through Campus in the Field, including Poalim Recovery, the Small Business Encouragement Fund, and more. Emphasis is also placed on studies of topics related to values, such as polite service adapted to elderly customers;
- ◆ **Film studio** – In 2017, a film studio was opened at the Campus, for the production of instructional videos for the employees of the bank as well as videos on financial topics for the general public. By the end of 2017, twenty videos had been produced, on the subjects of compliance, cyber security, the Bit application, and more, emphasizing the customer's user experience;

- ◆ **Professional training courses** – Seven sessions of courses for new bankers and seven sessions of courses for all types of positions at the bank were held in 2017, with the aim of providing advanced training in specific areas of banking and/or provide a professional certificate. In addition, a preparatory course was held for fifty employees without academic degrees;
- ◆ **Management Through Being** – A program for branch managers and heads of departments at the head office, based on the approach that the key to the achievement of business results lies in the quality of communications and relationships between managers, employees, and customers. 57 managers participated in this program in 2017 (a total of 220 managers have completed the program since its inception);
- ◆ **Personal, professional, and managerial development plans** – Peer learning is conducted at the bank, in which employees train new employees and managers:
  - ◆ **Coaching managers** – A coaching program for beginning managers, who receive individual guidance from experienced professional managers as they take their first steps;
  - ◆ **Peer mentor program** – A personal and professional development program for employees with high individual potential. These employees are assigned to an experienced manager at the bank, who serves as a mentor; they are also invited to participate in peer learning sessions and leadership workshops.





100,000

"Campus in the Field" conducted approximately 100,000 hours of online and face-to-face learning

86%

Achievement of KPIs (effectiveness evaluation) – 86% of participants rated achievement of these objectives as high or very high

141

141 online training modules were transmitted in 2017, and 15 new modules were written for holders of 15 types of positions in the division of the bank

92%

92% of training participants expressed high to very high satisfaction with the activity

**Annual training activities, 2017**

Total days of learning (including subsidiaries and external personnel)	Days of learning (bank employees only)	Average hours of learning per employee*	Number of course sessions at the Campus	Percentage of position-specific training programs/ professional training**	Percentage of managerial/ behavioral training programs***	Training programs by gender: women/ men****
<b>48,487</b>	<b>46,961</b>	<b>42.5</b>	<b>513</b>	<b>65%</b>	<b>35%</b>	<b>33%/67%</b>

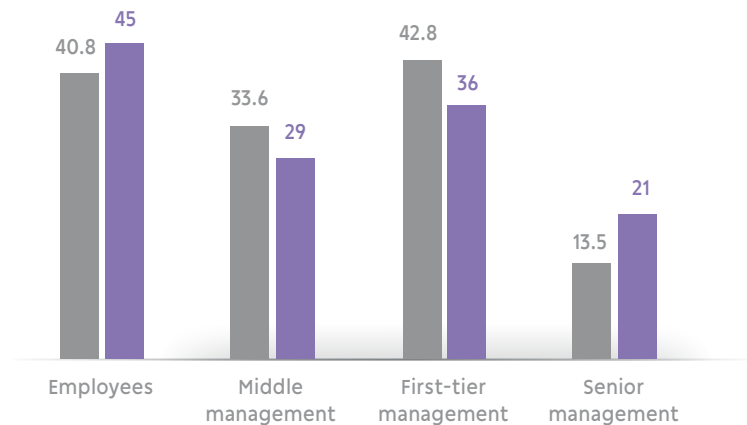
\* Including instruction at Poalim Campus, at the call center, the Technology Division, the central back offices, and e-learning modules.

\*\* Including training sessions such as banking coaching days, courses on information systems, and professional banking courses that do not constitute job training.

\*\*\* Including coaching days, executive development programs, and afternoon Campus courses.

\*\*\*\* The segmentation of training by gender indicates almost full correlation between these data and the general proportions of women and men at the bank.

**Average hours of instruction by rank\***



\*The segmentation refers to instruction at the Poalim Campus and training in e-learning modules only.

## Examining Achievement of Objectives

2017 Objectives	Status
Establishment of a training center for customers and the general public, within the Poalim Campus. The mission of the new center is to provide tools for beneficial financial conduct to customers and to the public, for decision points in their lives and for everyday life. Value offers will be presented across a wide range of platforms, both in person and digitally. The new activity is an important element in reinforcing the value of financial freedom, a key value in the bank's vision.	Further to the successful pilot in 2017, the bank is preparing for the full launch of the Financial Growth Center in early 2018.
Absorption of values and the shared-value approach by the bank's employees and managers through innovative executive development programs, integration of this subject into Campus courses, and dedicated coaching days.	✓ <b>Completed</b>
Development of the Community Leader to Branch Manager program – Mapping of the community surrounding the branch in order to create initiatives with shared value.	✓ <b>Completed</b>

## Promoting Supportive Work Environment

### Insurance Policies, Funds, and Benefits for Employees

Bank Hapoalim pays wages to its employees in accordance with collective or personal employment contracts signed with each employee. In addition to wages, employees enjoy a wide range of benefits, under agreements with the employee union and pursuant to their personal contracts. Employees receive comprehensive insurance coverage, including pension insurance (starting on the first day of employment at the bank), disability insurance, life insurance, personal accident insurance, health insurance, and dental insurance. In addition to the insurance coverage described above additional safety nets are available to employees during times of crisis:

- ◆ **The Malki Foundation** – A voluntary fund, administered as a non-profit foundation financed by employee

donations, which provides financial coverage for employees in the event of serious illness or similar occurrences;

- ◆ **The Mutual Assistance Foundation** – This foundation is financed by management's budget, and is designed to assist employees who encounter financial difficulties and family or financial crises;
- ◆ **Management and employees' joint fund** – The bank manages the fund jointly with the employee union. Employees' and management's resources are used to finance activities related to well-being and assistance for employees and retirees. Employees are entitled to discounts on bank-account fees, subsidized loans, spreading of debts into installments, and loans tailored to personal milestones: moving to a new home, buying a vehicle, children's weddings, and more.

### Poalim Safety

Safety at the bank is managed under the leadership and responsibility of the Security and Safety Department, as required by law. The Security and Safety

## LOOKING AHEAD

- Embedding the concept of "enhancing value for customers" in Campus training programs and courses.
- Launch of the Financial Growth Center website, and development of learning materials and advanced face-to-face courses.
- Digital empowerment for employees and managers in the Corporate Banking Division, including training adapted to the position and customer interface.
- Expansion of online learning infrastructures (videos and tutorials) offered to employees of the Technology Division.
- Instilling a culture of informal learning, through knowledge-sharing meetings and updates on technological subjects in various forums at the bank's Technology Division.

Department handles various matters in this area, including initiating and performing a comprehensive annual safety plan; applying safety risk management to various processes at the bank, and establishing controls to minimize such risks; security and protection for events; establishing security arrangements; designing various safety systems, and maintaining such systems, as required according to standards; prevention of hazards; and employee hygiene.

Efforts are invested in reducing and preventing safety hazards on all premises of the bank; this includes examinations and training, as well as immediate response to emergencies. All employees of the bank are expected to maintain up-to-date knowledge through a safety tutorial,



and attend face-to-face safety training on potential risks led by certified safety instructors. The bank also trains safety and security trustees and performs periodic evacuation drills. As a result of this extensive, effective activity, the number of safety incidents on the bank's premises decreased significantly in 2017.

### Rewarding Performance

The bank's remuneration policy is consistent with the directives of Amendment 20 to the Companies Law, 1999 (the "Companies Law") and with Proper Conduct of Banking Business Directive 301A, Compensation Policy at Banking Corporations, the "Banking Corporation Compensation Directives" (for further reading about the bank's remuneration policy, see the financial statements of the bank for 2017, p. 243).

### Excellence in Service to Employees

MASHAB (the Personal Service Center) serves as the centralized location for employees' and managers' queries on various matters related to human resources, aimed at improving satisfaction and strengthening connections. The center was established with the aim of bringing human-resource services to the next level, and provides service to all employees and managers of the bank. MASHAB consists of three functions:

- ◆ **Service center for online and telephone** queries from employees and business partners on human-resource issues, including support for work processes derived from human-resource queries, in areas such as employee attendance; parental leave and unpaid leave; employee loans; employment permits and visas; and entitlement to mobile phones, cafeteria points, daily expenses, and more. 40,000 queries to MASHAB were documented in 2017. During the year, MASHAB complied with an SLA of responding to 94% of contacts by the

end of the following business day;

- ◆ **Support center for employees in crisis** – Aid through care and counseling, information, mediation, and assistance in realizing rights, with functions within the bank or the community, in areas such as personal and family problems, caring for elderly parents, coping with children with special needs, parenting guidance, health issues, bereavement and coping with death, communicating with an occupational physician, work-related crises, preparation for retirement, coping with emergencies, and more;
- ◆ **Employee loans** – The Bank Employees Credit (ELH) system, available to employees in recent years, offers loans to eligible employees of the bank through a quick, simple, user-friendly procedure on the bank's website.

Four three-session workshops aimed at promoting astute financial conduct were held in 2017. The workshops are offered free of charge to employees and their spouses. Options for self-service online applications were expanded in various areas of human resources, such as supplements for work hours missed due to pregnancy, job-related travel reports, and more.

### Encouraging Personal Development

The bank encourages and supports its employees' personal and professional development; the Human Capital Development Center (HCDC, or MAPA in Hebrew) serves this purpose by creating a point of contact between the organization's needs and employees' professional ambitions. Hundreds of employees experience mobility each year at Bank Hapoalim, as they are assigned to new positions or promoted. In addition to mobility processes, the HCDC handles hiring of new employees, through a range of different hiring tracks. The bank accords high importance to candidates' experience,

even before they enter the organization. Accordingly, many adjustments were performed in 2017 to improve candidates' experience during the process of screening, recruitment, and orientation. The following elements were introduced in the area of recruitment: **gaming** – a test performed from home, via mobile phone; **avatar** – a test in the form of an interactive video simulating the work environment of a bank teller; **in-house test battery** – a substitute for sending applicants to screening firms; **text messages** used to invite candidates, including directions and maps; and innovative screening and diagnostic tools.

As part of the onboarding process, welcome conferences, satisfaction surveys, and orientation days were held for new employees, to strengthen their connection with the organization. Concurrently, employee retention efforts are conducted, such as professional conferences held for specific target groups, including employees receiving tenure at the bank, graduates of the management training program with one year's experience at the bank, and employees completing a decade of service at the bank. In the area of staffing, the Career Tips service, now in its second year, allows employees to consult with a senior executive at the bank on development and career issues. Employees experiencing transitions to different units and positions within the bank were given individual guidance by a staffing coordinator at the HCDC. Departing employees met face-to-face with a human-resources representative and received an aid package including career advice and job-search guidance.

### An Ergonomic Work Environment

One of the many facets of nurturing and caring for employees is to ensure a healthy, appropriate work environment. This is achieved through ergonomics. Information on ergonomics is accessible to employees

on a page dedicated to this subject in the CSR section of the organizational portal. The page contains professional information and rules for working correctly in an office environment, such as how to sit while working on a computer, how to adjust chairs, how to use accessories, etc., as well as instruction on exercises during work, answers to frequently asked questions, and more. The bank also has an ergonomics consultant, who assists and instructs employees on correct seated posture when working on a computer and on work environment improvements, according to need.

### Promoting Healthy Lifestyles

The bank invests resources in activities that promote and encourage healthy lifestyles for employees, such as subsidized medical testing; lectures on healthy lifestyles, good nutrition, and exercise; organizing and coaching a wide variety of sports teams for employees, and participation in sports competitions for workplaces; and more. The bank also offers employees and their families assistance with the cost of membership at sports and fitness clubs, comprehensive health insurance, organized walks, and more.

### Poolim Health

A joint initiative of the Stakeholder Relations Division, the COODivision, and the employee union, aimed at promoting healthy lifestyles for employees. This is a significant additional step in the expansion of the range of activities offered at the bank in this area for employees and their families.

### Activities in 2017

◆ **Yoga Hour** – A series of ten yoga classes taught by professional instructors from the Holmes Place fitness chain. The classes were held at branches and at the head office, during lunch break. 250 employees from approximately

forty branches and ten head-office departments participated;

◆ **Sugar Free Challenge Month** – A program for eliminating sugar addiction and reducing the consumption of carbohydrates, over thirty days, with professional individual guidance provided by nutritionists via an online platform. Over 450 employees participated in this program, and reported a subsequent change for the better in their nutritional habits;

◆ **Subsidies of sports events** – Approximately 2,000 employees participated in subsidized sporting events, including walks, marathons, bicycling events, the Wheels of Hope race held in cooperation with the Etgarim foundation, and more.

### Caring for Employees During Organizational Changes

As a dynamic business organization in a competitive environment, the bank carries out organizational changes and adjustments, including efficiency processes, that sometimes take several months. Such changes are communicated to and coordinated with the various stakeholders. In some cases, not only do units undergo change, but employees are also reassigned to different positions. In such cases, employees and managers are given support and tools for change management across all stages of the transition and absorption (workshops; preparation for interviews and tests; mapping of knowledge gaps; individual training as necessary, in collaboration with the Campus; observation days; and more). Routine contact with employees is managed with an emphasis on individual, respectful treatment, while maintaining open channels of communication. As part of the process of transfers of employees to a different position, the employee is given at least one month's advance notice.

In order to attain optimal management of available positions at the bank, the Maavarim ("Transitions") system was launched in 2017; the system presents employees with available positions within the organization and allows them to apply for suitable positions. The introduction of this system has led to the creation of additional opportunities for professional and managerial development, promoting the value of transparency at the bank and contributing to employees' and managers' satisfaction and connectedness.

### Employee Union

The employee union is a strategic partner and a key stakeholder of the bank. The working relationship between management and the employee union is characterized by continual dialogue (updates, feedback, and consultation) and partnership. The roles fulfilled by the employee union include protecting each employee's rights and obligations; developing cultural, instructional, and social activities; and organizing mutual assistance among employees. The numerous activities of the union for the well-being of employees include day camps for employees' children throughout Israel, reduced-price or subsidized tickets to cultural and entertainment events, discounts on hotels and vacations, holiday gifts and gifts for personal occasions, various types of insurance for employees and their families, medical examinations, aid funds, assistance for families in mourning, assistance during crises, and more.

The national union heads the pyramid of local unions, which are organized into regional unions. Branch managers in each region have a regional union as well as representation in the national union. The national union consists of representatives of the regions (including branches and



the head office), with representation proportional to the size of the region. The national union operates on the basis of articles of association, accessible to all employees in a dedicated section of the organization's web portal.

### Outstanding employees

The selection of outstanding employees expresses management's appreciation for these employees' contribution to the accomplishments of the bank. Outstanding employees are chosen for their skills and for a combination of qualities based on a range of criteria, such as striving for excellence, colleague relationships, teamwork, and more.

## Examining Achievement of Objectives

2017 Objectives	Status
Computerization of additional loans will be completed and made available to bank employees during 2017.	Due to technological delays, this process is expected to become operational during 2018.
Over the coming two years, a financial advising center will be established for employees experiencing financial difficulties.	As of the end of 2017, the center is in the process of being constructed and is training coaches. The center is expected to begin operations during the fourth quarter of 2018.
The Metro system for staffing of available positions from within the employees of the bank will be launched during 2017, as part of the activity of the HCDC. This process will serve employees, managers, and the organization as a whole, and will offer employees opportunities for mobility and professional development within the organization, improving satisfaction.	✓ <b>Completed</b>
Yoga Hour at branches – Yoga classes will be offered at the branches in 2017 for employees who choose to participate. Classes will be taught by experienced professional teachers.	✓ <b>Completed</b>

## LOOKING AHEAD

- Expansion of the Yoga Hour to approximately forty additional branches and departments.
- An additional one-month Sugar Free Challenge workshop, and an increase in the number of participants to reach hundreds of additional employees.
- Ongoing examination of the relevance of the bank's tests to Generation Y and Z.
- Improving and implementing the bank's safety management system.

## Caring for Employees' Well-being

### Well-being Services

Employees of the bank benefit from an extensive array of well-being services in many different areas. These services provide appropriate solutions for a broad range of employee preferences and needs, from leisure activities and healthy lifestyles to enrichment for employees and their families, professional assistance in times of personal or family crisis, and more, and complement the salary components and other elements of remuneration granted to employees. Services are offered on two levels. Individuals receive improved benefits, guidance and support, and a range of available activities to improve wellbeing, strengthen their sense of belonging, and position the bank as a leading organization and employer. The bank as a whole conducts organization-wide activities, and mobilizes for employees and the community at special events. Bank employees are offered a wide range of social, cultural, and leisure activities at attractive subsidized prices, including sports center memberships, fitness clubs, swimming pools, walks and hikes, subscriptions to cultural institutions, theater performances, the Good Movie Club, and short vacations.

### Occupational Well-being

The bank supports employees in times of need, and offers assistance in response to personal, financial, and health needs, as a reflection of the value of humanity and as a practical expression of the bank's vision. The bank's two well-

being officers assist employees coping with distress, crisis, or change in their personal, family, or occupational life, and help them resume their routines as quickly as possible, in situations such as prolonged illness, disability, financial distress, or bereavement. Intervention and assistance are also offered, as necessary, to employees' family members or to the family of deceased employees. Any employee can request assistance directly; the service is confidential.

### Caring for elderly parents

Comprehensive professional information is available to employees, in order to help with the complex challenges of caring for elderly parents. This information is presented in a dedicated zone of the portal, to help employees gain a better understanding of the subject and suggest practical tools for making the right decisions, saving time and resources, and most importantly, to aid them in providing their parents with the best possible care.

### Work-Life Balance

The bank's management and employee union accord great importance to employees' quality of life and to the balance of work life with family and leisure life, along with employees' enrichment, empowerment, and development. Most of the bank's employees are entitled to an annual vacation day quota higher than the amount required by law. The bank also grants additional paid leave on holidays and personal occasions, including Purim, Tisha Be'Av, May 1st, weddings, weddings of sons and daughters, birth of a child, mourning and memorial days, days off

to study for examinations, and more. The bank practices a shortened work week of 40.5 hours. In many positions, workday beginning and end times are flexible. Work at the branches ends in the early afternoon three days a week.

### Poalim Service Center

The Poalim Service Center oversees all security and safety systems at the bank. The center also provides personal assistance to employees and their families in times of need, 24 hours a day. Among other matters, the center helps employees contact the police in cases of home burglaries, tows cars after accidents, and provides initial assistance and references to the appropriate professionals for malfunctions of household systems.

### Preparing for Retirement and Keeping in Touch with Retirees

The bank cares for its employees and their spouses as they approach retirement age, through preparatory courses and retirement workshops. The bank maintains continuous contact with its retirees, including through support, financing, and collaboration with the retiree union, which organizes trips and well-being activities and provides grants in situations of distress. Pension rights of employees who reach retirement age are covered by amounts accrued in pension funds and allowance-based provident funds.

A multi-year voluntary retirement program (for 2017-2020) is in progress; approximately 1,500 employees are expected to participate. As part of the implementation of this plan, the bank's board of management and board of



directors formulated and approved an early-retirement offer, in coordination with the employee union. If the wishes of the employee and the bank are congruent, the offer represents an opportunity for retirement with exceptionally favorable terms, including a special bonus paid to employees who retire at the age of 53 to 56. The bank also provides professional advisory services to assist employees in making the decision best suited to themselves and their families. Retirees are eligible for a pension immediately upon conclusion of their work at the bank, over an early-retirement period not to exceed eight years. During 2018, eight retirement workshops were held, attended by 220 employees.

8

Eight retirement workshops were held, attended by approximately 220 employees

### Examining Achievement of Objectives

2017 Objectives	Status
Continued distribution of enclosures with pay stubs for employees containing tips and focus areas for each month of the year.	✓ <b>Completed</b>
A new experiential instruction kit will be launched for elementary-school children within the Enriching Parent activity for employees of the bank.	✓ <b>Completed</b>
A campaign to promote financial freedom will be held for employees in 2017, including special activities at the Poalim Campus, training sessions and events, and tips for astute financial conduct.	The campaign and activity are planned for 2018, within the Financial Growth Center.

## LOOKING AHEAD

As part of the bank's efforts to support employees' work-life balance, the Personal Tuesday policy will be instituted, in which Tuesday will become a shortened work day, to the extent possible, with no afternoon meetings scheduled.







# **ENVIRONMENTAL SUSTAINABILITY**

# SETTING ENVIRONMENTAL POLICY

In recognition of the bank's social responsibility and the importance of sustainable environmental management, Bank Hapoalim has formulated a comprehensive, formalized policy in this area. This policy was prepared by environmental management professionals, and is an integral part of the bank's strategy. Among other matters, it is derived from the sustainability principles that represent and reflect environmental and business conduct aimed at preserving and improving existing resources, through economic, social, and environmental balance, to benefit future generations. The bank believes that the adoption of these principles supports its objectives and increases its value for the long term. The bank views the protection of the environment as socially valuable; it is managed as an inseparable component of its social responsibility:

- ◆ The bank seeks to achieve the proper balance between economic development and protection of the environment in its business decisions;
- ◆ The bank complies with regulations and laws, and adheres to the directives of the organizations charged with protecting the environment;
- ◆ The bank diligently endeavors to prevent environmental damage;
- ◆ The bank is committed to managing its environmental impacts to ensure continual improvement, by setting goals and measuring all material aspects of its impact on the environment;
- ◆ The bank collaborates with other companies and public entities to promote environmental causes;
- ◆ The bank works to instill environmental education among its employees, and initiates and participates in community projects.

## **The bank recognizes the added value associated with the implementation of this environmental policy, on two main levels:**

- ◆ The integration of environmental values with the economic values of efficient use of logistical resources generates shared benefits – business and financial value, as well as the protection of the environment;
- ◆ Implementation of a responsible environmental policy contributes to the work environment, improving employees' quality of life and satisfaction in the workplace.

Bank Hapoalim treats consumed materials as resources to be managed responsibly, from an environmental and business perspective, in an effort to achieve savings and improve efficiency. The main environmental resources consumed at the bank are managed using measurement infrastructures that allow monitoring of trends and identification of areas for improvement, establishment of a comprehensive multi-annual work plan, and implementation of initiatives, alongside increased efficiency and examination of environmental impacts across the full life cycle of the resource. This approach is implemented through the bank's environmental management system, which was certified under the international management standard ISO 14001 in 2012. Bank Hapoalim is the first financial institution in Israel to attain organization-wide certification under this standard. In late 2015, the bank renewed its documentation for the standard; it is now in effect until 2018.

Environmental management at the bank devotes special attention to areas directly affected by its business activities:

- ◆ Development of environmentally-friendly services and products;
- ◆ Management of environmental risks in project financing;

- ◆ Energy consumption and energy efficiency;
- ◆ Transportation;
- ◆ Consumption of paper resources;
- ◆ Green purchasing (office and IT);
- ◆ Consumption of water resources;
- ◆ Waste – reuse, recycling, and responsible disposal;
- ◆ Expansion of environmental awareness, and engaging and involving employees in this process, so that they also become agents of change in their home and family environments.

## Developing Products and Services to Promote Environmental Sustainability

Within its social responsibility and commitment to protecting the environment, the bank develops credit products for its business and retail customers that promote environmental sustainability. The bank's main axes of activity are financing solutions for building systems that generate clean energy, water desalination and infrastructure projects, recycling and responsible waste disposal, and more.

### Promoting Green Energy

The bank supports the promotion of green energy in the Israeli economy. Within this effort, the bank took part in the foundation of the solar-energy plant at Ashalim; the Sirin and Emek Habacha wind farms; two biogas-driven power stations, in Beer Tuvia and Hadera; and a large number of power stations driven by natural gas. The bank has also participated in financing for natural gas exploration and production. Beyond its support for environmental sustainability projects on the national level,



in 2017 the bank introduced new financing solutions aimed at supporting sustainability for households and business clients:

**Guidance for business clients in the process of applying for an energy-efficiency grant** – Within the Paris Climate Accord, Israel agreed to significantly reduce emissions of pollutants by 2030. Towards that end, the state offers dedicated grants, for industry and local government, to encourage energy efficiency. In 2017, the bank launched a new initiative in which it offers guidance to business clients in the process of submitting an application for state energy-efficiency grants. The bank explains the grant program and the relevant information to the client and provides assistance through an expert external consultant, who helps prepare the application. If necessary, the bank offers credit solutions to supplement the grant, in order to allow the energy-efficiency project to come to fruition. Bank Hapoalim considers this initiative an opportunity for the creation of shared value, empowerment of its business clients, and promotion of environmental sustainability.

**Dedicated loans for private customers to finance purchases and installations of solar-energy systems** – "Moneh Neto" is a state program allowing households to install solar-energy systems for the production of electricity for their own use, as a substitute for power supplied by the Israel Electric Corporation. Bank Hapoalim identified this project as an opportunity for the creation of shared value – for customers, through lower electricity costs; for the environment, through the promotion of green energy; and for the bank, through its credit solutions. The bank therefore offers its customers a loan dedicated to financing the acquisition and installation of solar-energy systems, at 100%, for a period of ten years, with a reduced interest rate. In 2017, credit was

granted to 135 customers who purchased solar-energy systems.

**Financing of solar-energy systems during construction or purchase of detached dwellings** – For any customer interested in financing (mortgages) for building or buying a detached home. Financing of the system is taken into consideration as part of the total construction cost, with the backing of assessors who examine the value of the property.

### Recycling and Responsible Waste Disposal

The bank has participated in financing of several operators of recycling and responsible waste-treatment facilities in Israel, including the Dan Regional Association for Environmental Infrastructure. The bank supported the foundation of a refuse-derived fuel (RDF) plant at the Hiriya Recycling Park. The fuel generated by the Hiriya plant is used as combustion material by the concrete manufacturer Neshet. The plant is expected to treat approximately 1,500 tons of household waste daily – about half the quantity received at Hiriya – which can be used to generate 500 tons of RDF per day. In order to achieve maximum recycling, mixed waste will be separated, using advanced technologies, into organic waste and dry commercial waste.

### Water Purification and Desalination

Bank Hapoalim is a leader in financing for desalination plants and sewage-treatment facilities in Israel. The bank provided financing for the desalination project at Palmachim, including its subsequent expansions, and participated in financing for desalination projects in Hadera, Sorek, and Ashdod. The volume of desalinated water generated by projects in which the bank participated stands at 467 million cubic meters per year, or about 80% of water desalinated since 2015.

### Public Transportation

The bank is a participant in financing of the public-transportation project Citypass, which operates the light rail in Jerusalem. The train, in operation since 2011, serves approximately 150,000 passengers daily and essentially constitutes the backbone of the city's public-transportation system, providing an available, green, convenient alternative to travel by private car. The train serves all of the different population segments in Jerusalem – residents of each neighborhood, students, and many visitors and tourists, from other parts of Israel and from all over the world; it has led the city to peak use of public transportation.

### Green Building

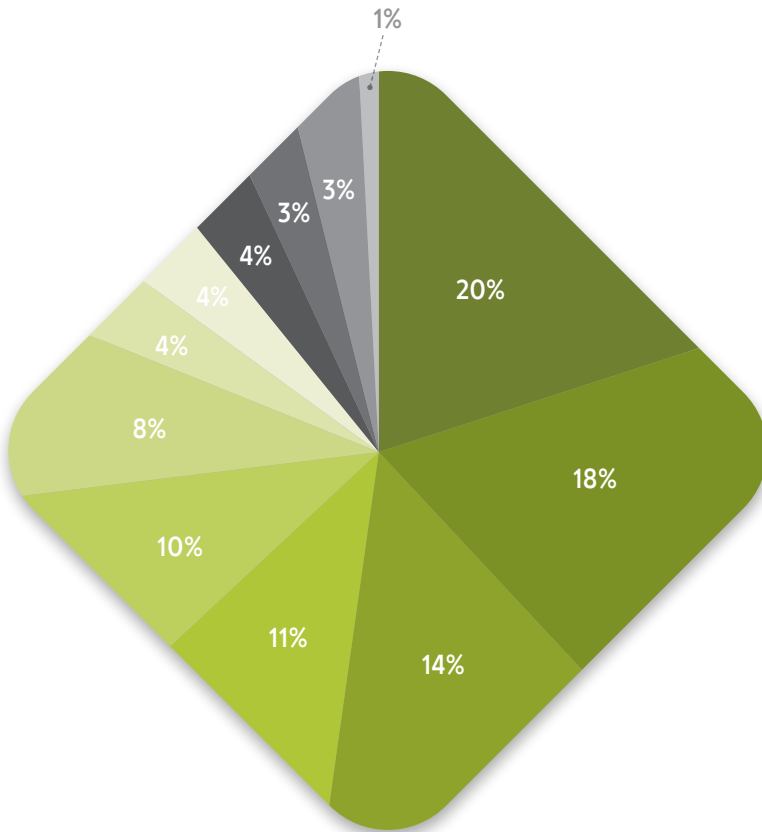
The bank has provided financing for several construction projects across Israel based on green building principles and compliant with the standard required by the Ministry of Environmental Protection.

## LOOKING AHEAD

- Expanded assistance for receiving grants to promote energy efficiency among business customers, in grant rounds planned for 2018.
- Expansion of financing of loans for the acquisition and installation of solar-energy systems for private and business customers, and raising the general public's awareness of this subject.

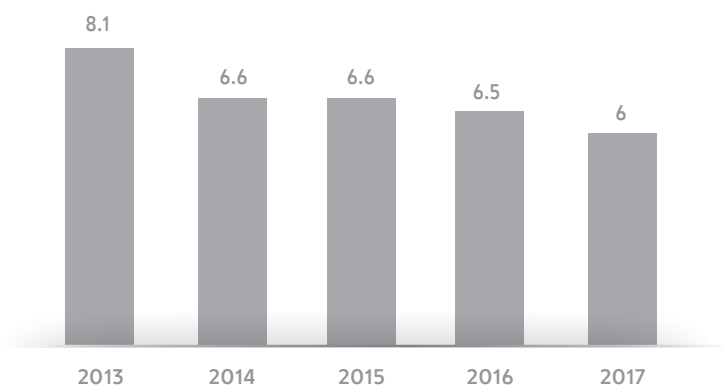
**As of the end of 2017, the bank has granted credit in a cumulative amount of approximately NIS 6 billion for environmental projects and products.**

Segmentation of credit portfolio



- Mass transportation
- Gas production
- Gas distribution
- Energy efficiency
- Solar energy
- Power plants - pumped energy storage
- Waste treatment facilities
- Water purification
- Desalination
- Gas-driven power plants
- Green building
- Thermosolar power plants

Credit for environmental products - multi-annual (in NIS billions)



## Examining Environmental Risks in Financing

In recognition of the importance of sustainable environmental management, Bank Hapoalim manages its exposure to environmental risks through the environmental risk management system, based on an ordered, specified methodology. The environmental risk management system in the area of financing contains the organizational components necessary for efficient and effective management, including oversight by the board of directors. Approximately 100 senior employees, including customer relationship managers, have participated in targeted training in this area and are familiar with its importance to the bank.

Risk management at the bank is performed based on a global view of the bank's activity in Israel and at its branches abroad, with due attention to the activity of its subsidiaries. Risks are managed separately by each banking subsidiary in the bank group, according to policy formulated by each company's board of directors and presented to the board of directors of the bank. Financial and operational risk control and assessment are performed based on a uniform methodology at the level of the group, with guidance from the risk management division, taking into consideration the unique characteristics of each subsidiary's activities. Some of the risks are hedged within the management of the various risks. The bank's system for the management of environmental risks in financing is applied to all infrastructure projects and real-estate projects over NIS 50 million, and to credit above NIS 200 million.



The methodology of the bank for environmental risk management was created by a dedicated team, with the assistance of external consultants specializing in this area, which examined the methodologies used by foreign banks around the world, including the Equator Principles. The model formulated by this team links the various environmental risks, as defined by the Supervisor of Banks, to the business sectors to which the bank's clients belong. Within the model, sectors of activity in the economy were classified into three risk levels, which were used to determine the parameters to be examined. Examination of environmental impacts is a prerequisite for the bank's

participation in the financing of a major infrastructure project. The customer is required to prepare an environmental survey, which is examined by an external consultant of the bank charged with ensuring that the project complies with all of the requirements presented in the permits granted by various government agencies.

**Key principles of environmental risk management in financing:**

- ◆ Management of environmental risks from the perspective of the overall exposure of the bank to each specific risk;
- ◆ Management of credit risks through assessment and management of the

exposure to environmental risk in the corporate credit portfolio, and assessment of the environmental risk and its effect on credit risk in new credit applications that meet specified criteria; management and monitoring of exposure to environmental risk at the level of the overall credit portfolio and on the individual level;

- ◆ Management of market risks – managing exposure to environmental risks in direct investments by the bank (in the proprietary portfolio and in general);
- ◆ Management of operational risks – adapting operational systems to regulatory changes on environmental matters.

**Segmentation of environmental risks in credit granted in 2017**

	High		Medium		Low		Total	
	Number of customers	Total exposure in NIS billions	Number of customers	Total exposure in NIS billions	Number of customers	Total exposure in NIS billions	Number of customers	Total exposure in NIS billions
<b>Corporate Division</b>	25	14	107	55	84	58	216	127
<b>Commercial Division</b>	0	-	39	13	3	1	42	14
<b>Special Credit Division</b>	0	-	14	8	8	2	22	10
<b>Total</b>	<b>25</b>	<b>14</b>	<b>160</b>	<b>75</b>	<b>95</b>	<b>61</b>	<b>280</b>	<b>150</b>

**Measuring Carbon Footprint**

Bank Hapoalim monitors the main components of its activity that contribute to the emission of greenhouse gases. In 2010, Bank Hapoalim joined the voluntary greenhouse-gas reporting system of the Ministry of Environmental Protection. Since then, the bank has reported to the recording system in accordance with the established methodology. Indirect energy consumption (Scope 2) for power and transportation is the

most significant factor in the bank's carbon footprint. Measures are being taken to improve efficiency and reduce consumption, as described later in this chapter. The bank also manages and monitors indirect sources of emissions, such as paper production, branch construction, waste treatment, air travel by employees, and more.

**Emission of Substances that Damage the Ozone Layer**

The bank uses five main types of air-conditioning systems: split air conditioners,

central air conditioners, VRF systems, cooling towers, and chillers. The older systems use freon gas, which is permitted by law, but may be harmful to the ozone layer. The bank is working to replace these existing air-conditioning systems with systems that use only environmentally-friendly gases. The air-conditioning systems of all of the bank's properties in aggregate contain about 20-30 tons of coolant gas, of which more than 85% is the environmentally-friendly R-410a.

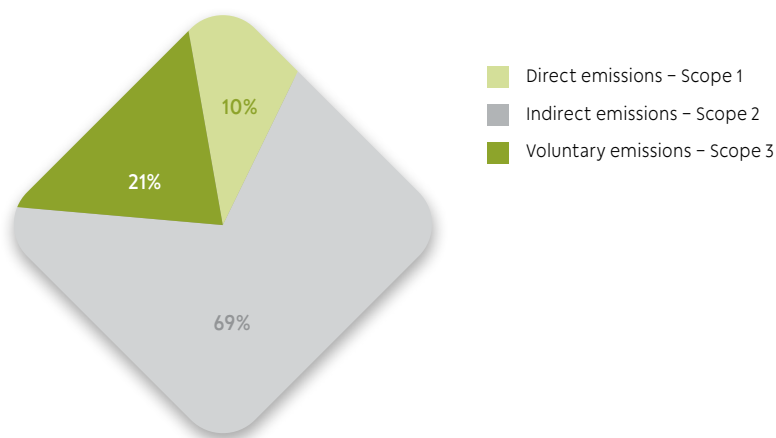
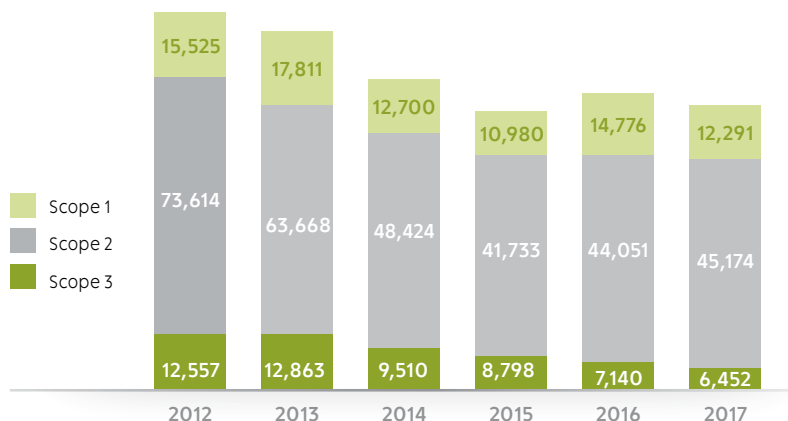
# 63,917 tons

Carbon footprint of Bank Hapoalim for 2017: 63,917 tons CO<sub>2</sub>eq (including all three scopes), a decrease of 1.8% from 2016<sup>9</sup>

# 37%

From 2012 to 2017, the bank reduced its carbon footprint by 37%, mainly due to electricity consumption savings and efficiency measures on its premises and the transition to consumption of electricity supplied by Dorad, which generates electricity using a cleaner mix of fuels.

Carbon footprint measurement categories



### Carbon footprint data (in tons of CO<sub>2</sub>eq)

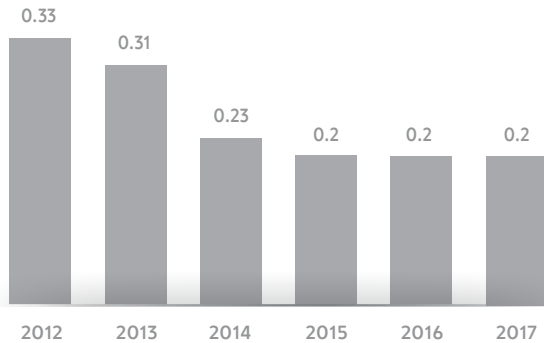
Year	2012	2013	2014	2015	2016	2017	Change vs. 2016
<b>Total</b>	101,696	94,342	70,632	61,511	65,966	<b>63,917</b>	<b>-3.1%</b>
<b>Per employee</b>	10.05	9.68	7.61	6.91	7.5	<b>7.35</b>	<b>-2%</b>
<b>Per square meter*</b>	0.33	0.31	0.23	0.20	0.20	<b>0.22</b>	<b>0.02%</b>

\* The carbon footprint per square meter does not include the bank's consumption of electricity at the Rotem site, as this site is a unique backup facility with unique consumption patterns that are not characteristic of average power usage at the bank.

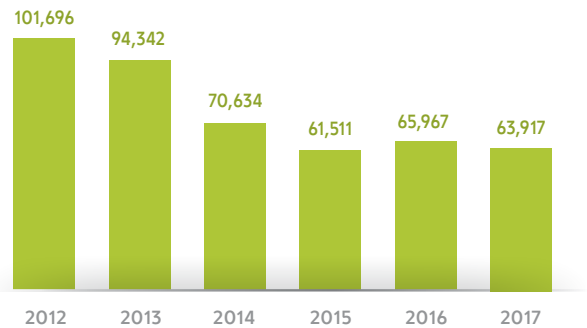
9. The carbon footprint for 2016 was adjusted retrospectively as a result of adjustment of the "electronic equipment" component (which is part of Scope 3), due to tablets purchased for the digital enhancement project at the branches in 2016.



Carbon footprint per square meter (in tons CO2eq)



Total carbon footprint of the bank (in tons CO2eq)



Examining Achievement of Objectives

2017 Objectives	Status
The bank aspires to reduce greenhouse-gas emissions that result from its activity, and has set a goal of reducing emissions by 1% each year over the coming five years, for a total multi-year reduction of 5%. The bank also aims to maintain 0% growth in the emission of greenhouse gases as a result of its activity.	The bank succeeded in avoiding any increase in greenhouse-gas emissions as a result of its activity.

**LOOKING AHEAD**

The bank aims to maintain 0% growth in the emission of greenhouse gases as a result of its activity.

Power Consumption Management and Energy Efficiency

Electricity is a key resource used by the bank and the main factor affecting the carbon footprint of the organization. The fundamental premise is that this resource should be managed every day of the week, in every season – not only in industry, but also in office-based businesses – for efficiency and savings.

The central principle in efficient management of electricity consumption by offices is coordinated timing of air conditioning and lighting systems and of computer operation, according to employee presence, to the extent possible. The collection and analysis of as much data as possible allows organizations to identify excessive consumption and find the optimal solution. Virtually all of the energy consumed at Bank Hapoalim is in the form of electricity supplied by the Israel Electric Corporation (with the

exception of fuel), which does not include renewable energy sources. During 2014, the bank began to acquire electricity from Dorad, a natural-gas-based power supplier. Dorad supplies electricity to the bank's head-office buildings and large branches. As of the end of 2017, 49% of the power consumed at the bank was acquired from Dorad. The transition to Dorad has lowered energy costs and reduced the environmental impact of power consumption.

## Energy Efficiency

### Command and Control Systems

The bank uses computerized command and control systems to monitor and control all of its energy consumption; these systems help minimize consumption of air conditioning and lighting, and provide alerts of significant problems, based on the presence of employees and customers in each building. The systems have been installed at all of the bank's facilities, and are operated based on specifications matched to the work hours at each branch or building.

### Installation of Efficient Air Conditioning Systems

The bank is installing new chillers with a higher COP (coefficient of performance), as well as VRF (variable refrigerant flow) air-conditioning systems, which will lead to savings of about 38% on energy and maintenance costs, relative to other systems, for replacements and installations (20% of the savings are in power consumption). The process of replacing the air-conditioning systems at the bank's head-office buildings and the VRF systems at the branches continued during 2017. The bank has installed approximately 15 VRF systems each year.

### Biothermal Energy Retention Sheeting Installation Pilot

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

of 20-30% on air-conditioning costs. As of the end of 2017, the sheeting has been installed at twelve branches. The results of comparisons of comparable periods throughout the year at these branches, in terms of consumption of air conditioning, indicate power savings of at least 20%.

### Transition to Efficient Lighting

The multi-year process of installing efficient lighting at the bank's buildings continued in 2017, as all floors of Rubinstein Tower (the bank's head-office building), were converted to LED lighting.

### Green IT

The bank also works to achieve energy savings and efficiency through a thorough examination of the possibilities for green information technologies at its branches and offices. Energy efficiency is a parameter in IT equipment purchasing tenders, spurring bidders to offer more advanced, efficient equipment. In addition, the bank's Information Systems Operations and Service Division does not rely on manufacturers' information regarding the performance of the various components, instead running the necessary tests on server hardware and software, printers, and peripheral equipment at a dedicated laboratory.

Main activities carried out during 2017 in the area of green IT:

- ◆ Purchasing of small computers – The bank purchased hundreds of small computers with significantly reduced electricity consumption. IT equipment is packaged in recyclable cardboard;
- ◆ Transition to printers and printing centers with double-sided printing capabilities – The bank is gradually replacing individual and department

printers, fax machines, scanners, and photocopiers with integrated printing centers operated by an employee-card reader, with double-sided printing capabilities. Printing centers lead to savings of about 40% on paper consumption at the bank's headquarters units, and reduce toner consumption. In 2017, two of the bank's locations ran a successful pilot project in which they used recycled printing paper;

- ◆ **IP telephony** – The bank is gradually transitioning its landline communications to an IPT system. The transition enhances landline communications management by allowing digital management through a centralized computer system. This connection eliminates the need for local switchboards at each branch and allows internal calls between system users to be performed free of charge, without using the Bezeq network. In addition, the phones allow users to dial through their computers and to access a directory of all telephone numbers in the organization. The transition to an IP switchboard improves the bank's control over its communication system and saves power consumption due to the elimination of local switchboards.

Additional savings on power consumption in computer use are achieved at the bank through a system that turns off personal computers at the end of the workday and through the use of a fax-to-mail / mail-to-fax application.





### Management and Measurement of Power Consumption

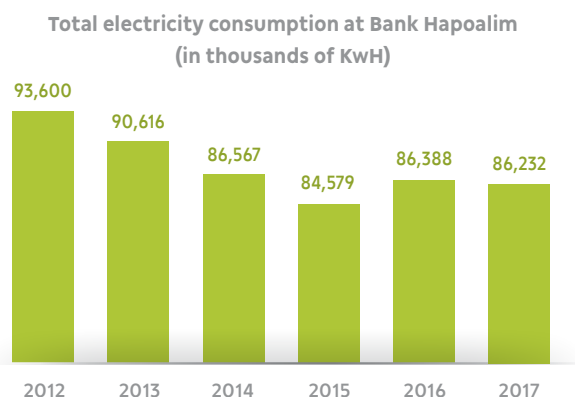
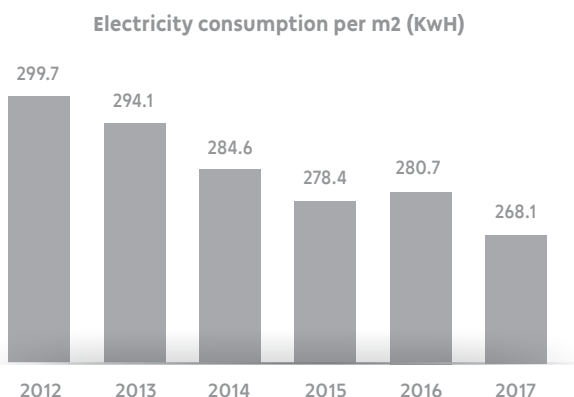
The bank maintains a power consumption database, which is routinely updated to reflect structural changes in the bank's properties as a result of addition, closure, rental, or change in designation. The database enables the bank to examine the

monthly and annual consumption patterns of each property, compare it to buildings of similar size and designation at the bank, and compare multi-year trends in consumption per square meter and per employee. The database also makes it possible to identify trends of improvement and increased efficiency, and to locate properties with a risk of inefficiency or malfunction.

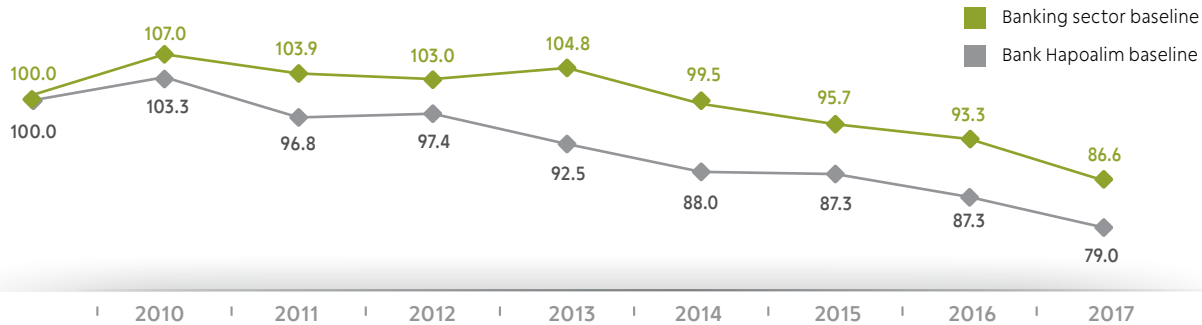
Data on the bank's total power consumption in 2017 indicate a decrease of 0.18% compared with 2016. The decrease mainly resulted from electricity savings at the buildings of the bank. In addition to the contribution to the environment, electricity consumption has financial implications that affect cost savings.

Power consumption at Bank Hapoalim – multi-annual						
	2013	2014	2015	2016	2017	Change vs. 2016
<b>Total (KwH)</b>	90,616,904	86,567,004	84,579,103	86,388,184	<b>86,232,616</b>	<b>-0.18%</b>
<b>Total (GJ)</b>	326,221	311,641	304,485	310,997	<b>310,437</b>	<b>-0.18%</b>
<b>Bank area in sq. m.</b>	308,909	304,184	291,512	285,251	<b>288,221</b>	<b>1%</b>
<b>Consumption per sq. m. (KwH)*</b>	294.1	284.6	278.4*	280.7	<b>268.1</b>	<b>-0.8%</b>

\* Power consumption per square meter was calculated based on total consumption of 77,299,576 KwH. This total does not include the bank's consumption at the Rotem site (approximately 8.9 million KwH), as this site is a unique backup facility with unique consumption patterns that are not characteristic of average power usage at the bank.



Rate of change in electricity consumption – Bank Hapoalim vs. banking sector



\* Gadir Engineering Ltd. analyzes power consumption at business firms, among other activities. Starting in 2006, the company has issued an index of power consumption in the banking sector. The index presents the relative multi-year change in power consumption at Bank Hapoalim and at other banks; the reference point (100%) is the volume of consumption in 2006. As shown in the diagram, power consumption at the bank has grown more efficient over the last seven years. The index does not factor in changes in the area of the banks' properties or power consumption in buildings shared by the banks with other entities (branches located in shopping malls, or premises shared by banks and government agencies, other businesses, etc.).

### Examining Achievement of Objectives

#### 2017 Objectives

#### Status

The bank intends to reduce its consumption of electricity by at least 0.5% annually, and by a total of approximately 3% over the next five years.

The bank reduced its electricity consumption by 0.18% in 2017.

In 2017, the bank plans to continue to replace existing lighting with efficient LED lighting at its head-office building (Rubinstein Tower).

✓  
**Completed**

## LOOKING AHEAD

- Continued replacement of old air-conditioning systems with new systems, with an emphasis on systems with high energy efficiency.
- Replacement of lighting at branches with LED bulbs.
- Continued installation of biothermal energy retention sheeting, for energy savings.
- Installation of energy control systems at all new branches of the bank.
- Installation of video conference systems at business centers, for meetings, training sessions, credit committees, etc. The use of these systems reduces the need for employees to travel to meetings outside their office, and contributes to fuel and time savings.

### Reduction of Energy Consumption in Transportation

The direct and indirect environmental impact of Bank Hapoalim in the area of transportation derives from fuel consumption and emissions resulting from fuel burning. The bank is working to reduce fuel consumption in its vehicle fleet and in the system of internal transportation between its branches and facilities, which leads to reduced pollution, through various means, including:

- ◆ Limiting the vehicles chosen for the vehicle fleet to those with a pollution rating of 8; most of the vehicles at the bank have lower pollution ratings;
- ◆ Conducting dialogue with employees through the organizational portal – publication of articles and recommendations concerning safe, efficient, careful driving;
- ◆ Encouraging employees to commute by bicycle – The bank encourages employees at the head office to ride bicycles to work, by providing showers and bicycle parking spots.

In addition, bank services offered via telephone and digital channels eliminate the need for customers to visit a branch and contribute to reduced travel and air pollution.

The bank's consumption of fuel decreased by 9% in 2017. The main cause of the decrease is the use of fuel-efficient vehicles (with TSI turbo engines), which significantly improve fuel savings. As of the end of 2017, approximately 50% of the bank's vehicle fleet is equipped with engines of this type.



<b>Data on Bank Hapoalim vehicles</b>							
	2011	2012	2013	2014	2015	2016	2017
Number of vehicles in leasing fleet	1,329	1,288	1,238	1,188	1,106	1,155	1,024
Annual fuel consumption (in liters)	3,574,235	3,440,152	3,448,047	3,537,444	3,599,730	3,021,768	2,746,344
Mileage in kilometers per liter (based on manufacturer data)	10.1	10.5	11	11.8	10	9.5	10
Number of hybrid vehicles in the fleet	23	27	22	19	22	18	15

### Management of Paper Resources

Paper is one of the main raw materials consumed during the routine operations of the bank; as such, this resource is managed based on the overall approach of reducing consumption and increasing recycling. The processes aimed at reducing paper consumption at the bank continued during 2017. Special attention has been devoted to fully maximizing the potential for automation of paper-consuming processes.

#### Paperless Branch

The Paperless Branch strategic project has been underway at the bank's Strategy Unit since 2009. The project concerns analysis of paper consumption at the bank and the possibilities for reducing or eliminating forms and reports, both for the bank's internal use and for its mailings to customers.

The main activities conducted within the Paperless Branch project in 2017 are reviewed below:

- ◆ **Digital signature and customer service via touch screen** – Implementation of digital signatures at all of the bank's retail branches was completed in 2017. After receiving in-person service from a banker, customers are asked to digitally sign a screen. At the conclusion of the procedure, the customer is given a

printed confirmation of execution of the transaction, or a copy delivered through Mail-Net or Poalim E-mail. The documents are also retained digitally on the bank's computers, as a substitute for the retention of hard copies practiced in the past. This process contributes to annual paper savings of approximately 61.8 million pages. In 2017, the pension advising centers also joined the digital signature process;

- ◆ **Central printer** – As part of the digital banking approach, a process began in 2017 to discontinue the use of the bank's central printer. The central printer generates approximately 6 million pages of notifications and reports each year, sent to branches and business units in the head office. As a result of this process and the application of alternative solutions, approximately 3 million pages of notifications and reports were saved in 2017;
- ◆ **Automation of collateral forms** – A process was performed in 2017 to automate collateral documents at the bank, through a transition from handwritten forms to electronic forms requiring a minimal number of digital signatures;
- ◆ **Scanning borrower files** – In a project launched in 2017, business borrowers' files at the branches are scanned for digital presentation.

### Moving from Mail to E-mail

Bank Hapoalim aims to streamline and reduce mail sent to its customers, while complying with regulatory consumer-protection directives that mandate mailings at specific times, with information prescribed by law. The bank is concurrently endeavoring to reduce paper consumption by consolidating messages, reducing mailings, and applying environmental mailing initiatives, such as through e-mail. This service allows customers registered for the bank's website to receive messages through their account on the website. The bank also offers the Poalim E-mail service, in which mail is sent directly to the customer's personal inbox. Every customer registered for this service contributes to average annual savings of 45 mailed pages.

The various initiatives of the Paperless Branch Unit have led to annual savings of about 202 million pages of paper and approximately NIS 43 million.

## Examining Achievement of Objectives

2017 Objectives	Status
Completion of implementation of digital signatures at all retail branches.	✓ <b>Completed</b>
Expansion of digital signatures to business accounts that use a seal.	Due to technological difficulties and availability issues, implementation has been postponed.
Borrower file automation – scanning and retrieval of information regarding loans and collateral of business clients.	Automation has begun and implementation is in progress.
Reduction of paper generated during the pension advising process.	✓ <b>Completed</b>

## LOOKING AHEAD

- Completion of the automation process in the area of collateral, and transition from manual forms to electronic forms requiring a minimal number of digital signatures.
- Scanning of borrower files and transition to virtual borrower files.

# 170 tons

Paper consumption: Paper consumption at the bank decreased by 170 tons in 2017, relative to 2016.

# 15.3 tons

Cardboard recycling: 15.3 tons of cardboard were collected by the bank and transferred for recycling in 2017.

# 2,600

Paper consumption savings in 2017, compared with 2016, are equivalent to saving approximately 2,600 trees from being cut down for the paper industry.

# 25%

Paper consumption for internal use at the bank decreased by 25% in 2017 relative to 2016, due to the processes described above.

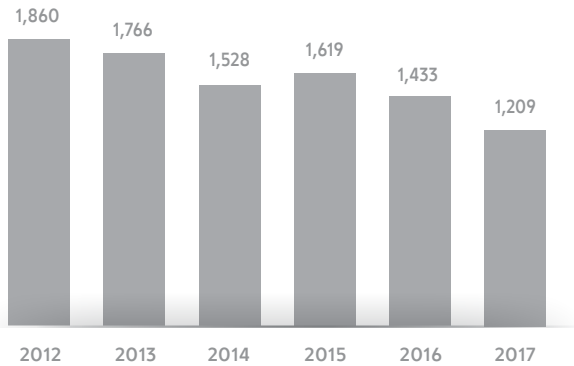
# 613,000

## customers

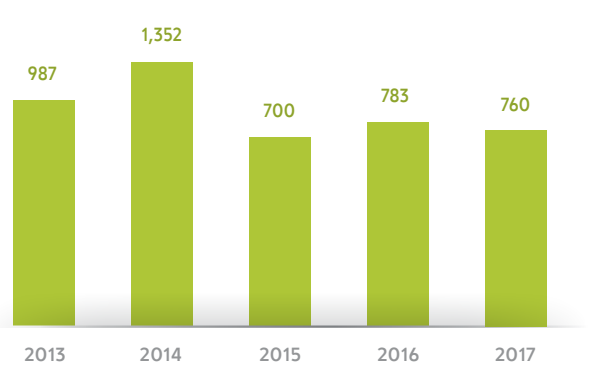
Delivery via e-mail: As of the end of 2017, over 613,000 customers have registered to receive e-mail instead of physical mail. The number of customers added to this service increased by 6% in 2017, compared with 2016.



Paper consumption at the bank (in tons)



Collection of paper for recycling, in tons



## Reducing Additional Environmental Impact

Production and service processes in banking have a minor direct environmental impact, as the bank's activity is essentially administrative and the service it provides to its customers is digital by nature. Nonetheless, Bank Hapoalim strives to

minimize the incremental environmental impact of its activity.

The bank involves its employees in this process both through internal changes in environmental practices and through the attempt to maximize the impact of its overall environmental activities, based on the idea that such engagement is essential to creating change, and in the hope that its employees will become agents for change in their own right. In addition,

the bank seeks to extend its influence on environmental conduct to employees' communities; with their families, the bank's employees are a force for change numbering in the tens of thousands. Towards that end, the bank strives to supply its employees and their families with information and tools to enable them to be greener, in driving, recycling, saving energy, and more.

## Management of Water Resources

The Aquarimat system was installed in 2017, as part of the management of water resources at the bank. The system allows smart water economy management and provides increased control over resource utilization.

Contribution of the system to the bank's water resource management:

- ◆ The system analyzes information collected in the field to identify leaks, exceptional consumption, and the behavior of individual water consumers, in order to improve the management and efficiency of water resource use by the organization;
- ◆ The system's main algorithm is used to optimize water consumption, based on consumption data studied over time;

- ◆ In the case of an exceptional event or leak, the system sends an alert to the client; it can also close off a water line if necessary;
- ◆ The system allows the bank to manage its water consumption through a dedicated website, which offers advanced management tools.

33 Aquarimat devices were installed at the bank's locations in 2017. The system provided alerts of 254 incidents of leaks or exceptional consumption and enabled the bank to address these situations immediately. The devices contributed to annual savings of 2 million liters of water at these sites.

## Promoting Green Building at the Bank

As of the end of 2017, the bank has adjusted all of its purchasing specifications to align with green construction principles, and plans to use these specifications for the construction of its office buildings and branches. It is important to note that many branches are located in shopping malls and commercial centers not owned by the bank, where the bank cannot alter the infrastructures of the buildings. However, the bank intends to bring as many of the elements of green construction as possible to these sites, although the properties involved may not meet accepted green construction standards. Within this effort, the bank has reached a decision, in principle, to install only environmentally-friendly carpeting manufactured in compliance with international standards. The installation of the carpets has begun, in accordance with this decision. Carpets compliant with Green Label standards were installed at the head office, over a total area of 2,320 square meters.

In addition, construction projects of the bank in 2017 used environmentally-friendly elements such as efficient air-conditioning units, energy-efficient lighting, shading to save energy used for air conditioning, and acoustic ceilings.

## Turning Waste into a Resource and Preventing Pollution

The environmental trends of recent years have highlighted the fact that one person's waste is another's resource. Population growth creates pressure on ecological systems, making it difficult to meet the demand for natural resources such as metals, wood, water, fossil fuels, and more. In addition, without proper treatment, waste pollutes the environment and damages soil, water, and the air, while contributing to global warming. These and other insights highlight the importance of a methodical approach

to the future of materials and consumer goods. Bank Hapoalim mapped the types of waste generated by its operations, and subsequently examined the most beneficial methods of treating such waste:

- ◆ Reuse of a resource or of its components;
- ◆ Recycling of the resource by external parties, who convert it into raw material and then reinsert it into the production process;
- ◆ Responsible disposal through collection and transfer to a licensed site (prevention of environmental pollution).

The bank promotes the collection and responsible disposal of waste through the following activities, among others:

- ◆ **Collection of electronic waste** – Bank Hapoalim strictly maintains responsible, orderly disposal of disused computer equipment. Computer equipment not suitable for donation is transferred for responsible recycling and disposal each year. All mobile devices no longer in use are returned to the supplier for responsible disposal. All other disused electronic equipment is transferred to Ecommunity, which specializes in electronic waste recycling and employs workers with disabilities. Head-office employees can bring electronic waste from their homes to the collection center at Rubinstein Towers in Tel Aviv;
- ◆ **Removal of building waste** – Waste is removed responsibly, in accordance with the regulations in this area. The bank includes a contract clause in its agreements with construction and renovation contractors working at its branches and buildings requiring the responsible removal of waste to a licensed facility. The aim is to fully prevent construction waste originating with the organization from reaching unlicensed sites or open fields;
- ◆ **Collection of bottles and cans** – Systematic recycling in collaboration with the ELA recycling corporation. Refunded deposits are transferred to

the unit's employee union and used to finance various social activities, donations, etc.

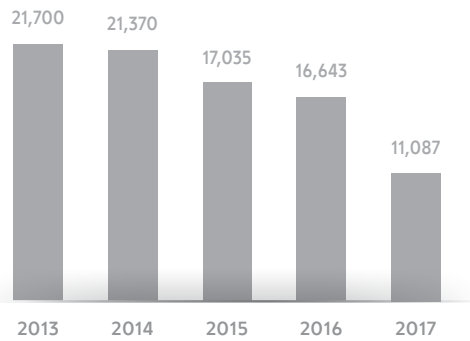
## Instilling the Habit of Recycling at the Bank

The bank encourages its employees to collect and recycle resources; towards that end, a range of specifically designed recycling receptacles have been developed and manufactured for the collection of waste at the bank's buildings. This process has been communicated to employees through intra-organizational channels at the bank. Recycling receptacles are available for paper, electronic waste, fluorescent bulbs, bottles and cans, batteries, used clothes, and medication. The waste is collected and treated by licensed operators.

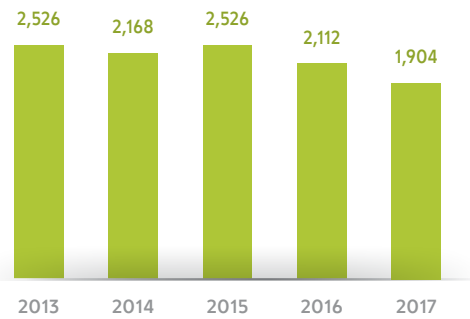
- ◆ **Electronic waste:** Approximately 94 tons were collected and removed from the recycling receptacles at the bank. The quantity of electronic waste increased significantly at the bank in 2017, due to construction, renovation, and closure of branches. Although the volume of waste increased, the entire quantity was removed responsibly;
- ◆ **Building waste:** 1,904 cubic meters of waste were removed during construction work.
- ◆ **Fluorescent bulbs:** Approximately 1,230 kg were collected for orderly removal.
- ◆ **Ink and toner cartridges:** The bank used 11,087 ink and toner cartridges for printers and fax machines;
- ◆ **Batteries:** 100 kg were collected and removed from the bank's buildings for safe burial;
- ◆ **Beverage bottles and cans:** Approximately 105,720 bottles and cans were collected at the bank for recycling;
- ◆ **Medications:** 23 sacks of expired medications were collected from the receptacles at the bank for proper disposal.



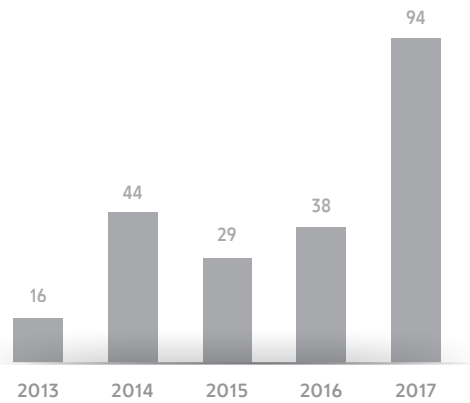
**Ink and toner cartridges (units)**



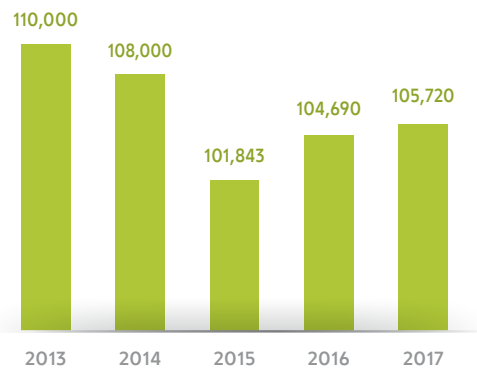
**Construction waste collection (m3)**



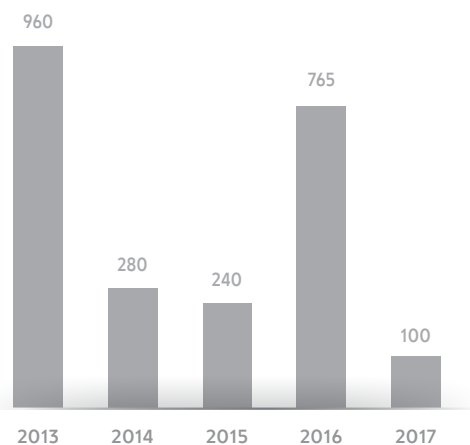
**Electronic waste recycling (tons)**



**Recycling of bottles and beverage containers (units)**



**Battery collection (kg)**

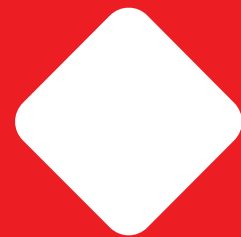


## LOOKING AHEAD

- Expansion of the deployment of Aquarimat systems, and installation at selected branches.
- Installation of Znergy energy-saving sheeting when building new branches and renovating existing branches.
- Installation of awnings above ATMs, for customers' convenience. The awnings also contribute to reduced heating of glass walls at the branches, leading to savings on energy use in air conditioning.







**CORPORATE  
GOVERNANCE,  
ETHICS, AND  
COMPLIANCE**

## BANK PROFILE

Founded in 1921, the bank is a “banking corporation” and holds a “bank” license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the bank were brought under the control of the state. The bank was privatized in 1997, with the controlling interest transferred to the current controlling shareholders and others.

### Activity of the Bank Group in Israel

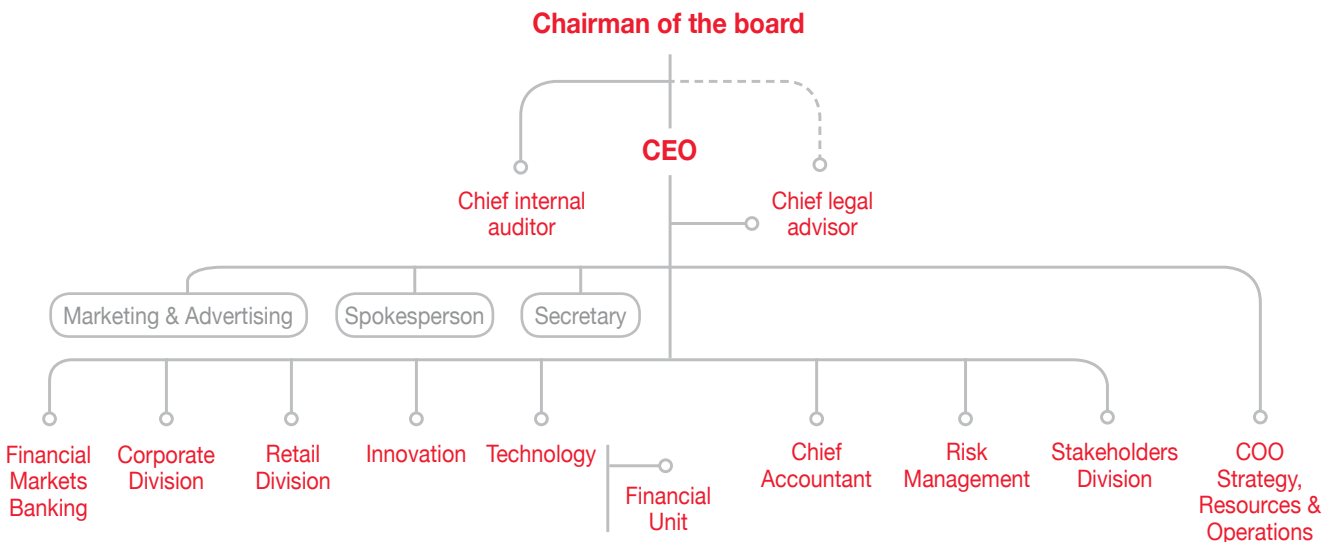
The bank group operates in Israel, in all of the various areas of banking, through two main units: the Corporate Banking divisions and the Retail Banking Division. The Corporate Banking Division serves most of the bank’s business clients. The division operates in the corporate segment through divisions

specializing in each sector, and in the middle-market segment through business centers located throughout Israel and through the branches of the bank, which provide the area’s customers with operational services. The Retail Banking division serves customers including households, private-banking clients, foreign residents, and small businesses. Service is provided through 230 branches, including both traditional branches and advanced digital branches, which provide the full range of banking services, as well as through a range of direct channels: a website, mobile applications, Poalim by Telephone, and broadly distributed self-service stations.

In addition to its banking business, the bank group also engages in related activities, mainly in the areas of credit

cards and the capital market. In the credit-card sector, the bank group, through a subsidiary (the Isracard Group), issues, operates, and markets credit cards, within and outside the bank, for use in Israel and overseas, and clears transactions executed using its credit cards as well as credit cards issued by others. Legislation requires the bank to separate from this area of activity within the coming few years. Alternatives for this separation are currently being examined. The bank group’s capital-market activity includes the provision of services for securities trading transactions (brokerage), securities custody services, currency and derivative trading services, research and consulting, services for financial asset managers, investment portfolio management, investment banking, and issuance underwriting and management.

### Organizational Structure of the Bank





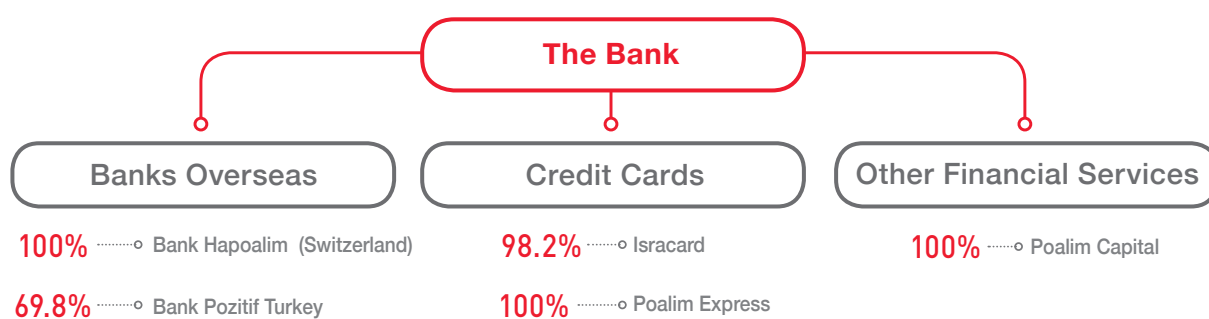
## Activity of the Bank Group Overseas

In addition to its activity in Israel, the bank group operates overseas in the business sector. The bank group's operations are located in Israel, Europe, and the United States. The bank group also operates in the commercial sector in Turkey. Corporate-sector activity abroad includes granting credit to local and foreign borrowers, including credit for the business activities of the Bank's customers. In 2017, the bank

examined the organization of its activity in the area of global private banking, in view of its risk-management policy of minimizing compliance risks at the bank group, and in view of the changes in the worldwide regulatory environment and the effect of these changes on such risks. Following this examination, in September 2017, the bank resolved to discontinue the operation of Bank Hapoalim Switzerland Ltd., and of Poalim Asset Management in London. After the discontinuation of the activity of Bank Hapoalim Switzerland, the Bank will have

no significant remaining activity in the area of private banking overseas. Its activity overseas will be focused primarily on commercial banking in the United States. In addition, in May 2017, a transaction was completed for the sale of the global private banking client asset portfolio of the Miami branch in the United States to Safra National Bank of New York. The representative offices of the bank in Latin America closed during 2017.

**Chart of Principal Holdings of Bank Hapoalim\***



\* The chart includes the principal companies held directly by the bank or indirectly through private subsidiaries under the full ownership of the bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which, in the opinion of the board of management of the bank, is a principal company in the group, and in which the bank's investment is at least 1% of the shareholders' equity of the bank, or the bank's share of whose net profit (loss) attributed to shareholders of the bank exceeds 5% of the net profit (or loss) attributed to shareholders of the bank (similar to the criterion established in Public Reporting Directive 662 of the Supervisor of Banks regarding the presentation of data on principal subsidiaries in financial statements of banking corporations).

## Ownership Structure and Legal Organization

The holder of the permit for control of the bank is Ms. Shari Arison. Her stake in the Bank is held through Arison Holdings (1998), in shares comprising approximately 20.01% of the bank's share capital, constituting the "controlling interest" of the bank (as defined in the control permit issued by the Governor of the Bank of Israel).

## The Corporate Governance Environment

### Governance and Control

As a part of the banking system in Israel, Bank Hapoalim operates in a broad legislative environment including primary legislation, standards, and regulations with which the bank is obligated to comply: the Banking Ordinance, the Bank of Israel Law, the banking laws concerning licensing and customer service, the Companies Law, the Securities Law, the rules of the governor of the Bank of Israel, directives of the Supervisor of Banks, and more. All of these regulate the activities of the bank on various levels, including requirements with respect to its capital and ways of managing capital, exercise of internal and external auditing, and the areas in which the bank is permitted to engage. In addition, pursuant to the Companies Law, shareholders can propose matters for discussion in advance of the general meeting. Bank employees are entitled to contact the board of directors, subject to and in accordance with the regulations of the bank, which are aligned with legal requirements.

### The Board of Directors: Composition, Activity, and Committees

The board of directors of the bank operates in accordance with corporate governance guidelines established by law, including the Proper Conduct of Banking Business Directives of the Bank of Israel, the SOX Act, and more. The bank also implements all of the directives included in the legislation, standards, and regulations with regard to the prevention of conflicts of interest within the board of directors. As part of the separation of duties required between management in practice and

the formulation of policy and supervision, the chairperson of the board of directors does not serve as an executive at the bank. Directors of the bank are selected pursuant to the directives of Israeli law, including the Companies Law, the Banking Ordinance, and the Proper Conduct of Banking Business Directives of the Bank of Israel, as well as the articles of the bank. Directors' duties, according to the law, are uniform for all types of directors; the fundamental duty is to act in the best interests of the company. These duties include, among others, the duty of care, the duty of loyalty, duties related to corporate governance, and the avoidance of conflicts of interest.

Directors are appointed at Bank Hapoalim in accordance with the provisions of the law and the Proper Conduct of Banking Business Directives of the Bank of Israel, and with its approval. The applicable directives include:

- ◆ The Companies Law (Section 57), which states that the appointment of external directors shall be approved by the general meeting;
- ◆ Article 16 in the articles of the bank ("Articles of the Bank"), which establishes the process of appointing directors, pursuant to which directors shall be appointed based on a resolution of the general meeting, but may also be appointed by the board of directors under conditions established in the article (Article 16C of the Articles of the Bank). Pursuant to the provisions of the Banking Ordinance, a vote on the appointment of directors is held, separately for each candidate, at the general meeting. In addition, prior to convening a general meeting for which the agenda includes the appointment of directors or the termination of their service, an advance notice thereof is published at least 21 days before the publication of the announcement convening the meeting. The composition

of the board of directors is subject to the provisions of the Companies Law, Proper Conduct of Banking Business Directive 301, and the Articles of the Bank.

The financial expertise and professional qualification of directors are evaluated by the board of directors. The range of considerations includes the director's education, experience, and knowledge in areas and issues related to the activity of the bank, as detailed in the Companies Regulations (Conditions and Tests for Directors with Accounting and Financial Expertise and Directors with Professional Qualification), 2005. An application to appoint a director, with a declaration filled out by the director, pursuant to Proper Conduct of Banking Business Directive 301, is sent to the Supervisor of Banks for review; the appointment of the director is subject to advance approval by the Supervisor of Banks.

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

### The Activity of the Board of Directors and the Board Committees

In 2017, the board of directors of the bank continued to set forth the bank's strategy, policy, and the guiding principles for its activity in Israel and overseas, and established guidelines on various matters,



in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel. As part of this process, the board of directors set forth policy for the activities of subsidiaries in Israel and abroad, limits for exposure to various risks, share capital issuance, and the execution and realization of fixed investments. The board of directors addressed the approval of the quarterly and annual financial statements; dividend distribution; the organizational structure of the bank; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by the board of management, and the congruence of these operations with the policies of the bank.

The plenum of the board of directors receives regular reports and discusses plans, performance, and reports in the area of sustainability and corporate social responsibility at the bank, such as banking products that promote the values of sustainability, customer service, responsible employment issues, investment in the community, accessibility for people with disabilities and reduction of environmental impacts, including climate change. The chairperson of the board of directors of the bank serves as the director responsible for sustainability and CSR, and is charged with promoting this area and all of its components on the strategic level. This area is managed at the bank's Shared Value Center, under a senior executive who interfaces with all relevant functions within the organization and reports to the board of management and board of directors. The reports and discussions include status reports on the bank's progress in this area, under its CSR plan, and discussion and approval of future work plans. In addition to the discussions by the plenum of the board of directors, the activity of the members

of the board of directors of the bank is conducted through the committees. The bank examines and evaluates the quality of risk management on an annual basis, within the ICAAP, and endeavors to continually implement and improve this process. Selected corporate responsibility metrics are part of the bank's risk-management perception. This is reflected in the inclusion of such metrics in controls and in routine reports, such as SOX, BSC, and others. The risk management and control committee of the board of directors receives appropriate annual and quarterly reports in order to monitor, control, and assess risks, as required by the Proper Conduct of Banking Business Directives. Some of the members of the board of directors are experts on risk management, including credit risks. The risk management and control committee consists of four members, who have undergone training and accumulated extensive experience in the work of the committee. The members of the board of directors attend training on risk management from time to time.

Control over the application of proper corporate governance at the bank is discussed in meetings of the corporate governance and stakeholders committee. This committee also oversees corporate responsibility at the bank. The director responsible for this area is the chairperson of the board. The committee discusses and makes recommendations to the board of directors regarding policies, procedures, and guidelines designed to instill corporate governance principles in the work of the board of directors and its committees, and to enable the bank to comply with the appropriate corporate governance principles, as adjusted to legal directives, including establishment of the bank's policy and supervision of the board of management and the subsidiaries of the bank, as required by the Proper Conduct of Banking Business Directives of the Bank of Israel.

The board of directors usually convenes in plenary session several times each month; in addition, the committees of the board of directors hold meetings. In particularly urgent cases, the board of directors is convened to discuss the issue that has arisen. Urgent meetings are held by means of remote communication if necessary, as permitted by the regulations of the board of directors, in order to conduct an immediate discussion of an issue. Pursuant to Sections 98-99 of the Companies Law, 1999, directors are entitled to demand a discussion of a specific matter. In accordance with Section 99 of the Companies Law, such issues are added to the board of directors' agenda. Under the provisions of the Companies Law, Proper Conduct of Banking Business Directive 301, and the Articles of the Bank, the board of directors' agenda should include, among other matters, any subject that a director or the CEO has asked the chairperson of the board to include in the agenda a reasonable amount of time before the meeting convenes. Decisions made in an urgent meeting held via remote communications are affirmed at the next meeting of the board of directors or of the committee. The Board of Directors Procedures state that the board of directors shall hold a discussion at the earliest possible time regarding the exceptional events listed therein (outside the regular scheduled reports). The Board of Directors Procedures establish directives for transmitting materials regarding an issue added to the agenda in an urgent meeting. Urgent matters are raised as necessary and/or at the request of the chairperson of the board of directors, directors, or CEO, according to need and the importance of the issue. Important and urgent matters are discussed routinely, in accordance with the law and the procedures of the bank, as noted; there is no separate, unique count of such matters.

Directors' rights to receive information and to consult with various parties in the course of the fulfillment of their duties have been established in accordance with the law, including the Companies Law, Proper Conduct of Banking Business Directive 301, and the Board of Directors Procedures. This refers to all materials related to the activity of the bank or the assets of the bank, and to all documents of the bank that the directors require in order to fulfill their duties. In accordance with the provisions of Directive 301, the directors do not hold executive positions at the bank. They avoid participation in the routine management of the bank, and restrictions apply to their ability to address employees of the bank on business matters, (outside the meetings of the board of directors and the board committees).

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

### Remuneration of Officers

On March 28, 2016, the Knesset passed the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (the "Remuneration Limit Law"). On November 8, 2016, the bank released its new remuneration policy for officers, pursuant to the Remuneration Limit Law; the Companies Law; and the Banking Corporation Remuneration Policy Directive, in the version of September 29, 2016. The New Remuneration Policy was adopted by the general meeting of shareholders of the bank on December 19, 2016. In November 2016, the bank adopted a comprehensive new remuneration policy for its senior executives (this policy, together with the remuneration policy, shall be referred to as the "New Remuneration Policy"), as well as a remuneration plan consistent with this policy (the "2016 Plan"), which was amended on December 22, 2016. In 2017, the chairman of the board of directors, the chief executive officer of the bank, some of the members of the board of management, and the senior executives were subject to the New Remuneration Policy, excluding several members of the board of management whose remuneration was subject to the transitional directives from the 2014 Plan to the 2016 Plan. Beginning in 2018, all employment agreements of members of the board of management and senior executives will be fully subject to the New Remuneration Policy.

Main objectives of the remuneration policy:

- ◆ To motivate officers to work to create long-term economic value for the bank and its stakeholders, in a manner that strengthens the connection between remuneration and the creation of value for the stakeholders of the bank;
- ◆ To adjust the remuneration to the bank's vision, to the overall strategic plan of the bank and of its secondary units, and to the work plan derived from the strategic plans;
- ◆ To adjust total remuneration to the risk appetite of the Bank. The annual and multi-annual work plans are constructed, among other matters, with reference to the volume and types of the risks that the Bank is willing to undertake. The achievement of objectives of the work plan, including capital adequacy targets, and the achievement of a surplus return over the required cost of capital set the threshold for distribution of the performance-dependent component of the annual bonus.

In accordance with the New Remuneration Policy of the bank, at the date of adoption of the bank's remuneration policy for its officers, the ratio of the cost of total remuneration of the CEO to the median total remuneration cost of other employees of the bank does not exceed 11.



221 meetings of the committees and the plenum of the board of directors were held in 2017 (46 of them were plenum of the board of directors meetings). For further information regarding the activity of the board of directors and the change in the structure of the committees, see the financial statements, page 400. Attendance of the directors at the meetings of the board of directors was above 90%.

As of the end of 2017, the board of directors of the bank consisted of 10 members. ), of which two are external directors, as defined in Section 240 of the Companies Law, and in addition, three are external directors as defined in Proper Conduct of Banking Business Directive 301 of the Bank of Israel.

As of the end of 2017, eight directors have "accounting and financial expertise" and all the other directors have "professional qualification," based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations. The number of directors with "accounting and financial expertise" who are members of the audit committee of the board of directors is four. As of the end of 2017, three women and seven men serve on the board of directors (for further information about the members of the board of directors, see the financial statements, page 402, 411-412).

On February 6, 2017, a petition was filed with the District Court of Tel Aviv Jaffa for disclosure and perusal of documents prior to filing a petition for a derivative claim pursuant to Section 198A of the Companies Law. The petition concerns the manner of approval of the retirement agreement of a former employee of the bank, due to a complaint that she filed against the former CEO of the Bank on the subject of sexual harassment. After the completion of the examination of this matter by the Banking Supervision Department and the bank, the bank submitted its position, on March 13, 2018, pursuant to which there is no justification to undertake any proceedings, and the demands addressed to the bank concerning this matter should be denied, including the petition filed for disclosure of documents. In early 2017, following this affair, the board of directors of the bank appointed an external team of experts to examine the bank's existing preparedness for the prevention of sexual harassment. The team determined that the bank fulfills the directives of the Prevention of Sexual Harassment Law, and works continuously to improve the treatment of complaints and the prevention of sexual harassment. The recommendations of the team were presented to and approved by the board of directors of the bank. The team's suggestions included implementation at the bank of the Voluntary Code for the

Prevention of Sexual Harassment in the Workplace, by the Israel Standards Institute and the Association of Rape Crisis Centers in Israel, with the necessary adjustments. The process of instilling this code and implementing the recommendations of the team, most of which were already practiced at the bank, is planned to be completed by the end of 2018.

Alongside other banks around the world, in 2017 the bank continued to face investigation by United States authorities concerning the bank's business with American customers. The investigation requires significant financial expenditures for the bank, substantial effort by bank employees concerned with this matter, and extensive managerial attention. The nature and cost of the resolution that may be established are unknown as of the end of 2017 (for further information please review the financial report page 5).

## Instilling the Code of Ethics and Conduct

In 2004, Bank Hapoalim adopted a code of ethics encompassing the values of accountability, trust, integrity, and respect for human dignity. The code of ethics defines the relationship between employees and their environment – the bank, other employees, customers, and the community. Rules of conduct derived from the values included in the code establish the behavioral norms expected of employees and the bank's duty to treat employees fairly and respectfully.

The code is global, and encompasses several areas:

- ◆ **My work at the bank** – Defines the relationship between the bank and its employees;
- ◆ **Customer relationships** – Defines the relationship with the customers of the bank;
- ◆ **Relationships with external parties, suppliers, and competitors** – Defines the relationship with external parties, suppliers, and competitors;
- ◆ **Promoting the environment, society, and community in Israel** – Discusses the bank's social involvement and environmental responsibility, and its responsibility for employees' quality of life and well-being and for the best interests of its customers.

In 2017, the code was partially updated, in four areas: prevention of sexual harassment (according to bank's policy), avoidance of political donations and involvement in lobbying, management of relationships with investors and shareholders, and representation of the bank by employees on social media. The updated code was approved by the board of directors in early 2018, and posted to the bank's website. Channels for reporting ethics concerns are under the responsibility of the chief risk officer of the bank. The aim is for a single independent function to oversee all such reports. Bank employees who suspect any violation of the bank's values

and norms by any other employee can use several methods to discuss and report their thoughts: telephone, e-mail, written letters, or the anonymous channel on the organizational portal, which is available during all hours of activity. To ensure that employees who submit reports are protected and do not suffer any harm as a result of the report, a process and procedure have been developed and approved by the board of directors in order to safeguard these employees and maintain their anonymity. Employees can also contact their direct supervisor, indirect supervisor, MASHAB (the Personal Service Center), or the audit unit. In certain cases, they may also contact the chairperson of the audit committee of the board of directors.

In order to increase the effectiveness of the response to any ethical issues that arise during the course of the bank's operations, a shared interface is routinely operated during the year for audit staff, risk-management staff, and the supervisor of the code of ethics. The interface is aimed at learning and applying lessons learned, and optimizing the response to various issues, the relevant procedures at the bank, and the content of the code; it is maintained in addition to routine audit activities and the lines of defense at the bank. During the reported year, employee inquiries regarding ethics were responded to and addressed routinely. During 2017, seven requests for advice were received on the subject of receiving gifts and conflicts of interest, and nine requests for advice were received on the subject of appropriate presentation and proper ethical culture at the bank.

In addition, eight cases of suspected damage to the moral integrity of the bank were addressed. The following actions were taken in response to these events: conclusions were drawn by the audit unit in respect of three incidents of embezzlement / suspected embezzlement, and three incidents of embezzlement were reported to the Bank of Israel, in accordance with Proper Conduct of Banking Business Directive

351. Concurrently, in some of the cases disciplinary sanctions were imposed on the employees, including warning letters, reprimands, termination, and removal from a management position. The audited units or administrative units drew conclusions regarding some of the incidents.

### Instilling an Appropriate Ethical Culture at the Bank

During the course of 2017, activities were held on several levels with the aim of implementing the content of the code and promoting an appropriate ethical culture among the employees of the bank:

- ◆ Employees of the bank were required to complete tutorials, as they do every year, on the subject of the code of ethics and conflicts of interest (the bank has developed two packages of learning materials, one for the branch network and one for the head office, due to the different nature of ethical dilemmas characteristic of each type of activity). At the end of 2017, 95% of employees had completed the materials;
- ◆ Games and discussions concerning conflicts of interest were included in various banking courses;
- ◆ Regular messages to the bank's employees on the organizational portal placed special emphasis on rules of conduct for receiving work-related gifts and on the channels for queries on ethical issues;
- ◆ A seminar on compliance and ethics was held for branch managers; 250 managers participated.

### Prevention of Bribery and Corruption

As a banking organization at the heart of Israel's business and economic community and as a player in the international business arena, Bank Hapoalim is committed to an active role in the international fight against corruption.

Bank Hapoalim recognizes that corruption and bribery are a harmful threat and strongly rejects corruption and bribery. The bank is committed to implementing its policy in this





area, from the level of its board of directors and management to the level of each individual employee, including the adjustment of existing mechanisms and work processes. The bank has been proactive in preventing corruption and bribery for many years, in a variety of contexts. The bank has a system comprising content, processes, controls, and procedures designed to prevent corruption and bribery. Key sections on this subject have been added to the bank's code of ethics, reflecting its position on the prohibition of corruption and bribery and on receiving or giving gifts or benefits, with the aim of making a clear and unequivocal statement to all of the bank's internal and external stakeholders regarding its policy in this area (from the bank's policy on corruption). For details on the prevention of corruption at the bank, see the code of ethics on the bank's website (Section 3.7). Also see further details about the lines of defense at the bank later in this section, under the heading "Compliance."

### Examining Achievement of Objectives

2017 Objectives	Status
The bank's code of ethics is expected to be refreshed during 2017.	During 2017, a partial update of the code of ethics was performed, on several subjects, as detailed above, in advance of a comprehensive update process planned for 2018.

## LOOKING AHEAD

A comprehensive intra-organizational process to update the code of ethics according to the values in the bank's new branding.

## Compliance and Prevention of Money Laundering and Terrorist Activities

The areas of responsibility of the chief compliance officer of the bank are derived from Proper Conduct of Banking Business Directive 308, Compliance and the Compliance Function at a Banking Corporation ("**Directive 308**").

Accordingly, the Chief Compliance Officer Division comprises five professional departments:

- ◆ The Money Laundering Prohibition Department, which handles all of the components of the prohibition of money laundering and terrorism financing, including the declared money policy applied to foreign residents, treatment of bribery and corruption risks, and compliance with tax laws;
- ◆ The Customer Relations and Compliance Directives Department, which is responsible for ensuring compliance with the various compliance directives, including in connection with the bank's fairness towards its customers and the prevention of conflicts of interest;

- ◆ The International Compliance and Securities Enforcement Department, which is responsible for ensuring compliance and the prohibition of money laundering at offices of the bank outside Israel, and enforcing the Securities Law, 1968; the Joint Trusts Investment Law, 1994; and the Regulation of Investment Advising, Investment Marketing, and Investment Portfolio Management Law, 1995 (hereinafter: "**Securities Laws**");
- ◆ The International Taxation Compliance Department, which is responsible for the adoption of tax treaties to which Israel is a party, under which the bank is required to apply and adopt identification and reporting policies;
- ◆ The Administrative Unit (Operations, Coordination, and Control), which assists the chief compliance officer with the execution of systemic and operational assignments.

The Chief Compliance Officer Division operates according to the group's compliance policy, established by the board of directors, which took effect at the end of December 2010 and is updated annually. The compliance policy of the group sets

rules regarding all of the component areas of the prohibition of money laundering, compliance with compliance directives, and securities enforcement. This policy emphasizes corporate governance and the interaction with subsidiaries and branches outside Israel, and is based on provisions of the law relevant to the activity of the bank, including Directive 308; the Money Laundering Prohibition Law, 2000; the Terrorism Financing Prohibition Law, 2005; Proper Conduct of Banking Business Directive 411, Management of Money Laundering and Terrorism Financing Prohibition Risks; and the Securities Laws. This policy was expanded and updated most recently in December 2017. In order to comply with the directives of the law and with the group-level compliance policy, the Chief Compliance Officer Division conducts activities including identification of main exposures and risk areas; risk assessment; procedural, qualitative, and quantitative controls applied to compliance with directives that regulate the relationship between the bank and its customers and to the prohibition of money laundering and financing of terrorism; operation of a structured system of controls applied to compliance

with the Securities Laws; development of training and knowledge management systems; infrastructure surveys; analysis of new products and services; system development; and more.

The activity of the Chief Compliance Officer Division is supervised through two channels:

- ◆ The board of directors' committee on risk management and control;
- ◆ Quarterly and annual reports to the board of directors and board of management of the bank. These reports include updates regarding principal exposures and risk concentration areas in the group; progress on the work plan; and activities executed, including controls, mapping of knowledge gaps, organizational learning, technological and other projects in this field, reports submitted to the Israel Money Laundering Prohibition Authority, violations, and reports of exceptional events.

#### Monitoring and Control Processes

The control system at the bank group consists of three lines of defense, some of which encompass more than one component of control, as detailed below:

- ◆ The first line of defense (business units, including headquarters and unit compliance officers) consists of controls applied within the units. These controls are applied on two levels:

**A. Controls by the business functions,** performed within the units with regard to processes related to the activity of existing customers. Controls are also applied to internal processes at the bank.

#### B. Controls by compliance officers and enforcement trustees at the business units –

another internal line of defense within the units consists of division or area compliance officers who apply controls in the first line.

- ◆ The second line of defense comprises controls applied by the Chief Compliance Officer, the Risk Management division, the Finance Division, and the Head of Information Security;
- ◆ The third line of defense consists of controls applied by Internal Audit, which audits compliance issues and the second line.

#### Compliance Training

An understanding of the need for fair business conduct and the need to identify any unusual activity by customers is critical to compliance risk; a range of measures are therefore used to promote this awareness, including instructional content and tools integrated into managers' and bankers' training and work processes.

The following resources are available to employees who wish to consult or report on relevant matters:

- ◆ The network of branch/regional/divisional/area compliance officers;
- ◆ The Subjective Reporting System;
- ◆ The compliance site on the banking portal;
- ◆ The "Thinking Compliance" Unit for support on the subject of American customers and foreign residents;
- ◆ A regulatory issues support center;
- ◆ Communication with the professional units by e-mail or telephone;
- ◆ A system for anonymous queries.

Over

35

In 2017, the Chief Compliance Officer Division visited 35 branches and relevant units of the bank, to obtain an unmediated impression of work processes related to compliance, listen to the voices on the ground, and identify and examine compliance risks

Over

95%

Within an annual learning process, and according to the revisions required by legislation, approximately 95% of managers and employees completed learning materials concerning compliance, including a tutorial and a test

No significant fines or substantial non-monetary sanctions were imposed on the bank for noncompliance with laws and regulations in the area of products and services during 2017 (for details of legal proceedings to which the bank is a party, see Note 25C to the Annual Financial Statements for 2017, pages ???).

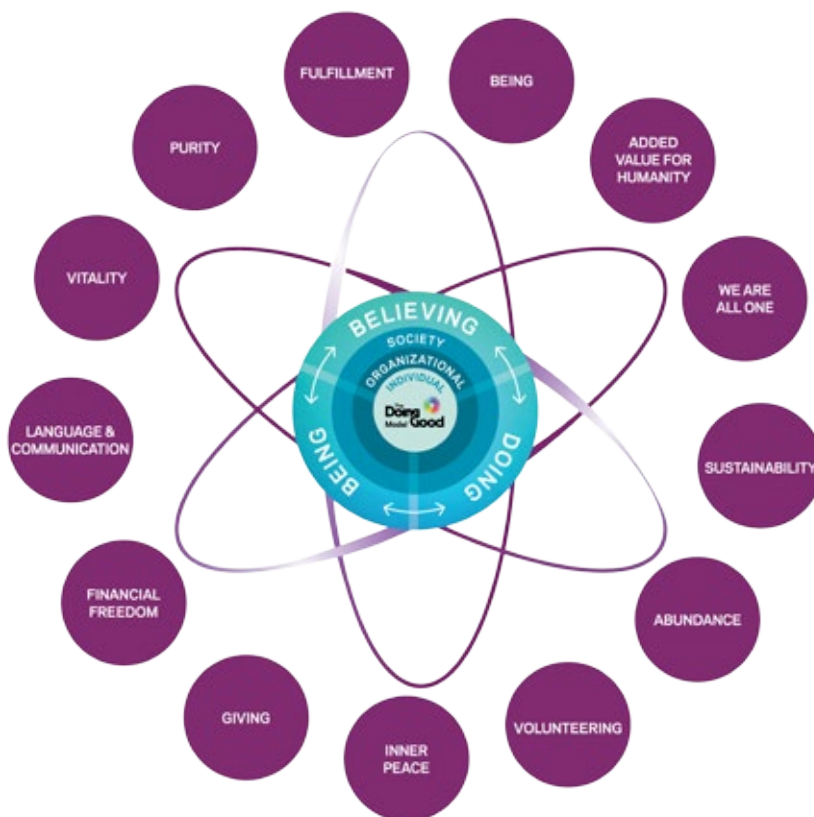


## Implementing the Doing Good Model for a Company Motivated by a Vision and Values

Bank Hapoalim acts in accordance with the values established in its vision, which are integrated with the values of the Doing Good Model. The model is a tool for implementation and realization of the Doing Good Vision – the vision of the Arison Group as a whole.

The Doing Good Model is a values-driven model for positive creation in the world. It serves as an everyday practical tool for embedding values at the core of businesses, organizations, communities, and individuals. The model consists of thirteen basic human values, which are assimilated into every activity for the benefit of society, the economy, and the environment. Over the years, the bank has worked to instill the values in its employees and to promote business activities aligned with these values.

Doing Good Model



- ◆ **Added Value for Humanity:** The courage and ability to create a better world by connecting thought, emotion, and action, and through fulfillment of the universal potential.
- ◆ **We Are All One:** Each person has his or her uniqueness. All of us compose the whole and constitute part of it.
- ◆ **Sustainability:** Protecting and enhancing existence through economic, social, and environmental balance, for us and for the generations to come.
- ◆ **Abundance:** Recognizing that everything exists and taking responsible action to protect its being.
- ◆ **Volunteering:** Action in the community, based on inner strength and love for others.
- ◆ **Inner Peace:** Commitment to an internal, personal, continuous and constant process that leads us to a quiet place, balanced and tranquil within us.
- ◆ **Giving:** To give of ourselves from a sincere, empowering, and true place.
- ◆ **Financial Freedom:** The freedom and the desire to make decisions based on responsibility and understanding of the framework of abilities and economic possibilities at any given moment.
- ◆ **Language and Communication:** Using a range of channels that facilitate the sending and receiving of information, with synchronization, authenticity, respect, and precision, which lead to an understanding of the messages as they are.
- ◆ **Vitality:** An internal, driving energy that enables a dynamic pace of life, vibrancy, and constant renewal.
- ◆ **Purity:** Clarity of thoughts, intentions, and actions.
- ◆ **Being:** Harmonious existence with all of the components that create the whole.
- ◆ **Fulfillment:** Realizing the self's full potential, while being at peace with our choices.

### **Embedding the Doing Good Model Values in the Activity of the Bank**

The bank endeavors to integrate the Doing Good Model with its routine business operations, in actions that create environmental and social value along with business value, as well as through activities aimed at absorption of the model by managers and employees, and its integration in dedicated initiatives as an integral part of the bank's activity. The values of the model are integrated in accordance with the vision, strategy, and policy of the bank. The values promoted in recent years are described below.

#### **Financial Freedom**

Financial freedom is a leading value in the vision of the bank. This value is implemented through multi-year, deep strategic processes that differentiate the bank, based on the idea that the bank is the customer's partner and financial guide for life. Within the implementation of the value, the bank promotes a range of services, processes, initiatives, and activities for various target groups (customers, employees, the community, and the general public), adapted to milestones in the life of the individual and the family. This effort is rooted in the understanding that the need for the general public to acquire financial knowledge and insight is growing, and in the objectives of enabling all people to realize their full financial potential and serving as customers' partners by meeting their differing financial needs.

For more extensive information regarding the implementation of the value of financial freedom, see the Introduction chapter, page 8; the section on the best interests of the customer, on page 29-32; and the section on empowerment of society and the community, on page 67-72.

#### **Sustainability**

The bank works continually to integrate sustainability considerations in its activity and support the solution of social and environmental challenges, based on the belief that such integration creates long-term value both for society and the environment and for the growth of the bank. Within its business activity, the bank aids the promotion of environmental sustainability by financing projects that benefit the environment, in areas such as investment in renewable energy, energy efficiency, water purification, recycling facilities, and more. The bank also acts to minimize its environmental impacts. Concurrently, the bank applies social and environmental considerations to its business activity, and helps respond to challenges confronting Israeli society.

For more extensive information regarding initiatives and activities of the bank that promote the value of sustainability, see the Introduction chapter, page 98-111.

#### **Giving**

Bank Hapoalim views itself as an integral part of the community; accordingly, it is committed to the advancement and empowerment of the community through investment in extensive, varied social and community activities, including in geographical, economic, and social peripheries. This effort is realized through long-term strategic partnerships, donations and sponsorships, and extensive volunteering by bank employees over the years. The bank promotes varied social activity in the public sphere, based on dialogue and on numerous collaborations with partners from different sectors who are experts in identifying community needs. For more extensive information regarding initiatives and activities of the bank that promote the value of giving, see the section on empowerment of society and of the community, page 64-75.

#### **Volunteering**

A nationwide volunteering network operates at the bank, encompassing thousands of employees who volunteer throughout the year, in various venues throughout Israel, independently or within initiatives led by the bank in collaboration with non-profit organizations. Bank employees who volunteer assist in these organizations' activity with the aim of resolving various challenges and issues confronted by Israeli society. The volunteer network is aided by a supportive organizational structure within the bank. On Good Deeds Day in 2017, approximately 6,200 employees of the bank participated in a wide range of activities, at 450 locations across Israel.

For more extensive information regarding initiatives and activities of the bank that promote the value of giving, see the section on empowerment of society and of the community, page 72-75.

#### **Vitality**

The bank's human capital is the source of its power. Employees' sense of vitality, well-being, and health is essential to the bank. Accordingly, the bank invests in a comprehensive environment promoting healthy lifestyles, work-life balance, and leisure activities, such as through subsidies for memberships at country clubs and gyms, sports teams, workshops on healthy nutrition, vacations and travel for employees and their families, subsidized tickets for performances and plays, and more.

For more extensive information regarding initiatives and activities of the bank that promote the value of vitality, see the Employees chapter, page 90-95.

#### **Language and Communication**

Communication is a powerful tool for the creation of social change and for maintaining a positive attitude even in



challenging interactions. A culture based on positive language helps promote efficient, effective communication. To instill this value, the bank launched an organizational drive, for managers and employees, aimed at raising awareness of the positive language and thinking approach and of its impact on communication with each other and with all stakeholders. As part of this process, the bank developed an organizational positive language dictionary, in collaboration with employees, which contains terminology for positive communication and serves as a tool for implementation of this value.

### **Fulfillment**

A work environment in which employees feel they are developing and can express themselves leads to a sense of personal fulfillment and enhances employees' engagement with the organization, and their ability to contribute their talents to the creation of value for customers and to the growth of the bank. Strong emphasis is placed at the bank on employees' development and learning, as reflected in a wide range of courses and training programs for professional, managerial, and personal skills; innovative study platforms that allow independent digital learning; and mentoring, coaching, and organizational consulting processes. The bank encourages internal mobility and promotion of employees and managers. For more extensive information regarding initiatives and activities of the bank that promote the value of fulfillment, see the Employees chapter, page 87-90.

### **We Are All One**

The understanding that each person is unique, and that we all compose the whole and form a part of it, leads to greater closeness and promotes tolerance and the creation of a more fair and equitable society. Bank Hapoalim, as one of the

largest organizations and employers in Israel, with millions of customers in all strata of society, accords high importance to diverse employment from all parts of the community in Israel, and to the provision of banking services adapted to different target audiences and sectors.

For more extensive information regarding initiatives and activities of the bank that promote the value "we are all one," see the Employees chapter, page 59, and the Customers chapter, page 33-40.

### **Being**

In a complex reality – in an age of myriad contradictions and changes – it becomes necessary to train ourselves to enhance our attention and awareness of our mind and our surroundings. The value of being is realized at the bank through tools imparted to managers and employees for coping with a complex reality characterized by change and uncertainty. Over the last three years, the flagship program Management Through Being for senior executives has been held at the Poalim Campus. Over 220 managers participated in the program, which is focused on being and interpersonal communication as foundations for the achievement of business results.

### **Activities Aimed at Implementing the Model**

A plan for absorption of the Doing Good Model was introduced in 2015, under the heading, "Poalim For Good." Dedicated activity was conducted for familiarization with the model and values, in order to instill and promote positive action related to each of the values during a selected month of the year. These activities were linked with an online learning system supporting the absorption of the model and values, aimed at the achievement of in-depth familiarity with each of the values.

Activities aimed at absorption and development of initiatives for the

## **LOOKING AHEAD**

Absorption and the development of initiatives to promote the values within the bank's business activity are expected to continue in 2018, through the following activities:

- Deeper familiarity of employees with the Doing Good Model and its component values, through methodologies of independent learning, workshops, content on the organizational portal, and connection with organizational processes;
- Embedding the values of the model in the leading values of the bank, and instilling a culture that integrates values with business. A personal and organizational development program for Values Leaders from the areas of the bank, planned for this year, is designed to promote and deepen the absorption and implementation of the values.

promotion of these values in the business operations of the bank continued in 2016-2017, on two levels: the individual level – deeper understanding of the values through a game activity and coaching days for employees, in the spirit of the value selected for each month; and the organizational level – organization-wide activities included values-based executive development programs. For example, the Community Leaders program for executives is based on forging connections in the spirit of financial freedom, and on shared value for the branch and its surrounding community.

# GRI INDEX AND COP REPORTS TO THE GLOBAL COMPACT<sup>10</sup>



Standard	Disclosure	Description	Page	UNGC – COP
<b>GRI 102: General disclosure</b>	102-1	Name of the organization	114-115	NR
	102-2	Activities, brands, products, and services	114-115	
	102-3	Location of headquarters	114	
	102-4	Location of operations	114-115	
	102-5	Ownership and legal form	115	
	102-6	Markets served	114-115	
	102-7	Scale of the organization	33, 58-59, 79-80	
	102-8	Information on employees and other workers	79-81	
	102-9	Supply chain	60-63	
	102-10	Significant changes to the organization and its supply chain	6-7, 115	
	102-11	Precautionary principle or approach	98-99	7
	102-12	External initiatives	17-19, 23-25	1-10
	102-13	Membership of associations	23-25	1-10
	102-14	Statement from senior decision-maker	4-5	
	102-15	Key impacts, risks, and opportunities	4-5, 14-16, 100-101	Presented in the CEO statment
	102-16	Values, principles, standards, and norms of behavior	8-10, 120, 123-125	1-10
	102-17	Mechanisms for advice and concerns about ethics	120, 122	
	102-18	Governance structure	116-118	
	102-19	Delegating authority	116-118	
	102-20	Executive-level responsibility for economic, environmental, and social topics	117	
	102-21	Consulting stakeholders on economic, environmental, and social topics	11-12, 116-118	
	102-22	Composition of the highest governance body and its committees	116	
	102-23	Chair of the highest governance body	5, 116-117	
	102-24	Nominating and selecting the highest governance body	116-118	
	102-25	Conflicts of interest	60, 116, 120	
	102-26	Role of highest governance body in setting purpose, values, and strategy	116-118	
	102-27	Collective knowledge of highest governance body	116-117	

<https://www.unglobalcompact.org/> -UNGC official site



Standard	Disclosure	Description	Page	UNGC – COP
<b>GRI 102: General disclosure</b>	102-28	Evaluating the highest governance body's performance	116	
	102-29	Identifying and managing economic, environmental, and social impacts	116-118	
	102-30	Effectiveness of risk management processes	116	
	102-31	Review of economic, environmental, and social topics	116-118	
	102-32	Highest governance body's role in sustainability reporting	4, 5	
	102-33	Communicating critical concerns	118-119	
	102-34	Nature and total number of critical concerns	118-119	
	102-35	Remuneration policies	91, 118-119	
	102-36	Process for determining remuneration	91, 118	
	102-37	Stakeholders' involvement in remuneration	118	
	102-38	Annual total compensation ratio	118	
	102-39	Percentage increase in annual total compensation ratio	118	
	102-40	List of stakeholder groups	13-14	
	102-41	Collective bargaining agreements	20, 78	
	102-42	Identifying and selecting stakeholders	13-16	1, 2, 6
	102-43	Approach to stakeholder engagement	11-14	
	102-44	Key topics and concerns raised	14-16	
	102-45	Entities included in the consolidated financial statements	7	
	102-46	Defining report content and topic boundaries	6-7, 15-16	
	102-47	List of material topics	15-16	
	102-48	Restatements of information	6-7	
	102-49	Changes in reporting	6-7	
	102-50	Reporting period	6-7	
	102-51	Date of most recent report	6-7	
	102-52	Reporting cycle	7	
	102-53	Contact point for questions regarding the report	7	
	102-54	Claims of reporting in accordance with the GRI Standards	6	
	102-55	GRI content index	126-131	
102-56	External assurance	132-137		
<b>GRI 201: Economic Performance 2016</b>	103-1	Explanation of the material topic and its boundary	58	
	103-2	The management approach and its components	58	
	103-3	Evaluation of the management approach	58	
	201-1	Direct economic value generated and distributed	58-59	
	201-2	Financial implications and other risks and opportunities due to climate change	98-101	7
	201-3	Defined benefit plan obligations and other retirement plans	94-95	
	201-4	Financial assistance received from government	Not recived during reported period	

Standard	Disclosure	Description	Page	UNGC – COP
<b>GRI 203: Indirect Economic Impacts 2016</b>	103-1	Explanation of the material topic and its boundary	58-59	
	103-2	The management approach and its components	58-59	
	103-3	Evaluation of the management approach	58-59	
	203-1	Infrastructure investments and services supported	36-37, 64-67	
	203-2	Significant indirect economic impacts	33-37, 61-62, 98-99	
<b>GRI 204: Procurement Practices 2016</b>	103-1	Explanation of the material topic and its boundary	60-62	NR
	103-2	The management approach and its components	60-62	
	103-3	Evaluation of the management approach	60-62	
	204-1	Proportion of spending on local suppliers	60	
<b>GRI 205: Anti-corruption 2016</b>	103-1	Explanation of the material topic and its boundary	120-121	10
	103-2	The management approach and its components	120-121	
	103-3	Evaluation of the management approach	120-121	
	205-1	Operations assessed for risks related to corruption	120-122	
	205-2	Communication and training about anti-corruption policies and procedures	122	
<b>GRI 301: Materials 2016</b>	205-3	Confirmed incidents of corruption and actions taken	120	
	103-1	Explanation of the material topic and its boundary	98	
	103-2	The management approach and its components	98	
	103-3	Evaluation of the management approach	98	
	301-1	Materials used by weight or volume	106-111	
<b>GRI 302: Energy 2016</b>	301-2	Recycled input materials used	61, 104	8,9
	103-1	Explanation of the material topic and its boundary	103-104	7, 8, 9
	103-2	The management approach and its components	103-104	
	103-3	Evaluation of the management approach	103-104	
	302-1	Energy consumption within the organization	105-106	
	302-2	Energy consumption outside of the organization	Not material to the organization	
	302-3	Energy intensity	105	
	302-4	Reduction of energy consumption	104	
302-5	Reductions in energy requirements of products and services	52-53, 55, 109-111		





Standard	Disclosure	Description	Page	UNGC – COP
<b>GRI 305: Emissions 2016</b>	103-1	Explanation of the material topic and its boundary	101	7, 8
	103-2	The management approach and its components	101	7,8
	103-3	Evaluation of the management approach	101	7, 8
	305-1	Direct (Scope 1) GHG emissions	101-102	7, 8
	305-2	Energy indirect (Scope 2) GHG emissions	101-102	7, 8
	305-3	Other indirect (Scope 3) GHG emissions	101-102	7, 8
	305-4	GHG emissions intensity	102-103	7, 8
	305-5	Reduction of GHG emissions	104, 106-107	7, 8 9
	305-6	Emissions of ozone-depleting substances (ODS)	101	7, 8
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Not material to the organization	7,8
<b>GRI 401: Employment 2016</b>	103-1	Explanation of the material topic and its boundary	78	1, 2, 6
	103-2	The management approach and its components	78	
	103-3	Evaluation of the management approach	78	
	401-1	New employee hires and employee turnover	80	6
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	90	
	401-3	Parental leave	79	1, 2, 6
<b>GRI 402: Labor/ Management Relations 2016</b>	103-1	Explanation of the material topic and its boundary	82-83	2, 3
	103-2	The management approach and its components	82-83	
	103-3	Evaluation of the management approach	82-83	
	402-1	Minimum notice periods regarding operational changes	92	
<b>GRI 404: Training and Education 2016</b>	103-1	Explanation of the material topic and its boundary	87	6
	103-2	The management approach and its components	87	
	103-3	Evaluation of the management approach	87	
	404-1	Average hours of training per year per employee	89	
	404-2	Programs for upgrading employee skills and transition assistance programs	87-89, 93-95	
	404-3	Percentage of employees receiving regular performance and career development reviews	13, 82	
<b>GRI 405: Diversity and Equal Opportunity 2016</b>	103-1	Explanation of the material topic and its boundary	85	1,6
	103-2	The management approach and its components	85	
	103-3	Evaluation of the management approach	85	
	405-1	Diversity of governance bodies and employees	85-87	
	405-2	Ratio of basic salary and remuneration of women to men	84	
<b>GRI 406: Non-discrimination</b>	103-1	Explanation of the material topic and its boundary	84	1, 2, 6
	103-2	The management approach and its components	84	
	103-3	Evaluation of the management approach	84	
	406-1	Incidents of discrimination and corrective actions taken	84	

Standard	Disclosure	Description	Page	UNGC – COP
<b>GRI 407: Freedom of Association and Collective Bargaining 2016</b>	103-1	Explanation of the material topic and its boundary	92-93	1, 2, 3
	103-2	The management approach and its components	92-93	
	103-3	Evaluation of the management approach	92-93	
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	63	
<b>GRI 413: Local Communities 2016</b>	103-1	Explanation of the material topic and its boundary	64-65, 72	NR
	103-2	The management approach and its components	64-65, 72	
	103-3	Evaluation of the management approach	64-65, 72	
	413-1	Operations with local community engagement, impact assessments, and development programs	67-75	
	FS13	Access points in low-populated or economically disadvantaged areas by type	29, 35, 39-40, 55	
	FS14	Initiatives to improve access to financial services for disadvantaged people	29-31	
<b>GRI 414: Supplier Social Assessment 2016</b>	103-1	Explanation of the material topic and its boundary	63	NR
	103-2	The management approach and its components	63	
	103-3	Evaluation of the management approach	63	
	414-1	New suppliers that were screened using social criteria	63	1, 2, 6
<b>GRI 417: Marketing and Labeling 2016</b>	103-1	Explanation of the material topic and its boundary	47	8
	103-2	The management approach and its components	47	
	103-3	Evaluation of the management approach	47	
	417-1	Requirements for product and service information and labeling	47	8
	417-2	Incidents of non-compliance concerning product and service information and labeling	No incidents in 2017	NR
	417-3	Incidents of non-compliance concerning marketing communications	47	
<b>GRI 418: Customer Privacy 2016</b>	103-1	Explanation of the material topic and its boundary	47-48	1
	103-2	The management approach and its components	47-48	
	103-3	Evaluation of the management approach	47-48	
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	48	
<b>GRI 419: Socioeconomic Compliance</b>	103-1	Explanation of the material topic and its boundary	121-122	NR
	103-2	The management approach and its components	121-122	
	103-3	Evaluation of the management approach	121-122	
	419-1	Non-compliance with laws and regulations in the social and economic area	122	1
<b>Product Profile (Sector Supplement) 2016</b>	103-1	Explanation of the material topic and its boundary	8-10, 29-31, 34-36	NR
	103-2	The management approach and its components	8-10, 29-31, 34-36, 50-51	
	103-3	Evaluation of the management approach	8-10, 29-31, 34-36	
	FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	33	
	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	33-34	
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	100	



## Material topics and their attribution to the GRI- SRS Indicators

<b>promotion of costumers' financial freedom</b>	GRI 203: Indirect Economic Impacts, GRI 413: Local Communities, Product profile (Sector supplement)
<b>Service for a wide variety of customers and promotion of specific sectors</b>	GRI 413: Local Communities, Product profile (Sector supplement)
<b>Information security and privacy</b>	GRI 418: Customer Privacy
<b>Responsible supply-chain management</b>	GRI 414: Supplier Social Assessments, GRI 204: Procurement Practices, GRI 417: Marketing and Labeling
<b>Expansion of spheres of influence</b>	GRI 203: Indirect Economic Impacts, GRI 201: Economic Performance, GRI 102: General Disclosure, GRI 413: Local Communities
<b>Investment in the community</b>	GRI 413: Local Communities
<b>Promotion of an appropriate work environment</b>	GRI 402: Labor\ Management Relations, GRI 401: Employment, GRI 407: Freedom of Association and Collective Bargaining, GRI 406: Non- discrimination
<b>Promotion of diversity, equal opportunities, and transparency</b>	GRI 405: Diversity and Equal Opportunity, GRI 102: General Disclosure, GRI 406: Non- discrimination
<b>Individual development and training</b>	GRI 404: Training and Education
<b>Reduction of environmental impacts</b>	GRI 301: Materials, GRI 302: Energy, GRI 305: Emissions
<b>Development of products and services for the promotion of environmental sustainability and examination of environmental risks in financing</b>	GRI 203: Indirect Economic Impacts, Product profile Sector supplement
<b>Corporate governance and ethics</b>	GRI 102: General Disclosure
<b>Prevention of corruption and money laundering</b>	GRI 205: Anti-corruption, GRI 419: Socioeconomic Compliance

# PROCESS CONTROLS FOR IMPLEMENTATION OF THE CSR PLAN AT BANK HAPOALIM

An external control process allows readers of this report to verify the bank's self-report based on independent opinions from professional observers. The involvement of additional sources of control enables the bank to learn from the feedback received from those conducting the process and provides validation of the reliability of the report for stakeholders. The current report has undergone four control processes, each focusing on a different aspect of the report:

- ◆ The CSR and Sustainability Group at BDO Ziv Haft performed routine process controls<sup>11</sup>;
- ◆ The CSR Institute performed quality assurance and examined the adequacy of the reporting;
- ◆ Control over the quality of reporting on the bank's carbon footprint was performed by the CSR and Sustainability Group at BDO Ziv Haft;
- ◆ The report was examined by GRI and found compliant with the material GRI process presentation requirements.

## BDO: Process Control for CSR Implementation at Bank Hapoalim

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

of the program for sustainability and social, economic, and environmental responsibility. BDO consultants' close work with the bank allows a professional opinion to be provided based on an examination of the processes performed by the bank throughout 2017 and during 2018, up to the date of publication of the report. During this period, the bank continued the implementation and absorption of corporate social responsibility.

### Description of the Process

As part of the process controls, the bank's progress in three strata of activity was examined, as the basis for feedback on the implementation of the plan:

#### A. Update and improvement of

##### information infrastructures and CSR management metrics

– The department's consultants examined the CSR management system at the bank, the summarization of information collected, processes of generating information and processing it into metrics, and the bank's performance relative to its goals and objectives.

#### B. Embedding CSR in core activities and

##### in the various units

– In this area, the process of embedding CSR practices in the routine operations of the bank's units was examined, as well as the organizational change evoked at the bank as a result of this process. The control process also encompassed an examination of the method of development and implementation of

new issues arising from reports by the various units.

#### C. Examination of the results of implementation of the program

##### (effectiveness of absorption)

– This stage consisted of an examination of the ways in which the bank had improved its performance on the various metrics, led new initiatives at the various units for activity in this area, developed new banking products, and created dialogue with stakeholders, while broadening its impact on the Israeli public.

Findings, Conclusion, and Recommendations  
Within our process controls, we suggest several areas for the bank to maintain or reinforce:

#### ◆ Promotion of sustainable investments

– In 2017, the bank increased the depth of its infrastructure, and developed and launched products aimed at promoting shared value, within the Shared Value Center in the Stakeholder Relations Division. We recommend deepening responsible conduct and expanding the shared-value approach to encompass investments, in line with the global trend at leading banks and financial institutions. CSR aspects are integrated with investments on two levels:

##### (a) Weighing CSR aspects in

##### investments

– granting preference to companies reviewed and identified as responsibly managed, in accordance with sustainability principles. This preference is expressed both in the

11. Consultants in the group collected the data processed for this report. This opinion therefore focuses on the work process at the bank. In order to maintain independence, the examination of compliance of the report with GRI reporting requirements was performed by an independent third party, The Center for Sustainability Report Quality Assurance.



investment of the capital of the bank, and in investment advice given to customers. Beyond the values aspect, investment in companies that operate unethically – such as companies that engage in polluting or in harmful conduct towards their stakeholders – has consequences that can affect return on investment. Taking CSR aspects into consideration in investments therefore reduces exposure to risks.

**(b) Impact investments** – Identifying and investing in companies and initiatives developing solutions for social and environmental issues, while exposing the customers of the bank to these investment possibilities. This year, for the first time, the bank mapped the range of steps it takes that contribute on the local level to attaining the United Nations' Sustainable Development Goals (SDGs). Alongside the promotion of shared value inherent in investments of this type, impact investments have the power to bring about progress towards the UN goals and reduce global development gaps.

- ◆ **Development of additional green products for private customers** – The bank promotes green energy and environmental solutions by granting credit for projects and infrastructures on a national scale.

The bank has several green credit and loan products for private customers, such as loans to finance and install solar panels. We recommend further examination, increased sophistication, and development of products of this nature for private customers. In addition to the promotion of shared value inherent in such products, they can raise public awareness of the importance of sustainable environmental conduct.

- ◆ **Communicating the bank's actions in the area of CSR to employees** – The bank has a range of channels for intra-organizational communication, which contribute, among other matters, to employee engagement with the organization. Beyond communicating this activity once a year in the CSR report, we recommend that the Stakeholder Relations Division use these channels to regularly communicate the actions taken in the area of CSR to the stakeholders of the bank, and implement this process as part of its routine.

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

**Corporate Social Responsibility Department**  
BDO Consulting Group

June 2018



# QUALITY ASSURANCE DECLARATION

## Bank Hapoalim 2017 CSR Report

### Introduction

**The Corporate Responsibility Institute** is an independent public entity dedicated to the promotion of the corporate social responsibility and sustainability approach. The institute operates within **the College of Law and Business**, an academic college for law, accounting, and business studies. The institute's activities include organizing professional meetings; writing reports, studies, and market surveys; adapting global applied methodologies for use in Israel; and more.

Transparency and the accountability of corporations for their social and environmental impact constitute one of the institute's core issues. In June 2018, Bank Hapoalim asked the institute to perform a quality assurance process for its 2017 CSR report. The quality assurance process was performed by Mr. Liad Ortar, head of the institute.

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

### Work Method

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



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

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

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

This report, the bank's eleventh, continues to demonstrate a deep organizational commitment to CSR. The organization's absorption of CSR into an executive area of the bank (the Stakeholder Relations Division) is crucial, as it emphasizes that management of this subject is an integral element of the bank's overall management, rather than a separate component. This is evidenced by the ordered, systematic mapping to prioritize the banking issues seen as material by the stakeholders of Bank Hapoalim, and



supported by the descriptive statistics presented in the report. In addition, the continual new thinking about the identification of material issues to report (and to execute, obviously) is an essential part of any corporate reporting process. This is the heart of the organization's CSR practice, and must be upheld during each reporting cycle. The materiality analysis process was revised in this report; issues were reduced, consolidated, and clarified – a welcome change. Finally, this report presents a leap forward on the subject of implementation of the United Nations Sustainable Development Goals, in line with the trend in reports of leading organizations worldwide.

### Key Remarks

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

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

- ◆ **Management of environmental risks** – There is no doubt that Bank Hapoalim has continued to adopt advanced approaches to environmental risk management; it has presented the level of its environmental risk based on the volume of financed projects. Deeper analysis in this area, in a matrix also including types of projects (by business sector), could offer the public a broader, more in-depth view of the levels of environmental risk present in the Israeli market.
- ◆ **From risk management to impact measurement** – As noted above, environmental risk management is already firmly embedded in the bank's risk-management system (however, social risks are entirely absent from the discourse in the Israeli banking sector; this is another horizon for future expansion of activity). The global trend today is to look beyond risk, in investment management, to impacts. Impact investments are growing around the world, as well as in Israel; this area of activity should be considered within the bank's overall investment management.

Sincerely yours,

#### Liad Ortar

Head of Corporate Social Responsibility Institute  
College of Law and Business

The Corporate  
Social Responsibility Institute

# CARBON FOOTPRINT

## Work Method

Our work is based on prevalent principles for carbon calculation and marking, developed by the technical work group of the British government. The data were adapted to Israel through the Israel Greenhouse Gas Emission Recording System – Operating Rules and Reporting Guidelines, issued by the Samuel Neaman Institute and the Ministry of Environmental Protection in March 2016. Emission coefficients used for these calculations are national figures published by professional entities such as the Public Utility Authority – Electricity, the Central Bureau of Statistics, and the Samuel Neaman Institute, which is linked to the Technion. Consumption data were supplied by the bank, at its responsibility. As of the date of preparation of this report, the Ministry of Environmental Protection has not published emission coefficients for 2017; the calculation of the bank's carbon footprint is therefore based on emission coefficients for 2016.

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

The bank continued the consistent measurement of its carbon footprint in 2017, further to the transition to analysis of its carbon footprint according to the prevalent international standards, and the reports to the Israel Greenhouse Gas Emission Recording System beginning in 2010. The total carbon footprint of Bank Hapoalim in 2017 stood at 63,917 tons of carbon dioxide equivalent (CO<sub>2</sub>eq). Greenhouse-gas emissions from the bank's routine operations mainly derive from electricity consumption at the head-office buildings, branches, and other facilities of the bank (71%); the vehicle fleet (10%); paper consumption (5.5%); and construction work (5.8%). Notably, of the total carbon footprint figure of the bank for 2017, 12,291 tons CO<sub>2</sub>eq are classified as Scope 3 (voluntary reporting). Excluding Scope 3, the carbon footprint would stand at 51,593 tons CO<sub>2</sub>eq. The reduction of the bank's carbon footprint in 2017 in comparison to 2016 is minor, at approximately 2,049 tons CO<sub>2</sub>eq, or 3.1%. This annual reduction mainly resulted from a 9% decrease in fuel consumption and a 52% reduction in purchasing of electronic equipment.

### Summary of Findings

Significant changes in the composition of emissions:

- ◆ **Power consumption:** Total power consumption decreased by approximately 0.18% in 2017 compared with 2016.
- ◆ **Fuel consumption:** The bank's consumption of fuel decreased by 9% in 2017. The main cause of the decrease is the use of fuel-efficient vehicles (with TSI turbo engines), which help improve fuel savings.
- ◆ **Paper consumption:** An additional reduction (further to the trend of recent years) of approximately 12% was noted in emissions, compared with 2016, as a result of paper savings.
- ◆ **Sewage:** The responsibility for emissions resulting from the treatment of sewage for the bank's employees was transferred to the purification plants, in accordance with the directives of the Emissions Reporting System.





## Components in the Calculation of the Carbon Footprint of the Bank

- ◆ The bank monitors and calculates greenhouse-gas emissions caused by electricity consumption, use of the vehicle fleet, consumption of paper and ink, emission of coolant gases, purchases of electronic equipment, new construction and renovations, employee flights and hotel stays, and water consumption.
- ◆ The preceding reports of the bank presented the reduction of greenhouse-gas emissions at source as a result of direct banking; however, a decision was made not to include this information in the presentation of the bank's carbon footprint in this report. This component is difficult to quantify, due to the lack of thorough research on this subject and the inability to measure and assess the true savings in paper consumption, transporting of paper through the entire supply chain to the online-banking customer, emissions resulting from customers' use of the Internet, and in particular the reduced number of visits to the bank using private vehicles. Furthermore, emission cutbacks are based on the principle of additionality – i.e., an addition relative to the ordinary business scenario. Given that the use of electronic banking today is a "business as usual" scenario, it does not have the property of additionality.
- ◆ It should be noted that extensive activities with environmental and social significance described in this report are not reflected in quantitative terms in the calculation of the reduction of the bank's carbon footprint. The various forms of recycling, collection of fluorescent light bulbs, including mercury removal and safe disposal, as well as the separate collection and disposal of batteries, contribute to the reduction of various pollutants and toxins in employees' environment, in waste-disposal facilities, and in the environment in general, but do not reduce the emission of greenhouse gases.
- ◆ The bank does not measure greenhouse-gas emissions from employees' travel in private vehicles, production of solid waste, advertising, travel by suppliers and customers, consumption of disposable plastic, gardening services, and cleaning services.
- ◆ Beyond the activities within the bank, a noteworthy effort is the significant expansion of the project for separation of electronic waste, initiated and operated by the bank, to additional Israeli towns. There is no doubt that this worthwhile project contributed to higher public awareness and more accessible recycling in this area.

### Corporate Social Responsibility Department

BDO Consulting Group

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