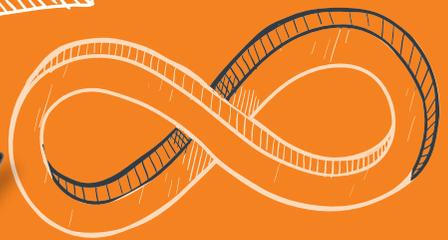




★ REPORT ★

Corporate
Social Responsibility

2016



Customers and Us
|
The Community and Us
|
Our Employees
|
The Environment and Us
|
Corporate Governance



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Message from the Bank President & CEO

Dear readers,

We hereby present you with the fourth corporate social responsibility report by Mizrahi-Tefahot Group Ltd. for 2016. This report covers in depth all actions related to corporate responsibility in 2016. These actions reflect our commitment to all our stakeholders, as well as our understanding that being a business which operates within our society with reciprocal ties – we are committed to demonstrate responsibility and to make efforts for the benefit of our community and the environment.

This document provides detailed information about action taken by the Group in 2016 on matters such as: promoting customer interests, social and community involvement at the Group, creating a proper, accountable work environment for Group employees, environmental protection, maintaining proper corporate governance, ethics, risk management etc. These matters are foremost on the organizational agenda and form an integral part of our business core and organizational culture.

The unique attributes of Mizrahi-Tefahot, as the fastest growing bank in Israel with a return on equity in double figures, the most efficient bank and having the youngest, best educated staff in the banking system, are a key pillar of the Bank's capacity to provide solutions to various stakeholders.

As part of the Bank's strategic five-year plan presented in 2016, the Bank set an objective to continue growing by expanding the branch network and providing solutions to a wide variety of customers while expanding operations in the Arab, Jewish Orthodox and retiree segments. The Bank would also keep expanding its operations in the business segment.

One of the guiding principles for our operations is the understanding that there is no alternative for the unique added value brought by a professional, experienced personal banker to their customer relationship. Therefore, we continue to implement this year the service concept which best integrates man – the banker and the

customer – and machine, with technology and digital channels, which are evolving at a rapid pace, taking a key role in improving of the customer service experience – along with supporting the professional skills and human service level provided to the customer. In our research over the years, we have found that our customer satisfaction is the highest from the other banks and they are happy and satisfied with how their needs are addressed by the Bank. Mizrahi-Tefahot Group Ltd. is a major player in the mortgage market and considers itself as taking part in construction of the Land of Israel. The Group also sees great importance in promoting small business, which is why we have increased lending to this segment in 2016 by 8.7% and have recruited thousands of new business customers. The Group sees the great importance of empowering its human capital; therefore we take action designed to empower, promote and develop the Bank's greatest and most important asset – its human capital. This campaign includes many activities, which are integrated with routine work and which are designed to create a more comfortable, pleasant work environment, to expand the knowledge and professional development of employees and to support relations between the Bank, its customers and employees.

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

In 2016, the Bank continued to support various social organizations and institutions and to conduct ventures to benefit populations in need. These activities are carried out with involvement of Bank employees, their families and even Bank customers. This report is another communication channel with our stakeholders, with the intention of fostering open, transparent dialog on all of the issues contained therein. We invite readers of this report to comment on it and to further challenge us, so that we may build upon our actions in these important matters.

We wish you a pleasant, fruitful read,

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

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



MIZRAHI TEFAHOT



From the Corporate Social Responsibility Officer

Mizrahi-Tefahot Group has issued, for the fourth year, its corporate social responsibility report to the public and to its stakeholders. This report covers

operations across the Group and its subsidiaries in Israel and at Group overseas affiliates in 2016.

Our commitment to corporate responsibility across all Group units is based on understanding of issues raised by stakeholders, dialog with Group employees, dialog with our customers and on our commitment to achieve our objectives. This area is managed in an orderly fashion, includes multiple entities across the organization and requires significant coordination and preparation, in order to manage the processes with long-term impact. The following pages present key initiatives and benchmarks of the Bank's operations in 2016, which are covered in detail in this report.

In 2016, we continued to make progress in diverse areas:

- The Bank expanded its branch network nationwide, as part of the Bank strategy to provide solutions for a wider range of customers in different segments.
- We expanded Bank operations in the Jewish Orthodox and Arab segments and adapted our products and services for these populations.
- We expanded assistance to customers in debt: Bridge loans for customers facing liquidity issues and a range of services as part of assistance programs.
- We expanded our accessibility services offered to customers, by making banking services and facilities accessible.
- We continued to promote steps to reduce the Bank's carbon footprint by conducting various programs and providing incentive for employees.
- We increased employee awareness of social responsibility at the Bank and provided exposure to activities carried out at the Bank, through comprehensive training delivered to all employees.
- We conducted an extensive dialog with stakeholders, whose results are

already reflected in the current report.

- We reviewed other reporting frameworks in response to issues raised by investors.
- We continued to integrate social and environmental aspects in decisions making processes across the Group.
- We set targets for corporate social responsibility and reviewed the achievement thereof, as will be presented in this report.

In 2016, too, the Bank celebrated Corporate Responsibility Week, including the following: We delivered financial training for employee family members, a quiz about recycled works (with prizes!) and a fare offering goods sold by social NGOs.

This year, we chose to expand reporting on several new topics: Management of Corporate Responsibility at the Group, importance of financial education, customer service and our capacity to assist disadvantaged populations as part of our being a significant part of Israeli society. In 2017, we will continue to monitor achievement of objectives and would review with stakeholders how we may further improve and generate significant value for them in our operations. As part of the evolution of Corporate Responsibility at the Bank, and after joining the Global Compact initiative in 2015, this year we are deepening our commitment to the international trends and processes led by the UN in this field. We are proud to be among the first institutions in Israel that have integrated into the report a reference to the UN list of 17 Sustainable Development Goals (SDGs). **This annual report is a managerial tool for constant improvement. For us, it is the best reflection of our continued commitment to the implementation of Corporate Responsibility and Sustainability practices.**

Allow me to thank all employees and managers at all Bank levels, who help in our daily work and in creating this report. We would be glad to receive comments on this report and on our actions related to corporate social responsibility – from all stakeholders.

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

Sincerely yours,

Ms. Tamar Saffer, Corporate Social Responsibility Officer

For inquiries with regard to this report:

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MIZRAHI TEFAHOT

Customers and Us

The Community and Us

Our Employees

The Environment and Us

Corporate social responsibility management at Mizrahi-Tefahot Group

Corporate social responsibility and reporting thereof is a cross-organizational process which involves all Bank operations and requires the cooperation of many.

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

The Bank Board of Directors is tasked with setting policy on corporate social responsibility and ensuring that these principles are applied and are in line with Bank strategy.

Bank management is responsible for implementing the guidelines in policy documents and incorporating them in work processes in various areas.

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

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

Implementing this policy and reporting on it requires extensive interfaces between the Supervisor and contact persons in the various divisions.

As part of the corporate responsibility policy deployment, a work plan is created every year and presented to Bank management and to the Board of Directors. Plan components are included in work plans of the different divisions.



The Bank invests significant resources in deployment of the corporate social responsibility concept among employees. In 2016, several activities took place:

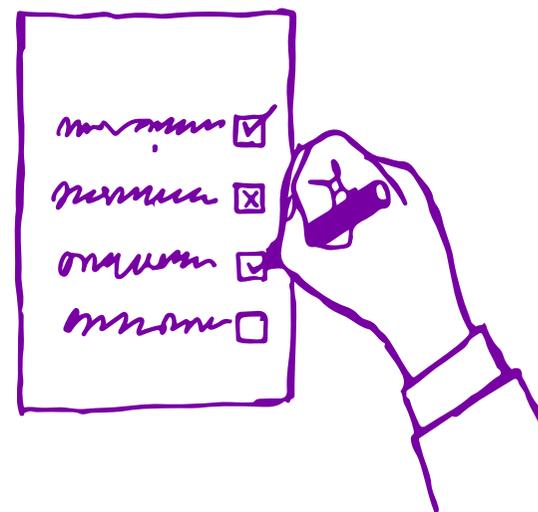
- Those involved with corporate social responsibility receive training focused on this area.
- The topic of corporate social responsibility is included in courses delivered by the Training Center.
- Information items (“Did you know?”) with regard to corporate social responsibility are communicated.
-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

The Bank measures its activities in this field and reports annually, in conformity with guidelines of the international reporting standard commonly used for corporate social responsibility – the GRI standard. Based on our commitment to make further progress in this field, we have joined the UN's Global Compact initiative and since 2015, we have been reporting progress made in implementation of these principles. **The report issued by the Bank is approved by management and by the Board of Directors plenum.**

The report describes activities of all of Mizrahi-Tefahot Group (including subsidiaries, Bank Yahav and overseas affiliates), focusing on core areas of corporate social responsibility, presenting the activities and objectives for issues material to the organization.

The report is subject to due diligence by an independent third party.

The information used in compiling this report was collated using the Bank's information systems, various organizational sources (including, inter alia, financial statements, policy documents and interviews with key executives) – with assistance from external advisors. To this end, the Bank has put in place tools and means for measurement, monitoring and control based on the different activities.



A

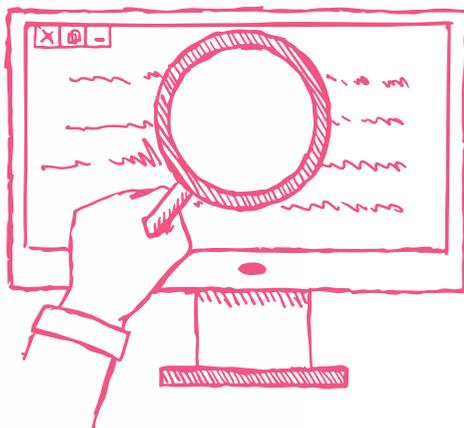
bout the fourth corporate social responsibility report

This is Mizrahi-Tefahot Group's fourth corporate social responsibility report, reviewing Group operations in 2016 in areas of corporate social responsibility.

The report reflects Group commitment to act in areas of corporate social responsibility and to annually report its performance to stakeholders. This report was preceded by corporate social responsibility reports which covered Group activity in 2012-2013, 2014 and 2015. Each report covers a year's worth of activities, as part of a comprehensive program in this area.

The 2016 corporate social responsibility report is current as of the end of the first quarter of 2017. This report covers Mizrahi-Tefahot Group in Israel and overseas. This overview covers performance of Bank Mizrahi-Tefahot, Bank Yahav and overseas affiliates of the Group (hereinafter:

"the **Group**"). Any reference to the term "the **Bank**" refers to Bank Mizrahi-Tefahot, other Group entities and affiliates, excluding Bank Yahav.



Activities of Group companies or overseas Bank affiliates may differ slightly from the activities described in this report – but in all cases, activities of overseas Bank affiliates are in line with guidelines set in Bank policy. In case of any material changes, specific disclosure is provided for such operations, in particular for Bank Yahav, which is explicitly noted.

Similar to previous reports issued by the Bank, this report was also compiled in conformity with reporting guidelines of GRI (the Global Reporting Initiative) and it is compliant with the most advanced transparency standard – GRI:G4.

Therefore, the report is written in conformity with the stakeholder model and includes details of the management approach, work processes, performance against required benchmarks, a description of the dialog with stakeholders on the topic, as well as future performance targets. This is provided for each of the material issues included herein.

Most of the information included in this report is regularly collected year-around. Some of the data is collected at the end of the reported period.

Information is presented in this report by comparative analysis for the reported period and presents multi-year trends.

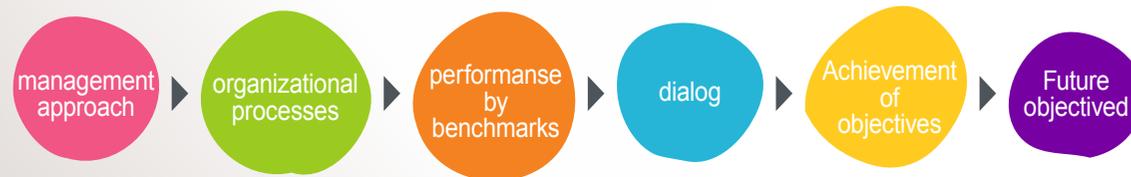
After Mizrahi-Tefahot Group joined the UN's Global Compact initiative, this year the Group continues its reporting in conformity with the global standard. Our membership of the Global Compact reflects **our commitment to adopting international standards for social-environmental responsibility** in all our endeavors, based on 10 principles which reflect corporate commitment to leading the social-environmental agenda in the country in which it operates and around the world. Some examples of these principles include: responsible employment, preventing corruption, human rights and environmental protection. As part of Group commitment to the Global Compact principles, this report constitutes periodic Communication On Progress (COP) to the organization.



The process of compiling this report was assisted by advisors from the Corporate Social Responsibility and Sustainability Group of BDO Ziv Haft CPAs. Furthermore, all data reported in this report was subject to external due diligence by the Israeli Corporate Social Responsibility Institute. This combination of professional assistance and independent external audit allows the Group to ensure that information presented in this report properly reflects Group operations. We undertake to judiciously use the response and feedback received from our stakeholders, to learn from it and to continue to review our performance in these areas.

In the current year, the Group resolved to expand its reference to international trends and bodies and throughout this report, reference is made to the list of 17 UN Sustainable Development Goals (SDGs). These goals, formulated in 2015 and aimed for the year 2030, deal with social, environmental and economic issues.

Structure of report chapters for reporting on material issues:



Identifying material issues related to social responsibility

This year, we reviewed again the materiality matrix for Mizrahi-Tefahot Group, in line with the positions of Bank management and those of Group stakeholders. The materiality matrix for reporting was compiled in conformity with GRI reporting guidelines in the G4 standard. In this work, the Group has defined the material topics for the Group and for its external stakeholders. This process was conducted in two parallel channels, integrated to allow us to create the new materiality matrix for 2016, focused on 22 material issues.

The process of identifying material issues for stakeholders

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

- **BDO research: Review of positions of bank stakeholders in Israel on the 2015 report** – In 2016, Group consultants on corporate social responsibility and sustainability from the firm of BDO Ziv Haft reviewed the positions of stakeholders on the corporate social responsibility reports issued by the top 5 banks. This research studied the material issued in Israel's banking sector, based on positions by 16 stakeholder representatives who represent environmental organizations, communities, employees, customers and suppliers. The discussion with representatives of these stakeholders raised 23 major issues with the banks' reports, on which the stakeholders commented. The comments involve improvement of the required information and in the manner of reporting, as well as raising significant issues not included in these corporate social responsibility reports.
- **Review of supplier positions with regard to Bank conduct** – The Bank is in constant work relationships with suppliers, hence the importance of hearing their perception and expectations on matters which, in their opinion, the Bank

should report from corporate social responsibility aspects. This survey of several Bank suppliers showed that the suppliers were interested in more extensive reporting on five major topics in the Bank's report on corporate social responsibility, which have been weighted in the materiality matrix:

- Bank policy on transparency and strict payment terms to suppliers
 - Review of ethical issues in supplier operations (prevention of corruption and bribery, code of conduct)
 - Review of social issues in supplier operations (minimum wage for employees, proper employment terms, maintaining human rights)
 - Minimum requirements posed by the Bank for suppliers (including requirements with regard to health and safety, compliance with laws, permits and licenses)
 - Preference for suppliers who employ under-privileged employees (segments under-represented in the labor market)
- **Review of customer positions with regard to Bank conduct** – A similar survey was conducted among 504 Bank customers, to review their positions with regard to the Bank's corporate social responsibility reports. This customer survey showed that customers were interested in more extensive reporting on seven major topics in the Bank's report on corporate social responsibility (listed in order of importance):
 - Action taken by the Bank to protect customer privacy
 - Promotion of banking services which do not require attending the branch in person
 - Comprehensive information about risks / rewards of investment alternatives
 - Promoting processes to prevent corruption
 - Various channels for customer contact – whether complaints or positive feedback
 - Information about accessible branches and ATMs
 - Action taken by the Bank to address environmental and social risk arising from lending by the Bank.



The process of identifying material issues for the Group

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

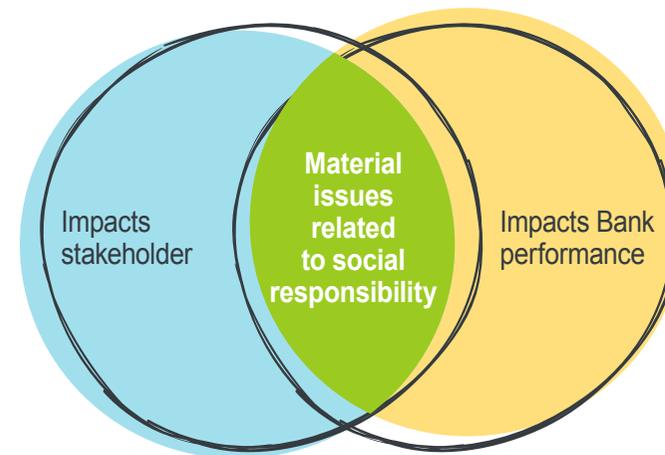
Identifying material issues

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

A comparison of the issues identified as significant in the years 2014-2015 and those identified as significant in the present report reveals differences both in the list of issues and in their order of importance. This year, for example, the topics “Disadvantaged Populations” and “Accessibility for People with Disabilities” were added, and the importance of the “Local Community” topic changed, once ranked 10th and now 20th.

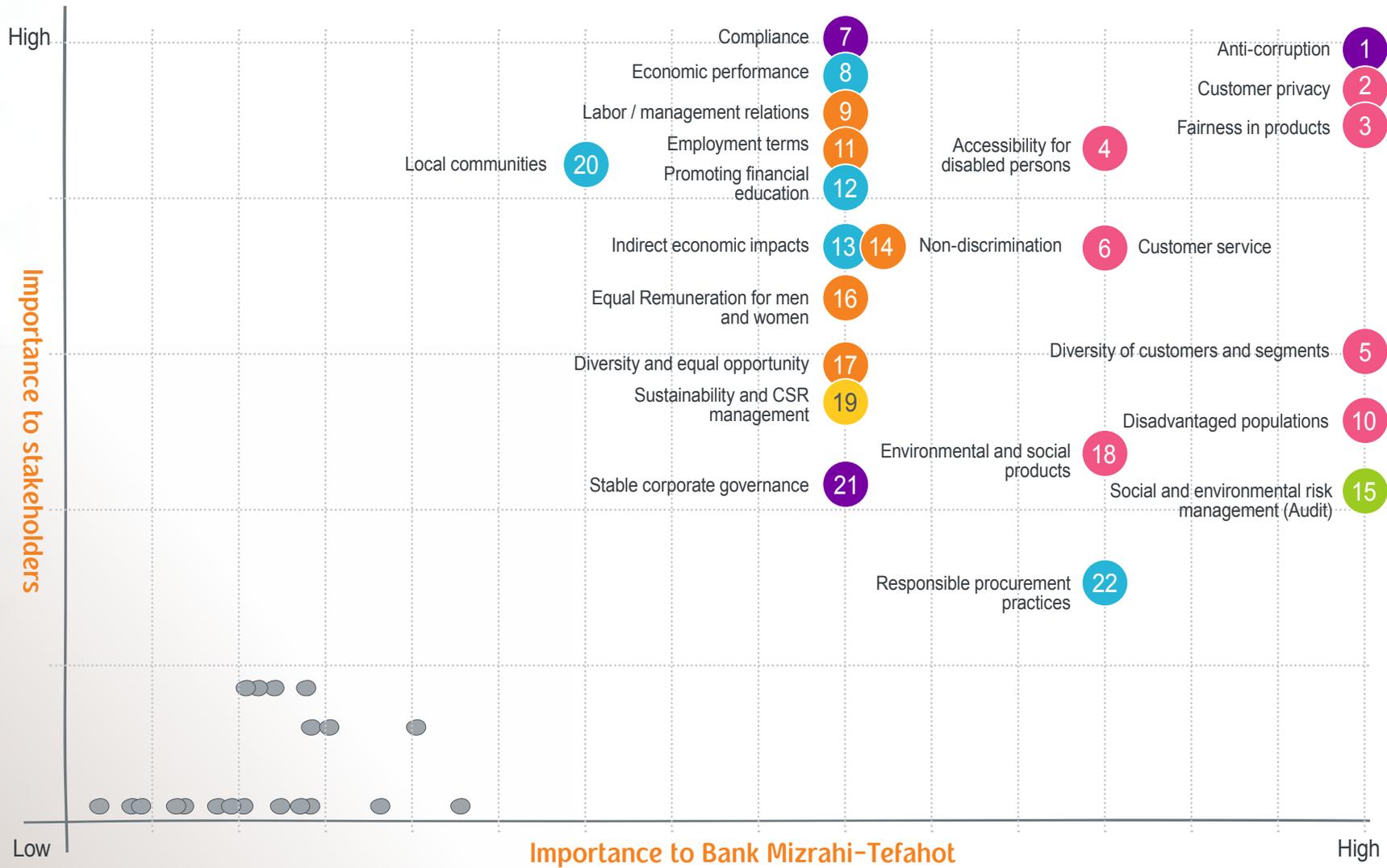
These differences indicate the stakeholders’ dynamic and up-to-date definition of issues significant to the Group.

These differences may result from trends and developments in the field of corporate responsibility, with issues that were previously rated significant and required for reporting being taken for granted today (such as the “Local Community” topic) and with more emphasis being placed on issues that are on the public agenda in Israeli society (such as “Accessibility for People with Disabilities”). These differences can be explained by the change in the manner of the dialogue with stakeholders, which in the past was based on secondary sources of information, and in the present report it was based on primary sources.



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

Materiality matrix for Bank Mizrahi-Tefahot 2017



22 material aspects identified	Benchmarks	Materiality (position on chart)	Reporting limits	Report chapter	Report issue
Fairness in products (Product and service labeling)	G4-PR3-5	3	Within the organization	Customers and Us	Fairness and transparency towards customers
Diversity of customers and segments (Serving a diverse clientèle)		5	Within the organization		Adapting products and services to customer needs
Disadvantaged populations	G4- FS13-14	10	Within the organization		Disadvantaged populations
Customer service		6	Within the organization		Quality of service
Accessibility for disabled persons		4	Within the organization		Accessibility
Customer privacy	G4-PR8	2	Within the organization		Ensuring customer privacy
Environmental and social products (Product portfolio)	G4-FS6-8	18	Within the organization		Development of environmental and social products
Local communities	G4-SO1-2	20	Inside and outside the organization	The Community, Suppliers and Us	Impact on Israeli society through involvement and volunteer work
Promoting financial education (Promoting Financial Freedom)	G4-FS16	12	Inside and outside the organization		Promoting financial education
Economic performance	G4-EC1-4	8	Within the organization		Maintaining financial robustness
Responsible procurement practices	G4-EC9	22	Inside and outside the organization		Responsible supply chain management
Indirect economic impacts	G4-EC7-8	13	Inside and outside the organization		Impact on Israeli society through charitable donation and sponsorship
Diversity and equal opportunity	G4-LA12	17	Within the organization	The Bank and Employees	Diversity, equality and avoiding discrimination in employment
Equal Remuneration for men and women	G4-LA13	16	Within the organization		
Non-discrimination	G4-HR3	14	Within the organization		Promoting fair work environment and employment terms
Employment terms	G4-LA1-3	11	Within the organization		Labor / management relations
Labor / management relations	G4-LA4	9	Within the organization		
Social and environmental risk management (Audit)	G4-FS9	15	Within the organization	The Environment and Us	Environmental risk management in lending
Compliance	G4-PR9	7	Within the organization	Corporate Governance	Commitment to regulatory compliance
			Within the organization		Risk management and business continuity
Anti-corruption	G4-SO3-5	1	Within the organization		Preventing corruption
Stable corporate governance	G4-34	21	Within the organization		Stable corporate governance
Sustainability and CSR management	G4-36	19	Within the organization	Introduction	Corporate social responsibility management at Mizrahi-Tefahot Group

Customers and Us

The Community and Us

Our Employees

The Environment and Us

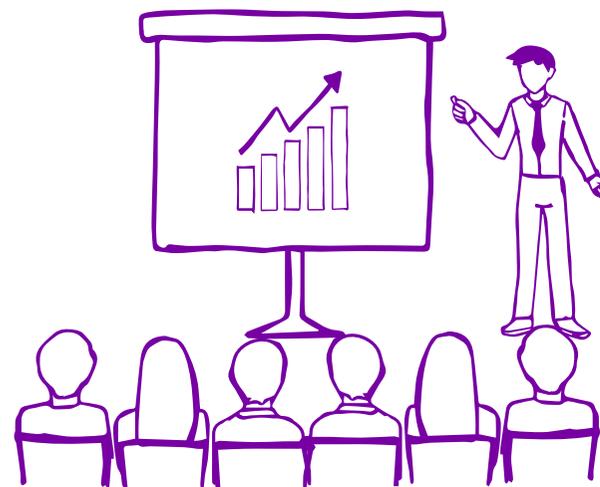
Corporate Governance

About Mizrahi-Tefahot Group

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



The Bank maintains that its capacity to create social economic value for stakeholders would ensure its success over time and would also contribute to creating economic value for shareholders. Thus, the Bank is acting to properly prepare for future challenges and for business continuity for critical services under various scenarios and in providing service to customers even in emergencies, in as much as possible. Bank operations with regard to business continuity aspects are incorporated in a specific policy.



Mizrahi-Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd. As of 2016, the Bank Board of Directors is headed by Mr. Moshe Vidman and the Bank President & CEO is Mr. Eldad Fresher.



Group and Bank operations

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nationwide network of 184 branches, business centers and affiliates. Furthermore, business customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector.

As of 2016, the Bank's overseas operations are conducted via 3 bank affiliates (two branches and a subsidiary) and 3 representative offices in Europe and Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of securities portfolios for customers, pension advisory service, trust services, distribution of mutual funds, operation of provident funds and insurance incidental to mortgages. The Bank Group also engages in credit operation and participated in syndication deals.

The Bank is one of the five largest bank groups in Israel. **Below is the Bank Group share out of the Top 5 bank groups** (based on financial statements as of December 31, 2016):

Group share out of the Top 5 bank groups

Loans to the public	18.6%
Deposits from the public ⁽¹⁾	15.6%
Total assets	15.7%
Shareholders' equity	12.7%

1. The Bank Group's share of deposits from the public, among the five top bank groups, excluding deposits from institutional investors, as of September 30, 2016 was 14.6%, compared to 13.8% as of December 31, 2015.

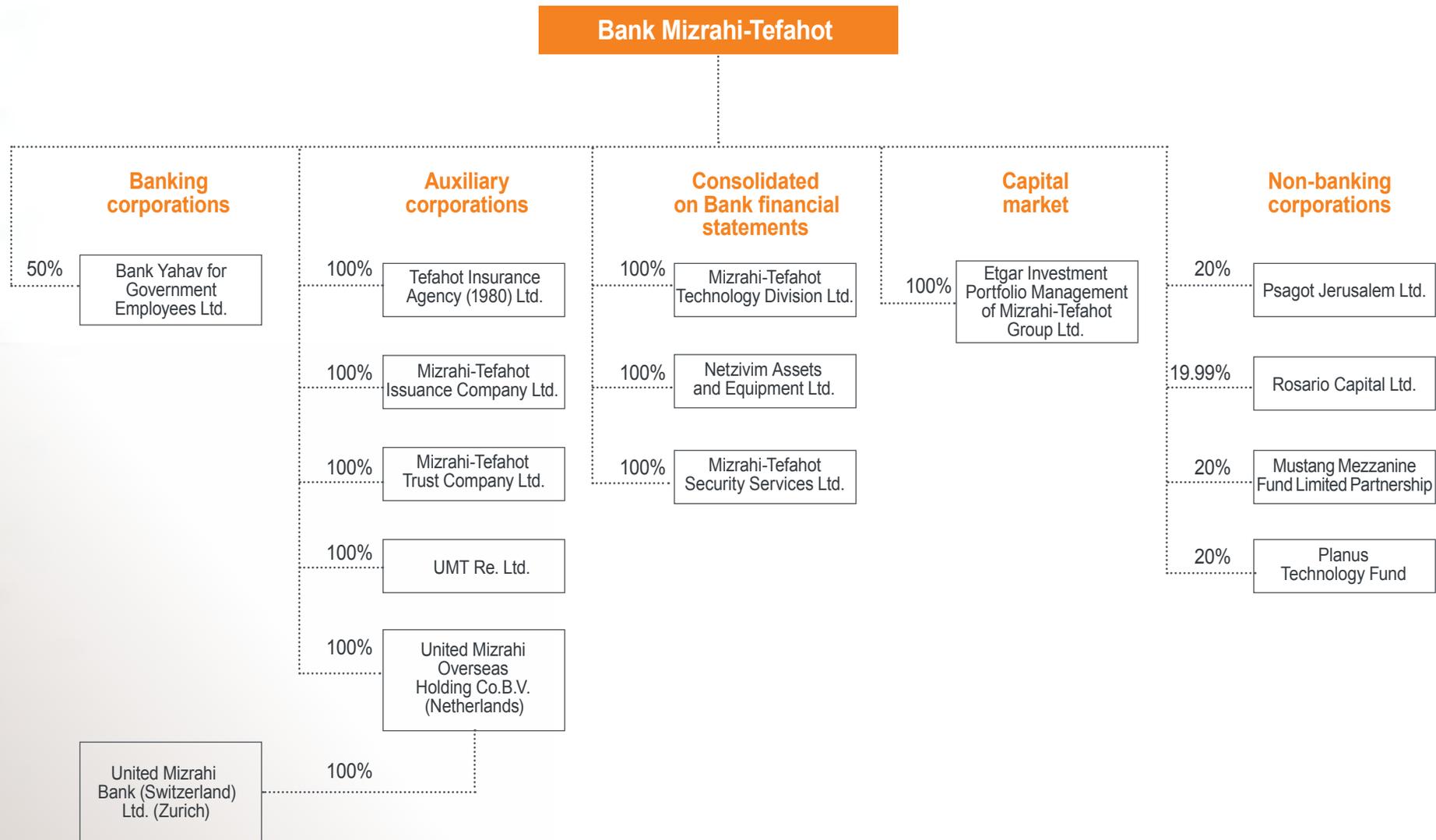
Holding structure and control

To the best of the knowledge of the Bank and the Board of Directors, the holding interests of controlling shareholders of the Bank, as of December 31, 2016, are as follows:

	Holder	No. of shares	Share of equity and voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd. ¹	20,585,785	8.87
	F & W (Registered Partnership) ²	30,172,844	13.00
	Total Wertheim Group	50,758,629	21.87
Ofer Group	C.A.B.M. Ltd. ³	7,193,594	3.10
	L.A.B.M. (Holdings) Ltd. ⁴	7,814,717	3.37
	A.A.B.M. Ltd. ⁵	15,428,435	6.65
	Ofer Investments Ltd. ⁶	14,291,819	6.16
	Ofer Sahaf Ltd. ⁷	7,477,642	3.22
	Total Ofer Group	52,206,207	22.50
	Total holding stake of controlling shareholders	102,964,836	44.37
	Total shares issued by the Bank	232,068,508⁸	100.00

1. A private company owned by David Wertheim (63%) and by Drorit Wertheim (37%).
2. A registered partnership owned (1%) by Mr. David Wertheim and Ms. Drorit Wertheim (at a ratio of 63% and 37%, respectively) and by MWZ (99%).
3. A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Holdings Properties Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd. Ofer Holdings Properties Ltd. is a private company wholly-owned and controlled by Ofer Holdings (1989) Ltd. ("Ofer Holdings"). Ofer Holdings is a private company held by the Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (Holdings) Ltd. (33.33%) (see also footnotes 4 and 6 below).
4. A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd. ("L.I.N."), which is a private company owned by a foreign trust whose main benefactor, with regard to Bank shares, is Mr. Eyal Ofer (95%) and a foreign-resident company (5%). The foreign trust has given Mr. Eyal Ofer power-of-attorney to vote at General Meetings of L.I.N. with regard to issues concerning the control permit of the Bank, Bank shares directly and indirectly owned by L.I.N., appointment of Board members at the Bank and all matters concerning the Bank. The power-of-attorney gives Eyal Ofer full authority to act on these matters as he sees fit.
5. A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Holdings (see also footnote 3 above).
6. A private company, the shares of which are held by Leora Ofer (51.67%), Doron Ofer (15%) and L.I.N. (33.33%) (see also footnote 4 above). Prior to the death of Mr. Yuli Ofer RIP, he together with his children, Liora Ofer and Doron Ofer, were the controlling shareholders of Ofer Investments and Ofer Holdings. Upon the death of Mr. Yuli Ofer RIP on September 11, 2011, his shares of Ofer Investments and Ofer Holdings became part of his estate. On December 18, 2013, the Family Affairs Court issued an order to execute the will of Mr. Yuli Ofer RIP. On January 30, 2014, an appeal of the aforementioned verdict was filed with the Tel Aviv-Yafo District Court as an Appellate Court for Civil Appeals. On November 16, 2015, the District Court unanimously rejected the aforementioned appeal and the order to execute the will became conclusive. As the Bank was informed by Ofer Investments, further to the notice from Administrators of the Estate of Mr. Juli Ofer RIP (hereinafter: "the Estate Administrators") to Ofer Investments and following resolutions by the Family Court with regard to distribution of assets in the estate of Mr. Juli Ofer RIP, on September 28, 2016 the shareholder registry of Ofer Investments was revised, so that Ms. Liora Ofer was registered as holder of Ofer Investments shares held by Mr. Juli Ofer RIP (accounting for 36.67% of the share capital of Ofer Investments). Therefore, the holdings in Ofer Investments as of this date are as follows: Liora Ofer: 51.67%; Doron Ofer: 15%; L.I.N. (Holdings) Ltd.: 33.33%. They further noted that, as informed by the Estate Administrators, the Estate Administrators would continue, at this time, to hold the shares held by Mr. Juli Ofer RIP in Ofer Holdings (which constitute 36.67% of Ofer Holdings' share capital). Upon receiving confirmation from the Bank of Israel, the shareholder registry of Ofer Holdings would be revised, so that Ms. Liora Ofer would be registered as holder of Ofer Holdings shares held by Mr. Juli Ofer RIP.
7. A private company wholly-owned and controlled by Ofer Investments Ltd.
8. Excludes 2,500,000 dormant shares bought back by the Bank in 2009.

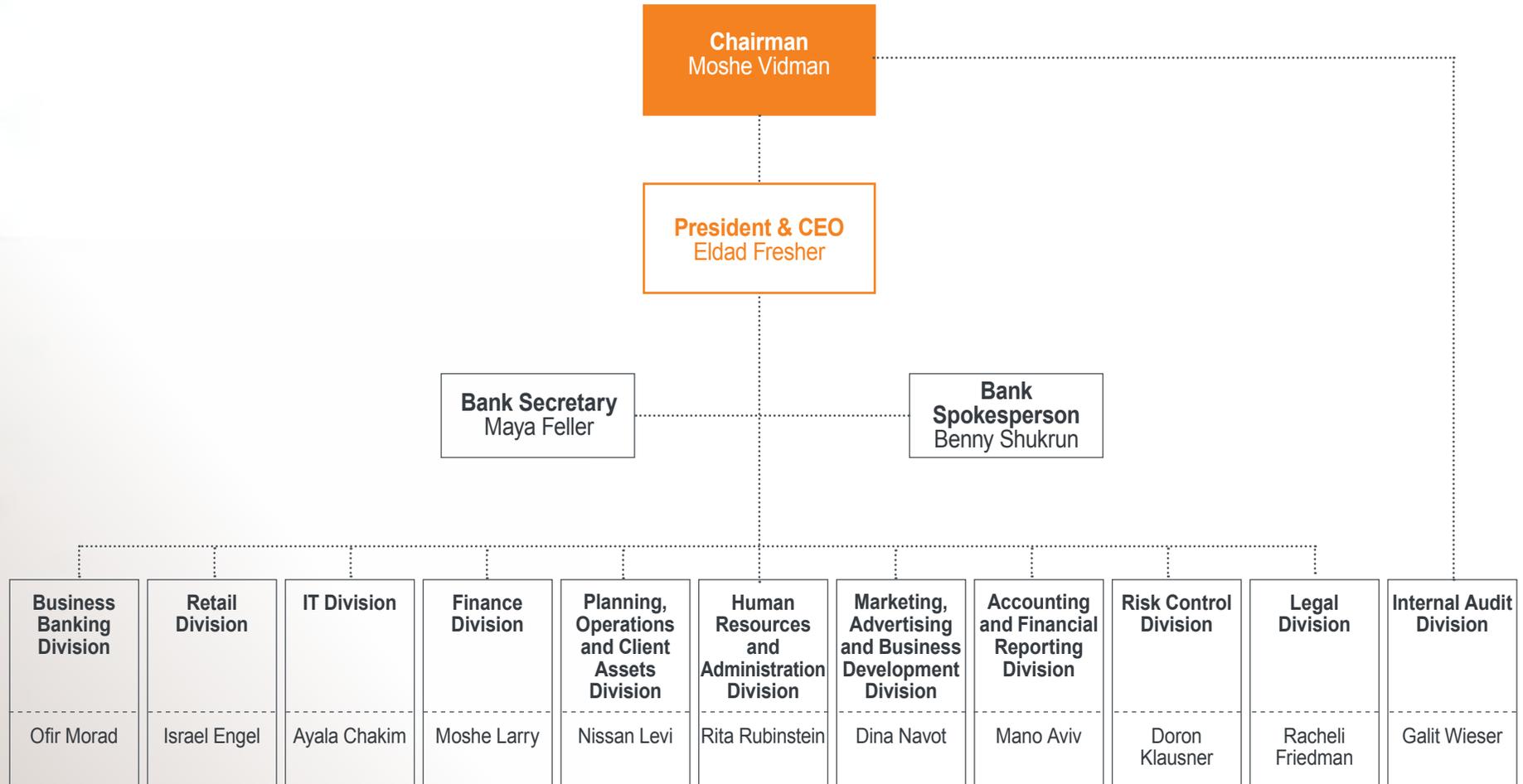
Below is the holding structure of key Group entities:¹



1. The Bank has holdings in other companies which are not material for Bank business.

Organizational structure

The Bank consists of ten divisions, reporting to the Bank President. The Internal Audit Division reports directly to the Chairman of the Board of Directors. The following chart shows the Bank organization as of 12/31/2016.



Financial performance in 2016¹

In 2016, Bank revenues amounted to NIS 5,640 million and operating expenses (including payroll) amounted to NIS 3,299 million. "Retained economic value" in this year amounted to NIS 1,322 million.

Financial performance (NIS in millions)	2016	2015	2014	2013	2012
Interest and non-interest revenues	5,640	5,392	4,987	4,963	4,787
Of which: Interest expenses to debenture holders	472	392	556	786	710
Operating and other expenses	3,299	3,226	3,039	2,951	2,807
Of which: Salary and benefits	2,071	1,944	1,866	1,823	1,704
Provision for taxes	833	761	657	593	594
Dividend distribution	186	86	-	75	-
Retained economic value ²	1,322	1,319	1,291	1,344	1,386
Dividend distribution	1,266	1,134	1,092	1,083	1,060

1. This report is not a financial statement. The Bank reports its audited financial information in its annual financial statements, which are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in conformity with Public Reporting Directives of the Supervisor of Banks.
2. Total interest and non-interest revenues before expenses with respect to credit losses, net of operating expenses, provision for taxes and dividend distributions. This value represents the economic generated by the Bank, net of the economic value distributed to various stakeholders.

Government support

In 2016, the Bank received no subsidies, tax relief, awards, incentives or other economic benefits from the Government. Furthermore, the Bank received no economic aid from export credit agencies.

Material changes in the Group in 2016

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

Streamlining plan – On December 27, 2016, the Bank's Board of Directors approved the streamlining plan recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

See also the Bank's Immediate Reports: Dated December 27, 2016 (reference 2016-01-092211); dated December 29, 2016 (reference 2016-01-093738); and dated January 3, 2017 (reference 2017-01-001033). Bank management is in negotiations with the employee union with regard to the retirement program and as a first step, has started implementation of the plan in the Mizrahi-Tefahot Technology Division Ltd., pending agreement with the employee union at the Bank.

Project to replace the core banking system at Bank Yahav – In 2016, Bank Yahav received computer and operating services from Bank HaPoalim Ltd. These services were provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor. On January 1, 2017, Bank Yahav disconnected from the Bank Hapoalim systems and transitioned to its own core system from TCS (Tata Consultancy Services Ltd.)

Significant developments in IT at Bank Yahav – In January 2016, Bank Yahav transitioned its data center to a state-of-the-art server farm of the highest standard, used as storage for the bank's IT systems.

Awards and recognition

In 2016, Bank Mizrahi-Tefahot was awarded these prestigious marketing awards:

- o In 2016, the Mizrahi-Tefahot brand was recognized for the third time in a row as an Israeli Superbrand by the international Superbrands organization, active in 70 countries around the world. The Superbrand title is the most coveted, prestigious international title in branding, awarded to brands and managers for outstanding marketing and managerial performance to an international standard. This prestigious title is evidence of the strength of ties between the brand and consumers in the country and of the fact that the brand provides consumers with more tangible and emotional benefits compared to other brands.
- o Furthermore, Superbrands awarded the Paula Moses Community Contribution Award to the Bank's ZAZIM project, the first of its kind, which is designed to empower teenagers and encourage them to volunteer, through support for social projects proposed and carried out by teenagers.
- o In the prestigious Effie awards for marketing effectiveness, the Bank received two awards in 2016:
 1. In the finance category for marketing campaigns, Mizrahi-Tefahot was awarded the prize for its "fruit" deposit campaign, which created an effective marketing for current and potential customers and significantly contributed to growth in deposits with the Bank.
 2. In the social and public activity – business sector category, the Bank was awarded the prize for its "let's meet at Mizrahi-Tefahot" campaign,

which allowed current and potential customers access to enjoyable activities and lectures related to finance or otherwise, held at their branch neighborhood free of charge.

- o The Bank was awarded **for the second year in a row**, the INNOVATE 2016 Award by the Innovation Forum in the Finance category for the most innovative marketing campaign of 2016.



Customers & Us

184

service location

nation-wide
to Eilat, pro
personal
channels

More

148 bra
and mo
access
disabilities



Customers & Us

6 LIVE branches

with personal
business hours, along with
advanced digital services

Open 2016

245 ATMs

An additional 16 ATMs in 2016

attended meetings
for retirees

במזרחי טפחות

app in Israel was launched



Customers and Us

The Community and Us

Our Employees

The Environment and Us

Corporate Governance



184

service locations

nation-wide, from Kiryat Shmona to Eilat, providing access to a personal banker through various channels

More accessibility

148 branches, 177 ATMs and most of the websites are accessible for persons with disabilities



6 LIVE branches

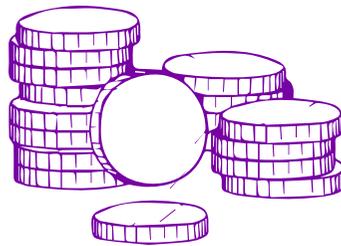
With a personal banker, available during extended business hours, along with advanced digital services

7 new branches

Opened in 2016

245 ATMs

An additional 16 ATMs in 2016



171

NIS billion

Total loans to the public

NIS 882 million

Total loans for social and environmental endeavors



↑ 210 service locations

Increase in number of self-service stations nation-wide

Intensified activities in the Jewish Orthodox and Arab segments

Opened 4 new branches dedicated to these segments



Rated 8.8 out of 10

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

"Test drive" Mizrahi-Tefahot*

An innovative way for customers to join the Bank for a test period with no worries



Texting your advisor*

Bank customers can write to their advisor, directly through the website or by using the capital market app

"Tefahot to Home" app*

The most advanced mortgage app in Israel was launched



8,400 people

attended lectures as part of "Let's meet at Mizrahi-Tefahot"

Of which, 500 attended meetings for retirees



במזרחי תפחות

Group commitment to its customers

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

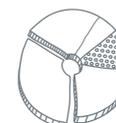
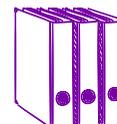
Responding to customers in various operating segments

The main products offered by the Bank's different operating segments are:

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



Supervisory operating segments¹ and a brief definition thereof:



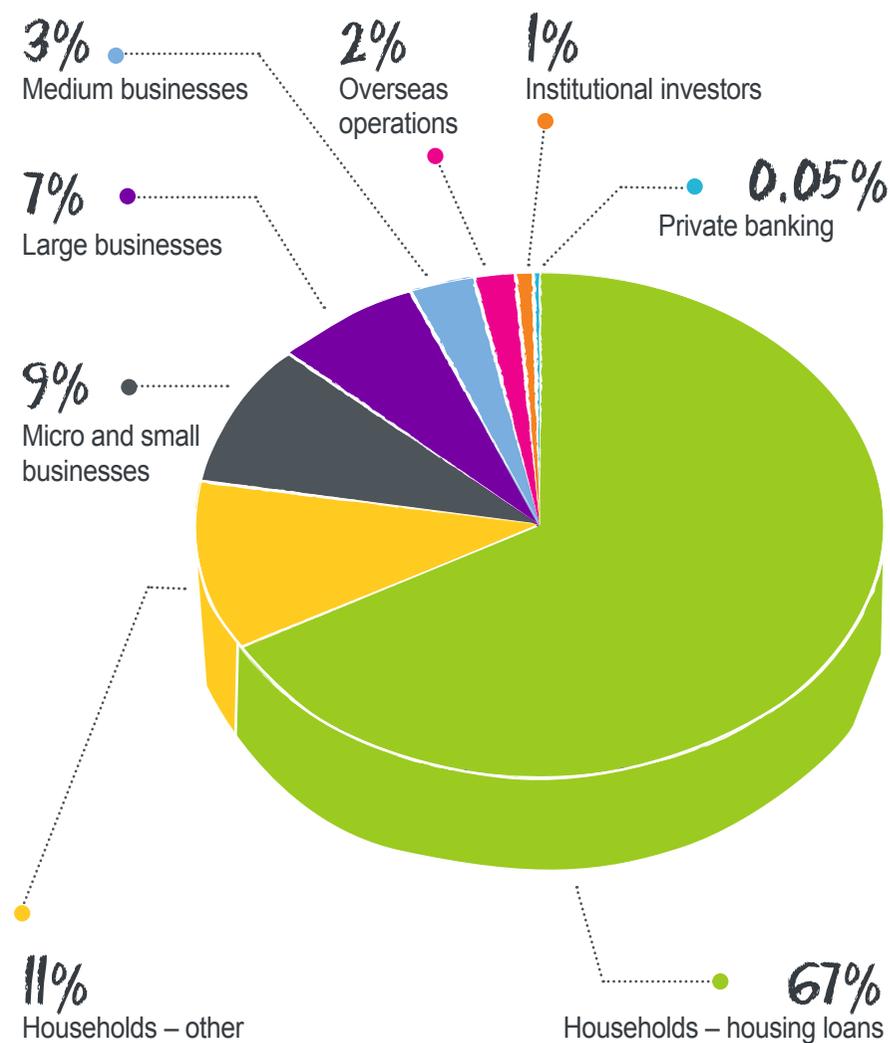
Segment	Household segment	Private Banking Segment	Micro and Small Business Segment	Medium business segment	Large business segment	Institutional investor segment	Financial Management Segment	Overseas operations segment
Target audience	Individuals ² other than private banking customers	Individuals who manage a financial asset portfolio in excess of NIS 3 million at the Bank.	Businesses with turnover of up to NIS 50 million.	Businesses with turnover higher than NIS 50 million and lower than NIS 250 million.	Businesses with turnover in excess of NIS 250 million.	Mostly including provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage customer portfolios.	Includes trading operations, asset and liability management and non-banking investments.	Managed separately from operations in Israel, divided into individuals and business operations.

1. In 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the customer's turnover (annual sales or annual revenues).
2. According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Loans to the public, net by supervisory operating segments (NIS in millions) are as follows:

Operating segment	2016	2015	Change (in %)
Households – housing loans	114,070	105,106	8.5
Households – other	18,945	16,816	12.7
Private banking	81	67	20.9
Total – individuals	133,096	121,990	9.1
Small and micro businesses	15,126	13,909	8.7
Medium businesses	4,786	4,786	-
Large businesses	12,525	13,132	(4.6)
Institutional investors	2,586	2,326	11.2
Total – business operations	35,022	34,153	2.5
Overseas operations	3,223	3,061	5.3
Total	171,341	159,204	7.6

Value of Group portfolio (balance of Bank loans to the public), by segment:



Nation-wide banking distribution

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

Channels for provision of banking services

As of December 31, 2016, Mizrahi-Tefahot Group offers its banking services to customers through diverse channels with its unique Hybrid Banking method, where each customer has their banker and various channels for getting service:

- o **184 service locations nationwide** – High-quality professional service provided across all banking activities and soon to where Group customers are located (residence or business), this is a key component of nationwide branch operations. To this end, branches manage day-to-day customer activities and offer to customers and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service. The Group operates an extensive nationwide branch network; as of the end of 2016, the Group had 184 business centers, branches and affiliates – including 45 Bank Yahav branches. Consequently to mapping the needs of Bank customers, in order to improve the service offered to them and to expand future recruitment activity, in 2016 the Bank opened 7 new points of sale and relocated several others to more appropriate geographic locations.



In order to provide high-quality service nationwide to all customers, new branches were opened, focused on remote areas and towns with demographics addressed by the Bank as part of its strategic plan. Some of the places where new branches were opened in 2015-2016: Sderot, Migdal HaEmek, Kfar Kassem, Baqa Al Gharbiya, Old City of Jerusalem, Um El Fahem and Kfar Yassif.

- o **Cashier services** – In contrast with policies of competing banks, the Bank does not take action to massively close branches and to curtail cashier services. On the contrary, the Bank continues to expand its branch network and offers cashier services at all branches, in order to offer customers the best service – concurrently with expanding the service station and ATM network and with investing in service-supporting technology.

- o **LIVE space** – In addition to nationwide branches, Mizrahi-Tefahot operates 6 LIVE branches, that offer banking service to customers through advanced technology channels, other than showing up in person, with longer business hours than in other regular branches: 7am to 8pm.



Each customer has their personal banker, who is available through the follow various channels: direct banker phone line, SMS, secure correspondence and fax; if showing up in person is required, service is available from any regular branch selected by the customer, anywhere in the country.

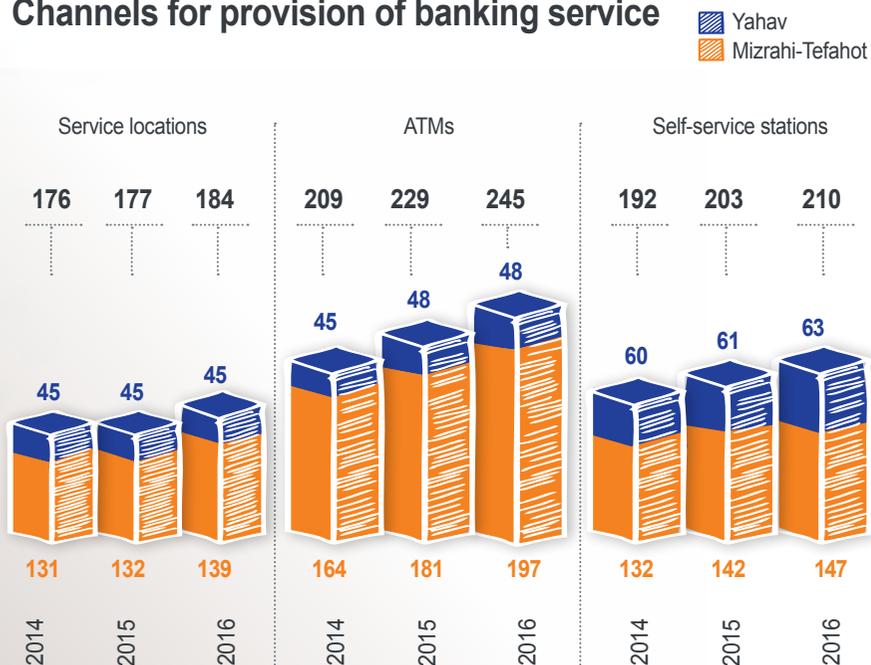


Furthermore, if needed, customers may use a courier service (at no charge, up to three times per year) – saving them the need to get to the branch to collect credit cards, checkbooks etc.

- o **210 self-service stations** – The Group provides self-service stations, where customers can independently conduct transactions and obtain information about their accounts. Most stations offer 24-hour service, even when the branch is closed. At the end of 2016, Bank branches offered 210 service stations, of which 63 at Bank Yahav. At 127 Bank branches, checks may be deposited at these service stations and at 48 branches, check books may be immediately printed.

- o **245 self-service ATMs** – At the end of 2016, the Group had 245 ATMs, including 48 Bank Yahav ATMs.
- o **Financial advisory service:** Advice on financial investments is offered to customers who seek such advice. This service is provided by qualified investment advisors at most Group branches, based on customer needs. After an initial meeting held at the branch, service may be provided through direct channels: telephone and online and for Bank customers also: through bankers and advisors at the Investment Center and through the capital market app.

Channels for provision of banking service



Customer – Bank communication channels

Hybrid Banking is an optimal combination of personal and digital banking, allowing all customers direct access to their personal banker at the branch by using a range of alternative communication channels. This unique, innovative service concept puts to use technological advances in the banking world, to create an immediate, direct link between the customer and their personal banker at the branch. This concept was extended to the mortgage segment as well. The Bank offers customers a range of communication channels:

- o **Bank Mizrahi-Tefahot's transaction website** – Mizrahi-Tefahot Group believes in combining personal, human service and technology; this is why the Group has created a technologically advanced website in functionality and professional aspects, which incorporates methods for contacting a personal, human, professional banker. Thus the Group has created a unique venue – both advanced and human. The transaction website allows access to information and other transactions:
 - o Deposit transactions: Deposit, withdrawal, termination.
 - o Obtain an instant loan and viewing loan information for your account.
 - o Write to your banker, advisor or to the investment center and view their messages.
 - o Foreign currency transactions.
 - o View account balances: checking, deposits and savings, securities portfolio, provident fund.
 - o Checking account transactions: Transfer between accounts, order check books, bill payment, managing authorizations and standing orders.
 - o Order credit cards, information about credit card charges, specify fixed monthly limit for credit cards, view credit card facilities.

- o Foreign trade transactions
- o View and print tax withholding statements and quarterly balance statements

In 2016, the Bank introduced new features to the website, which now also offers the following services:

- o View your banking ID: Detailed and summary annual report.
- o Mortgage-related information and tools: Obtain comprehensive information about a new mortgage – financial planning, mortgage calculator and for mortgage management – re-financing, early repayment etc.



- o **Mizrahi-Tefahot app – service on your cell phone** – the Mizrahi-Tefahot account management app allows customers to obtain information and to conduct a range of transactions on their cell phone, with no need to visit the branch nor to use the PC.

The app allows you to:

- o **Contact a Hybrid Banking banker** – when corresponding with a banker you can attach files or view files sent by the banker.
- o **Conveniently monitor checks** – you may view images of checks cashed from or deposited to your account.
- o **Fully control your account from anywhere** – view credit facilities in your account.
- o **Quickly and conveniently obtain a loan** – you may instantly take out a loan and view your existing loans (in Israeli currency).
- o **Quickly and instantly trade from your cell phone** – trade securities: buy, sell, modify and cancel instructions.
- o **Viewing of savings information** – viewing of information about savings in the app for account management, similar to the way in which information is displayed from the term deposit system (PAKAM / PAHAK).
- o **Viewing of Leumi Card information** – as part of the Bank's cooperation with Leumi Card, information for these credit cards is displayed on the website and in the account management app. This allows Bank customers to receive in their account the complete information about all of their bank credit cards – by any issuer.

In 2016, the app was improved and the Bank significantly expanded the services offered on the mobile phone, to include the following:

- o **Improved inbox** – Allows for correspondence with an investment advisor and viewing of account statements.
- o **View expanded information** about transactions in your account.
- o **View additional information about your mortgage** – Detailed mortgage information is provided for Bank customers who have a mortgage and for customers who only have a mortgage (with no bank account); this service is provided by accessing the account using easy authentication.
- o **Check deposit** – even from other banks – Banks included in this feature are: Bank Leumi, Bank Hapoalim, Discount, Mercantile, Benleumi, Otzar HaChayal, Ubank, PAGI and Arab-Israeli Bank.



- o **Tefahot transaction website** – given the evolution of the digital trend, there was more of a need to create an appropriate digital venue for the leading bank specializing in mortgages, based on content and added value. The Tefahot transaction website for mortgage customers of the Bank provides extensive information about their mortgage with the Bank as well as other information about their residential environment. This website is available to all mortgage customers of the Bank – and mortgage customers who have a checking account with Mizrahi-Tefahot can view content directly from the transaction website of their bank account or from Mizrahi-Tefahot's account management app.

The transaction website offers:

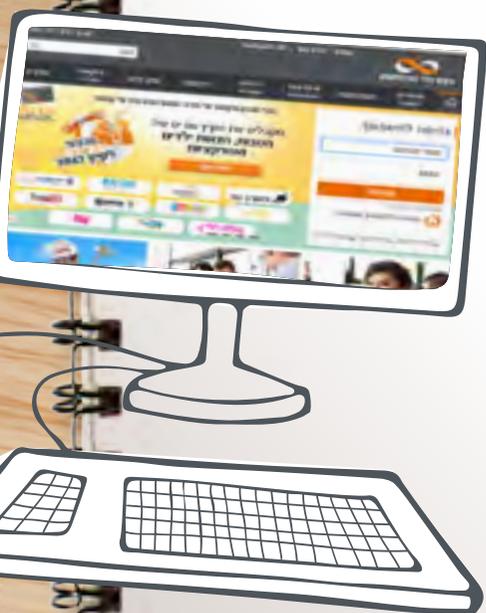
- o **Easy authentication and accessibility** – the website can be accessed using your ID and bank account number, with no need for a special password.
- o **Receiving information and alerts** – receive detailed information about your mortgage and view different tracks; receive real-time alerts and marketing offers.
- o **Receiving extensive information about the surroundings of your property** – market analysis, house prices, overview of past transactions, map of the surroundings down to the neighborhood level with various information layers overlaid (schools, public buildings, cellular antennas etc.) – in cooperation with the MADLAN content website.
- o **One stop for all information** – customers with a checking account and a mortgage from Mizrahi-Tefahot can see their entire finances on a single website.

- o **Launch of new Tefahot marketing website** – In 2016, Tefahot's new marketing website was launched. The new website provides extensive information about real estate, including property comparison, information about the neighborhood, chat with an expert, unique content wizard, extensive content from Tefahot experts, financing options and comparison tools.
- o **"Tefahot to Home" app** – In 2016, the Bank launched the most advanced mortgage app in Israel, which allows you to create your financing plan and provides extensive information about the surroundings.

The app allows you to:

- o Create a financing plan for your apartment, which makes it clear for customers how much mortgage they can get and what price apartments are within their reach.

- o Obtain comprehensive information about neighborhoods of interest to customers, including recent transactions, apartment prices, rental yield, social benchmarks, education quality etc.
- o Correspond with a personal banker, a mortgage specialist available to answer any question and to resolve any issue with regard to the mortgage process.
- o Photos and documentation for apartments viewed during your search.
- o View an apartment report, including all details about the apartment, which you can share with others.
- o Use a friendly mortgage calculator.

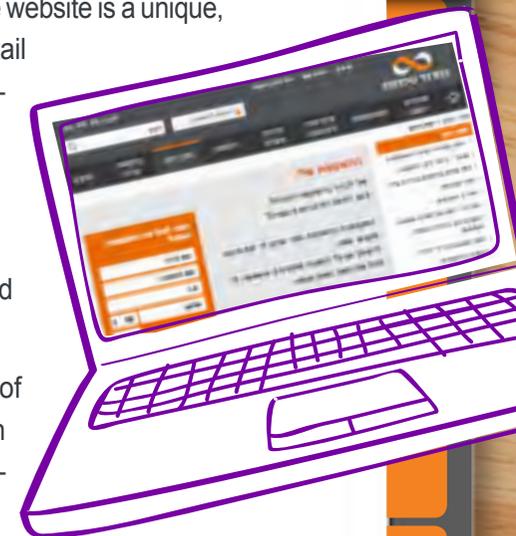


- o **Capital market website** – The website offers a range of innovative tools which support customer activity in the capital market. The website provides extensive information about financial assets and has been upgraded so as to allow customers to efficiently conduct transactions on their own – along with an option to contact a banker or advisor. The website is a unique, innovative venue, customized for needs of retail customers as well as professional customers – who trade on the capital market.

The website offers, inter alia, the following transactions:

- o Obtain current, accessible, well-organized information available at any time.
- o Get updates through real-time monitoring of leading benchmarks; get news and information customized for each individual customer – based on their investments portfolio.
- o Better decision making with help from a range of decision-support tools, such as: Simulators, securities comparisons, technical analysis and heat maps for leading benchmarks, an index for finding securities and a simple, convenient search facility available anywhere on the website, as well as economic news and extensive, current information provided to customers at no cost.

This website was awarded first prize in the Customer Experience category in the 2015 WEBI competition conducted by "People and Computers" – Israel's most prestigious competition for online presence.



- o **Capital market app** – This app rounds up the trading experience and provides maximum convenience to our customers who are active in the capital market. The app is dedicated to the capital market, which allows customers to benefit from the online usage experience and use of tools in the portal, which are appropriate for a mobile device. This app provides extensive information about the market and about securities from Israel and from overseas, in addition to the customer's own information, listing instructions given and carried out for both buy and sell transactions. This app, in addition to the account management app, as well as the Mizrahi-Tefahot Account Management app, are available for Apple and Android devices to all customers at no charge.

The app allows you to:

- o Get market data without a login and individual authentication.
- o Easily find securities using an index for quick searching.
- o Get current, accessible, well-organized and available information and optional trading in various types of securities, including derivatives.
- o A range of decision-support tools.

In 2016, the app was enhanced to include the following:

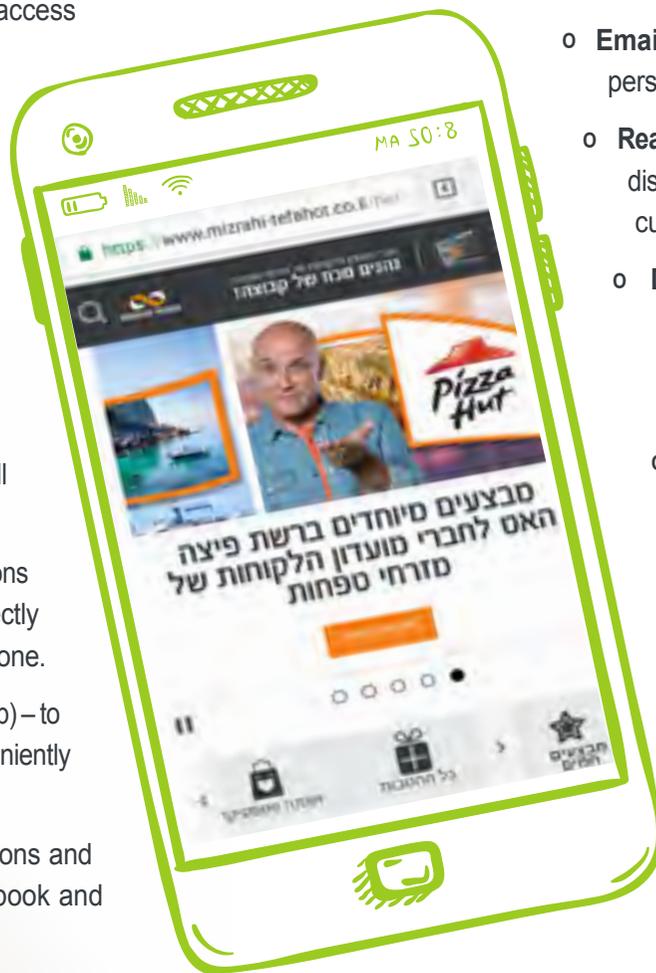
- o Correspondence with your personal banker and investment advisor.
- o View account statements.



- o **New and improved website for the Mizrahi-Tefahot loyalty club** – Given developments in the digital arena and the desire for more available information, the Bank developed and launched in 2016 a new and improved website for the Mizrahi-Tefahot loyalty club. This website provides online information about all club activities: Details of discounts and promotions, allowing customers fast, convenient access to promotional coupons for relevant promotions of their choice.

The new club website offers these new features:

- o Obtain full, comprehensive online information about all club benefits and promotions.
- o Availability – immediate, current information about “The Card” club benefits and promotions, on your cell phone too.
- o Retrieve individual promotional coupons for promotions and send them directly to your email and/or to your cell phone.
- o Fast and easy search (including a map) – to locate branches of club chains conveniently and rapidly.
- o Share with friends – send promotions and coupons to friends through Facebook and WhatsApp.



Other channels for information provided by the Bank:

- o **Conducting transactions without human assistance:** This 24-hour a day service offers you computer-based information in response to frequently-asked queries. Transactions may be conducted around the clock.
- o **Email box:** Receiving Bank notifications of account activity in a personal notification mailbox via the Bank's website.
- o **Real time updates via cell phone:** Banking and financial information disseminated by cell phone, including informational SMS messages customized for business customers.
- o **Direct connection to the Bank's servers:** A system enabling direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions on your home PC.
- o **Information by fax:** Provides current banking information about the customer account on a range of subjects, at a frequency specified by the customer.
- o **Updates on progress of the mortgage process by email and SMS** – the "Tefahot GPS" service allows customers in the course of taking out a mortgage to know, at any moment, the stage reached on processing their mortgage application.



Communication channels between the Bank and potential customers

In 2015 for the first time, the Bank of Israel allowed a bank account to be opened directly online, with no need to visit the bank for physical authentication. Instead, the Bank of Israel allowed customers to be authenticated by video conferencing with a banker. Consequently, Bank Mizrahi-Tefahot allows for online account opening. In order to provide optimal service to potential customers, ensuring that the account opening process would provide an optimal user experience while ensuring strict information security and safeguarding customer privacy.

Potential customers who wish to open an account with the Bank are shown directly into the LIVE space, due to its unique nature which allows customers to complete most of their banking transactions in a virtual manner. In this space, designated bankers have been trained and special workstations have been placed, equipped with cameras for customer authentication on the video call. This new service was deployed through a unique training campaign for bankers.

Test drive Mizrahi-Tefahot

In May 2016, the Bank launched its "Test drive" campaign. This campaign invited customers of all banks to test drive the service experience at Mizrahi-Tefahot. This offer allows a customer to join the Bank for a test period, to get an up-front credit of NIS 500 which would cover their future banking expenses and to try the distinct service experience offered by Mizrahi-Tefahot, with no worries. The "test drive" offer is similar to other consumer goods domains, where products may be experienced before purchase, to create true innovation in the world of banking.



**לקחתם פעם
לנסיעת מבחן?**

ההצעה
לתקופה
מוגבלת

**לקחתם פעם
בנק
לנסיון?**

ההצעה
לתקופה
מוגבלת

**עכשיו אפשר.
לפרטים נוספים
חייגו *8860**

מזרחי תפחות

Fairness and transparency towards customers

Our commitment: In 2005, after the merger of Bank HaMizrahi with Tefahot, the Bank set a clear goal: lead a new banking agenda. To this end, the Bank formed the “human banking vision” – whereby good banking service starts with professional, innovative banking which sees the customer, understands the customer and speaks to the customer in their own language. Accordingly, the Bank maintains a fair relationship with customers, ensuring full transparency with regard to information which the Bank is required to provide to customers with regard to its services. The Bank also ensures respectful, non-abusive marketing messages, in conformity with statutory provisions and with Proper Banking Conduct Directives of the Bank of Israel.

Fairness and transparency

Mizrahi-Tefahot Group always provides updates to customers about new products and services, along with periodic marketing information provided to customers. In doing so, the Bank provides full disclosure of all its operations.

Thus, for example, the Bank issues customized newsletters to customers in different segments with banking offers in different areas: deposits paying attractive

interest, quarterly macro-economic review, lifestyle articles, financial articles etc. The Bank also offers promotions and non-banking activities and promotions for members of the Bank’s loyalty club. In order to achieve the above, the Bank has invested in making information on the Bank website accessible – by upgrading its customer relationship system and by adding applications in support of this activity.

The Bank ensures that all its publications, including agreements with customers, are in conformity with statutory requirements, respectful and non-abusive and customized for the various populations and their beliefs. As part of the Internal Audit work plan, audits are also conducted of information with regard to various products and services offered to customers. These audits include sampling of customer agreements. In case of any need to revise such agreements, including with regard to full disclosure and fees, this issue is reflected in the Audit Report. In 2016, the Group received no fines nor for poor warnings concerning non-compliance with voluntary regulations and codes nor marking of goods and services.

In conformity with Bank of Israel Regulation 425, dated 2015, Mizrahi-Tefahot Bank provides a bank ID for all individual customers. This ID includes information about all of the customer’s assets and liabilities with the Bank, total income and expenditure during the year and a summary of current activity in their account. In late February 2016, the banking ID was sent to all customers – either to the mailbox in their Bank account or to their home address.

Mizrahi-Tefahot has emphasized making the output accessible for Bank customers. When this report was sent to customers, it was accompanied by a general information sheet about the nature of the banking ID along with a reminder about personal banking services – the name and contact information of the customer’s own banker.

In support of this new campaign, the Bank had prepared training aids for bankers: detailed course ware, training aid and a user guide. There was also marketing material disseminated across the Bank as a reminder for this campaign – concurrently with material disseminated to customers.

Quality of service

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

The Bank's strategic plan is based on personal, human, professional service integrated with advanced technology. These guidelines are a crucial ingredient of customer operations at the Bank.

This is managed through:

- **Dialog and listening** – conducting a constant, on-going dialog with customers is a key tool, at the heart of the concept, allowing for a successful implementation of the concept. The Bank conducts regular public opinion surveys, monitors the online discourse and provides a website and a Facebook page for gathering customer feedback.

- **Customer satisfaction** – The Bank monitors and controls customer satisfaction and response to inquiries and complaints.

In order to assess Bank customer satisfaction and to maintain a high level of satisfaction, the Bank conducts quantitative satisfaction surveys and focus groups among customers. Some of the Bank's focus groups apply NLP (or Neuro Linguistic Programming). In this methodology, the meeting with the audience

simulates a casual living-room conversation, or a meeting without any barriers in a host

home – which allows for an open, intimate conversation and an optimal connection with participants. A Bank team is present

at the meeting but does not take an active role – and only identifies as such

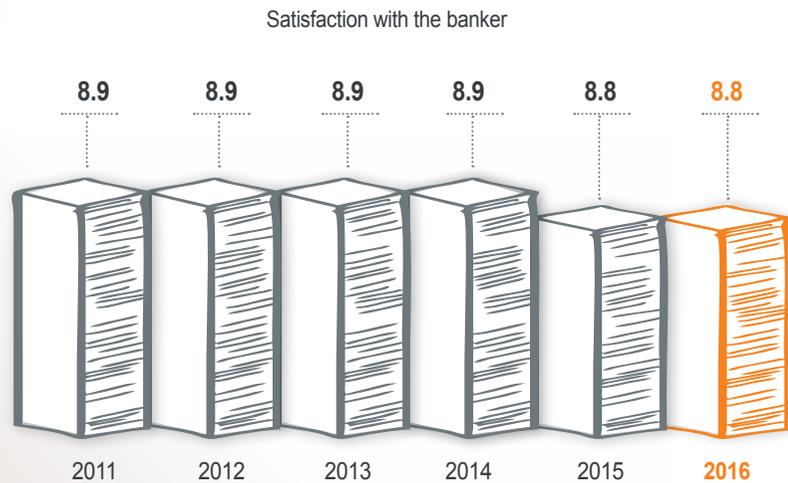
and takes part in the conversation in the last part of the meeting. This methodology allows the Bank to create

a direct link with consumers and customers, in order to better understand their needs.



Based on the outcome of surveys and focus groups, the Bank adjusts its operations with its customers. The Bank also conducts other surveys which review the perception of the Bank by Bank customers and by customers of other banks, surveys of interested persons, employee survey and surveys which look at the customer experience when contacting the Bank. Evidently, Bank customers maintain a very high level of satisfaction over time.

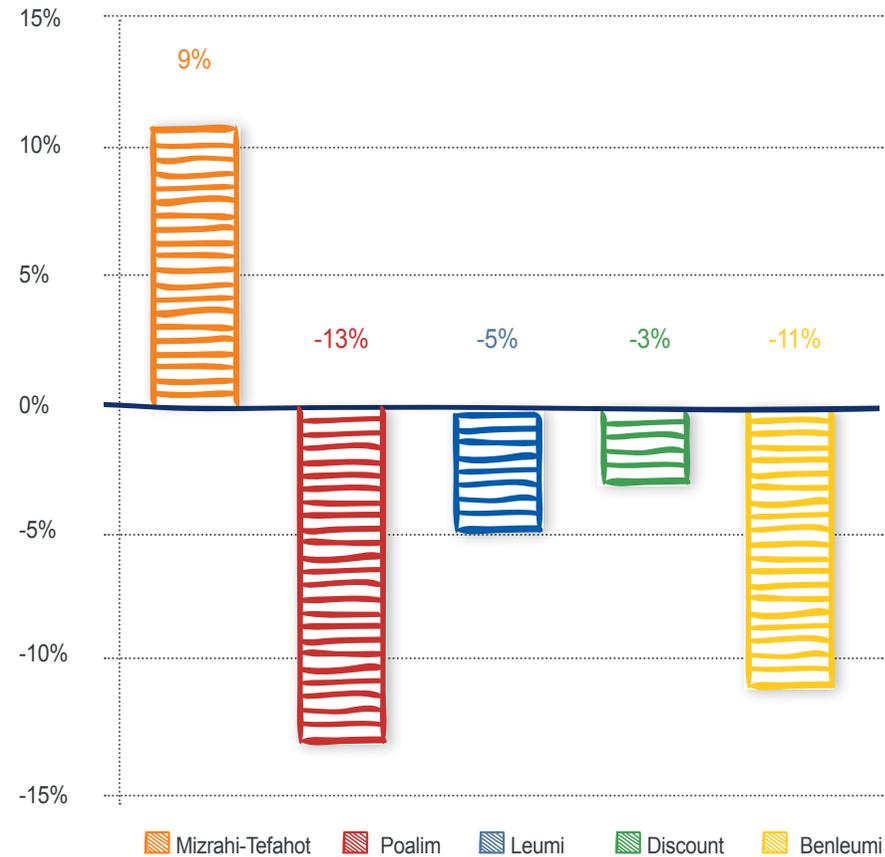
The 2016 customer satisfaction survey conducted by the Brandman Institute made these findings:



Satisfaction with the banker is very high and stable over time – rated 8.8 out of 10.

Net Promoter Score (NPS) indicates high satisfaction with Bank Mizrahi-Tefahot, significantly better than competitors

the difference between the percentage of customers who recommend joining the Bank (ratings of 9-10) and the percentage of those who criticize the Bank (ratings of 1-6) is 9%.



(According to the Ipsos Institution, survey conducted among 2,100 customers of all banks)

The Bank is also rated high by its customers (8.4 out of 10) for the following:

- Bankers are happy to provide service.
- Positive atmosphere at the branch.
- Bankers care about you being satisfied.

(According to survey conducted by Brandman Institution)

Providing bankers with tools to improve the quality of service

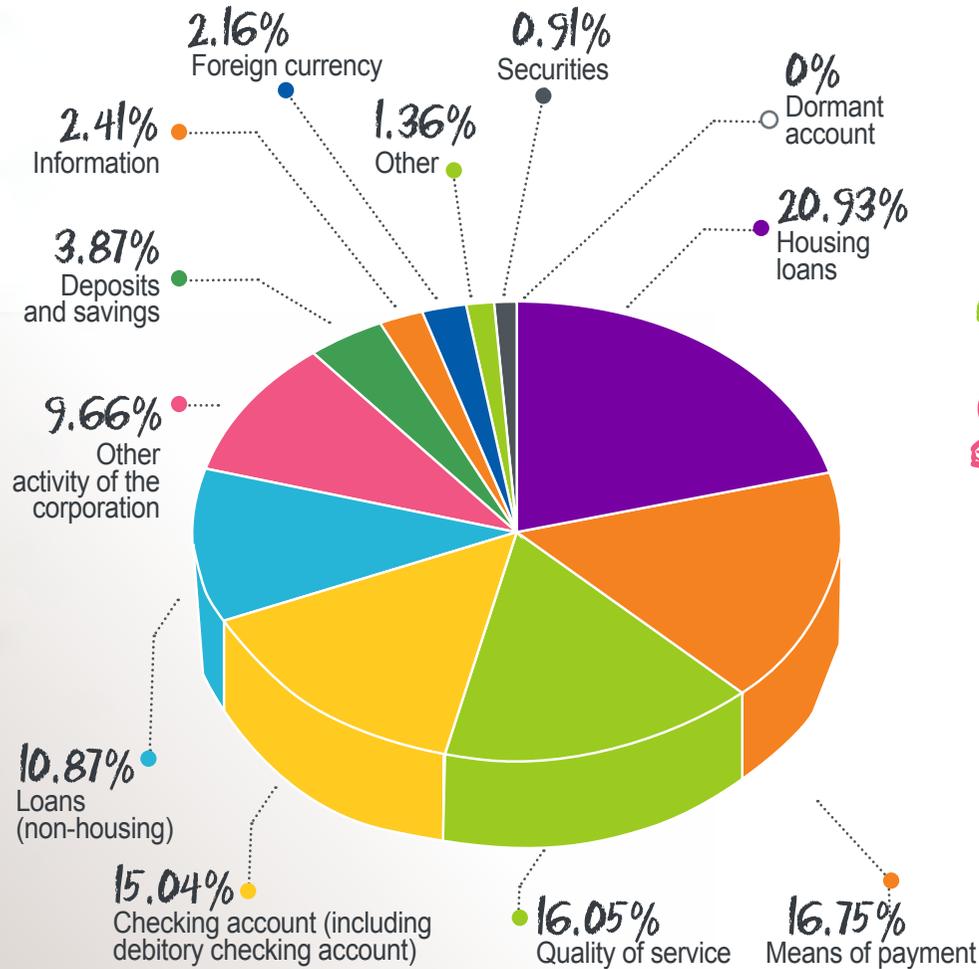
The banker's task calendar is the tool listing all of the banker's tasks for the business day. Most of the regular customer-facing tasks are listed in the calendar, ranked by urgency. The design and functionality of the task calendar is in line with the concept of comprehensive customer service. The calendar concept was modified in terms of viewing tasks – from a task-centered viewpoint to a customer-centered viewpoint, with relevant tasks listed for the banker under each customer, for optimal handling given the customer needs.



Measurement and handling of customer contacts

Customer contacts with the Bank: The Bank regularly measures customer complaints and contacts, reviews the cases, learns lessons and acts as needed. Below is a summary of Bank contacts in 2016:

Composition of complaints made to the Bank in 2016



Classification of public complaints was in line with Bank of Israel Regulation 308A, which became effective in 2015 and stipulates the classification for public complaints. There is also mandatory reporting to the Bank of Israel and to the public (on the Bank website) with regard to the various classifications.



Complaints about breach of privacy – In 2016, the Group received 4 justified complaints about breach of privacy (3 at Mizrahi-Tefahot and 1 at Bank Yahav), as well as 13 complaints found to be un-justified.



Complaints about accessibility – In 2016, the Group received 5 complaints about accessibility (4 at Mizrahi-Tefahot and 1 at Bank Yahav), of which 2 were found to be justified.



Complaints about discrimination – In 2016, the Group received 9 complaints about discrimination (6 at Mizrahi-Tefahot and 3 at Bank Yahav), of which 6 were about racial discrimination and 3 about age discrimination. One complaint at Bank Yahav was found to be justified.



A dapti ng products and services to customer needs

Our commitment: The Bank sees the great importance of approaching diverse customers and segments in Israeli society.

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

To this end, the Bank acts in different areas:

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

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

- **Arab segment** – This is based on establishing a branch network in Arab and mixed-population towns and by translating banking and marketing content into Arabic.
- **Jewish Orthodox segment** – Adaptation of marketing messages for the Jewish Orthodox population, along with development of products relevant for this segment, based on life patterns and financial information of this population.
- **Retirees** – Adaptation of products and services and conducting specific activities for this population.
- **Approach focused on younger customers** – Emphasizing promotion of savings and smart financial conduct for youngsters.



As part of the policy to promote customer interests and based on the understanding that the financial world addresses different audiences with diverse needs – the Bank offers service to customers in different languages. Thus, the different call centers allow customers who call in to get service in their preferred language. If at the time there is no banker available who speaks that language, the customer may leave their contact information to get a call back. The investment center offers custom service to customers in Russian, French and English. The center also supports International Private Banking customers, who may contact a banker in the language of their choice on the IVR system (Spanish, English, French). Furthermore, the Mortgage Center includes bankers who speak foreign languages, who provide a response and who act as a gateway to the Bank for foreign residents who are interested in buying property and obtaining a mortgage in Israel.

The Group sees the importance of creating products and services in response to varying needs of its customer base and adapts these to diverse target audiences and in line with changes, whether or not anticipated, over the customer's life time.

The process of adapting the product to needs of a specific customer segment is based on information received from bankers, who reflect customer needs and from surveys, research and analysis conducted by the Bank. Any new product development is reviewed in light of the Code of Ethics, as defined in the Bank's master policy. After studying the needs, the Bank forms a product in response to the relevant segment's need. Thus, for example, the Bank offers special benefits to customers in different age brackets, including youngsters (14-18 years of age), young girls doing their National Service, soldiers and veterans, Yeshiva students, university students, couples about to be married, retirees, new immigrants, customers from the Arab segment, the Jewish Orthodox sector etc.

Consequently, the Group creates savings channels adapted for the changing needs of its customers and their financial situation, by offering a range of channels for deposits and savings plans appropriate to different demographics and to different life stages of customers.

The Bank strives to adapt its product language to be better understood by customers. An example of this is the use of fruit names in the catalog of deposits offered to customers. To this end, all deposits were categorized by 10 key attributes (investment horizon, liquidity etc.) and each category was named after a different fruit.

In 2016, due to the persistent low interest rate environment, the Bank continued to develop multiple deposit products adapted for customer needs in such times.

The Bank has found that retail customers seek an investment option offering a reasonable return and with a need for liquidity need

funds to be liquid. Accordingly, the Bank has developed and offered to the public other Lychee deposits, offering step-up interest, as well as exit points over the deposit term. The Bank has also developed and offered to the public a unique, innovative deposit in the banking system – Carambola – which allows for concurrent investment in two tracks and selection of the most profitable one for the customer, while keeping funds liquid at all times.



Moreover, the Bank continued to develop additional Pomegranate deposits, which offer very high liquidity along with relatively high interest if the liquidity option is not exercised (or is partially exercised). These deposits have been highly successful, with strong demand from Bank customers – and from customers of other banks who have joined the Bank in order to benefit from such deposits, which are appropriate for this period and which provide real value added to customers.

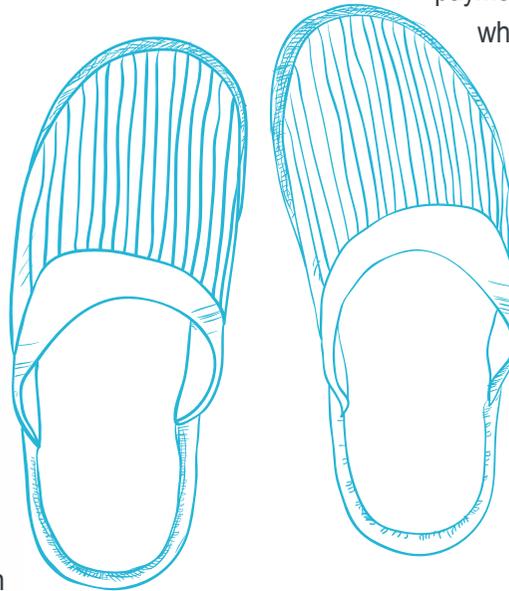
Mortgages

Taking out a mortgage is a significant step for customers, who assume a commitment for the next three decades – without the benefit of foresight. In the mortgage origination process – while the customer is facing feelings of confusion, fear and concern – they commit to future monthly payments of a significant amount out of their income. Over the years, customers face issues such as a growing family, leaving their employer, illness, unexpected expenses etc.

In order to facilitate future planning for customers, as well as handling un-expected changes, Mizrahi-Tefahot has launched its “Custom Mortgage” product – a unique mortgage which allows the customer to create a personalized, flexible monthly repayment schedule based on their needs and abilities. The flexible repayment option is designed to allow customers to determine in advance when to increase or decrease their annual repayment amount, based on their individual needs. Such loan is appropriate for customers who anticipate change in their financial

ability over time. For example, young couples just starting out, who plan their future family expansion, or customers who anticipate an increase in their monthly income over the loan term.

Another product developed in response to varying customer needs is “Mortgage on Hold”. This product allows the customer to occasionally put their mortgage payments on hold, in order to make life easier for them in periods when expenses are higher or income is lower.



The customer can benefit from a 1-3 months respite in mortgage payments (principal, interest and linkage differentials) once every year. All it takes is a notification to the Bank two weeks before the monthly payment date that you would like this service – and your deferred mortgage payments accumulate and are added over the remaining term of the mortgage. This product provides relief to customers by allowing them to control their mortgage and adapt it to the changing needs in their lives.

10 REDUCED INEQUALITIES

Arab segment

The Arab segment is one of the strategic population segments where Bank Mizrahi-Tefahot seeks long-term growth.

In 2016, as part of a long-term program, the Bank further expanded its operations focused on the Arab segment. As part of these operations, 2 new branches were opened in Arab towns (Baqa Al Gharbiya and Kfar Kassem), in addition to existing branches in this segment (Um El Fahem, Kfar Yassif and Nazareth) and in addition to existing branches in cities with mixed population (such as: Ma'alot, Jaffa, Akko, Ramle etc.) The Bank also continued to address focused marketing at this audience, through various media. As part of this campaign, the Bank launched a marketing website in Arabic, translated brochures in branches, selected a presenter for this sector and published diverse publications over the year in different media.

In 2016, the Bank continued to include activities focused on the Arab segment in its "Let's meet at Mizrahi-Tefahot" program, with content and speakers customized for this segment's cultural preferences. As part of this program, 13 activities took place in Nazareth, Kfar Yassif, Akko and Um El Fahem.

10 REDUCED INEQUALITIES

Jewish Orthodox segment

The Jewish Orthodox segment is another strategic demographic where the Bank seeks long-term growth and therefore intensifies contact with the Jewish Orthodox population, through opening new branches and through expansion of activity in existing branches. Thus, in 2015 the Bank opened the Cahaneman affiliate in Bney Brak and in 2016 – the Ramot affiliate in Jerusalem, in addition to existing branches serving this segment.

The Bank also specifically addresses this segment through specific media, by adapting it's marketing messages. Thus, the marketing language is adapted for the needs and values of this segment. This segment has been addressed through a range of channels. such as Orthodox press, radio, online and mobile websites, billboards and posters in cities identified with this segment. The messages cover various relevant areas – including customer recruitment, mortgages and deposits.



Supporting under-privileged populations

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

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

Debtor assistance

The Special Customer Sector of the Business Division, charged with debt collection from customers and with management of controlled accounts, acts in line with Bank policy which requires a considerate attitude towards the customer's circumstances – and even more so for customers who face financial hardship. Consequently, the Bank strictly provides respectful, sensitive service to all Bank customers – and in particular to under-privileged populations. The Bank also invests considerable effort in order to reach agreement which is feasible for debtors.

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

In general, prior to assigning a customer to be handled by the Special Customer Sector, they are assigned to the Bank's nationwide Collection Center. The Collection Center proactively contacts customers who are in arrears or who have accrued debt. Bankers at the Collection Center are extensively trained in aiding customers who face challenges in meeting their obligations, in order to reach agreement with the Bank, in line with their capacity, in order to eliminate their debt and to return customers to the regular repayment schedule. These arrangements are made judiciously and are personalized for each and every customer, in order to resolve the difficulties which borrowers are currently facing. As part of their collection efforts, the bankers are instructed to handle customers with empathy and to discover, at the outset, the source of the hardship which the customer is facing and what is the reason for their payments being in arrears.

Thus, as for mortgages, out of all cases of payments in arrears sent to the Collection Center in 2016, only 1% were referred to legal proceedings. About 70% resolved their debt and resumed their payments in good standing and the remainder are handled by the Collection Center, most of them with active arrangements in place and a high level of compliance with such arrangements.

Other action promoted by the Bank in this regard:

- **Bridge loans for customers facing liquidity issues** – Providing bridge loans against customer deposits with the Bank, for terms of 3 months or longer, so as to offer such customers both liquidity and security.
- **Services in conjunction with the Ministry of Construction Assistance Program** – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Housing recipients. These services include loans within the Ministry of Construction's assistance program, including location-based loans and contingent grants and loans for specific populations (such as: new immigrants, new immigrants from Ethiopia, disabled persons etc.) In the loans area, the Bank is involved, in

addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing eligible participants, such as issuance of eligibility certificates. Note that Bank Mizrahi-Tefahot is the major originator of eligibility loans. Thanks to the Bank's extensive branch network, it is also easily accessible to these populations.



Assistance for abused women

The Bank has joined an inter-bank covenant launched by the Banking Association in co-operation with the Bank of Israel, to facilitate dealing with financial issues for abused women staying in shelters and in temporary housing. The purpose of this covenant is to assist women who reside in shelters for abused women, both through a special contact person who is available to help these women and through agreement in principle, subject to certain conditions, to delay proceedings against these women. In 2016, the Bank received 7 applications from women staying in such shelters – and these applications were handled by the special contact person.

Retaining interest for Holocaust survivors who receive reparations

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



Assistance for foreign workers

The Bank has been selected by the Israeli Government to provide deposit services for foreign workers. As part of this service, the Bank accepts deposits from employers and manage this deposit on behalf of the foreign worker through termination of their employment. When the employee has terminated their employment in Israel, they get the deposit balance as requested by them (in cash or by wire transfer to their account overseas).

A

ccessibility

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

become a Group customer.

The Bank is made accessible on these key levels:

- o **Making facilities physically accessible:** In this regard, the Bank acts to make branches, ATMs, service stations and its website accessible for customers, so as to allow persons with disabilities to also conveniently use these.
- o **Making banking services accessible:** The Bank acts to make banking services accessible, in conformity with the Equal Rights for Disabled Persons Act.



Making banking services accessible for disabled persons

Both Bank Mizrahi-Tefahot and Bank Yahav are compliant with the Equal Rights for Disabled Persons Act. Thus, by end of 2017 all buildings and services will be made fully accessible. To achieve this goal, the Group continued this year to make its facilities accessible and to adapt its services for persons with disabilities.



Making facilities physically accessible

- o **Making branches accessible** – As of the end of 2016, 148 Group branches nationwide have been made accessible to the disabled, both the building and related facilities. Of these, 117 are Mizrahi-Tefahot branches (which constitute 85% of all Bank branches) and 31 are Bank Yahav branches.
- o **Making ATMs accessible** – As of the end of 2016, 177 Group ATMs, of which 45 at Bank Yahav, were made accessible for disabled persons in terms of device height.
- o **Service station accessibility** – The Group is promoting several initiatives to improve accessibility of service stations in operation throughout Israel. At all Bank branches, checks may be deposited at service stations and at 48 branches, check books may be immediately printed. Keyboards of the new service stations at the Bank are positioned at an appropriate height, allowing a person in a wheel chair to use the service station. Other adaptations would be completed in conformity with regulations of the Equal Rights to Disabled Persons Act.



Making services accessible

The transition to use of virtual direct channels, including the internet, social networks, telephone and others – allows customers to have access to various services at any time and from any place, without actually visiting the branch. During this year, the Group acted to make its services accessible, in conformity with the Equal Rights to Disabled Persons Act. In addition to improving accessibility for those with disabilities, the Bank is also improving accessibility for others, including speakers of foreign languages and those with low access to technology, such as the elderly population.

Making Group websites accessible – As of the end of 2016, the Bank's accessible websites include the transaction website, the marketing website and the loyalty club website. In 2016, Bank Yahav made all its online marketing apps accessible, in addition to its banking app. By end of 2017, all Group websites would be made accessible.

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



Ensuring customer information privacy

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



This is managed by the Bank as follows:

- **Risk mapping** – The Bank regularly conducts mapping, analysis, management and assessment of all risk factors facing the Bank.
- **Risks management and mitigation** – In conformity with the current risk mapping, the Bank implements processes and technology to hedge and mitigate risk.
- **Control** – The Bank applies control processes in order to identify any gaps in implementation of the tools and processes specified.

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

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

The Technology Division deploys and operates lines of defense and technology, based on the policy and requirements specified – and is responsible for monitoring and identification of any deviation from such policy and requirements.

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

Activity concerning information security and action to ensure customer information privacy is focused, inter alia, on the following aspects:



Confidentiality and privacy

Ensuring that customer information privacy and banking confidentiality are maintained.



Risk management

Risk assessment for systems and processes, including monitoring of sensitivity transactions, information analysis and processing, identification of anomalies, response and control.



Awareness and information

Regular activity designed to enhance awareness of cyber risk among Group employees and managers. Training is delivered to new employees, lectures are delivered to managers and information security and cyber security flashes are disseminated, discussing different events in Israel and overseas. This is designed to enhance awareness of events and to underline the personal responsibilities of all employees and managers for safeguarding customer information privacy.



Counter-capabilities

Development of advanced counter-capabilities for facing cyber threats.



Ensuring customer information privacy

Communication channels between the Bank and its customers include the mobile app, online transaction website, email and SMS. When enrolling in one of these channels, the customer is instructed how to act in order to maintain their data and information private. Moreover, customer authentication and verification processes have been defined for any contact through one of these channels. The Bank also monitors customer activity in the various channels, in order to ensure that no un-authorized use of customer accounts takes place, informing the customer if any such use has been identified.

As from January 1, 2017, the Bank manages communication on the various channels in conformity with Proper Banking Conduct regulation 367.

Development of environmental and social products

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

- o **Providing loans for development, construction or launching of environmental products** – The Bank is committed to promoting environmental issues and therefore assists by providing loans for development of new technologies for generating energy from renewable sources, to customers seeking to construct solar energy generation plants, water desalinization plants, use of natural gas, co-generation etc.
- o **Providing loans for development, construction or launching of social products** – The Bank, being a major financial institution, is aware of its accountability for economic stability and growth and supports small businesses through various funds which promote social or business goals in outlying areas and through support and promotion for social businesses.

Loans to the public

The Bank provides service to customers in multiple operating segments; one of the Bank's key operations is lending. Total net loans to the public at the Bank in 2016 amounted to NIS 171,341 million, compared to NIS 159,204 million in 2015.

Environmental lending

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



- o **Promoting credit for green energy** – In 2016, credit was approved for green energy – renewable energy, energy generated from renewable sources as well as financing for co-generation facilities. Use of such energy reduces environmental pollution. Total credit extended amounted to NIS 445 million. Total credit approved for the renewable energy segment in 2015 amounted to NIS 430 million.

Note that in 2016, the procedure for financing, acquisition and construction of solar energy generation plants was revised and adapted for company operations and for current market conditions.

- o **Incorporation of environmental considerations in extending loans to companies with environmental implications** – The Bank has an environmental risk management policy in place, as part of the approval of credit policy documents. The Bank's policy documents include dedicated environmental risks policies, including methodology for identification, assessment and handling of environmental risk.



Social lending

The Bank acts to promote social lending to its customers in several areas; in 2016, the Bank provided NIS 437 million to promote social causes as follows:

- Loans for small businesses: “The Northern-Southern Fund”** – The Bank promotes small and medium businesses in the Northern and Southern regions, by turning these regions into attractive hubs, by creating employment, increasing revenues and improving quality of life. To this end, the Bank allocated until 2016 loans amounting to NIS 728 million, of which NIS 56 million in 2016 alone, compared to NIS 27 million in 2015.
- Government-backed fund for small and medium businesses** – Since 2012, the Bank has been active in the Government-backed fund for small and medium businesses. In 2016, the Bank was awarded the new tender conducted by the Government and started providing such loans as from May 2016.

To this end, the Bank allocated through 2016 loans amounting to NIS 2.075 billion, of which NIS 361 million in 2016 alone, compared to NIS 731 million in 2015. (The decrease in credit is due to delay in launch of the new fund in 2016 and because in the new fund, as required by the tender, the Bank and its share of credit extended account for 60% of a financial partnership with institutional investors, which extends the loans).

- The Bank partners with IVN, a fund focused on development, investment in and support for social businesses designed to increase employment of populations which are under-represented in the labor market.** As part of this partnership, the Bank would lend NIS 1 million over 10 years, as from 2017. The social challenge undertaken by IVN is to create opportunity for sustainable social change, through investment in and assistance for social businesses, which focus on professional training and employment for teenagers and youngsters at risk, people with special needs, ex-convicts, the elderly and single-parent families.
- Social investments by US affiliate** – In 2016, the Los Angeles branch invested NIS 20 million (USD 5.25 million) in dedicated funds which provide mortgages to the under-privileged and loans to small businesses in the USA, as well as in minority-owned banks.



לא משנה אם אתה עסק גדול או עסק קטן מגיעה לך הלוואה בערבות המדינה!

הלוואה בערבות המדינה ובתנאים מועדפים מחכה לך במזרחי-טפחות

מזרחי-טפחות. כל עסק מקבל את החיס הטוב ביותר. גם אם אתה לקוח שלנו וגם אם עדיין לא אתה מוזמן לקבל הלוואה בתנאים מועדפים ובערבות המדינה הליטות מהשירות המהיר והיעיל ביותר ומבנקאי שמכיר אותך וזמין לך בכל דרך אפשרית. בנוסף, תוכל ליהנות מהמכללה לעסקים של מזרחי-טפחות והמי"ל המציעה קורסים ייחודיים שסייעו לך לחזבל את העסק שלך קדימה.

* האשויא 10% בערבות מדינה. חתן כל סוג אשויא כפוף לשיקול דעת הבנק

מזרחי טפחות חייגו *8860 mizrahi-tefahot.co.il

R esponsible marketing and advertising

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

- o **Avoiding contentious issues in Israeli society**
- o **Respectful, non-abusive advertising** – The Bank adapts its messages for various segments of the population, so as to align with their norms and cultural values. These messages reflect the Bank’s guiding principles for its current operations – reliability, loyalty, maintaining human dignity, professional integrity and commitment to the customer.

The Group’s marketing operations include messages disseminated to the public at large. Being a leading entity in Israel’s economy, the Group strives to convey messages which generate value for the Group, while ensuring that these messages are respectful of all segments of Israeli society.

The Group ensures that its advertising adheres to the rules of ethics and advertising rules of the Second Authority. Furthermore, the Group does not sell products which are banned or forbidden. In 2016, there were no recorded events of non-compliance with regulation or code with regard to marketing communications.

Dialog with customers

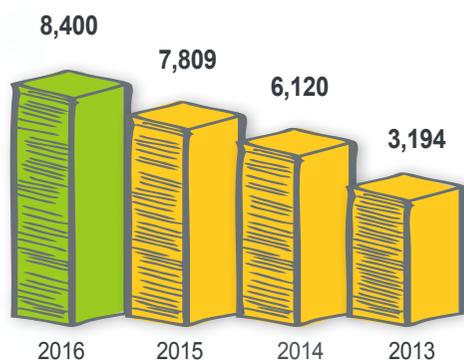
The Group’s primary channel of communication with its customers are bankers in branches. The Group maintains contact with customers through other channels as well: by telephone, email, mail, internet, app, social media, conferences and workshops. The Group also conducts focus groups among its customers, or customers of other banks, and also conducts surveys concerning deposits and other products as well as image and satisfaction surveys. The Group maintains a dialog with its strategic business audience through conferences, courses, customer meetings and event sponsorship. Bank Mizrahi-Tefahot and Bank Yahav offer a website and a Facebook page where answers may be found on various topics.

As part of the Bank’s dialog with its customers, the Bank conducts the following:

A. “Let’s meet at Mizrahi-Tefahot”

The “Let’s meet at Mizrahi-Tefahot” community activity consists of regularly scheduled meetings held at major Bank branches. At these meetings, Bank branches become neighborhood meeting venues where diverse activities for adults and for children are held, led by well-known facilitators. These meetings cover a range of extra-curricular enjoyable classes, take place during the evening, offering a relaxed atmosphere and inviting all neighborhood residents – customers of any bank – at no cost.

Total participants in "Let's meet" presentations



In 2016, 145 meetings took place at 24 major branches around Israel, including one branch located in a Jewish-Orthodox neighborhood and branches focused on the Arab segment – with content customized for these target audiences. All of these activities were attended by 8,400 participants – Bank customers and those of other banks.

This year, in addition to regular "Let us meet" activities the Bank held the "Let us meet the chefs" month, where chefs were invited to present their personal story at various branches throughout Israel.



"Let's meet for retirees" – In 2016, the Bank conducted 17 specific activities for retirees. These meetings included banking lectures as well as non-banking lectures on relevant topics, which received accolades in the feedback gathered. These activities were attended by 480 people – both Bank customers and others.

The various activities are very popular with the community – as reflected by the number of participants. In order to ensure that these meetings are beneficial both to the Bank and to participants, the participants fill out a feedback form at the end of every such meeting. Findings of these feedback forms indicate very high satisfaction with these activities (rated 4.68 out of 5). Also in 2016, 29 meetings took place on financial topics, which enriched the community and provided tools in these areas: savings, mortgages and on investing in the capital market. These activities were attended by 1,037 people.

The following Bank branches have conducted "Let us meet at Mizrahi-Tefahot" activities in 2016:

Central Region

- Kikar HaMedina
- Dizengof
- Ramat Aviv

Southern Region

- Netivot
- Yavne
- Be'er Sheva
- Barnea Ashkelon

Dan Region

- Marom Nave
- Kfar Ganim
- Rosh HaAyin
- Bar Ilan
- Tarfon (Jewish Orthodox)

Northern Region

- Nave Shaanan
- Krayon
- Akko (partially Arab)
- Kfar Yassif (Arab)
- Nazareth (Arab)

Sharon Region

- Raanana
- Kfar Sava Industrial Zone
- Ir Yamim
- Pardes Hanna
- Hadera
- Um El Fahem (Arab)

Yehuda Region

- Jerusalem

B. Mizrahi-Tefahot loyalty club ("The Card")

In order for the Bank to improve the dialog with and benefits for its customers, the Mizrahi-Tefahot loyalty club is in regular contact with club members. The club offers members banking promotions and, in particular, consumer promotions – due to their being bank credit card holders and part of a large, strong group of

Bank customers ("group power"). The club offers regular year-round discounts at a wide range of chain stores and businesses in different segments, as well as attractive, time-limited promotions at various chains in Israel (culture, vacation, personal care etc.)

In 2016, club members conducted over 1 million transactions with merchants involved in regular co-operation with the club. Club members also downloaded over 50,000 bonus coupons for various promotions throughout the year. Surveys show that this activity supported the positive dialog with customers and 34% of those aware of the promotions indicating very high satisfaction with these promotions.

C. Business customer conferences

In different regions and at actual branches, business customer conferences take place with Bank customers and potential customers invited to attend. The objective of these meetings is to provide enrichment in relevant content domains, to expose Bank products appropriate for the target audience and to allow attendees to network.

D. Customer meetings and events at the Business Division

In 2016, a large conference is held for 1,000 current and potential customers. Employees and managers of the Business Division regularly meet their customers.

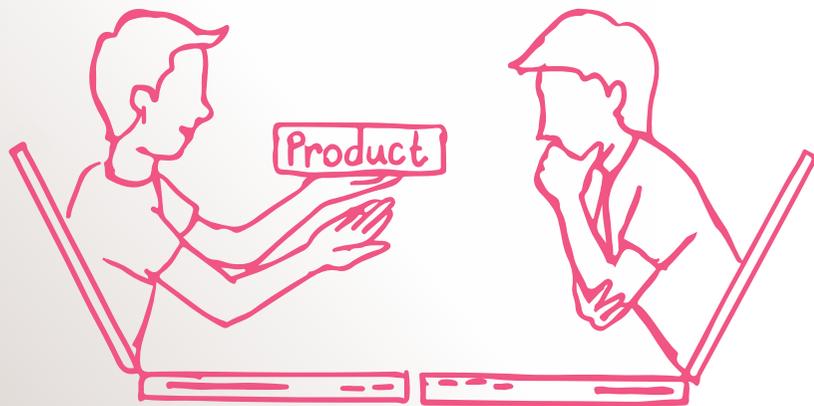
E. Customer opinion surveys

The Group acts to conduct a dialog through surveys using text messages, focus groups on various topics, product-related surveys and satisfaction surveys. Customers who are not satisfied are referred to the branch manager for handling. Bank branches also feature "I care" boxes, which allow all employees to propose ideas for providing better service to customers.

F. Dialog on social networks

The Bank believes that listening to customers' desires and providing a solution for their needs support the long-term view required for the Bank's success. In order to realize this concept, the Bank invests considerable effort in monitoring and responding to the online discourse about Bank services (on social networks and blogs) concerning the Bank. The Bank also uses software to identify web user comments about the Bank. This way, the Bank can reach accurate, pin-point precision with regard to the content – for a continuous learning process, based on customer reactions. This Bank activity allows the Bank to improve several processes:

- **Understanding how the Bank is perceived by customers:** Listen in real-time, on-going basis of consumer discourse (our current and future customers), which assists the Bank in gaining an insight into customers and understanding how they perceive the Bank, its products and services.
- **Improvement of learning processes:** Identifying this online discourse concerning the Bank, allows the Bank to respond to it in real time and to constantly learn lessons in rapid fashion. The Bank's potential responses



include: provide high-quality service to dissatisfied customer, provide efficient marketing information to potential customers or create content to assist the Marketing Department.

- **Insights concerning product innovation:** The internet provides the largest, most efficient focus group for research. Learning from online discourse assists the process of marketing information mining with regard to customer needs.
- **Immediate feedback:** Monitoring online discourse provides current, available information about consumer preferences during concept development or product improvement, as well as during product launch.
- **Evaluate the success of marketing campaigns:** Public responses and online discourse allow the Bank to evaluate the success of marketing campaigns and the duration of their impact, in addition to regular surveys which evaluate effectiveness. Based on the outcome of dialog with customers, the Bank prepares for adapting its products and services.



G. Customer feedback by cell phone

In 2016, the Bank continued its dialog with Bank customers through cell phone-based feedback. The Bank uses this channel to contact customers a short time after any interaction with the Bank (visit to the branch, telephone inquiry etc.) – in order to inquire about their satisfaction with the service. Customers who are dis-satisfied are referred to a Customer Experience Manager at the Bank, who provides the response needed – in line with the content of their feedback.

Targets

Achievement of 2016 targets

Target	Status
Further improvement to accessibility of all branches in Israel (expected completion – end of 2017).	✓
Making the Bank Mizrahi-Tefahot website accessible in conformity with relevant regulations by end of 2016.	✓
Further hardware and interface adjustments to ATMS are expected in 2016.	✓
Further deploy the topic of accessibility among Group employees.	✓
Maintain high level of satisfaction of Group customers.	✓
Continue providing optimal service when handling complaints.	✓
Further assistance to be provided by the Bank to businesses and organizations which promote social causes.	✓
Increase in number of activities and participants in “Let’s meet at Mizrahi-Tefahot”	✓
Expansion of “Let’s meet at Mizrahi-Tefahot” activities to specific sectors – Jewish-Orthodox and retirees.	✓

Next steps with customers:

Targets for 2017

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



The community & Us



125

adopted and ins

NGOs in 2016

The "Money Road" in Arabic as well*

The program is available in Arabic on the Bank website

Bone marrow donor database in the Bank's name*

The database was created in co-operation with Ezer MeZion, to help patients in need of bone marrow transplant.

79%

local purch

the great major

purchasing by the

made from local





29,170 hours

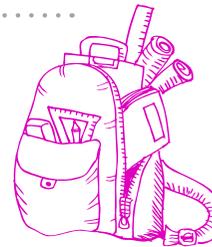
given to the community with love by Group employees in 2016



Superbrands award to ZAZIM project

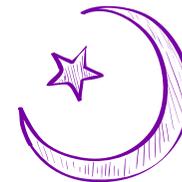
The Bank's "ZAZIM" project received the Superbrands award for Community Activity.

52% of the Group's charitable donation budget is directed towards empowering children and youth



70,000 students took part in the "Green Light for Children" project, sponsored by the Bank

Some **1,200** students studied Hebrew in Arab schools, as part of this project.



The "Money Road" in Arabic as well*
The program is available in Arabic on the Bank website



2,500 participants

Took part in lectures on financial education delivered by the Group



125 adoptive units adopted this year social entities and institutions in their towns



NIS 160,000

Total purchases by Bank employees from social NGOs in 2016

NIS 14.3 million

Total investment in social and community activities by the Group

4.7 out of 5

Average satisfaction rating from those who benefit from the Bank's community activities



Bone marrow donor database in the Bank's name*

The database was created in co-operation with Ezer MeZion, to help patients in need of bone marrow transplant.

99% local purchasing

The great majority of purchasing by the Group is made from local suppliers

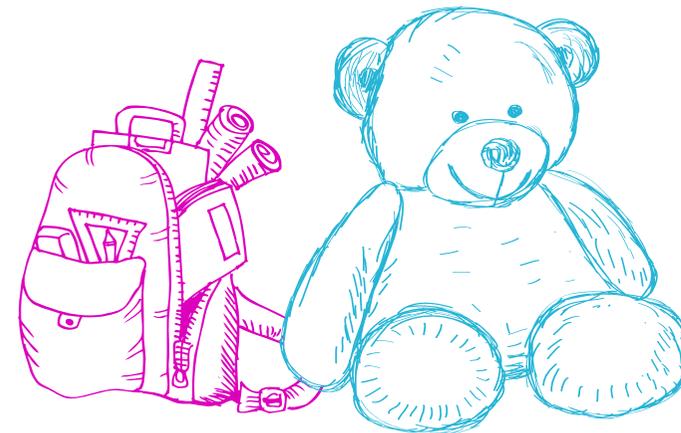


Impact on Israeli society through involvement and volunteer work

Our commitment: As a business entity whose business relies on the community in which it operates, the Bank is committed to be involved with and to invest in the community. The Bank is working to realize its community involvement in a manner that expresses its strength, engages the Bank's employees in active volunteer activity and leverages its physical, financial and human abilities and resources. These matters are handled at the Bank by the Mizrahi-Tefahot in the Community unit of the Organizational Development and Training Department of the Human Resources and Administration Division. The Bank's community engagement is carried out accompanied by a constant dialog and realization of broad initiatives with community partners throughout Israel, engagement of employees and managers, geographic and other diversification of activities utilizing the Bank's nationwide presence, through partnerships and with internal and external communication of the Bank's community involvement.

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

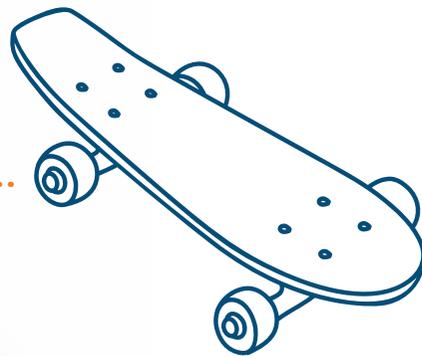
- A. Promoting under-privileged children and youth;**
- B. Supporting NGOs and businesses who promote social causes or employ persons with special needs.**



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

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

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





Adoptive units

Some 125 Bank branches and headquarters departments are in constant contact with various social organizations in their towns, that act on behalf of under-privileged children and youth. This adoption includes regular activities to provide assistance and mentoring by volunteer employees, birthday parties, unique activities in advance of holidays, using creative craft kits sent by "Mizrahi-Tefahot in the Community" and centralized activities for children welfare by region all across Israel.

Involvement in projects to promote welfare of children and youth

As part of Bank policy to assist and promote teenagers, the Bank participates in these projects:

- o **"Green light for children"** – The Bank has sponsored the "Green light for children" project, which provides training on road safety to elementary school students. In 2015, this program was piloted at 50 schools, with 10,000 participating students. In 2016, training was delivered at 198 schools nationwide (in 38 towns), attended by 69,300 students.



MIZRAHI TEFAHOT



- o **"ZAZIM" – youth movements for the community** – The objective of this project, in co-operation with the Youth Movement Council,



is to encourage youth movement participants to volunteer for society and their community. In this project, which was started in 2012, youngsters submit proposals for involvement projects in community work, which would be supported by the Bank. Out of the 200 proposals submitted, the Bank selected 64 projects to support. Bank employees take part in the selected projects – providing advice and assistance in implementation for selected projects as part of their community volunteering.

Superbrands awarded the Paula Moses Community Contribution Award to the Bank's ZAZIM project.

- **"Shenkar Flowers"** – Supporting 80 teenagers with artistic skills from a low socio-economic background, training them over the school year, by students from Shenkar College.
- **"Latet Youth"** – Since 2012, the Bank has partnered in an educational program for social entrepreneurship, volunteer work and empowerment of youth, especially those of limited means, in co-operation with the NGO named Latet. The program takes place at 32 towns across Israel, attended by 2,400 children from various demographic segments of Israeli society. In this program, the teenagers conceived and operated 120 social projects to benefit their local communities. Bank staff assist in advising and assisting these teenagers.
- **"Tour De Trom" bicycle rally** – This initiative, launched nine years ago, has become a tradition at the Bank. This project is held in cooperation with the ILAN NGO sports center – designed to raise funds for ILAN children. In 2016, some 140 employees took place in the rally.



- **"Hanuka gift candelabra"** – This unique project allowed 1,750 children served by social NGOs to benefit from Hanuka gifts purchased by 600 Bank employees – contribution from Bank employees and management.
- **Youth team for the Mathematics Olympic Games** – The Bank sponsored the youth team competing at the Mathematics Olympic Games, as part of its support to promote excellence among teenagers.



Summary of activities in major Bank operations

The Bank has two major centers where headquarters units operate – in Lod and in Ramat Gan.

1. Community activity in Lod – The Bank and its employees are active and involved with significant social funding and action in Lod, through the following projects:

- **"Holylood"** – The Bank has sponsored a festival of social films and a competition for films by youths, written and produced by high-school students in Lod. The films were screened as part of the "Holylood" film festival, held in the city.
- **Pre-school center** – The Bank has contributed towards creating a pre-school center, serving the Arab and Jewish populations who live close to the Chicago Youth Center in the city.
- **"Melodica"** – The Bank sponsors the Melodica social club, which provides social activities to teenagers in Lod.
- **"Volunteering for the community"** – Bank employees take part in various community activities and join volunteer organizations in school after-study clubs, in providing financial training to youngsters (The Money Road project) and in other municipal events, such as the Bar Mitzva project for 13 year old boys, the Purim festival and the Lod Race.



2. Community involvement in Ramat Gan:

- All welfare clubs in Ramat Gan are adopted and assisted by Bank departments located at the Bank's central building in this city.
- In Hanuka, all children attending these clubs enjoyed a holiday activity at the Ramat Gan Theater.
- The Bank supports the Theater Days project of Beit Zvi Theater in Ramat Gan, whereby school students sponsored by Bank units enjoy a day out, watching a play by the Theater students and taking part in theater-related workshops and activities. During the past school year, 5 schools took place in the theater awareness day.



Support for NGOs and businesses that promote social causes

The Bank supports businesses that promote social causes in these key areas:

1. Support for NGOs that employ persons with special needs, designed to boost their revenues

- **"Added Value" website** – The Bank launched the Added Value website – an online platform for products and services produced by 200 NGOs and social and environmental organizations. This platform provides a unique store front for hundreds of social and environmental organizations, helping them gain exposure of their products and services to the public at large – both individuals and businesses. The objective of this venture is to connect potential customers and social organizations.

- **Buying gifts and giveaways from NGOs** – The Bank also buys gifts and other giveaways through these various NGOs and in the holiday season, employees are invited to purchase select products at sales events held at Bank headquarters and through the Bank's intranet website. Total purchasing in 2016 amounted to NIS 160,000 (compared to NIS 150,000 in 2015).

- **"Added Value – Gifts etc." shop** – The Bank sponsored this shop, located in the Dizengoff Center mall in Tel Aviv. This shop sells products, gift items and gifts made by people with special needs. The shop is sponsored by the Bank and is managed by the "All Good" NGO, employing the mentally destitute as sales staff – in order to provide them with training for a job on the free market.





- **"Heart-felt creation for the community"** – Since 2010, the "Heart-felt creation for the community" fair has been held during the holiday of Sukot, supported by the Bank. At this fair, located at Mamila Boulevard, some 30 NGOs that employ people with special needs offer their products to tens of thousands of visitors.
- **"Voting is influencing" project** – The Bank's "Voting is influencing" project invited Bank employees to vote for NGOs which employ and assist at-risk youth, which are listed on the "Added Value" website. The five NGOs selected by Bank employees received financial contributions for holding joint projects with the Bank.
- **"Repeating Story"** – The Bank has joined the "All Good" NGO on a joint project which operates a venture for book lending to Bank employees

through an online library. As part of this venture, a library was created at the Bank building in Lod, operated by the people who had benefited from the "All Good" NGO.

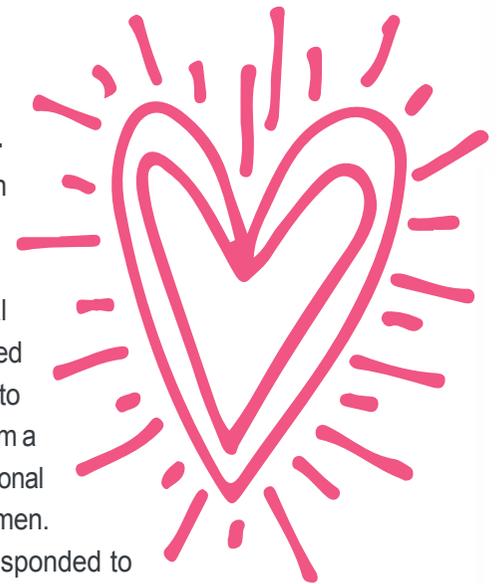
- **Sponsoring of NGOs taking part in gift fairs for employees and suppliers** – The Bank sponsors NGOs that present their products at fairs targeted at companies seeking to buy holiday gifts for their employees.
- **Seminars for NGO managers** – The seminar "Influencing and promoting change", designed to help them expand their business activity, was attended by 50 NGO managers

2. Support for social businesses:

"Business with value" project –

the Bank's social venture program, in cooperation with the IVN Foundation to support social businesses and NGOs which promote populations with special needs. Advertising in newspapers called on start-up social businesses to apply to take part in this venture and to benefit from a financial grant from the Bank and professional assistance from experienced businessmen.

In 2016, 89 businesses and NGOs responded to this call to action, of which 3 NGOs were selected to receive professional assistance from Bank employees and business advisors on the following topics: Writing a business plan, organizational development, marketing, human resource management etc. as well as an award of a financial bonus for enlarging their business, in conformity with the business plan.



Promoting financial education



Our commitment:

The Bank strives to equip its customers with tools for appropriate financial behavior, including tools for economic empowerment and for correct budget management.

Promoting financial education and training of business owners

The Bank sees great importance in promoting financial education among the public at large, which is the reason for multiple activities:

- "Money Road" training kit** – A program which provides youth with training on financial issues. This kit is available on the Bank website, to assist a wider audience of teachers, instructors, counselors etc. to learn the content of this package and to train youngsters in the content listed in this package.



In 2014, the "Money Road" training kit was translated into Arabic in order to make it easier for Arab youth to study this program. This activity was in cooperation with the Israel Association of Community Centers, with assistance from a Bank employee from the Arab segment. In 2015, the program pilot was conducted, to provide training to Arab youths in 8 Arab towns. Lessons were learned from this pilot for placing the kit in Arabic on the Bank website. In 2016, the Arabic-language kit was published on the Bank website.

Furthermore, in 2016 "Money Road" kit training was delivered by students who received tuition scholarships from the Bank, in exchange for training groups of youths at high schools.

- Reinforce financial education for students and relations with institutions of higher education** – The Bank intensified links with institutions of higher education, by co-operating with the Management College in offering a banking track, sponsored by the Bank, delivering lectures to students by volunteer employees and managers and by providing scholarships for students at several universities and colleges in financial fields of study.
- As part of the link with Sapir College, the Bank expanded training of school students in Sderot by students who received scholarships from the Bank.
- Trainee Student project** – As part of the Bank's involvement and investment in the community, the Bank operates multiple initiatives whereby the Bank employs students during their studies, in order to make it easier for them to find a job later on:
 - "New immigrants together"** – Including students of Ethiopian origin in Bank work during the summer vacation.
 - "Aluma" NGO**, Herzlia Interdisciplinary Center and the Management College – include 6 students in practical work at the Bank during their studies, as part of an internship program.

- In 2015, the Bank sponsored the financial advisory center for students at Tel Chai College "Breathe Easy – Tel Chai College". This center employs students who have received a tuition scholarship and financial training from the Bank. In 2016, the Bank conducted multiple workshops on correct economic conduct, individual workshops and meetings designed to raise awareness of this issue.
- **Mizrahi-Tefahot Small Business College in cooperation with the Israeli Management Center ("MIL")** – the Small Business College, operated by the Bank together with the Israeli Management Center ("MIL") offers two courses: a marketing course and a financial course. Each course consists of five sessions. In 2016, 10 courses were given, attended by 236 participants.
- **Getting to know the business world** – In 2016, the Bank held 6 customer conferences designed to better getting to know the business world. Of these, 5 conferences were held in different regions, designed to help customers get to know the business world and to gain exposure to Bank services with regard to borrowing (such as the Government Fund and foreign trade) with the other conference targeted at business consultants.
- **Sessions for members of the "Skirt Club"** – In 2016, the Bank conducted two sessions for business women in the religious segment. Each of these sessions was attended by 50 women, who received information about solutions offered by the Bank to the business segment, as well as a presentation on digital promotion of small businesses.
- **Sessions on financial topics, as part of the "Let's meet at Mizrahi-Tefahot" program** – In 2016, the Bank offered 29 sessions at no cost, held at Bank branches all around Israel, which included lectures on savings, retirement advice, mortgages and on investing in the capital market. These sessions were

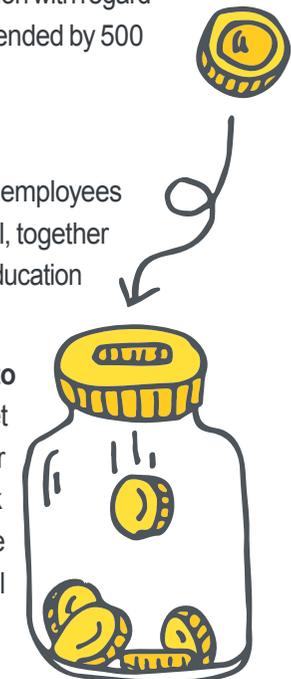


held at branches in the evening time, offering a relaxed, pleasant atmosphere. These sessions were held as part of the "Let's meet at Mizrahi-Tefahot" project, where Bank branches are turned into neighborhood meeting places which host diverse activities. In 2016, a total of 1,037 people attended meetings on financial topics.

- **Financial Awareness week** – At 10 Bank branches and at 10 Bank Yahav branches, presentations were given on financial education, sponsored by the Bank of Israel and by the Banking Association, as part of Financial Awareness week. These presentations were attended by 576 people – both Bank customers and others.
- **Mortgage seminars** – In 2016, the Bank conducted 9 mortgage seminars, which provided tools and clear, professional information with regard to mortgage selection. These workshops were attended by 500 participants.

Promoting financial education at Bank Yahav:

- **"A Different Lesson"** – In 2016, 201 Bank Yahav employees volunteered to provide 25 courses all around Israel, together with "A Different Lesson" NGO, to provide financial education and tools to 556 under-privileged children.
- **Financial education for young couples about to marry** – In 2016, Bank Yahav co-operated with Bet Moreshet, an organization which delivers seminars for young couples about to marry. In this project, the Bank sponsored the seminars and Bank volunteers gave presentations at each seminar on correct financial conduct and on managing the household budget.



Including employee families in activities for the community

This year as well, "Mizrahi-Tefahot in the Community" invited family members of employees to take part and to be partners in activities for the community:

- **Popular race at the Jerusalem Marathon** – This race is sponsored by the Bank in co-operation with the Israel Cancer Society, and some 300 employees and their family members take part in it.
- **Passover Walk** – A walk for cancer research, attended by 150 Bank employees and their families, is being held for the 7th year.
- **Pack and donate** – Food packages were packed at 5 centers nationwide, with dozens of employees and their children as volunteers.

Support for initiatives related to health care and welfare

The Bank sponsors diverse welfare activities for young populations suffering from health care conditions by providing support for them and their families: These are the major activities in this area:

- **"Friends in Medicine"** – An NGO which operates a social pharmacy, by collecting un-used medications and providing them as a contribution to people unable to buy them. The Bank has joined the NGO as part of this initiative, collecting from Bank employees and customers un-used medications (including expired medications). These are collected at branches, in special collection containers which are then sent to the NGO. The medications are reviewed

by professional pharmacists and are provided to patients in need who are financially unable to purchase these medications. In 2016, medications valued at NIS 1 million were collected, in addition to expired medications which were sent to be recycled.

- **"Heartwish"** – This NGO acts to make dreams and wishes come true for children suffering from serious illness. The Bank took part in making 5 wishes come true for sick children. The wish realization was designed at a workshop, attended by 50 Bank employees, who also took part in making the wish come true.
- **"Zichron Menachem"** – Since 2010, the Bank held, for the 6th year, an annual fun day in Eilat for 150 children, in collaboration with employees at the Eilat branch. Moreover, dozens of sick children and their families were hosted at the Bank building in Lod. Throughout the year, the Geula branch in Jerusalem adopts the "Zichron Menachem" children, celebrating the holidays and their birthdays with them.
- **"Ezer MeZion"** – This NGO helps children with cancer. In 2016, the Bank made a donation towards creating a bone marrow donor database in the Bank's name, which is available to those in need of bone marrow transplant.
- **"Joy for children"** – This is an NGO which acts for the welfare of children suffering from serious illness. In 2016, the Bank sponsored a fund raising evening by this NGO, as well as a vacation camp held in Eilat which hosted 150 sick children, with participation of volunteer employees from the Eilat branch.
- **"Shalva"** – This NGO helps children with special needs. In 2016, the Bank and the NGO held a summer camp for children in Eilat, with participation from branch employees in this city.



Other Bank activities to benefit Israeli society

- **"Spoken Hebrew"** The Bank has joined forces with the Abraham Foundation to deliver a program teaching Hebrew language skills at Arab schools, taught by Jewish teachers. In 2016, this activity took place at 30 Arab schools.
- **Scholarships for students of Ethiopian origin** – This year, as well, the Bank continued to provide scholarships for students of Ethiopian origin, as part of the connection with the Feuerstein Institute and the Hebrew University, established in 2014.
- **Gift to fire fighters following large-scale fires in Israel** – Following the wave of large-scale fires across Israel, Bank management decided to thank the fire fighters and to provide them with sweet gift baskets, at a budget of tens of thousands of NIS. These gift baskets were delivered to over 100 fire stations across Israel. Bank employees and managers took part in delivery of these gifts.
- **Community Leadership Development Center in Akko** – The Bank sponsored creation of the Community Leadership Development Center in Akko, jointly with the Administrative Excellence Institution in Israel. The Center develops, promotes and empowers a cadre of young leaders in Northern Israel, who are committed to influencing and community leadership, in their communities and throughout Israeli society.

Community involvement at Bank Yahav

Empowering youth of Ethiopian descent to take on leadership positions:

In November 2016, the ZOOM Leadership program started its second group at the Mevaseret Zion Immigration Absorption Center. This program was created and is being delivered by the Fidel NGO, including development of a sense of



identity and leadership among youths of the Ethiopian community, meetings with role models and guest lecturers, as well as academic assistance in core studies. As part of the support for children of this community, a basketball team was created, together with Hapoel Yahav Jerusalem and a bicycle riding group was created, together with Rochvey Shimshon.

In 2016, Bank Yahav also conducted these activities:

- Art and photography seminars, together with persons with special needs, jointly with AKIM Jerusalem.
- Established basketball teams for youth at risk, in co-operation with HaPoel Jerusalem.
- Mentoring for veteran lone soldiers and for university graduates and students of Ethiopian origin.
- Taking part in the Tour De Trom bicycle rally to benefit those with disabilities, in co-operation with Ilan NGO.
- Volunteer work at kindergartens for children with special needs and for children at risk.
- Painting the homes of elderly people and Holocaust survivors.
- Collecting and donating food for those in need during the holidays.
- Visits to children wards and to IDF wounded soldiers in hospitals.
- Donation of equipment, furniture and computers.

Community involvement at overseas affiliates

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

1. Community volunteer work: Nearly all employees of the Bank affiliate in the USA do volunteer work for at least 4 hours annually.
2. Donations to social NGOs that promote financial education among children and small businesses – In 2016, these donations amounted to USD 32,500.



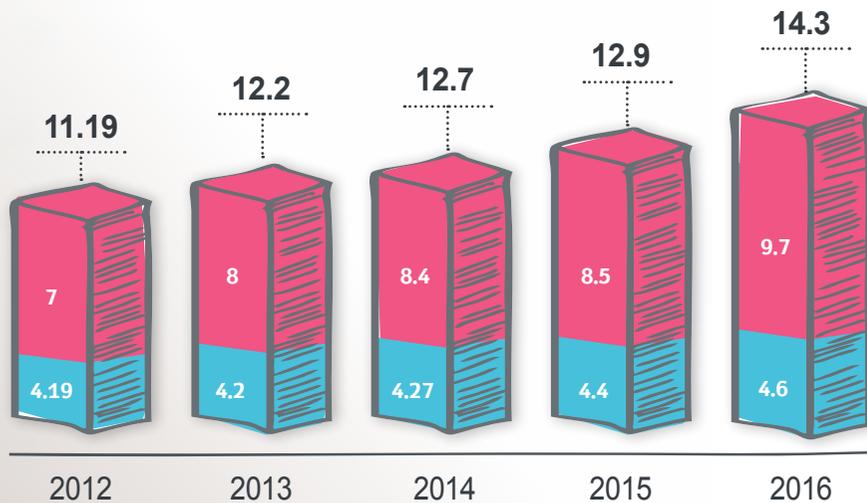
Investing in the community

In 2016, total investment in social community activities by the Group amounted to NIS 14.3 million, compared to NIS 12.9 million invested in the community in 2015 (an increase of 11%). Total investment consists of total financial donations, amounting to NIS 9.7 million, and the monetary value of volunteer work hours by employees (equivalent to NIS 4.6 million)

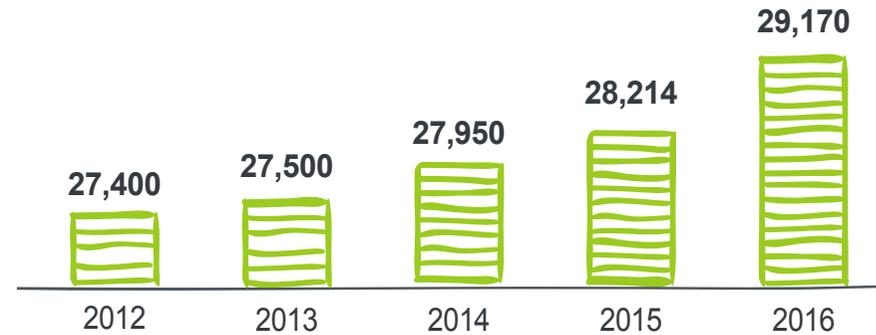
In addition to monetary donations, the Bank also sometimes donates equipment and infrastructure. In 2016, the Bank donated furniture, electric appliances and computers.

Investment in community activity by the Group (NIS in millions)

■ Total contribution to the community ■ Monetary value of community work hours



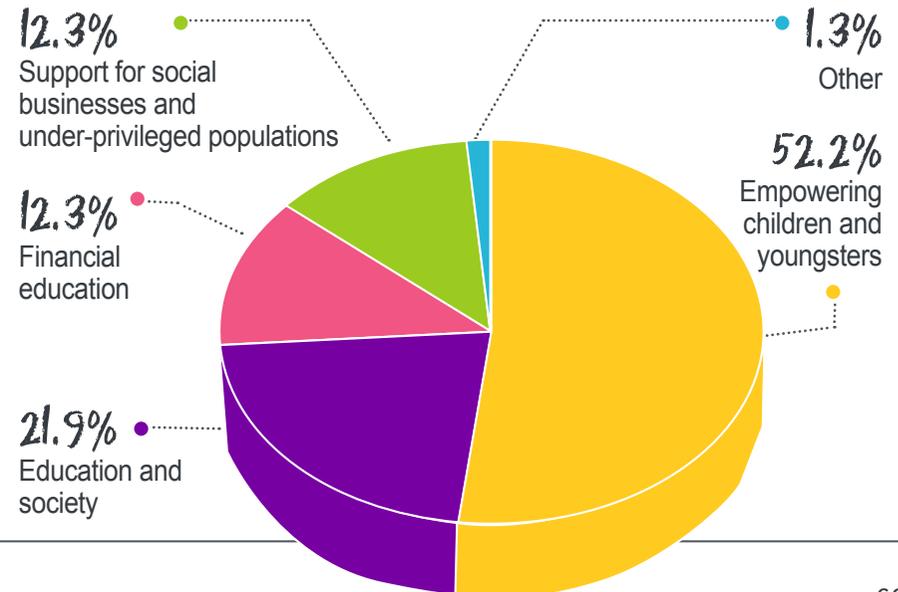
Total hours of employee volunteer work in the community



In 2016, Group employees provided 29,170 hours of volunteer work for the community. As the above chart shows, employee volunteer activities have been trending higher since 2012.

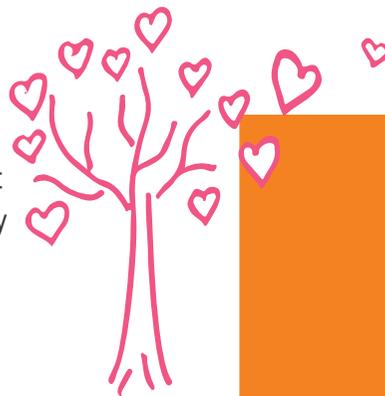
Below is the composition of investment in the community by area:

Composition of community activity budget in Israel, 2016



Dialog and reviewing the effectiveness of donations to the community

As part of its policy on community involvement, the Bank conducts a constant dialog with community partners and entities, designed to identify the needs of the community and to direct investments to where they are most needed.



Dialog to identify needs and to direct donations

Local authorities	<p>The Bank is in constant contact with the welfare and education departments at many local authorities across Israel, in order to develop projects and to identify social organizations to be adopted by Bank units, as part of their regular activity within the community. Together with these, the Bank reviews and plans the investment plan for the relevant venture.</p> <p>Examples of activities which resulted from this dialog in 2016:</p> <ul style="list-style-type: none"> Following a request from the Akko Municipality and the College for Quality Government, the Bank sponsored, for the 2nd year, a training program for local leadership in Akko. Upon request from the Ramat Gan Municipality, the city's welfare daytime clubs were adopted by Bank units. Resulting from a dialog between the Bank and the Lod Municipality, the Bank sponsored a festival of social-topic films and a festival of youth-produced films; the Bank also sponsored the Lod Run, with 15 Bank employees participating, as well as the Bar Mitzva project for all school children in the city. A steering committee convenes quarterly at Lod City Hall, composed of representatives of the organizations that operate "Melodica" – to review the club's operating plans, monitor use of the activity budget, the number of activities carried out, the number of youngsters participating etc. These meetings resulted in various action taken to expand the opening hours of the club, making it available to other groups for various social activities, inclusion of other groups of youths in activities etc.
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Social NGOs	<p>In order to identify needs, the Bank is in constant dialog with social NGOs and other organizations. As a result, we initiate projects in response to these needs. Here are some examples of such dialog and ensuing activities:</p> <ul style="list-style-type: none"> The Bank is in dialog with all winning NGOs of the "Partners by choice" project, in order to decide which ventures would receive charitable donations. Thus, for example, a decision was made to have the charitable donations awarded to Zichron Menachem foundation be used for a summer camp for sick children in Eilat; jointly with Make a Wish foundation, a decision was made to deliver a seminar to Bank employees and to make 5 sick children's wishes come true and so forth. "Friends in Medicine" – Following a request from the Friends in Medicine NGO, which operates a social pharmacy and provides medication donated to those who are unable to buy it, the Bank placed special collection boxes at all branches and headquarters units, where Bank employees and customers may place medication no longer needed, which is then provided to this NGO. "Green Light for Children" – Following a request from the Green Light NGO, seeking assistance for educating school children on road safety, the Bank sponsored the "Green Light for Children" project, which provides training on road safety to tens of thousands of elementary school students.
Customers	<ul style="list-style-type: none"> "Partners by Choice" – This project allows Bank customers to take part in voting on which 10 NGOs, that provide for children and teenagers, would receive a Bank donation of NIS 500 thousand. In this project, now in its ninth year running, the Bank contacts its customers and asks them to vote for their preferred NGO. The Bank and the selected NGOs deliver joint projects designed for the benefit of children and teenagers.
Employees	<ul style="list-style-type: none"> "Voting is influencing" – This project allows Bank employees to vote and decide which 5 NGOs, that employ youth at risk, as listed on the Added Value website, would receive a Bank donation of NIS 100 thousand in total. The Bank and the selected NGOs deliver joint projects designed for the benefit of youth at risk.



Communicating about activities and invitation to join these activities use the following channels:

- o **Bank website** – Activities are listed on the Bank website, as a platform for including customers in various social projects (examples: Invitation to the "Heart-felt creation for the community" fair, enrollment in the Jerusalem marathon, a project for collecting medications for the "Friends in Medicine" NGO, promotion of the ZaZIM project, publication of a call for action for the "Business with value" project).
- o **Intra-organizational dialog** – The Bank maintains a constant dialog with employees, through internal communications and by listing the diverse activities on the "Mizrahi-Tefahot in the Community" website.
- o **Calendar** – A calendar is printed annually and distributed to all Bank employees. This calendar lists the projects and activities by employees who volunteer throughout the year.
- o **Recognition for employees that volunteer** – Bank management recognizes and appreciates employee involvement in the community, which is regarded as part of the core organizational values; thus, a soiree is held in recognition of employees that volunteer and once per year, at the balance sheet conference, outstanding branches and departments are commended for their contribution to the community.
- o During the corporate social responsibility week held by the Bank in June 2016, photos and clips were displayed at key locations around the Bank, showcasing the Bank's activity within the community.



Reviewing the effectiveness of activities

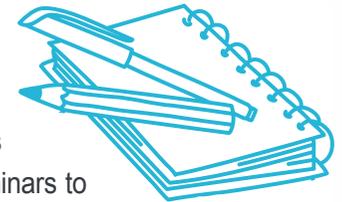
All projects include close monitoring and assistance by the Bank, to ensure that charitable donations end up at their designated destination. The Bank also reviews the effectiveness of charitable donations as follows:

- o **Adoption activities by Bank departments** – The Bank maintains constant dialog with representatives of social organizations where employees volunteer, through questionnaires and visits that review these issues: Extent of connection with the volunteering department, how much children enjoy and co-operate with volunteers, suitability of activity kits for children and overall satisfaction with volunteer activity. The data collected indicates that satisfaction of social organizations where Bank employees volunteer is very high, with demand to expand operations with additional volunteering employees (rated 4.7 out of 5).
- o **"Business with value" project** – After a year of activity and support for social businesses, the Bank monitored the development and improvement of these businesses based on various parameters. The findings showed that ventures which participated in this project multiplied by 2-3 their average monthly revenues, profitability and headcount. For example:
 - o **Webetter** – trains and employs Yeshiva graduates and Kolel students, who manage social networks and digital campaigns – the employee headcount increased from 5 to 11 and revenues grew by 50%.
 - o **ORT Zur Barak school** – Providing training and employment for teenagers at risk, through workshops conducted outside school hours; revenues of this venture grew from NIS 22 thousand to NIS 66 thousand, within six months of activity in 2016.

- **"Heart-felt creation for the community" fair** – After the fair has ended, questionnaires are sent to NGOs to gauge their satisfaction with the fair, including fair set-up, stalls, sales revenues etc. These questionnaires indicate that NGOs are very satisfied with the fair; about 85% of NGOs wish to continue taking part in the fair in the coming years. (Rated 4.7 out of 5).
- **"Tour De Trom" bicycle rally** – After the rally, feedback questionnaires were filled by Bank employees who took part in the rally. Most of the rally participants expressed a high degree of satisfaction with the rally and the cause it stood for (rated 4.7 out of 5), with 90% of riders expressing their wish to participate in the years ahead.



- **"Added Value" shop** – The Bank monitors the business done by this shop, in order to increase sales. A quarterly report is provided, listing sales, profitability etc. Sales of shop products were significantly higher in 2016 compared to 2015, due to marketing activities that take place from time to time. Total purchasing in December 2016 amounted to 690 (compared to 302 in December 2015).
- **Seminars for NGO managers** – The seminar "Influencing and promoting change", designed to help them expand their business activity, was attended by 50 NGO managers. At the end of this training day, all attendees asked for further seminars to be delivered. The great majority of attendees rated the quality of the professional content delivered in this seminar as HIGH (4.5 out of 5) and also rated HIGH the feasibility of applying this content during their daily work (4.2 out of 5).



R esponsible supply chain management

As part of the Group activities to benefit the community, the Group acts and influences others, through responsible and well-ordered supply chain management and contracting with Israeli suppliers.

Our commitment:

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



Responsible supply chain management is applied as follows:

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

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

Description of supply chain and purchasing

The Group has a policy in place for preferring local suppliers. The Group receives services from 3,500 active suppliers (including 963 at Yahav), of which 99% are Israeli. These are construction and maintenance contractors, landlords and management companies, equipment suppliers (office equipment, printers, auto leasing, telephones, computers, computer equipment etc.) and service providers (consultants, designers, supervisors, computer and information security service providers and cleaning service providers).

In 2016, total purchase orders created by the Group for suppliers amounted to NIS 414.1 million.

Responsible supply chain management

- **Ensuring human rights and compliance with the law:** The Bank only contracts with suppliers who operate in compliance with all relevant laws and regulations. Furthermore, the Bank, when signing agreements with suppliers, makes sure that such agreements include a requirement for suppliers to fully discharge their obligations as employers towards their employees or anyone on behalf thereof, including the suppliers' obligations to comply with all statutory provisions applicable to employers with regard to their employees and laws which govern employment and employee rights.
- **Supplier control:** As from 2013, the Bank's Logistics Division Manager and Purchasing Manager visit premises of major Bank suppliers. Through 2016, Bank representatives visited premises of 95% of major suppliers. This visit is accompanied by a questionnaire, designed to test suppliers based on the aforementioned criteria. Any supplier that fails to meet the criteria is liable to have their contract terminated.

- **Control over employment terms of contractors:** The Group verifies that employment terms of contractors (cleaning, security and catering) are checked by a qualified payroll reviewer, in conformity with statutory provisions. In this context, in 2016 the Bank discontinued its contracting with a cleaning supplier that did not properly co-operate on an audit of their premises by the Bank's authorized wage auditor.

- **Business continuity for critical suppliers during emergency:** As part of the Bank's business continuity plan, the Bank verifies that all suppliers classified as critical service providers during emergency would be able to provide their services to the Bank. This is designed to ensure that even during a business continuity event, the Bank could continue to provide service to its customers in as much as possible. The Bank policy was also revised to ensure supplier compliance with a proper information security policy and compliance with national laws.

- **Control over suppliers with regard to corruption risk:** The Bank conducts corruption risk assessment for suppliers and contractors regularly used by the Bank. The final invoices from these contractors are subject to a second review by an External Auditor and cleaning service invoices are specifically and regularly reviewed by the supervisor in charge of these operations.

In addition, significant contracts signed with architects and supervisors have a unique clause prohibiting them from receiving any benefit, directly or indirectly, from a third party.

- **Supplier preference:** The decision table used for supplier selection includes criteria for contribution to the community and adhering to a Code of Ethics.



Targets

Achievement of 2016 targets

Target	Status
Increase by 10% the number of participants in financial training.	✓
Complete translation of the "Money Road" kit to Arabic and make it available on the Bank website.	✓
Increase by 15% the number of participants in Small Business College.	✓
Increase by 50% the number of Arab sector students who take part in extra-curricular activity in Hebrew, as part of the "Spoken Hebrew" project.	✓
Expand and intensify connections with institutions of higher education.	✓
Intensify connection with the community in Lod and develop other ventures.	✓
Expand the "Green light for children" activity to another 250 elementary schools across Israel.	✗ This activity was delivered at 198 schools.
Maintain local purchasing for the Group as an absolute majority of purchasing.	✓
Conduct random visits to major suppliers at least once a month.	✗ Conducted this year with 6 suppliers.

Future targets for 2017

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



Our Employees

Our Employees

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

63% women

Increase in share of female employees at the Group

47% female managers

Increase in share of female managers at the Group



Average age 39.8

The youngest of the Top 5 banks



Medical check

Offered Bank employees aged 40 and over



97% promoted internally

99% of Group employees located

45% of training
Increase in average training per



Employees members activity

% degree

Customers and Us

The Community and Us

Our Employees

The Environment and Us

Corporate Governance

Our Employees - overview



63% women

Increase in share of women employed by the Group

47% female managers

Increase in share of female managers at the Group



Average age 39.8

The youngest of the Top 5 banks



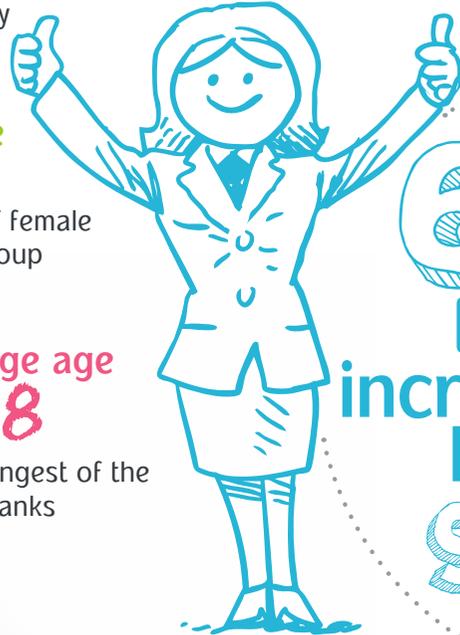
Medical check-ups*

Offered to all Bank employees aged 40 or over



150 athletes

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



6,185 Employees increase in Group headcount

99% of Group employees are located in Israel



45 hours of training Increase in average training hours per employee

"Among us, this is serious"* Website listing aspects and milestones for professional and personal assistance to employees

97%

promoted internally

Percentage of managers promoted from among Bank employees



2,700 employees and their families

enjoyed the guided walk in 2016



2,100 employees

and their families members took part in this activity



73%

hold a university degree

Customers and Us

The Community and Us

Our Employees

The Environment and Us

Corporate Governance

*New in 2016

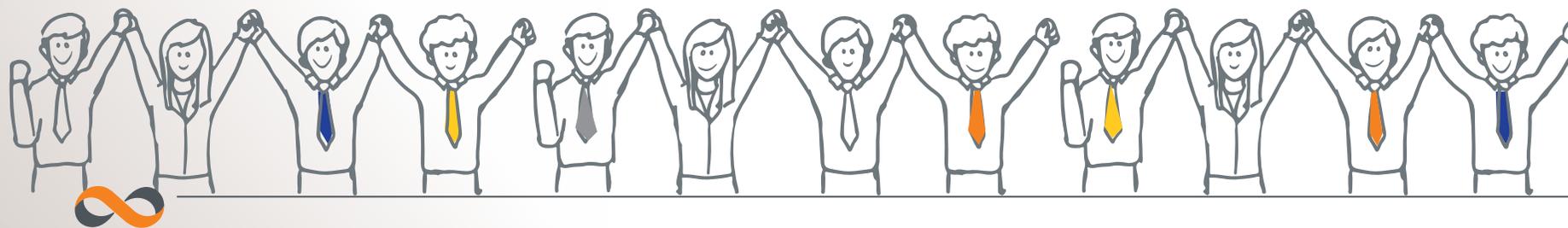
Group commitment to its employees

Our commitment: Bank management regards all Bank employees and managers

as a key component for achieving its business strategy. Human resources at the Bank are managed on two levels:

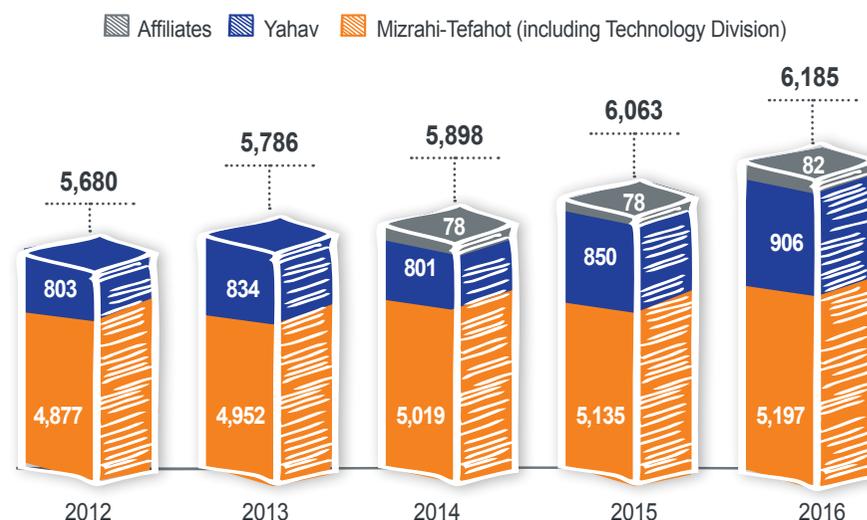
- o Services to individual employees, from recruiting through ongoing services and up to retirement.
- o Human resource development at the Bank in all relevant aspects.
- o This area is managed by the Human Resources and Administration Division.

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

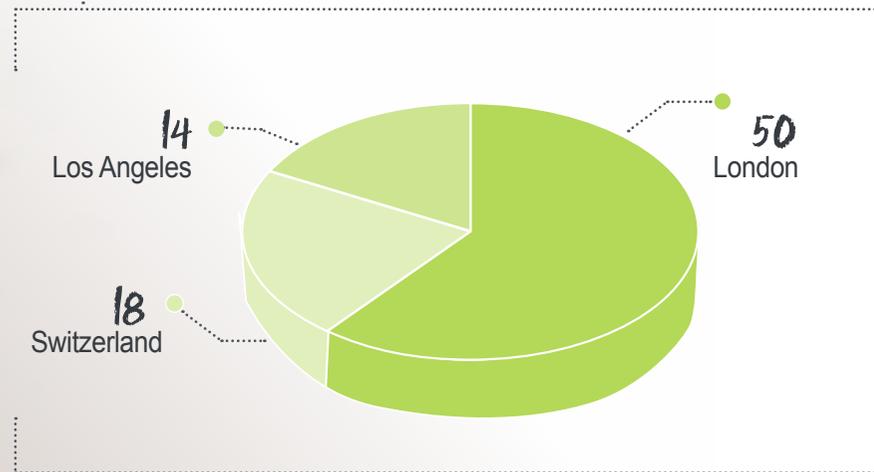
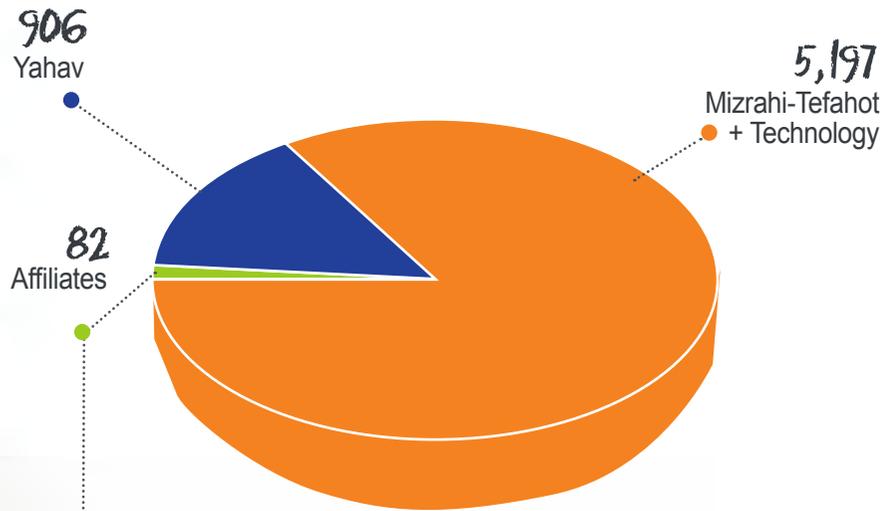


Employee profile

As of the end of 2016, Mizrahi-Tefahot Group had over 6,185 employees (compared to 6,063 in 2015), including employees at Mizrahi-Tefahot (including Technology Division employees), at Bank Yahav and at overseas affiliates.



Total employees at Mizrahi-Tefahot Group in 2016

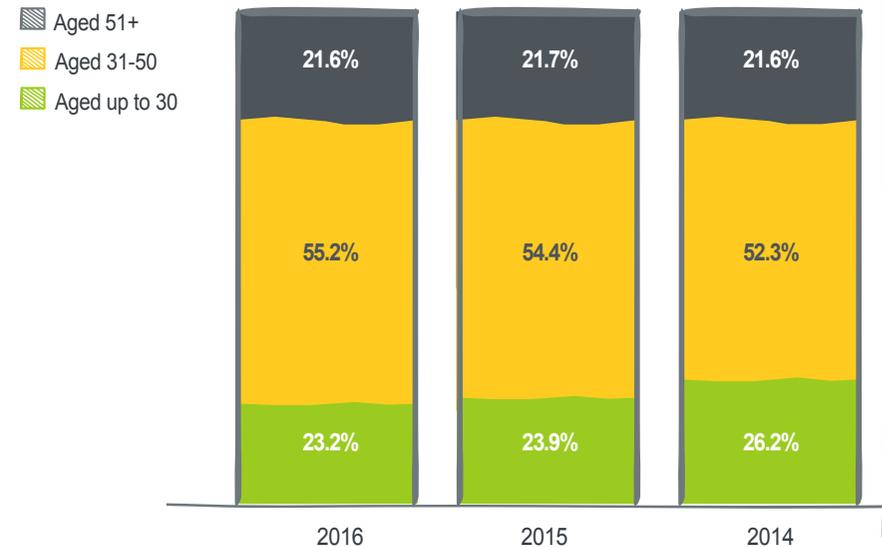


Of all Group employees, 93% hold a full-time position and others – a part-time one (most of those on part-time are students working at the Banking Center). The Bank strives to ensure the rights of employees – and human rights in general. Therefore, the Bank does not employ children nor practices forced labor.

Employee age

The average age of Bank Mizrahi-Tefahot employees (excluding the Technology Division) is: 39.8, the average age for all of the Group is 40.4.

Most Group employees (55%) are aged 31-50; 23% of Group employees are aged 30 or younger and 22% of Group employees are aged 51 or older.



Composition by geography

About 99% of Group employees are located in Israel (6,103 employees). Most of these are employed in Jerusalem and surroundings, Tel Aviv, Ramat Gan and Lod. About 1% of Group employees are employed by overseas affiliates.

		Number of employees	Percent of all Group employees
Israel	Haifa and North	568	9.2%
	Sharon	444	7.2%
	Tel Aviv & Ramat Gan	1445	23.3%
	Dan	413	6.7%
	Center	452	7.3%
	Lod	1149	18.6%
	Jerusalem region	1009	16.3%
	South	623	10.1%
Total – Israel		6103	98.7%
UK	London	50	0.8%
Switzerland	Zurich	18	0.3%
USA	Los Angeles	14	0.2%
Total – overseas affiliates		82	1.3%
Total – Mizrahi-Tefahot Group		6,185	100.0%

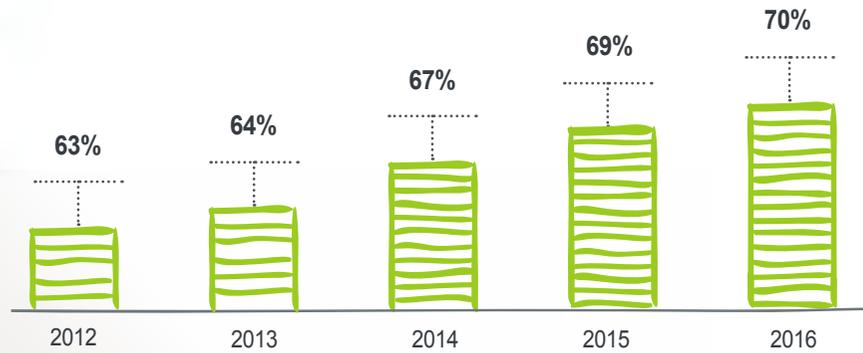
Overseas affiliates have 82 employees. Mostly local, with a few recruited in Israel. Bank overseas affiliates ensure that local employees are hired for various positions, including management positions. Thus, local employees account for two thirds of management at the Switzerland subsidiary; 90% of management at the London branch; and 100% of management at the Los Angeles branch.



Education

In 2016, the share of Bank Mizrahi-Tefahot employees (excluding the Technology Division) who hold a university degree was 73% and 8.4% were university students. In 2016, the share of Group employees who hold a university degree was 70% (compared to 69% in 2015).

Percentage of Group employees with university degree

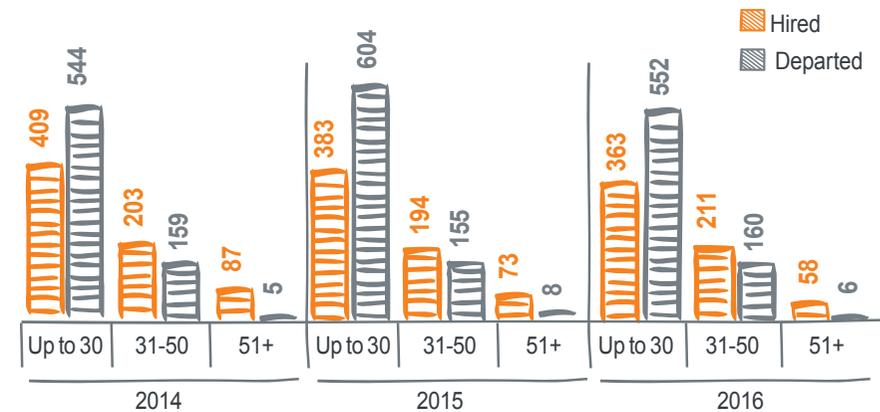


Contractors: As a rule, it is Bank policy that each Bank employee is an employee of the Bank for all intents and purposes from Day 1, therefore the Bank does not employ any contractors. From time to time, the Bank obtained services from labor contractors, in support of project operation for a limited time – and only a small number of such contractors.

Employee turnover

Bank policy stipulating employment of regular employees only also applies to staff at call centers, mostly students, where turnover is typically high (departing during exams, upon graduation etc.)

The following chart shows the turnover rates for each age bracket, an indication that the Group is a desirable work place for young employees. This chart also shows that in 2015, as in 2016, new hires outnumbered departing employees. In 2016, 718 new employees joined the Group, of which 252 men and 466 women. In this year, 632 employees departed the Group, of which 241 men and 391 women. These figures reflect growth of the Bank with new positions available at the Bank, mostly for new hires starting out on their banking career. The relatively high turnover for those aged “Under 30” is explained by the fact that call center staff are regular Bank employees.



Return from parental leave – In 2016, 480 female employees went on parental leave and 265 returned from parental leave. Female employees who return from parental leave resume in their previous job. Any change is made only in co-ordination with the employee.



Promoting fair work environment and employment terms

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



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

Key initiatives for promoting a fair work environment

Employee benefits: The Group acts in three areas with regard to cross-organizational welfare: Work circle, personal life circle of employees and annual seasonal circle. These circles accompany the employee throughout their work, professional development, personal joyful occasions and, if needed, in times of crisis and distress. All Bank employees are entitled to benefits, without distinguishing between regular and provisional employees.



Work



Annual seasonal



Personal lifecycle

Work	Annual seasonal	Personal lifecycle
<p>Various benefits, based on their years of service with the Bank</p> <p>New hire gift: Upon being hired, new employees receive a booklet listing the benefits they are entitled to, as well as a gift from the Bank.</p> <p>Permanent employee gift: Upon becoming a permanent employee, employees receive a gift.</p> <p>Gift on promotion: Upon being promoted, employees receive a gift.</p> <p>Recognition and bonuses at milestones, based on years of service Upon reaching 13 years of service with the Bank, employees are entitled to a bonus from the Bank ("13th anniversary bonus"), ditto at 18 years of service ("18th anniversary bonus"). Furthermore, the Bank notes each decade of service, providing a gift on the anniversaries of the first and second decades; on the anniversaries of the third and fourth decades, in addition to the gift, employees are invited to attend a recognition event, which includes a day of extra-curricular activities.</p> <p>Retirement: When employees reach retirement, they are invited to attend a retirement event, which includes relevant lectures for this stage and also receive a prestigious gift and recognition plaque with their name, on behalf of the Bank President.</p>	<p>Benefits on holidays</p> <p>Gift cards: Employees receive gift cards on New Year and Passover as well as a gift on Family Day..</p> <p>Vacation: Employees are eligible to receive a vacation voucher which they may use at will.</p> <p>Summer and holiday events: In 2016, Bank employees and their families enjoyed a summer happening and events on national holidays.</p>	<p>Benefits on significant times in employee's life</p> <p>Gift on personal occasions: Birthdays, weddings, childbirth, child's wedding.</p> <p>Gift and events for employees' children: Starting school, 12th/13th birthday, enlisting in military / national service.</p> <p>Tuition reimbursement for employees' children: Tuition reimbursement for kindergarten and university, for employees' children.</p> <p>Support during crisis: Managers, together with HR, also assist and support employees and their relatives in times of crisis or distress. When an immediate relative of an employee dies, the employee receives a basket of goods from the Bank for the ritual mourning period.</p>



Salute to Army reservists – In 2016, the Bank provided those called for Army reserve service (longer than one week) with a gift package, consisting of a useful wash bag with various body care products from leading brands. The Bank also recognizes those in the Army reserves at the meeting of all Bank managers.

Israel Trail: Bank employees are invited, once a month and at a nominal cost, to walk the Israel Trail, guided by tour guides. In 2016, this activity was attended by 2,700 employees and family members.

Good Film Club: Employees and their spouses are invited, for a token cost, once a quarter to watch a selected movie at one of several cinemas around the country, along with a lecture and light refreshment. Bank retirees are also invited to take part in this activity, through the Retiree Council. In 2016, this activity was attended by 2,100 employees and family members.



Caring for employees' health

Promoting good health of employees and their families

- The Bank appointed a Wellbeing Manager, tasked with contacting employees who are seriously ill, supporting their requests and needs and assisting employees whose family requires financial assistance for medical treatment.
- **Medical check-ups for all employees aged 40 or over:** As part of the Bank's concern for employee health and well being, as from 2016 the Bank decided to expand eligibility for medical check-ups and funding for such check-ups to all employees aged 40 or over.
- In case of an outbreak of disease in Israel, the Bank updates its employees on how to protect themselves. Handling of such cases is part of the Bank's business continuity plan, in conformity with directives of the Bank of Israel.
- The Bank ensures that employees go on fun team-building days for relaxation and renewal of energy.
- **Gym at Bank headquarters building in Lod** – Bank employees can train in the gym and attend various classes (twice weekly) at a nominal cost.
- Some 150 Bank employees take active part in Bank teams, practice and competitions as part of the Workplace League and attend the Sportiada event annually.



- **Promoting ergonomical design** – In order to preserve employee health and well being, all employee chairs are ergonomically designed. In 2016, training was also delivered to Bank employees by an ergonomical design consultant, about ergonomical design in the workplace, providing advice on correct, healthy seating posture and correct design of the personal work space. This training was delivered in six regions and attended by 180 employees.
- As part of its concern with health and well being of the general population, the Bank conducts, from time to time and in cooperation with the Blood Bank, blood donation rallies among Bank employees.

Maintaining employee safety

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

The Bank also makes sure to deliver training to employees who use a company car or a leased company car about the car's safety systems and careful driving. As part of the concern for employee transportation safety, the Transportation Safety Officer sends out periodic emails with current updates on winter driving, driving during the holidays etc. In 2016, the Bank also sent a postcard to employees whose children reached the legal driving age, providing tips on accompanying a new driver. In this postcard, the Bank provides parents of new drivers with tips on the following: Safe driving and adapting your driving to conditions around you.



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

Work-life balance

The Bank regards each employee as a complete person, one who seeks the optimal combination of career and family, of development of their professional capacity and ambition along with their own personal interests and dreams. This is based on awareness that employee well-being is impacted by and directly linked to the well-being of their family. The Bank encourages employees to maintain work-life balance, based on the understanding that such balance is valuable to both the employee and the Bank. To this end, the Bank ensures that during the work week, employees would have free time for their families and other occupations.

- **Work week** – The work week at the Bank, for a full time position, is only 39 hours, compared to 43 hours as stipulated by law.
- **Paid leave** – Employees are granted annual paid leave as required by law and for long-standing employees – even longer. Leave taken on festivals and holiday eve is deducted from the employee's annual paid leave days – but not at 100%.
- **Additional paid leave paid for by the Bank** – The Bank offers additional paid leave to employees upon their wedding, their child's birth, Bar-Mitzva (or Bat-Mitzva) and wedding.

- **Sick leave** – Bank employees receive longer sick leave than required by law.
- **Vacation pay** – Bank employees are eligible to receive vacation pay, at a rate higher than required by law, as follows:
 - In the first 5 years of employment – 7 days' vacation pay per year.
 - In years 6-8 of employment – 10 days' vacation pay per year.
 - As from year 9 of employment – 14 days' vacation pay per year.
- **Vacation voucher** – Once every year, employees receive a voucher with a specified value, for booking a vacation in Israel or overseas, at the employee's choice.

Benefits for Bank Yahav employees: Bank Yahav provides these employee benefits: Eligibility for study fund, summer camp, scholarships, student dormitories, newspapers, vacation pay, annual bonus, benefits from the Wellbeing Fund and clothing allowance. They are also eligible to receive benefits and bonuses on holidays and upon certain events: 25th anniversary bonus, holiday gifts (Passover, New Year, Hanuka, Women's Day and Tu BeShvat), gift on personal occasions etc.



Diversity, equality and avoiding discrimination in employment



Our commitment:

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

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

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



customer recruitment, allowing any person to become a Bank customer, and in providing equal service absent of any discrimination by all employees. Furthermore, the Bank regularly addresses customer complaints and contacts, reviews the cases, learns lessons and acts as needed. The Bank has an improved system designed to improve analysis and composition by topic, classification and customer contacts with the department.

Processes for promoting gender and ethnic equality

- o **Equal hiring initiatives** – The Group implements a hiring process which ensures equal opportunity to candidates of both genders and various ethnic backgrounds in Israeli society. Candidates are hired based on their skills and on Group needs and the Group does not discriminate against any employee by religion, ethnicity, race nor any other attributes. The Bank actively strives to hire employees of different ages and attributes, acting together with NGOs and organizations that focus on this area.
- o **Increase hiring efforts in the Arab and Jewish Orthodox segments:** As part of our commitment and as part of the Bank strategy of expansion in the Arab segment, in 2016 the Bank made a concerted effort to



recruit employees from the Arab segment. As part of this hiring effort, the Bank co-operated with NGOs "Kav Mashve" and "Al Fanar", that refer candidates from this segment to the Bank.

In similar fashion, as part of the Bank's strategy of expansion in the Jewish Orthodox segment, the Bank strives to hire employees from this segment. As part of these efforts, the Bank joined forces with Bereshit, a career advice center in Bney Brak, with Maftach centers for development of Jewish Orthodox employment, run by Joint Israel and through job fairs, as well. In 2016, the Bank attended two job fairs hosted by Maftach at the Lev Institute of academic studies for Jewish Orthodox men and at the Tal Institute of academic studies for Jewish Orthodox women. The Bank also uses the Glatt Jobs website, dedicated to job searching for the Jewish Orthodox population. These hiring methods are used in conformity with Bank needs.

Candidates from these segments are subject to relief at screening tests carried out as part of the hiring process. Such relief is typically in the form of additional time or the option to take the test in your native tongue (such as Arabic).

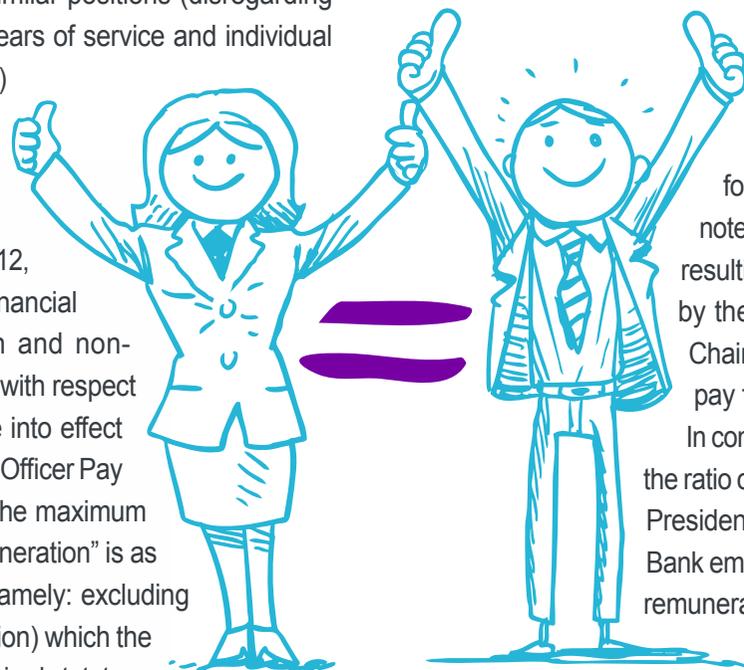
Moreover, as part of our commitment to equal opportunity and as part of preparing for application of the Employment of the Disabled Act, the Bank put in place strategy for recruiting such employees and for locating relevant positions for such employees in the various departments. Meetings also took place with the Support Center for Employers of Disabled Persons, at the Ministry of Economics – as well as with various NGOs which specialize in assisting in placement of such employees. In 2016, the Bank hired multiple employees with disabilities for various positions.

o **Equal employment initiatives** – The Group strives to promote equality in pay and in employee benefits. The Group also strictly adheres to statutory requirements with regard to employment.



o **Equal pay to men and women** – Each employee's pay, in all ranks and positions at the Group, is determined regardless of the employee's gender – but rather based on their skills, professional experience and their designated position. A recent review conducted by the Bank to compare pay for men and women in similar positions (disregarding employee-specific attributes, such as years of service and individual allowances, such as housing, mileage etc.) showed that on average, there were no significant pay differences between men and women.

o **Reducing pay differences** – On October 12, 2016, the Remuneration of officers in financial corporations act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016 came into effect (hereinafter in this paragraph: “the Senior Officer Pay Act” or “the Act”). According to the Act, the maximum total remuneration (for this matter, “remuneration” is as defined in the Senior Officer Pay Act, namely: excluding statutory severance pay and compensation) which the Bank may pay (subject to obtaining all required statutory



approvals) is such that the ratio of anticipated expenses, based on the cost per full-time position, to remuneration paid by the Bank, based on the cost per full-time position, to any Bank employee, including contractors engaged by the Bank, in the year prior to the contracting date is lower than 35.

On February 14, 2017, the General Meeting of shareholders approved the revised officer remuneration policy and approved the employment terms of the Bank Chairman of the Board of Directors and of the Bank President & CEO.

According to this policy, remuneration payable to the Chairman of the Board of Directors and to the Bank President & CEO would be limited by the aforementioned ratio, including pro-rata for the part of 2016 when the Act was in effect as noted above; in any case, the increase in remuneration resulting from increase in the lowest remuneration paid by the Bank was capped at two months' pay for the Chairman of the Board of Directors and at one month's pay for the Bank President & CEO.

In conformity with the current officer remuneration policy, the ratio of the maximum monthly remuneration of the Bank President & CEO to the average remuneration payable to Bank employees is 12.8; the ratio of the maximum monthly remuneration of the Bank President & CEO to the median remuneration payable to Bank employees is 16.1.

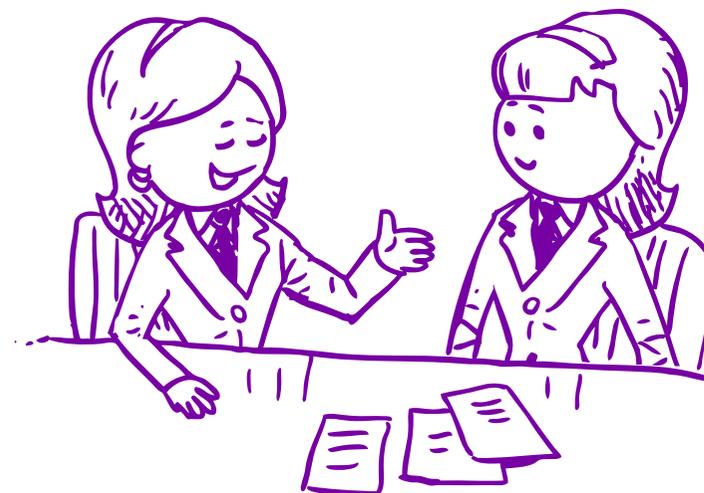


As for other officers (who are not Board members), the remuneration policy stipulates that their remuneration (as defined in the Senior Officer Pay Act, as noted above) would not exceed the maximum set forth in Section 2(a) of the Senior Officer Pay Act, which is currently at NIS 2.5 million. The pay for most Bank employees is based on collective bargaining agreements.

- o **Compliance with legal requirements** – In all areas of operation, including at its overseas affiliates, the Bank adheres to equal pay to employees in conformity with local employment laws and consequently also complies with the binding minimum pay. Note that for employees employed under the collective bargaining agreement, pay is updated annually. The Group also adheres to all statutory requirements with regard to taking maternity leave, work hours and other labor laws.
- o **Equality in employee benefits** – The Group ensures equality in employee benefits as well. Part-time and full-time employees are eligible for the same benefits, and their employment scope does not affect standard benefits, including vacation reimbursement, holiday gifts, employee gifts etc. Other than standard benefits, some specific benefits are based on scope of employment, with differences between full-time and part-time employees, such as: vacation pay, clothing allowance, paid leave and sick leave. At Bank Yahav, part-time and full-time employees have equal rights, other than eligibility for study fund, summer school, scholarships, jubilee bonus, housing and clothing allowances.



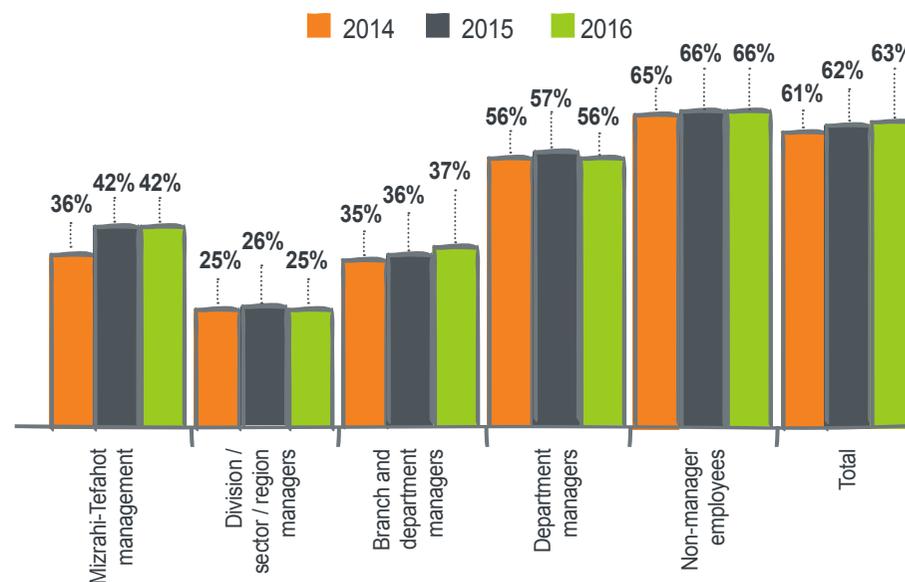
- Equality in professional promotion** – The Group ensures equality in promotion of its employees of both genders. Employees are promoted based on their skills, with no discrimination whatsoever.
- Promoting women** – The percentage of women employed by the Group at the end of 2016 was 63%, an increase by one percentage point compared to 2015. In 2016, women accounted for 47% of all managers, an increase by one percentage point compared to 2015 and 2014.



Percentage of women by rank

	2016	2015	2014
Mizrahi-Tefahot Management	42%	42%	36%
Division / Sector / Region Manager	25%	26%	25%
Branch / Department Manager	37%	36%	35%
Unit / Team Manager	56%	57%	56%
All managers at the Bank	47%	46%	46%
Non-managerial position	66%	66%	65%
Total across the organization	63%	62%	61%
Total employees	6,185	6,063	5,680

Mizrahi-Tefahot Group – percentage of women by rank, multi-annual



Staff training and development

Our commitment:

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



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

The Bank maintains a dialog with employees about their performance and targets, through evaluation and feedback processes; encourages excellence and

remunerates employees through bonuses, promotion, individual awards to outstanding employees and recognition of outstanding employees.

Training and mentoring of employees and managers

The Group acts to provide its employees with regular and extra-curricular training through a range of programs and courses – and the training center is a strategic partner in Bank-wide infrastructure campaigns concerning change management, deployment and training.

- **Training, seminars and workshops:** The Bank offers seminars and workshops which support the professional, behavioral and management skills required for the position at the highest standards. The courses delivered cover the various banking topics: loans, investments, service and selling, management, work process deployment, IT deployment etc. Special emphasis is placed on regulatory training – a deployment method for each regulation, adapted for its complexity and for its relevant target audience. Training also refers to deployment of new content among employees and managers, as well as to maintaining and refreshing skills over time. Bank Yahav creates an annual training plan for all employees, based on the Bank's work plan and needs, which is then disseminated to all employees. In conjunction with the replacement of Bank Yahav's core IT system, all employees received comprehensive training by position.
- **Learning organization:** The Training Center develops diverse projects, designed to deploy a "learning bank" culture where managers and employees regard learning as a continuous activity, which also takes place at their work station. Material is made available to managers and employees on the Bank's learning portal, mentoring is provided as part of starting in a new position, computer-based kits for individual learning are provided etc.
- **Academic education:** The Bank encourages achievement and expansion of academic education of its employees, as well as training through external workshops.

- **Extra-curricular classes:** The Bank offers its employees various extra-curricular courses for enjoyment and for development of skills – even beyond what is needed for their position, such as language courses. This year, too, the Bank continued the Tree of Knowledge project, with presentations given by senior lecturers from business and academia. In 2016, there were 5 presentations delivered on these topics: Game theory, decision making process, global economy, anticipated economic developments and optimal contracts. Each session was attended by 100 managers and headquarters employees. The Bank also delivered training on ergonomical design principles.
- **Training and mentoring tracks –** The Bank emphasizes professional and managerial mentoring. Every employee starting in a new position is mentored by a colleague and by the unit manager, using a structured, customized mentoring program. Employees attending managerial courses are mentored by other managers at various levels.



The chart below shows development of the average number of training hours for the Group by gender and rank in recent years.

Average training hours by gender and rank

	2016	2015	2014	2013	2012
Average overall	45.1	44.6	41.4	40.2	36.4
Managers	56.1	47.3	43.6	51.0	42.3
Employees	42.6	43.9	38.3	39.4	36.0
Men	47.9	45.7	41.0	43.9	40.8
Women	43.4	43.8	41.6	37.9	33.7

Table data shows an increase in the average number of training hours at the Group.

- Data for women includes those on parental leave which are not actually at work, which explains the difference in average training hours for men and women, especially given the young population of Bank employees, which means parental leave is common and given the increase in the number of female employees who took parental leave in 2016.
- In 2016, there were several major conferences and seminars dedicated for managers, hence the increase in average training hours for managers.

Career development tracks

As part of the commitment to employee development, the Group encourages internal promotion and appointment of managers from among Bank employees. In 2016, 97% of management appointments were promotions of Bank employees, similar to 2015.

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

Programs for current managers:

- **Manager development program** – This program is intended for branch-, department- and other managers. The program consists of multiple courses, individual advice and seminars on management skills.



Programs for future managers:

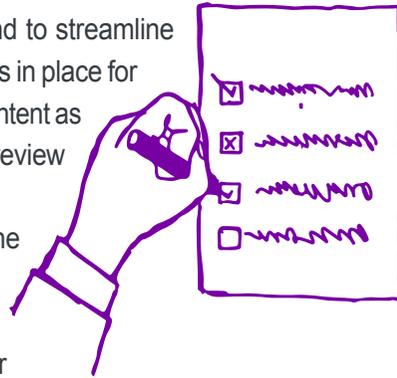
- **Training program for future positions** – The Bank has developed programs to train employees for future positions, in both their professional and managerial capacity. As part of these programs, employees and managers are identified for promotion and receive training such as: management cadre, Matara program for training managers for senior positions and employee training program for future professional positions (business management cadre).
- **Manager training at Bank Yahav** – The Bank offers a management cadre training course, intended for training of incumbent and potential managers on different levels. These employees are selected based on screening tests and interviews, which may be undertaken by any employee with the appropriate seniority and experience.

Review of training effectiveness:

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

Participants complete feedback forms at the end of the training, designed to review their satisfaction with the training; employees and managers also provide feedback over time, in order to review the contribution of training to improved performance, deployment and application of knowledge during day-to-day work. In accordance with feedback received, required changes are made and their implementation is monitored.

Once every other month the relevant staff convenes at the training center in order to review feedback received and to decide on any changes required in order to improve training.



Employee remuneration processes

The Bank has several processes in place for providing remuneration and incentives to employees. These include:

- **Promotion by rank:** Based on a recommendation by management, the Board of Directors decides on employee promotion by rank, based on employee performance over the past year and as recommended by their supervisors.
- **Individual bonus:** Once a year, the Board of Directors decides on the award of a bonus, its rate and distribution. Bonus eligibility and amount are determined, for each employee, based on their achievement of targets and on their supervisors' recommendation. Part of the bonus is paid uniformly

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

- **Outstanding employees:** The Bank recognizes outstanding employees at both the balance sheet conference, where outstanding employees are recognized by Bank management and at the outstanding employee event, attended by the Bank President. Outstanding employees are selected by recommendation of their supervisor, their achievements and their contribution to the Bank.
- **Individual awards:** The branches offer a program of incentives and remuneration, based on excellence in various benchmarks, in branch activities and in special drives. Remuneration is typically paid at the branch level and is designated for team building and leisure activities for branch employees. Bank headquarters awards individual prizes in recognition of employees who posted outstanding achievements in their work.
- **Efficiency improvement suggestions by employees:** The Bank sees great importance in promoting innovative initiatives and in improving work processes and customer service processes. The Bank operates a committee for "promoting initiatives for improvement, savings and streamlining", whose role it is to discuss employees' suggestions for improvement and streamlining of work processes. The committee convenes quarterly to discuss the suggestions submitted. The best suggestions are implemented by the Bank and awards are given to those who made these suggestions. These awards are presented at a grand ceremony, attended by the Bank President & CEO. This is a positive tradition very successfully deployed at the Bank, which is an important value in the Bank's organizational culture.



In 2016, employees submitted 850 suggestions for improvement. Examples of suggestions received in 2016 which are being implemented: Allowing customers to give the Bank authorization without actually visiting the branch or a service of receiving SMS notification of a deposit made to the account using an envelope placed in the Bank deposit box.

Caring for retiring employees

As part of its responsible employment policy, the Group cares for employee wellbeing – even after their retirement from the Group.

- **Employees retiring at the legal retirement age** are eligible to a pension from the pension fund. Contributions to this fund on behalf of Bank employees are made in conformity with the law.
- **Employees retiring before the legal retirement age** – Employees confirmed for early retirement have two tracks available to them: the early retirement track and the increased severance pay track. Retiring employees in these

tracks are also eligible for Bank assistance in financing training courses.

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

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



Labor / management relations

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

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

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

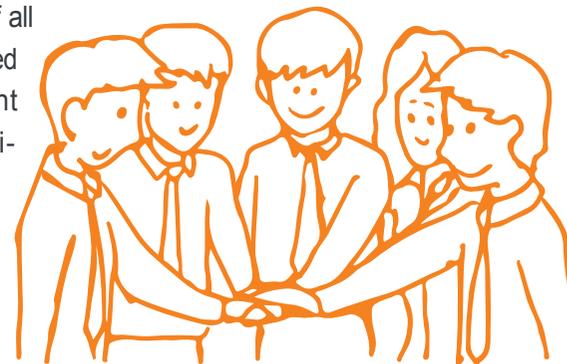


Collective bargaining agreement applicable to employees

93% of all Group employees (excluding overseas affiliates) are employed subject to a collective bargaining agreement. At Mizrahi-Tefahot, these account for 93% of all employees (including the Technology Division but excluding overseas affiliates) and at Bank Yahav – for 90% of all employees. All other Bank employees are employed in conformity with individual employment contracts.

Maintaining employees' right to unionize

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



In 2016, an economic arbitration took place between Mizrahi-Tefahot management and the employee representatives. This arbitration would continue in 2017. In 2016, the Group maintained proper labor relations with no unusual events nor strikes.

Bank management is negotiating with Mizrahi-Tefahot Employee Union a collective bargaining agreement for 2016-2017.

Dialog with employees

Mizrahi-Tefahot sees great importance in maintaining a constant dialog with Bank employees and managers, as part of the Bank's responsible employment policy. The Group operates in two channels to extend the dialog with employees:

- A. Maintaining an on-going dialog with employees and expanding intra-organizational communication.
- B. Providing feedback to employees.

Maintaining a dialog with employees and expanding intra-organizational communication

In order to foster an organizational culture of open discourse, the Group acts on these fronts:

- **Accessibility to employees** – Maintaining constant contact with all employees, through HR staff frequently present at all units. The Human Resource Division hot line provides a venue for employees' questions.
- **Direct encounters** – In order to allow for direct encounters between management and employees, Bank management and senior executives visit all units and branches.
- **Forums** – The Bank operates various forums, such as the Management Forum and the Ethics Forum. The Bank also has



an Internal Communication Forum, consisting of representatives of all units and branches, which convenes periodically to discuss ways to improve internal communication.

- **Encounters of senior executives and employees** – In a project where Bank executives deliver lectures to employees, presenting the division they manage – as part of banking courses – had senior executives delivering lectures to -13 courses.
- **Monthly information bulletin "Among Us Online"** – In 2016, the Bank issued 6 issues of "Among Us Online" for a total of 34 issues to date, with an average of 1,400 employees who read the various articles.
- **"Among us, this is serious"** – In 2016, the "Among us, this is serious" website went live, listing aspects and milestones for professional and personal assistance to employees.

Providing feedback to employees

The Group ensures that employees receive regular feedback about their performance. In 2016, 100% of Mizrahi-Tefahot employees received feedback in a personal talk or meeting. At Yahav and at overseas affiliates, all employees received feedback in 2016.

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



Targets

Achievement of 2016 targets

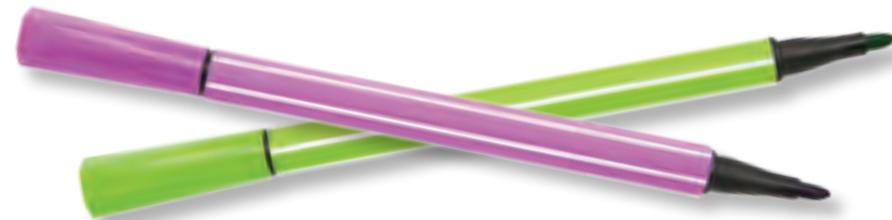
Target	Status
Implement the decision to expand eligibility for medical check-ups to all Bank employees aged 40 or higher (increase number of eligible employees by over 200%).	✓
Increase the number of employees with disabilities hired by the Bank.	✓
Retirees: In 2016, too, Bank retirees would be invited to various Bank activities – in order to maintain and reinforce the connection with them.	✓
Improve internal communication: Improve intra-organizational communication by using a dedicated website to list all employee benefits and rights.	✓



Next steps with employees: Targets for 2017



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



The Environment & Us

↓ A 3.7% decrease in consumption per employee

A 3.7% decrease in consumption per employee compared to the previous year.

Paperless Office
China's paper consumption at branches

A 50% increase in electronic waste recycling

A total of 2.4 tons of electronic waste was sent for recycling.

A 7% increase in paper recycling compared to 2015.

↓ 39 tons
Reduced paper consumption compared to the previous year.

This year, the Group reduced its carbon footprint by
Reduced 14%
carbon footprint compared to the previous year.



100 referencing minutes
Increase in video call minutes
Face to face meetings.

Customers and Us

The Community and Us

Our Employees

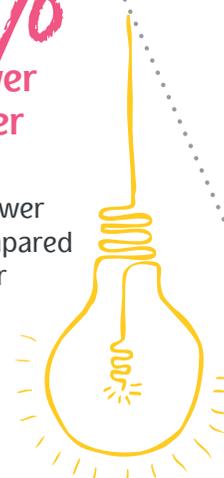
The Environment and Us

Corporate Governance



↓ A **3.3%** decrease in power consumption per employee

A 3.7% decrease in power consumption per m² compared to the previous year



Promoting carpooling

Prizes awarded to promote carpooling by employees



27,000 video conferencing call minutes

A 12.5% increase in video conferencing call minutes which replace face to face meetings.



"Paperless Branch"

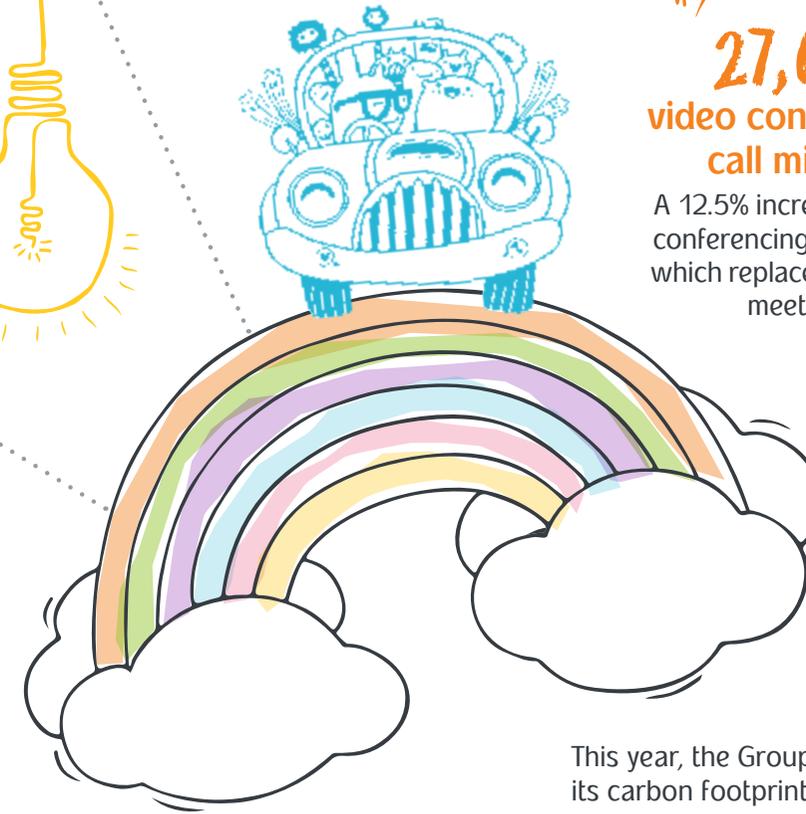
Campaign to reduce paper consumption at branches

A **60%** increase in electronic waste recycling

A total of 22.4 tons of electronic waste was sent for recycling.



A **7%** increase in paper recycling compared to 2015.



↓ **39 tons** Reduced paper consumption compared to the previous year



This year, the Group reduced its carbon footprint by **14%** compared to the previous year.

Group responsibility for the environment



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



to reduce its material consumption. The major resource consumed by the Bank is paper. Environmental management is mostly carried out on these three fronts:

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

Reducing paper consumption

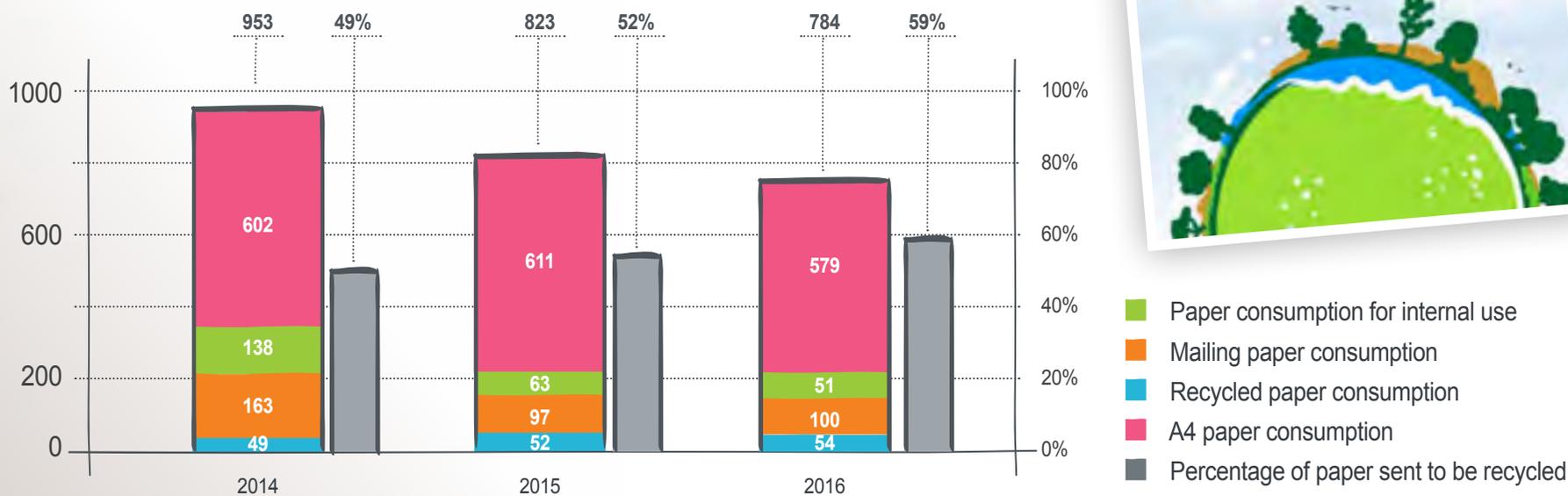
Mizrahi-Tefahot Group primarily uses paper for printing reports, forms, letters to customers etc. In 2016, the Group reduced its total paper usage; the total paper consumption for the Group was 784 tons of paper, compared to 823 tons of paper in 2015. Note that a large share of paper is produced for customers and delivered to them in conformity with Bank of Israel directives.

The reduction of paper consumption was due to transition to double-sided printing and to digital archiving of some of the documents generated by branches. Along with efforts to reduce consumption, the Group acts to include purchasing of recycled paper, such as toilet paper and paper towels, as well as purchase of

electric hand dryers to reduce paper consumption. In 2016, the Group purchased 54 tons of recycled paper for these uses, or 7% of overall paper consumption for the Group, a 1% increase compared to the previous year.

In 2016, the Bank continued to implement the "Paperless Branch" project, started in 2015, with gradual transition to signatures using screens, as an alternative to signing on paper for cashier (teller) customers. Concurrently, paper generated by branch operations would be directly archived in an electronic archive, to replace physical filing. These campaigns would be intensified in the Bank's work plans for coming years – for branches as well as for HQ units.

Total paper consumption for the Group (in tons)



- Paper consumption for internal use
- Mailing paper consumption
- Recycled paper consumption
- A4 paper consumption
- Percentage of paper sent to be recycled

Waste recycling and processing

Waste processing at the Bank is focused in three key areas:

Paper waste, electronic waste and printer ink cartridges.

Waste type	Processing type	Disposal destination	Volume in 2016	Volume in 2015	Volume in 2014	2016 compared to 2015
Paper waste	Sent to recycling (tons)	KMM	465	428	470	9%
Processing of electronic waste	Scrap (tons)	Shuru and Ecommunity	22,482.3	14	3	60%
Processing of ink and toner print cartridges:	Scrap (units)	KMM and Cahila	18,065	16,271	13,654	11%

Over the past three years, the percentage of paper sent for recycling has been gradually increasing. In 2016, the Group sent 465 tons of paper for recycling, or 59% of paper consumption this year, compared to 428 tons in 2015 (or 52% of total paper consumption), for a 7% increase.

Campaigns to promote recycling by employees

As part of diverse actions taken by the Bank to deploy the values of sustainability, a decision was made this year to launch campaigns designed to promote recycling by employees.

These campaigns focused in particular on recycling of bottles, batteries and electronic waste. In order to increase employee awareness of this matter, the Bank placed special signage to promote recycling. In each of the designated areas, these campaigns were successful and achieved great cooperation and satisfaction among employees.



- Recycling of bottles** – The Bank has placed containers for collecting cans and bottles. The bottles are processed by recycling company Aсуftа and we contribute the money received for deposits on these bottles to families in need.
- Recycling of batteries and electronic waste** – The Bank is part of Ecommunity, a social corporation for recycling of electronic waste which employs and includes employees with disabilities. Bank employees are reminded to bring used batteries and electronic waste, which is collected in containers placed around the Bank.



Improved energy efficiency

The Group recognizes the importance of reducing energy consumption, both for financial savings and to reduce the negative environmental impact. To this end, the Group manages and measures its energy

consumption and has multiple initiatives in place for improved energy efficiency. The Bank operates a Committee on Improved Energy Efficiency, consisting of professionals from the Logistics Division and professional advisors regularly employed by the Bank on these topics. The Committee is tasked with review of all options available to the Bank to acquire more advanced systems to allow for analysis and control, thereby allowing the Bank to reduce its energy consumption (power, AC, water leaks etc.) The Committee provides ideas for potential savings on matters of energy management, such as specific adjustment of the temperature of cold water used in cooling units based on external temperature, working hours etc., turning off lights or AC units in bulk after business hours etc. The Bank strives to develop a control system to measure the reduction in energy consumption due to implementation of these programs.

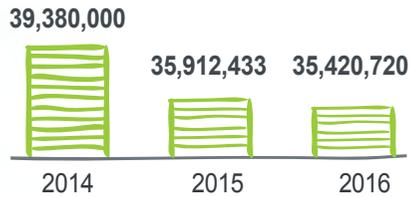


Below is the composition of total energy consumption for the Group (excluding overseas affiliates):

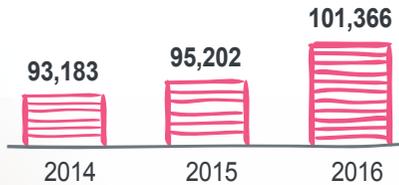
Energy consumption at Mizrahi-Tefahot Group				
	2014	2015	2016	Change compared to 2015
Total power consumption (KwH)	39,380,000	35,912,433	35,420,720	-1.4%
Total power (GJ)	168,450	156,575	154,820	-1.1%
Consumption per employee (KwH)	6,766	5,923	5,727	-3.3%
Bank area (m2)	124,487	123,312	126,340	2.5%
Consumption per m2	316	291	280	-3.7%
Total gasoline consumption (liters)	712,665	729,016	722,515	-0.9%
Total fuel (GJ)	23,328	23,864	23,656	-0.9%
Total diesel consumption (liters)	93,183	95,202	101,366	6.5%
Total diesel (GJ)	3,354	3,427	3,650	6.5%
Total energy (GJ)	195,132	183,866	182,126	-0.9%

In the previous report, an error was made in calculating energy consumption. The data in the above table are correct (for 2014-2015 as well).

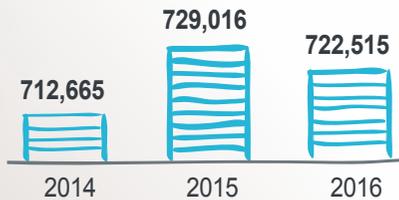
Total electricity consumption (KwH)



Total diesel consumption (liters)



Total gasoline consumption (liters)



Total energy consumption (GJ)

■ Electricity consumption (KwH)
■ Diesel consumption (liters)
■ Gasoline consumption (liters)



The above data shows a decrease of 0.9% in total energy consumption for the Group, reflected in a decrease in power consumption along with a decrease in fuel consumption. Moreover, when measuring power consumption per employee or per m², savings are even higher at 3.3% and 3.7%, respectively. The increase in diesel consumption is due to increased activity in money transportation (use of courier vehicles) and due to increased use of a generator used, inter alia, to generate power for IEC during peak hours, thereby contributing to environmental protection.

The Bank promotes multiple improved energy efficiency initiatives, including the following:

Improved energy efficiency for consumption of electricity

- **Use of LED lighting** – Gradual replacement of lighting fixtures at Bank premises to use low-cost lighting. It is Bank policy to install low-cost lighting in any branch or facility newly constructed or refurbished.
- **Operation of control systems at HQ buildings** – The system controls turning off of lights outside of business hours and can automatically turn off lights after business hours and reduce lighting in parking garages. The system automatically turns off the lights in each Bank headquarters building according to a pre-defined schedule. The Bank also installed a lighting control system which automatically turns off the lights in empty rooms and turns it back on when someone enters the room.



- **Power savings at Bank headquarters in Lod** – This was achieved by adjusting the temperature provided by the AC system to the desired air temperature – increasing the temperature of cold water flowing in the AC pipe system in the HQ building in Lod. The adjustment is made based on specific requirements for each area. In addition, the operating schedule of the AC system was aligned with business hours in the building; sometimes, a decision was made together with the business units to concentrate activity in certain areas in order to allow the system to be disconnected in the evening hours. This matter is under review and adjustments are regularly made.
- **Use of emergency generators during regular peak hours** – According to an agreement signed in 2014 with IEC, the Bank sells electricity to IEC during peak hours, on demand, by operating its emergency generators. This was in order to help reduce peak consumption at the national level and to make use of diesel in generators at the Technology and Logistics Center. In 2016, a refund amounting to NIS 60 thousand was received from IEC, pursuant to this agreement.
- **Installation of diesel circulation system in generators** – in order to avoid soil pollution by unusable diesel and to extend the useful life of diesel.
- **Replacement of older, inefficient AC systems at branches** – In 2016, systems were replaced at 1 branch and replacement is being planned and carried out at 3 other branches.
- **Installation of VM servers at DRP facility** – In 2016, installation continued at the Technology-Logistics Center and at DRP facility. This is a consolidation of computer servers, so that one physical server contains 15 virtual servers, for savings in footprint, power and AC consumption.

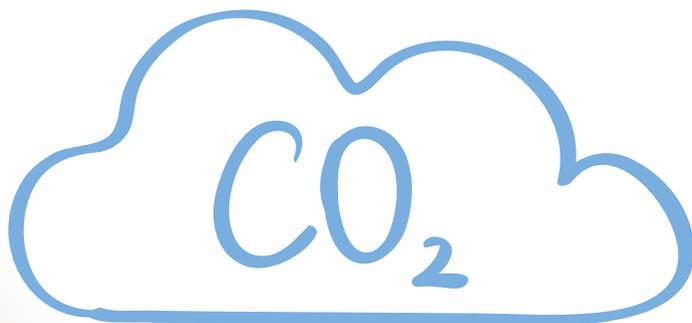
Improved energy efficiency for consumption of fuel

- **Transition from in-person meetings to video conferences** – In 2012, the Bank started installation of video conference systems at HQ buildings. In 2014, a system was launched to measure the number of such meetings, to allow the Bank to better estimate the savings due to this initiative. In 2015 there were 24 thousand conference call minutes, compared to 27 thousand minutes in 2016. These calls result in fewer people traveling between Bank facilities and in savings on fuel, cost of public transportation and work hours.
- **Shuttle service** – The Technology-Logistics Center operates a shuttle service for employees arriving from different locations around Israel. The shuttle size matches the actual number of passengers. A shuttle service also operates between Bank headquarter buildings in Ramat Gan and in Lod for employees who need to attend meetings, so as to reduce the use of their own vehicles or taxis.
- **Carpooling** – The Bank encourages employees at the Technology-Logistics Center to carpool, by rewarding employees who gave rides to other employees and who have accumulated a specified number of signatures on a specially designed card.
- **Transition to fuel-efficient vehicles** – In 2016, the Bank replaced 7 vehicles with more fuel-efficient ones.



Other efficiency improvements:

- o **Efficient space utilization** – The Bank regularly reviews the efficient utilization of all its assets. In case of need for additional work stations, the first planning option considered is how to do so without any additional space. The Bank also regularly reviews and carries out sale / return of surplus space.
- o **Recycling of furniture for use by the Bank** – When a property is sold / returned, the Bank reviews if the furniture can be used elsewhere at the Bank – and if so, the furniture is relocated. If this is not possible – the furniture is donated to the community.



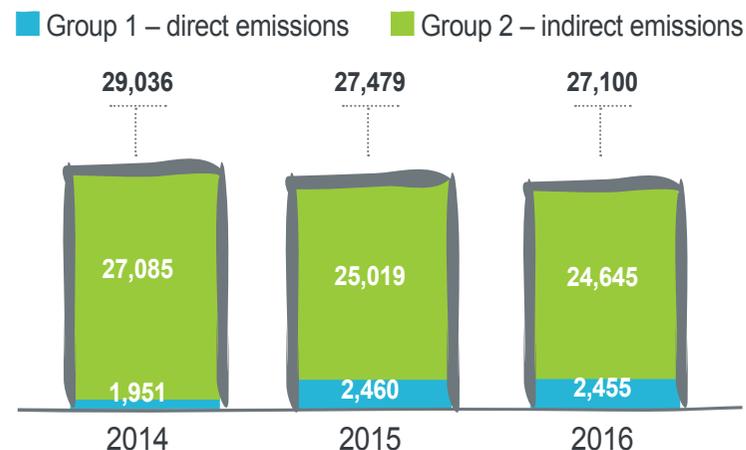
Carbon footprint

As part of the goal of reducing the harmful effect on the environment and on climate change, Mizrahi-Tefahot Group has been measuring, for the fifth year running, direct greenhouse gas emissions caused by consumption of gasoline and diesel (Group 1) and indirect emissions caused by consumption of electricity at the Bank (Group 2). Data for 2016 shows a decrease in direct emissions (fuel) and in indirect emissions (electricity). This is a 1.4% decrease, in line with the downward trend in recent years.

Mizrahi-Tefahot Group's carbon footprint				
	2014	2015	2016	Change compared to 2015
Component 1 – direct emissions (CO2e)	1,951	2,460	2,455	-0.2%
Component 2 – indirect emissions (CO2e)	27,085	25,019	24,645	-1.5%
Total carbon footprint (CO2e)	29,036	27,479	27,100	-1.4%

In the previous report, an error was made in calculating energy consumption (and consequently, in calculating the carbon footprint). The data in the above table are correct (for 2014-2015 as well).

Bank's total carbon footprint (CO2e)



Dialo on environmental issues

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

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



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



- The Bank maintains and applies internal and external control to all aspects of environmental management. Paper consumption and shredding are controlled by computer-based systems and by different suppliers. Fuel consumption data for the Group is provided by Pazomat. The Group power consumption is reported by IEC. Electronic waste recycling is reported by the supplier. All these are constantly monitored by relevant employees and managers of the Logistics Division.



Targets

Achievement of 2016 targets

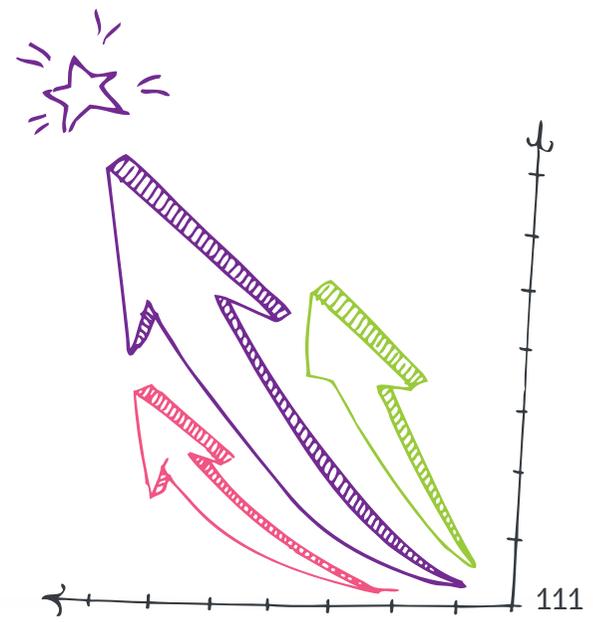
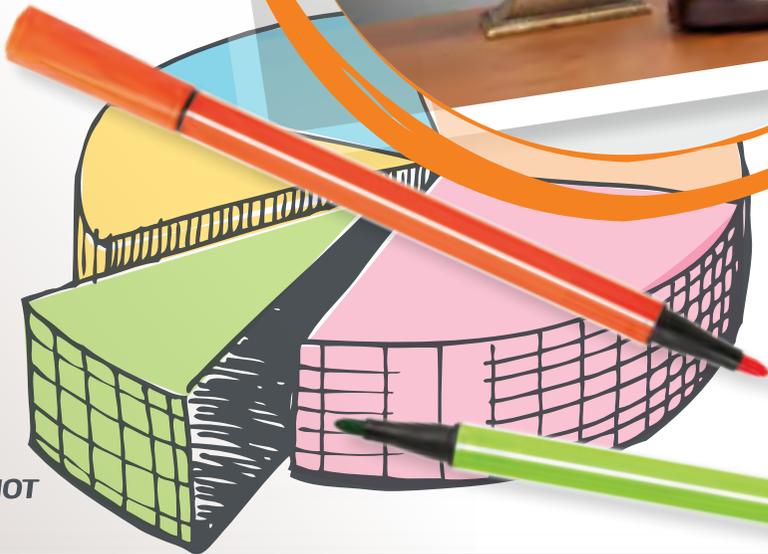
Target	Status
Reduce paper consumption due to expansion of the "Paperless Branch" project.	✓
Review installation of solar panels at the Mizrahi-Tefahot building in Lod.	✓
Improved efficiency in utilizing space used by the Bank for its operations – further review of efficient utilization of existing space, addition of required work stations with no increase in space if possible and sale / return of surplus space which the Bank no longer needs.	✓
Fuel savings – by replacing work vehicles by smaller vehicles with lower fuel consumption.	✓
A 20% increase in the number of video conferences between Bank facilities.	✗ A 12.5% increase in 2016
Further deploy environmental protection and recycling among Bank employees.	✓

Next steps: Targets for 2017

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



Corporate Governance



Group commitment to accountable conduct

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

Operation of the Board of Directors – As part of managing corporate governance at the Bank, the Board of Directors is responsible for Bank business and its financial robustness, and takes the utmost steps in order to discharge its duties, in conformity with the law, with Proper Banking Conduct Directives,

including Proper Banking Conduct Directives, including regulation 301, as well as with procedures specified by the Board of Directors.

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

As part of approval of the Bank's annual work plans, the Board of Directors is asked to approve the work plan with regard to social responsibility.



Board members

As of December 31, 2016, the Bank Board of Directors consists of 13 Board members, of which 3 external Board members, in conformity with provisions of the Corporate Act, and 2 Board members, in conformity with Proper Banking Conduct Regulation 301. The Board members are appointed by a General Meeting of shareholders, in conformity with provisions of the Bank's Articles of Association and provisions of the Corporate Act, which requires all public

companies to specify the number of Board members having accounting and financial expertise, in addition to external Board members that have such expertise. A Board member with accounting and financial expertise is defined as a Board member that has no other position with the Company and who, due to their education, experience or skills, has strong skills and understanding of business and accounting issues and of internal control of financial reporting. They must understand in depth the Bank's financial statements and raise issues and questions on the agenda of the Board of Directors with regard to financial reporting by the Bank – in order to ensure proper approval and publication of these financial statements.



According to Bank procedures, at least three Board members must have accounting and financial expertise. Therefore, the Board of Directors has determined that the Audit Committee would have as members at least 2 Board members having accounting and financial expertise. As of December 31, 2016, the Board of Directors consists of 10 Board members with accounting and financial expertise and the Audit Committee – 6 such members.

Names of Board members serving the Bank as of December 31, 2016: Mr. Moshe Vidman, Mr. Zvi Ephrat, Ms. Sabina Biran, Mr. Ron Gazit, Mr. Avraham Zeldman, Mr. Nachshon Yoav-Asher, Mr. Mordechai Meir, Mr. Jacob Abraham Neyman, Mr. Gideon Siterman, Ms. Liora Ofer, Mr. Yonatan Kaplan, Ms. Osnat Ronen and Mr. Joseph Shachak¹. The Bank Board of Directors includes three female Board members. All Board members are aged 51 and higher (except for one member aged 31-50). More information about Board members is provided in pp. 333-342 of the Bank's 2016 annual report.

The Board of Directors discharges its duties through plenary discussions at meeting held at least monthly (or more frequently, as needed for discharging the duties of the Board of Directors) and in committee meetings, including statutory committees such as the Audit Committee and the Remuneration Committee.



1. On September 19, 2016, Mr. Avi Zigelman concluded his term in office as external Board member of the Bank.

Board of Directors – committees

In 2016, the Board of Directors operated four committees:

Name		Credit Committee
	Composition	Mr. Moshe Vidman – Chair, Mr. Yossi Shachak, Mr. Yoav Nachshon, Mr. Zvi Ephrat, Ms. Liora Ofer, Ms. Osnat Ronen and Mr. Gideon Siterman.
	Role	This committee is authorized to discuss general policy issues concerning credit, to formulate recommendations to be brought before the Board of Directors plenum, to discuss the annual and multi-annual work plan of the Credit Control Department and to receive periodic reports concerning credit risk. The committee is also authorized to discuss credit applications which are exceptional to the credit policy and to recommend their approval to the Board of Directors plenum.
Name		Risk Management Committee
	Composition	Mr. Moshe Vidman – Chair, Mr. Yonatan Kaplan, Mr. Ron Gazit, Ms. Sabina Biran, Mr. Avraham Zeldman and Mr. Jacob Abraham Neyman ¹ .
	Role	This committee is authorized to discuss issues and policy related to risk management and control at the Bank, capital planning at the Bank and internal control. The committee is authorized to discuss the risk appetite document as well as the master policy document with regard to the risk management and control framework. The committee is also authorized to discuss and to formulate recommendations to be brought before the Board of Directors plenum with regard to overall strategy targets and to overall risk policy. The committee is also authorized to discuss issues concerning liquidity risk management, business continuity management, new products, the capital adequacy assessment process and the quarterly risk document – and to recommend that the Board of Directors approve the various risk management policy documents.
Name		Remuneration Committee
	Composition	Mr. Jacob Abraham Neyman – Chair ² , Mr. Gideon Siterman, Ms. Sabina Biran, Mr. Yossi Shachak and Ms. Osnat Ronen.
	Role	This committee is authorized to discuss and to make recommendations to the Board of Directors with regard to remuneration policy and procedures, as required by the Corporate Act and in conformity with Proper Banking Conduct Directives. The remuneration policy is required to be in conformity with the Bank's organizational culture, its long-term strategic goals and its control environment – such that remuneration incentives would not encourage risk taking beyond the Bank's specified risk appetite and would allow the Bank to maintain a robust capital base. The committee convenes at least once per year to review the implementation of the remuneration policy. Once every three years, the committee would make its recommendations to the Board of Directors with regard to approval or revision of the policy set. This committee also makes recommendations to the Board of Directors with regard to principles for employment and retirement terms of Bank executives and employees and also approves officer remuneration, prior to approval by the Board of Directors and by the General Meeting of shareholders, as the case may be.
Name		Audit Committee
	Composition	Ms. Osnat Ronen – Chair ³ , Mr. Gideon Siterman, Mr. Joseph Shachak, Ms. Sabina Biran, Mr. Mordechai Meir and Mr. Jacob Abraham Neyman.
	Role	The roles and responsibilities of this committee are: discuss any faults identified in conducting Bank business and to propose ways to remedy these faults to the Board of Directors, to specify arrangements with regard to handling complaints by Bank employees with regard to any faults identified in conducting Bank business, to review the quarterly and annual reports to the public, to discuss them and recommend their approval, to approve transactions and actions as specified in the Corporate Act and to approve transactions with related persons in conformity with Proper Banking Conduct Directive 312. The Board of Directors also appointed the Audit Committee to be the entity responsible, on behalf of the Board of Directors, for supervision of the work of the Compliance Officer, including execution of the enforcement plan of securities laws and anti-trust laws, as well as its implementation.

1. Mr. Avi Zigelman served as Member, Risk Management Committee through September 19, 2016.
2. Mr. Avi Zigelman served as Chair, Remuneration Committee through September 19, 2016.

3. Mr. Avi Zigelman served as Chair, Audit Committee through September 19, 2016.

Work of the Board of Directors and consultation with stakeholders

During 2016, the Bank Board of Directors held 28 plenary meetings, 5 seminars for Board members and 66 committee meetings. In conformity with the Corporate Act, shareholders may also propose issued for discussion prior to the General Meeting of shareholders. The Board of Directors does not empower him to consult with various stakeholders.

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

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

The right of Board members to obtain information and to consult with various entities in the course of discharging their duties is in conformity with provisions of the Corporate Act, 1999 ("the Corporate Act") and Proper Banking Conduct Directive 301 by the Supervisor of Banks with regard to "The Board of Directors" ("Regulation 301") and is included in operating procedures of the Board of Directors.

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

Avoiding conflict of interest

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

Board member and executive remuneration

Board member remuneration is in conformity with Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000 ("Remuneration Regulations"). The remuneration policy is approved by the General Meeting of shareholders, whose resolutions are reported to the public. Terms of office and employment of the Chairman of the Board of Directors for the period as from December 1, 2015 were approved by the General Meeting of shareholders on March 8, 2016 and only include fixed remuneration. Senior management at the Bank are eligible to receive fixed pay plus remuneration based on Bank performance and on their own individual contribution. As from October 12, 2016, the maximum remuneration amount is subject to statutory limits (as set forth in chapter "Employees – reducing payroll gaps" on page 89). Terms of office and employment of the Bank Chairman of the Board of Directors and the Bank President & CEO, which have been adapted to limitations stipulated in the Remuneration Act (i.e. the ratio of their anticipated remuneration expense, as defined in the Act, to the expense for the lowest remuneration of a full-time position paid by the Bank, directly or indirectly, must be less than 35), have been approved by the General Meeting of shareholders on February 14, 2017.



Assessment of effectiveness of Board operations

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

Social responsibility at Group management and Board of Directors

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

The issue of corporate social responsibility was presented to the Board of Directors during the 2016 work plan discussions. The Board of Directors also discussed aspects of social responsibility as part of current discussions of Bank operations on other matters, such as community relations, employee status etc. The Board of Directors, at its meeting held on December 27, 2016, approved the issues classified as material.

The process for reporting to the Board of Directors is included in policy documents, brought for discussion by the Risk Management Committee and by the Board of Directors plenary, whereby:

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

Our Employees



Our Customers



The Community and Us



The Environment and Us

C

ommitment to regulatory compliance

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

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

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

Concurrently with activities of the Risk Control Division, the Audit Division conducts independent audit of compliance and operating risk due, inter alia, to material units and processes at the Bank.



Control over proper conduct

The Bank maps the regulations and appointed persons responsible for ensuring compliance with these regulations in all areas. Each division is responsible for regulatory compliance in its own area. As part of the compliance activity, the Bank delivers training to Bank employees on the following topics: Compliance in general, AML, securities laws, cross-border risk, anti-trust law, fairness to customers, proper disclosure and the Code of Ethics. The Bank also refers to mandatory non-discrimination against various populations, including operations involving minorities. In addition, the Bank conducts operating risk surveys with reference to embezzlement and operates a current an ongoing system for embezzlement monitoring.

The Bank regularly maintains and updates the mapping of compliance risk. This survey is designed to ensure that consumer-related provisions with regard to customers are implemented. A comprehensive survey, completed in 2014, is regularly revised with any changes in regulation or any control or audit findings.

In 2016, all legislation and regulation was mapped across all areas applicable to the Bank (in addition to consumer-related provisions), in order to identify and assess the quality of control over the implementation thereof.

In 2015-2016, no significant fines were imposed on the Bank for non-compliance with laws and regulations.

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

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

Investigation with regard to Bank business in the USA

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

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

In order to collect the information and data thus required by the US DOJ, the Bank engaged, in August 2014, the services of external experts for data research and validation, who joined the Bank Group's team of legal counsel (in Israel and in the USA). The Bank has completed creation of a computer-based repository to include the quantitative information about US customers. Validation of quantitative data concerning the Bank branch in Los Angeles and London as well as Bank Mizrahi in Switzerland and in Israel – this validation has been completed and this data has been provided to the US DOJ.





Furthermore, the process of collection of electronic messages with regard to US customers at various Bank locations has been completed and they are under review. Some of these have been provided to the US DOJ.

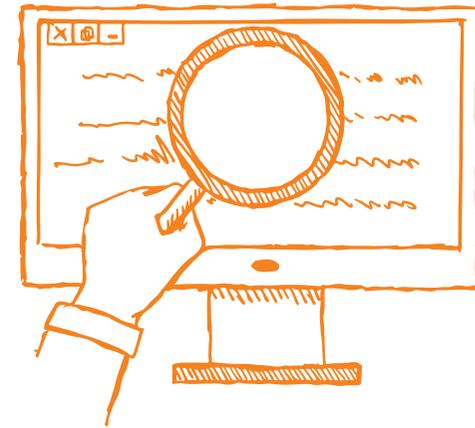
According to these letters, court orders and discussions, the Bank had to provide additional information and documents, some of which has already been provided, including in meetings with US DOJ representatives. In the aforesaid letters, discussions and meetings, the US DOJ specified actions which the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

However, even at this stage there are no negotiations taking place with the US DOJ with regard to the inquiry outcome or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

According to the opinion of the Bank's legal counsel, based on data in the computer-based repository and considering arrangements made by the US DOJ with other banks with regard to investigations concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail.

Based on this opinion, the Bank has recorded a provision calculated for the data and components which legal counsel is of the opinion that they should be taken into account in calculating such provision. Note that the Bank's legal counsel have expressed their opinion that it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.



Risk Management

Our commitment to risk management and control:

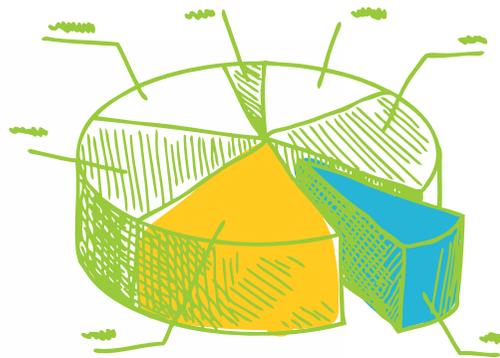
The Bank has an organized system in place for risk control and management including, inter alia, policy documents on risk control and management in various areas. These policy documents are approved at least once per year by Bank management and the Board, by the Risk Management Committee of the Board of Directors and by

the Board of Directors plenum and govern, inter alia, how the Bank addresses any risk identified as material risk to Bank operations. These risks include the following: Credit risk, market, interest and liquidity risk, internal control, operating risk, compliance risk, environmental risk, internal enforcement, AML and cross-border risk, cyber information security risk, online banking and new product management.



The Bank's investment policy calls for maintaining a low risk profile by holding a loan portfolio which consists mostly of diversified, retail loans. In addition, the Bank's nostro operations are primarily focused on investing in liquid, high-quality assets carrying minimum credit risk, mostly debentures of the State of Israel and therefore, the risk level of the Bank's investment portfolio is low. This policy is designed, inter alia, to ensure that deposits from the public are not invested by the Bank in high-risk assets, but are deposited with the Bank, which maintains a relatively low risk level compared to the banking system.

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



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

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

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



Involvement of management and of the Board of Directors in control over implementation of social responsibility

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

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



Concurrently with the regular process at these units, data about social responsibility is summarized and monitored at least annually from all Bank units. These data are presented to Bank management and to the Board of Directors. Members of Bank management and Board members are also involved in setting strategies on sustainability and social responsibility, as part of approval of policy documents and discussion of the Bank's work plan. Furthermore, the Bank Board of Directors plenum approves the Bank's corporate social responsibility report and the work plan on this matter is presented to the Board of Directors plenum.

Once a year, Bank management presents to the Risk Management Committee and to the Board of Directors the Bank's annual ICAAP document, which includes an overview of corporate governance activities related to risk management, risk evolution during the reported year, in particular the resilience of Bank capital and its stability in the face of stress events and outcome of the survey to review the quality of risk management conducted by the Bank.

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

Review of effectiveness of risk management processes

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

The outcome of these annual surveys are also compared to previous results to identify any gaps in risk management and control and to identify evolving trends in opinions of managers with regard to the specific risk level and to the quality of risk management and control. These surveys create a dialog between Risk Owners and risk controllers, since the process includes a review of differences in subjective ratings (within each group of raters or between different rater groups), with the aim of finding out the reason for such differences. If any gaps are identified by those responding to the survey for any specific risk, it is verified that this gap is handled in the Bank's annual work plan. The outcome of these surveys and dialog are brought for discussion by Bank management, the Risk Control Committee and the Board of Directors Plenum – and are provided as reference to the Bank of Israel.

Heat map – In 2016, another process was added, to be carried out by all Bank divisions, led and co-ordinated by Risk Control, in order to identify key risks in operations of these divisions and their implications for the implementation of the Bank's work plan. The Bank's overall "heat map" is a compass for required risk mitigation processes, in support of business operations and in line with the Bank's strategic plan.



M

anagement of environmental and social risk



Our commitment:

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

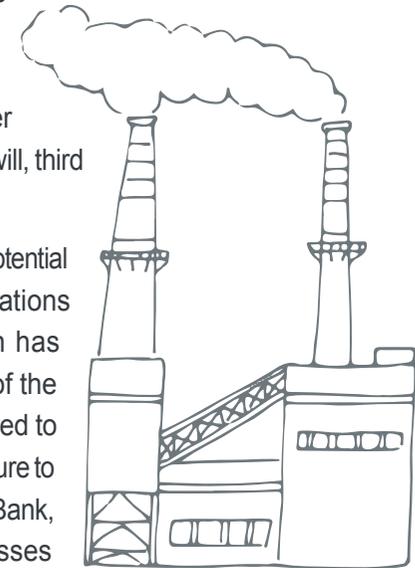
Employee training with regard to environmental risk –

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

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

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

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. In conformity with directives of the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes



for identification of significant risk when granting credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended. As part of this process, the Valuation Unit also reviews, as needed, any environmental aspects related to land, in order to identify any actual or suspected soil pollution and accordingly, determines the collateral value of the assets referred to it.



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

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

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

Committees issue credit approvals annually; in case of significant change in this aspect, the business unit would provide a review of this change.

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

Social risk is one of the risk factors facing the banking system and may arise from regulatory provisions. Social risk in banking (such as: money laundering)

are included as part of overall risk management at the Bank. In line with Group policy, the Bank reviews all risk and customer information before extending credit; this is a comprehensive process which includes review of all aspects indicating the customer quality, financial robustness, repayment capacity and conduct.

Changes to product offering based on macro-economic changes – As part of processes designed to map and assess social and environmental risk for major business lines at the Bank, the Bank has changed its product mix, in line with macro-economic changes. As part of the control process for implementation of social agreements with Bank customers and business partners, the Bank regularly monitors at the department / sector / division level and reports to management on branch performance, subject to guidelines and directives as to the recommended product mix.

Implementation and deployment of this issue

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

In order to improve employees' capacity to apply the Bank's social and environmental policy, the Bank delivers regular training and seminars. In 2016, the Business Division headquarters expanded training in this area, assisted by external advisors on environmental protection and on legal aspects. This included training delivered to 150 relevant employees of the Business Division, including economist and managers on different levels. In addition, 62 employees attended the Senior Lending Course, where the topic of environmental risk is covered in a presentation by representatives of the Risk Control Division on the Bank's credit policy, with reference to the issue of environmental risk.

B

usiness continuity

The Group is committed to maintain continuously available service at a specified level at all times. The Group is prepared to address significant events which may impact this objective.

These events may be external (such as: impact to Bank facilities, impact to its data center, war, plague, earthquake etc.) or internal, only affecting the Bank (such as: impact to facilities, technology failure, fire, employee strike etc.)

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



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

In 2016, the Bank created the procedure “Power outage as emergency event”. This procedure helps in cases where a power outage causes significant operating disruption, by specifying the actions to be taken by the Bank in such case. The procedure also specifies the means to be used by the branch in such an eventuality and how the branch should function and provide service to customers.

In 2016, the Bank also revised the operating procedure on working with the SWIFT system and carried out several drills, in accordance with the multi-annual drill plan, including a comprehensive drill involving Bank divisions and a drill in co-operation with the Bank of Israel Currency Unit.

Business continuity in case of severe weather and earthquakes

The Group has a business continuity policy in place, with one of the reference scenarios addressed being earthquakes. For the Group, an earthquake is risk which carries potential economic implications. The risk is of impact to buildings, telephony and IT systems, resulting in disruption to provision of service and information to customers. There is also risk of impact to employees and road blocks which would prevent employees from reaching their place of work. There is also the risk that the Group would be unable to provide minimum service targets, such as ATM replenishment, providing information to customers and conducting basic banking transactions. There is also the risk that the Bank may be unable to handle scenarios of power outage and issues with fuel supply to generators if needed.



As part of Bank preparation for emergencies, the Bank has put in place an operating procedure on preparation for a snow event, in order to improve the Bank's capacity to prepare for snow / inclement weather events and to function during such event, which governs preparation by Bank units for a snow event. In such events, there is a risk of road closings, difficulties in employees getting to work, difficulties in opening branches and impact to the Bank's capacity to provide service to its customers. This procedure includes staging and transportation of employees, reinforcements to banking call centers to support customers of branches in staging areas, delivering messages to internal and external audiences etc. The Bank has created the Snow Forum, which handles advance preparation and current handling of such events.



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

P

reserving human rights

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

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

Training employees on human rights topics

The Bank sees great importance in having all Bank employees be capable of handling issues related to human rights. To this end, the Bank provides training with regard to human rights, including training for deployment of the Code of Ethics and prevention of sexual harassment. In 2016, Mizrahi-Tefahot Group delivered 22,436 hours of training on policies and procedures with regard to human rights aspects relevant to Bank operations. In 2015, these hours numbered 24,661 and in 2014 – 16,336. In these trainings, employees received content related to: Preventing sexual harassment in the work place, equal opportunities at work and accessible service, ethics and public inquiries. A refresher eLearning course about accessible service was also delivered to all Bank employees.

Handling complaints concerning discrimination

In 2016, Mizrahi-Tefahot received 6 complaints concerning racial discrimination. All of these complaints were reviewed and found to be un-justified. Bank Yahav received 5 complaints concerning discrimination (3 for age discrimination and 2 for discrimination of persons with disabilities), of which 1 was found to be justified. In 2016, no complaints on these matters were filed at overseas affiliates.

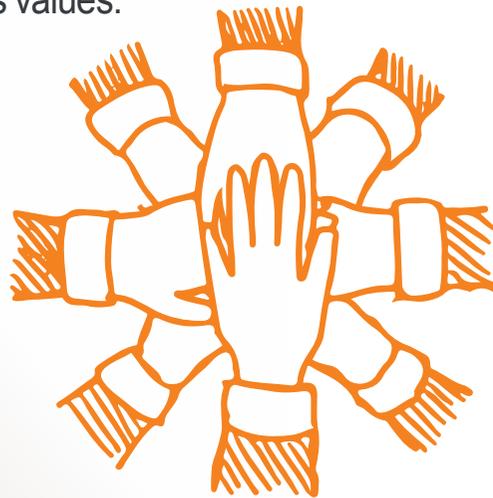


D

eployment of business ethics

Our commitment: The Board of Directors has approved the Bank's Code of Ethics.

The Code of Ethics includes the base values for Bank operations, including fairness, integrity, transparency and human dignity. The Bank's Code of Ethics is deployed across the organization through various training efforts. This includes the Ethical Committee, headed by the Bank Secretary, which convenes monthly to discuss ethical dilemmas which occur in the field and to set policy and action to be taken in order to deploy the Code of Ethics values.



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

Bank Code of Ethics – values which guide Bank operations:

- Commitment
- Integrity
- Fairness
- Transparency
- Reliability
- Loyalty
- Preserving human rights
- Excellence

The Code of Ethics

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



The Bank operates an Ethics Committee, headed by the Bank Secretary. The Ethics Committee convenes monthly, consisting of representatives from HQ units and branches, and acts to regularly deploy the Code of Ethics by publishing dilemmas to Bank staff, discussing dilemmas raised from the field and reviewing the deployment process of the Code of Ethics.

Deployment of the Code of Ethics

In 2016, Bank units continued to deploy the Code of Ethics, using various tools, in accordance with the work plan:

- **Ethics eLearning module** – Every new hire is required to use the eLearning kit concerning the Bank's Code of Ethics. Such eLearning use is monitored.
- **Proactive discussion of ethical dilemmas** – As part of the work plan, a proactive discussion of ethical dilemmas is conducted once per quarter, at Bank units in Israel and overseas. These are regularly reported to the Ethics Committee.
- **Management meeting concerning ethical issues** – A monthly meeting between Bank management and managers (from Sector Manager and higher) is convened to discuss ethical issues.
- **Ethical dilemmas** – Publishing of ethical dilemmas on the Code of Ethics website.
- **Introduction of Ethics as a topic in core courses** – A training unit on Ethics is incorporated in some banking courses.
- **Manager training** – Manager training includes discussions of ethical issues relevant for managers, based on values in the Code of Ethics.
- **2016 Ethics Day** – Consisted of experiential activities involving a card game based on events in daily life at the Bank. The winning unit, which carried out a high-quality bonus assignment, was recognized during the annual balance sheet conference and was awarded a special budget for a team-building activity.
- Division-level activities designed to describe ethical dilemmas and relevant processes for each division and to formulate an internal ethics program
- **Inquiry hot line** – The Group allows employees to send any inquiries, including those concerning ethical

issues, 24 hours a day through a hot line, the public inquiry center and the Bank website. The Bank has a procedure in place which guarantees protection of the information provider and inquiries may also be sent anonymously. Information about ways to send inquiries is listed on the organizational portal, on the notice board at overseas affiliates and is made public in branches. Moreover, in conformity with a new directive by the Bank of Israel, the Bank issued a public statement with regard to public complaints, worded as specified by the Supervisor of Banks. The Bank maintains constant contact with the person who filed the complaint, unless this is not feasible (as in the case of a complaint made anonymously).

Measuring the effectiveness of Code deployment

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

Integration of the Code of Ethics in the new strategic plan

The Bank's new strategic plan for 2017-2021, issued on November 21, 2016, highlights the differentiation of Mizrahi-Tefahot as a bank that offers personal, human banking along with advanced technology tools.

Unlike competitors, who refer their customers to apps and websites, Bank Mizrahi-Tefahot places the emphasis on the banker – and therefore the Bank is required to further develop its bankers and further deploy the unique values in the Code of Ethics, which are the basis for daily conduct of bankers with customers, suppliers and with each other.



Our commitment to preventing corruption

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



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

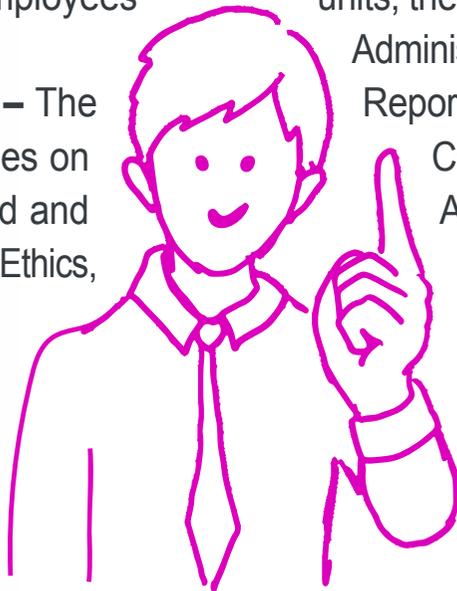
- **Fraud and embezzlement by employees** – Unusual cases are monitored by the Risk Control Division and referred for handling by the Internal Audit Division.
- **Cases of fraud by Bank customers** are monitored and handled by the Information Security and Cyber Departments of the Risk Control Division and the Technology Division, by Mizrahi-Tefahot Security Services in the Human Resources and Administration Division and by the clearinghouse.
- **Cases of theft and robbery** are monitored and handled by Mizrahi-Tefahot Security Services, the Information Security Department and the Audit Division.
- **Cases related to information security and cyber** are monitored and handled by the Information Security and Cyber Departments of the Risk Control Division and the Technology Division.
- **Cases of ethical nature** are handled by the Chair of the Ethics Committee (the Bank Secretary).

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

The Bank reviews these cases with debriefs and lessons learned from relevant cases, in order to avoid their recurrence. Whenever required, the Bank also files a complaint with the police. The Bank is conducting several key processes to address these issues on two main fronts: prevention and training as well as handling of exceptional cases and events:

Prevention and training

- **Regular dissemination of operating procedures to employees** – The Bank specifies rules of conduct for employees, disseminating them to all employees based on the nature of their banking role.
- **E-learning kits for employee training** – The Bank provide E-learning kits for employees on diverse topics, including: Preventing fraud and embezzlement, information security, Code of Ethics, anti-trust and inside information.
- **Event debriefing** – The Bank has a methodology in place to learn lessons and to take action as required to avoid their recurrence.



- **Deployment of the Code of Ethics** – The Bank deploys the Code of Ethics at its different units through various means, based on a well-organized plan.
- **Anonymous hot line for employee inquiries** – The Bank operates an anonymous hot line and fax for employee inquiries as needed.

Handling cases and learning lessons

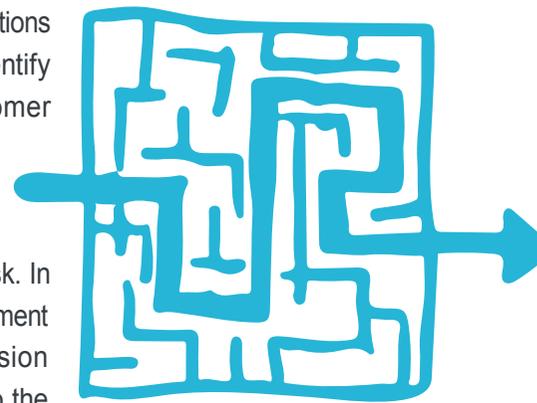
- **Operating identification and control lines** – The Bank operates three identification and control lines: The first circle is control at branches and business units; the second line is at the Human Resources and Administration Division, the Accounting and Financial Reporting Division, the Legal Division and the Risk Control Division; the third circle is at the Internal Audit Division. These three lines are designed to allow for early identification, prevention, deterrence and handling of such cases, in as much as possible.

- o **Operating Risk Portal at the Bank ("PSTL")** – This is a database of all relevant events, based on directives from the Bank of Israel, which classifies – out of all events – those which are exceptional / material for analysis, reporting and debriefing, if required.
- o **Operating risk steering committee** – Convened regularly at least once every quarter, to receive an overview of events and action taken.
- o **Fraud and Embezzlement Forum ("PUMA")** – This is a periodically convened forum that is focused on creating tools and programs for monitoring and preventing fraud and embezzlement, in co-ordination with different Bank units involved in different aspects related to such risk. This forum is convened as needed upon occurrence of any exceptional event.

Preventing fraud and embezzlement

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

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



The Group's employees must refrain from receiving any benefits as part of their working relations with customers or suppliers. The Group has clear procedures on this matter and the employees are required to act accordingly. The granting of gifts, benefits or special conditions to customers will be in accordance with the relevant procedure, according to a clear hierarchy of authority and in accordance with Bank of Israel directives. In order to prevent deviations from these procedures, the Group engages and trains the employees in this matter.



Reporting of suspicious events and handling of corruption events

Each employee is required to report any suspicion of embezzlement, fraud and breach of statute. This report may be made anonymously. The operating procedure specifies protection for whistle-blowers in order to encourage Bank employees to fulfill their reporting duty without any concern about being impacted by such reporting. Such report may be made by one of the following ways: structured reporting form, free-form email, free-form written text, direct telephone call or fax, through the Audit Hot line.

The procedure specifies that any material fraud or embezzlement events are to be immediately reported to the Chairman of the Board of Directors and to the Bank President. In case of any significant event, the inquiry report is sent to the Chairman of the Board of Directors' Audit Committee, to the Audit Committee, to the Chairman of the Board of Directors and to the Bank President. In 2016, no reports of fraud or embezzlement were made at Mizrahi-Tefahot Group.

Employee training with regard to corruption

In 2016, 17,522 hours of training on preventing corruption were delivered to employees. During the year, testing was conducted to identify risk related to corruption at all Group units.



Targets



Achievement of 2016 targets

Target	Status
Continued preparation for management of environmental risk on multiple levels (risk mapping and identification, assessment and mitigation of identified risk).	✓
Continued deployment of environmental risk management among relevant employees, through customized training.	✓
Continued preparation for management of environmental risk on multiple levels (risk mapping and identification, assessment and mitigation of identified risk).	✓

Next steps: Targets for 2017

- Continued preparation for management of environmental risk on multiple levels (risk mapping and identification, assessment and mitigation of identified risk).
- Further impart the topic of environmental risk to other relevant departments and employees, through custom training.
- Continued review of environmental risk when extending significant credit to customers subject to significant environmental aspects, primarily soil, as part of the routine work process.



- In 2017, the Bank would continue its efforts to improve the compliance culture, to analyze and implement new compliance provisions and to enhance the effectiveness of control in various areas of compliance.
- In 2017, the Bank would continue the process of deployment of procedures and controls designed to identify and prevent corruption and bribery risk.
- Enhance training with regard to regulation, revise regulatory content of existing courses.

Ethics:

- Integrate the Code of Ethics in the Bank's strategic plan for 2017-2021.
- Convene focus groups in order to analyze the effectiveness of deployment of the Code of Ethics and to review the need for revision of the Code of Ethics.
- Conduct division-level activities designed to describe ethical dilemmas and relevant processes for each division and to formulate an internal ethics program and continue activity at all levels of the Bank: Branches, headquarters units and subsidiaries.
- Conduct an Annual Ethics Day, with special emphasis on ethical conduct in social networks.
- Continue periodic internal communication with presentation of "open-ended dilemmas" with regard to ethics. In addition to publication of the Bank's Code of Ethics, analysis of such dilemmas according to procedures and suggested resolution.
- Ethics-related reports – quarterly status report to management forum and semi-annual report to the Board of Directors.



External Controls & Benchmark Index



Quality assurance certification:

Mizrahi-Tefahot Group, 2016 Corporate Social Responsibility Report

Introduction

The Corporate Governance Institute is an independent public entity which promotes the concept of corporate social responsibility. The Institute operates as part of the Academic Law and Business Center, which is a private college (recognized by the Higher Education Council) for law and business administration. The Institute operates, inter alia, by conducting professional meetings, compiling reports, studies and market overviews, translating global applied methodologies into Hebrew etc. In May 2017, Mizrahi-Tefahot Group contacted the Institute, in order to conduct a quality assurance process for its 2016 Corporate Social Responsibility Report.

It is noted that the Institute is paid to cover its time spent on this process. Furthermore, note that the Institute nor Mr. Liad Ortar (who authored this work) are in any business advisory contact with Mizrahi-Tefahot Group and the quality assurance process was independent. During the Quality Assurance process, the draft report was reviewed, comments were made and a statement to ensure the aforementioned quality was worded.

Work methodology

The process of ensuring the quality of corporate social responsibility reports is primarily designed to improve the quality of reporting output, by providing professional feedback. This process reviews whether the report is compliant with three major principles:

- **Inclusiveness** – Complete reference to issues of the reporting process itself and to reported matters and inclusion of a wide range of stakeholders in the report.
- **Materiality** – Reference to matters which are material for company operations.
- **Responsiveness** – Reporting of matters raised by stakeholders.

Findings

This report by Mizrahi-Tefahot Group is the fourth report being published, joining the trend of adoption of sustainability reporting by the entire banking system in Israel, in conformity with the requirement by the Supervisor of Banks. The report adopts the GRI reporting guidelines - G4 - in compliance with the Comprehensive reporting framework. I hereby certify that Mizrahi-Tefahot Group is in compliance with the scope of disclosure and reporting required for this level and is compliant with the three aforementioned principles.

This fourth report continues to show a notable trend of professional improvement. The report shows that corporate social responsibility leaders and managers across the Group are constantly exploring new avenues in response to local and global challenges with regard to corporate social responsibility and sustainability. In this regard, allow me to note as a positive the leadership shown by Mizrahi-Tefahot Group, as presented in this report, by aligning it with the UN Sustainable Development Goals (SDG). These goals show the desired direction for human development in the next two decades, by setting 17 top-level goals and multiple secondary goals. Another key development presented in this report is an update to the Group's materiality map. Without going into details of the issues listed, the trend of periodic revision of the materiality map and its alignment with the prevalent opinion among Group stakeholders is key and serves in fact as the content back bone for the entire report.

During the QA process, two major comments were made. The first refers to the need to present the circumstances and implications of changes to the materiality map in the report, while the second seeks a better linkage to the UN SDG. These two comments were immediately referred to in the compilation of this report, which is commendable.

Sincerely yours,

Liad Ortar,

Manager, The Corporate Social
Responsibility Institute, The Academic Law
and Business Center

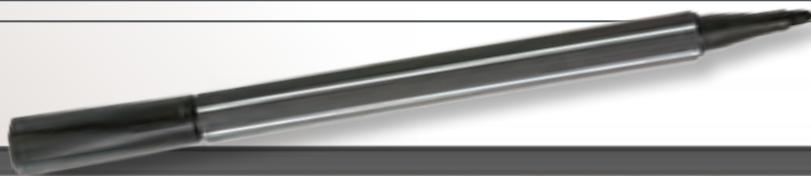


GRI Index GRI G4 Performance indicator - Comprehensive

Profile benchmarks (G4 General standard disclosures)

CPI	Description	Status	Report page	UNGC
Strategy				
G4-1	Certification by Chairman of the Board of Directors / CEO as to the relevance of social responsibility for the company and its strategy	Full	3	No specific CoP requirement
G4-2	Key impacts, risks and opportunities with regard to these aspects: Company impact on sustainability and on stakeholders and impact of trends, threats and opportunities related to sustainability on the company	Full	5-6	
G4-3	Organization name and description of organizational profile	Full	13-14	No specific CoP requirement
G4-4	Description of major products / services.	Full	23-27	
G4-5	Geographic location of company headquarters.	Full	13-14	
G4-6	Number of countries in which the company does business, major countries of operation or for issues covered by the report.	Full	12-16	
G4-7	Nature of ownership and legal form of incorporation.	Full	12-17	
G4-8	Markets served by the company	Full	23-24	
G4-9	Company size and information about the company	Full	12-17	
G4-10	Composition of employees by employment type, contract type and region, by gender	Full	78-81	6
G4-11	Percentage of employees under collective bargaining agreement	Full	97	3
G4-12	Description of key components of the organization's supply chain	Full	73-74	No specific CoP requirement
G4-13	Significant changes in the organization, including size, structure, ownership and supply chain	Full	18	No specific CoP requirement
G4-14	Explanation of the implementation of the diligence approach based on the Rio principles	Full	103-104	7
G4-15	List principles or other external initiatives adopted by the organization	Full	120-121	1-10
G4-16	Membership of associations / organizations and/or national or international advocacy organizations	Full	118	1-10

CPI	Description	Status	Report page	UNGC
Identification of material issues				
G4-17	List entities / companies as listed on the company's consolidated financial statements	Full	12-17	No specific CoP requirement
G4-18	Process for defining the report content and description of organization impact on any issue classified as material	Full	9-11	
G4-19	List of material issues identified in the process of preparing the report	Full	12	
G4-20	Definition of material issues within the organization and impact boundaries of these issues	Full	12	
G4-21	Impact boundaries of material issues outside of the organization	Full	12	
G4-22	Explanation of reasons for and implications of any re-statement of data on previous reports.	Full	81	
G4-23	Material changes to reporting of scope or boundaries of the report etc. compared to previous reporting periods.	Full	There were no material changes in the Group in 2016.	
Dialog with stakeholders				
G4-24	Groups of stakeholder groups with which the Bank conducts a dialog	Full	51-54,70-71,98,109	No specific CoP requirement
G4-25	The basis for identification and selection of stakeholders with which the Bank conducts a dialog	Full	9,10,51-54, 70-71,98,109	
G4-26	Approaches to including stakeholders	Full	9,10,51-54, 70-71,98,109	
G4-27	Key issues raised in dialog with stakeholders	Full	9,10,51-54, 70-71,98,109	
Report profile				
G4-28	Reported period	Full	7-8	No specific CoP requirement
G4-29	Note that this is the first report, or publication date of the most recent report	Full	7-8	
G4-30	Reporting frequency (annual or bi-annual)	Full	7-8	
G4-31	Contact person for questions regarding the report or report content	Full	5-6	
G4-32	Report content in compliance with GRI-G4 standard	Full	7-8	
G4-33	Policy and actual performance with regard to external quality assurance for the report	Full	136	



CPI	Description	Status	Report page	UNGC
Corporate governance				
G4-34	Corporate governance structure of the company, including Board of Directors committees	Full	112-113	No specific CoP requirement
G4-35	Delegation of authority of the Board of Directors	Full	115-116	
G4-36	Appointment of senior executive responsible for social responsibility	Full	5-6	
G4-37	Description of consultation process between the Board of Directors and stakeholders of the organization	Full	115-116	
G4-38	Description of the Board of Directors	Full	112-113	
G4-39	Is the Chairman of the Board of Directors also the CEO of the organization?	Full	17	
G4-40	Processes for determining the composition, skills and experience required of Board members and committees, in order to set strategy for the company on social, economic and environmental issues.	Full	112	
G4-41	Processes for avoiding conflict of interests on the Board of Directors	Full	115	
G4-42	Role of Board members and of management of the organization in development, confirmation and revision of company vision and values, strategy, policy and objectives related to sustainability and social responsibility	Full	122	
G4-43	Means used by the organization to collectively promote the Board of Directors' understanding (and knowledge) in content domains of sustainability and social responsibility	Full	116,122	
G4-44	Details of self-assessment processes of Board of Directors performance, related to social responsibility	Full	115	
G4-45	Details of Board of Directors procedures for supervision, identification and management of economic, social and environmental performance, including relevant threats and opportunities and role of the Board of Directors in deploying due diligence processes in this area	Full	113-116	
G4-46	Role of the Board of Directors in supervision of identification of effectiveness of the risk management (assessment) process by the organization in content domains of sustainability and social responsibility	Full	122	
G4-47	Listing of frequency of supervision by the Board of Directors on identification and management of economic, social and environmental performance, including relevant threats and opportunities and compliance with international standards, guidelines and codes.	Full	113-116	
G4-48	The most senior manager or committee of the organization who review and approve the organization's sustainability report	Full	116	
G4-49	Description of process for communicating important issues (in economic, social and environmental areas) to the Board of Directors	Full	116,122	
G4-50	Description of number and topics of critical concerns communicated to the Board of Directors with regard to corporate social responsibility and the mechanisms used to address and resolve them	Full	116	

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Corporate Governance

CPI	Description	Status	Report page	UNGC
Corporate governance				
G4-51	Description of remuneration policy of the Board of Directors and senior executives	Full	114-115	No specific CoP requirement
G4-52	Description of process for determining remuneration at the organization. Are external advisors involved in this process? Are they independent (of management)? Do these advisors have other relationships with the organization?	Full	114-115	
G4-53	Describe how opinions of various stakeholders about executive remuneration at the Bank are accounted for, including reporting of results of vote on the remuneration policy, if possible	Full	114-115	
G4-54	Ratio of top salary to median one	Full	89	
G4-55	Ratio of change in top salary to change in median one	Full	89	
Ethics and integrity				
G4-56	Description of organization values, principles, standards and behavior norms.	Full	128-129	10
G4-57	Description of internal and external mechanisms for seeking advice on legal and ethical issues	Full	128-129	
G4-58	Description of internal and external mechanisms for reporting issues of illegal or unethical behavior	Full	128-129	
Economic performance				
G4-DMA	Management approach	Full	13-14	No specific CoP requirement
G4-EC1	Direct economic value generated by the company	Full	18	No specific CoP requirement
G4-EC2	Description of financial implications and other risks and opportunities due to climate change	Full	123-125	7
G4-EC3	Details of coverage of company obligations with respect to employee retirement / remuneration programs	Full	94-96	No specific CoP requirement
G4-EC4	Government support / grants / assistance provided to the company in the reported period	Full	94-96	No specific CoP requirement
Employment on international markets				
G4-DMA	Management approach	Full	87-88	No specific CoP requirement
G4-EC5	Range of initial wage level at the organization compared to the minimum wage	Full	87-88	6
G4-EC6	Percentage of senior management from the local community	Full	79	6

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CPI	Description	Status	Report page	UNGC
Indirect economic impact				
G4-DMA	Management approach	Full	13,58-59	No specific CoP requirement
G4-EC7	Description of development and impact of investments in infrastructure and services primarily provided for public benefit through commercial arrangement, donation in kind or pro bono	Full	69	No specific CoP requirement
G4-EC8	Explanation and description of material indirect economic impact of the organization and the extent of such impact	Full	58-73	No specific CoP requirement
Local hiring (responsible supply chain management)				
G4-DMA	Management approach	Full	73	No specific CoP requirement
G4-EC9	Details of policies, procedures and actual expense percentage of procurement from local suppliers in major operating regions	Full	73-74	No specific CoP requirement
Promoting fair work environment and employment terms				
G4-DMA	Management approach	Full	81	6
G4-LA1	Number and percentage of employees hired and departed by age bracket, gender and region	Full	80	6
G4-LA2	Description of benefits received by full-time employees, to which part-time or temporary employees are not entitled, by region and significant areas of operations	Full	81-82	No specific CoP requirement
G4-LA3	Number of employees returning to the same position after parental leave (by gender)	Full	80	6
Labor / management relations				
G4-DMA	Management approach	Full	97	3
G4-LA4	Minimum notice period upon re-organization	Full	97	3

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Performance benchmarks on material issues (G4 Specific standard disclosures)

CPI	Description	Status	Report page	UNGC
Staff training and development				
G4-DMA	Management approach	Full	92	6
G4-LA9	Annual average number of training hours	Full	93	6
G4-LA10	Description of programs for skill development that support the continued employability of employees	Full	92-94	No specific CoP requirement
G4-LA11	Percentage of employees receiving regular performance and career development reviews	Full	98	6
Diversity and equal opportunities				
G4-DMA	Management approach	Full	87	6
G4-LA12	Composition of staff and of Board of Directors	Full	78	6
Gender equality				
G4-DMA	Management approach	Full	87	6
G4-LA13	Ratio of pay for men and women in each job category, by gender and significant operating segment	Full	89-90	6
Inclusion of human rights sections in investment contracts at the Bank (preserving human rights)				
G4-DMA	Management approach	Full	87	No specific CoP requirement
G4-HR1	Details of percentage and total number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening	Full	73-74	No specific CoP requirement
G4-HR2	Total hours of employee training on policies and procedures concerning aspects of relevant human rights	Full	127	1
Prevention of discrimination				
G4-DMA	Management approach	Full	87	6
G4-HR3	Number of cases of discrimination and action taken	Full	127	6

CPI	Description	Status	Report page	UNGC
Local community				
G4-DMA	Management approach	Full	58-59	1
G4-SO1	Share of operations which impact the local community, evaluation of impact on the community, community development programs	Full	Community chapter in full. 56-75	1
G4-SO2	Operations with significant potential or actual negative impacts on local communities	Full	The Bank has no negative impact on the community, other than environmental aspects	1
G4-FS13	Access points in low-populated or economically disadvantaged areas by region and type	Full	44	No specific CoP requirement
G4-FS14	Initiatives to make financial products accessible for people with disabilities	Full	45	No specific CoP requirement
Preventing corruption				
G4-DMA	Management approach	Full	130-132	10
G4-SO3	Percentage and total number of business units analyzed for risks related to corruption	Full	131	10
G4-SO4	Communication and training related to prevention of corruption	Full	133	10
G4-SO5	Number of corruption events discovered and action taken	Full	133	10
Regulatory compliance				
G4-DMA	Management approach	Full	116	No specific CoP requirement
G4-SO8	Monetary value of significant fines	Full	116-118	No specific CoP requirement
Fairness and transparency to customers and promotion of financial education				
G4-DMA	Management approach	Full	27, 58-59	No specific CoP requirement
G4-PR3	Information to be provided according to procedures and share of products / services subject to such procedures	Full	34	No specific CoP requirement
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Full	34	No specific CoP requirement
G4-PR5	Company conduct and ensuring appropriate conduct in all publications and conduct with customers	Full	34	No specific CoP requirement

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CPI	Description	Status	Report page	UNGC
G4-FS15	Policies for the fair design and sale of financial products and services	Full	39-43	No specific CoP requirement
G4-FS16	Description of initiatives designed to promote financial education for Bank customers and for the general public	Full	65-66	No specific CoP requirement
Marketing communications – product marketing and communications				
G4-DMA	Management approach	Full	51	No specific CoP requirement
G4-PR6	Sale of banned or forbidden products	Full	51	No specific CoP requirement
G4-PR7	Number of substantiated complaints regarding breaches of voluntary regulations and codes with regard to marketing communications	Full	51	No specific CoP requirement
Bank product profile				
G4-DMA	Management approach	Full	49	8
G4-FS6	Value of organization's portfolio by geographic region and by sector	Full	22-24,49-51	No specific CoP requirement
G4-FS7	Monetary value of products designed to deliver a specific social benefit for each business line	Full	49-50,63-67	No specific CoP requirement
G4-FS8	Monetary value of products designed to deliver a specific environmental benefit for each business line	Full	49	8
Social and environmental risk management				
G4-DMA	Management approach	Full	123	8
G4-FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	Full	123-125	8
Ensuring customer privacy				
G4-DMA	Management approach	Full	47	No specific CoP requirement
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and loss of customer data	Full	48	No specific CoP requirement
Consumption of materials				
G4-DMA	Management approach	Full	102	7
G4-EN1	Materials used by the company, measured by weight or volume	Full	103-109	7
G4-EN2	What percentage of materials used by the company consists of recycled materials	Full	103-109	8

Principles of the UN Global Compact

Mizrahi-Tefahot Group supports the ten principles of the UN Global Compact initiative and acts to promote them. Below are details of the principles in this initiative:

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights
2. Businesses should make sure that they are not complicit in human rights abuses

Employment standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Elimination of all forms of forced and compulsory labor
5. Effective abolition of child labor
6. Elimination of discrimination in respect of employment and occupation

Environmental protection

7. Businesses should support a precautionary approach to environmental challenges
8. Businesses should undertake initiatives to promote greater environmental responsibility
9. Businesses should encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery

Index – UN Global Compact		
Principle	Description	Report page
1	Businesses should support and respect the protection of internationally proclaimed human rights	58-64, 118, 120-121, 127
2	Businesses should make sure that they are not complicit in human rights abuses	118, 120-121
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	97, 118, 120-121
4	Elimination of all forms of forced and compulsory labor	118, 120-121
5	Effective abolition of child labor	118, 120-121
6	Elimination of discrimination in respect of employment and occupation	78-82, 87-93, 98, 118, 120-121, 127
7	Businesses should support a precautionary approach to environmental challenges	102-109, 118, 120-121
8	Businesses should undertake initiatives to promote greater environmental responsibility	49, 103-109, 118
9	Businesses should encourage the development and diffusion of environmentally friendly technologies	118, 120-121
10	Businesses should work against corruption in all its forms, including extortion and bribery	103-120-121, 128-133



Commitment to UN Sustainable Development Goals (SDGs)



In September 2015, the State of Israel, together with the 192 UN member states, adopted the decision to participate in the effort to achieve 17 new Sustainable Development Goals, known also as SDGs, and to implement 169 global targets by the year 2030. The goals deal with global challenges in three dimensions - society, environment and economics. These goals expanded on the "Millennium Development Goals", which were also global goals intended to be implemented by 2015. The UN goals encompass many areas, including the eradication of poverty, access to education, gender equality, food security, industry, peace and preservation of life at sea, on land and more.

The Sustainable Development Goals based on corporate responsibility principles create a multi-sectoral, multi-country framework with a common language that increases the likelihood of effective and measurable implementation.

This year, for the first time, the Group presents its commitment to some of the UN's Sustainable Development Goals as part of the Group's aspiration to act in accordance with the reporting and activity trends at both the Israeli and global social and environment levels.



SDGs Principles for Inclusion in the 2016 Report

Goal Number and Name	Goal Description	Topic and Page in Report to which the Principle Relates	GRI Indices
 1 NO POVERTY Eradication of Poverty	Putting an end to all forms of poverty everywhere	Promoting Financial Education and Training of Business Owners (p. 65)	FS-14
		Strengthening Financial Education for Students and Relations with Institutions of Higher Education (p. 65)	EC-8, G4-SO1
		Scholarships for Ethiopian Immigrants (p. 68)	EC-8, G4-SO1
 4 QUALITY EDUCATION Quality Education	Ensuring quality and equal education while promoting lifelong learning opportunities for all	Promoting Financial Education and Training of Business Owners (p. 65)	G4-LA9, G4-LA10, G4-SO1
		Strengthening Financial Education for Students and Relations with Institutions of Higher Education (p. 65)	
		Scholarships for Ethiopian Immigrants (p. 68)	
 5 GENDER EQUALITY Gender Equality	Achieving equality between the sexes and empowering women and girls	Professional advancement in an egalitarian manner (p. 88-89,91)	G4-LA1, G4-LA9, G4-LA11, G4-LA12
		Equal wages for men and women (p. 88-89,91)	G4-EC5, G4-LA13
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Industry, Innovation and Infrastructure	Building immune and resilient infrastructures, promotion and encouragement of sustainable industries and innovation development	Granting of credit designated for the development, construction or initiation of environmental products (p. 49)	G4-EN31, G4-EC1, G4-EC7
		Integration of environmental considerations when granting credit to companies with environmental implications (p. 102,123)	G4-EN31
 10 REDUCED INEQUALITIES Reduction of inequality	Reducing inequality within and between countries	Expanding recruitment efforts in the Ultra-Orthodox sector (p. 42,88-89)	G4-LA12, G4-10, G4-EC6, G4-LA1
		Expanding recruitment efforts in the Arab sector (p. 42,88-89)	G4-LA12, G4-10, G4-EC6, G4-LA1
		Intensifying activity in the Ultra-Orthodox and Arab sectors (p. 42,88-89)	FS6, FS7
		Preventing discrimination (p. 87-88)	G4-HR3
		Promoting financial education (pp. 65)	FS-14
		Accessibility of services for the general population (p. 45)	FS7, FS13, FS14, former FS16
 12 RESPONSIBLE CONSUMPTION AND PRODUCTION Responsible Consumption and Production	Ensuring sustainable patterns of consumption and production	Responsible procurement (p. 73)	G4-EC9, G4-EN27, G4-EN28
		Commitment of the Group to managed consumption of materials (p. 102)	G4-EN31, G4-EN23
		Energy efficiency (p. 105)	G4-EN3, G4-EN5, G4-EN6, G4-EN7