

The FIBI Group
2017 Corporate Social
Responsibility Report



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A photograph of two men in business attire. The man on the left is wearing a white shirt and a dark tie with small white dots. The man on the right is wearing a light blue blazer and is adjusting the jacket of the man on the left. They are both smiling and looking towards the right. The background is a bright, out-of-focus window.

Introduction



A Word from the Chairman & Chief Executive Officer

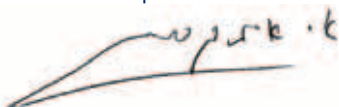
We hereby present the FIBI Group's 2017 Corporate Social Responsibility Report. It is the fifth CSR report published by the FIBI Group, reflecting our commitment to investing in social and environmental aspects as part of our business activity. It is based on the perception that a successful company is one that recognizes its responsibility towards the various stakeholders, that its purpose is much more than to merely generate profit, and that in creating economic value - it contributes to society. As part of the development of corporate social responsibility at the Group, we are proud to be one of the first companies to apply the UN's Social Development Goals (SDGs) into our CSR report. The Group views the pursuit of these goals both as an important platform for cooperation among the various sectors of the economy - public, business and voluntary - and as a business opportunity.

In 2017, the FIBI Group continued to advance corporate social responsibility while creating shared value for the Group and for its stakeholders. By engaging in a genuine, ongoing dialogue we have developed innovative products and services which provide a professional solution customized to our customers' personal needs.

This is the third year the FIBI Group has operated according to its three-year strategic plan, which was approved by the Board of Directors in 2015 (and is expected to undergo revision in 2019). The objective of the plan is to increase the Group's overall efficiency, while continuing to focus on private banking, while maintaining the Group's leadership status in securities and investment consulting. The Group's strategic plan focuses on digital innovation, empowering customers and serving a diverse range of customers, and is reflected in several channels, as shown below.

2017 posed numerous challenges for the Bank, including the increased regulation in Israel and the development of the digital age. To meet customer requirements, these challenges have prompted the Group to both provide human response and develop advanced digital tools which make its services more readily available. One of our newly launched innovative and unique products is the Advise.me system - an innovative investment consulting application, which allows the provision of tailor-made consulting services. We further adopted innovation by promoting cooperation with FinTech and other technology companies and assimilating innovative solutions in order to provide our customer with the most advanced services. We launched the Big Data project, which included building a system infrastructure which collects, transfers and analyzes data to improve service.

Irit Izakson
Chairperson of the Board



We serve diverse customers, with emphasis on financial empowerment of minorities in the Group's business and social activities. The FIBI Group strives to provide customized solutions to various sectors in Israeli society: the religious and Ultra-Orthodox (Haredi) population through PAGI system; teachers and employees of Israel's education system and customers from the Arab sector, through Massad Bank; as well as IDF soldiers and officers and employees of Israel's defense establishment and retirees of the IDF and defense establishment through Bank Otsar Ha-Hayal.

PAGI was merged with the FIBI Group while preserving the PAGI brand name, along and its unique values and character. Since the merger, we have continued to deploy additional temporary branches in Ultra-Orthodox communities and developed products and services customized to its unique needs.

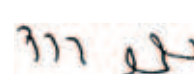
We strive for equal opportunity and employment diversification. The Group employs thousands of people from diverse backgrounds and regions across Israel, giving each employee equal opportunity to prove their skills and abilities. We scrupulously maintain equal opportunity in all organizational processes at the Group, including hiring and onboarding, salary and job conditions, promotion, and professional training, and in any other organizational process. We also maintain a proper and responsible work environment while promoting and upholding the law and adhering to universal norms. In 2017, the proportion of women employed by the Group continued to be much higher than the average in the Israeli economy.

In 2017 the Bank emphasized the further implementation of policies and procedures to prevent bribery and corruption. In accordance with Proper Conduct of Banking Business Directive No. 308, the Group held an integrated infrastructure survey and invested considerable resources in formulating the procedures and technical aspects of information exchange between the Group and international bodies. This policy forms part of the FATCA program, whose purpose is to eliminate tax evasion by opening bank account outside the US.

The FIBI Group

On the occasion of Israel's 70th anniversary, the FIBI Group is proud to be a partner to the achievements of the State. We shall continue to contribute to Israeli society and to the country's sustainable growth in the economic, social and environmental spheres.

Smadar Barber-Tzadik
CEO



Profile & Activity of the Group¹

The Bank has a strategic plan for 2016-2018, which was approved by the Board of Directors in September 2015 and re-evaluated by twice a year. The plan is based on proportionality in all areas of operation, with the goal of achieving reasonable and sustainable profitability.



The First International Bank of Israel (hereinafter: the "Bank") is a public company founded in 1972. The Bank is a licensed banking corporation under the provisions of the Banking Law. The Group's headquarters are located at 42 Rothschild Boulevard, Tel Aviv. The First International Bank of Israel Ltd. is Israel's fifth largest bank.

The Group's business activity focuses on several main levels:

- Financial brokering between depositors and borrowers - the quintessence of commercial banking. Income from this activity is expressed in net interest income, which constitutes the Group's main source of profit.
- Financial and banking services in a wide range of activities, including: foreign exchange, foreign trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment consulting and retirement consulting.
- Investment of the Group's nostro funds and management of market and liquidity risks.
- Capital market banking services for provident funds and mutual funds.
- Trust services for individuals and institutions - through the Group's Trust Company.
- Providing services to exporters and importers in Israel - The FIBI Group views exports and imports as a key anchor in Israel's economy and industry and helps promote the country's industry through various financing and funding plans.

The FIBI Group operates via three main business divisions:

- The Corporate Division, which handles all activity for corporate and middle market customers, as well as for businesses and institutional entities active in the capital market. The Division boasts a Business Zone, which coordinates the activity of the Bank's main business branches.
- The Banking Division coordinates the activities of private customers - which include mortgages and credit cards - which

comprise individuals, households and small businesses. It also includes U-Bank branches - which specialize in private banking and securities, and the separately-managed PAGI array - which specializes in the religious and Ultra-Orthodox sectors.

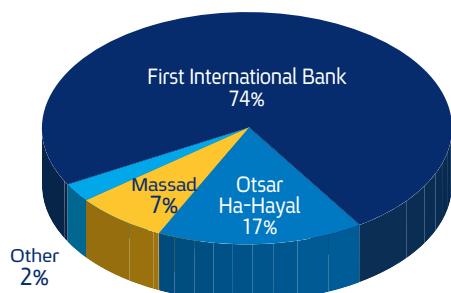
- The Customer Assets Division coordinates the Bank's capital market activity and deposits, including the dealing rooms specializing in working with the branches, professional customers and institutionals.

In addition to the First International Bank, the Group includes two other local commercial banks, which specialize in unique target audiences: Otsar Ha-Hayal - which specializes in providing services to retail and corporate customers, with special emphasis on members of Israel's defense establishment; and Bank Massad - which specializes in providing services Israel's teachers. In September 2018, Bank Otsar Ha-Hayal and the First International Bank signed an agreement to merge Bank Otsar Ha-hayal into the First International Bank, while preserving Bank Otsar Ha-Hayal's brand name and branch array. The merger is expected to take place in late 2018.

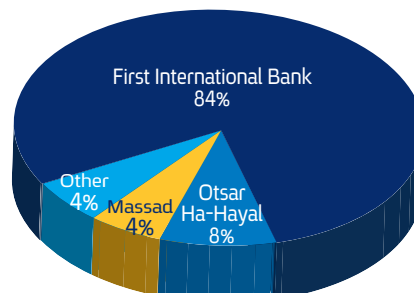
The Bank has a strategic plan for 2016-2018, which was approved by the Board of Directors in September 2015 and re-evaluated by twice a year. The plan's ultimate objectives are stated in terms of return on equity beyond risk-free interest rate and a cost-income ratio. The plan is based on proportionality in all areas of operation, with the goal of achieving reasonable and sustainable profitability.

On November 17, 2016, the Bank's Board of Directors approved the revision of the Group's strategic plan, with special emphasis on efficiency measures. The Bank re-evaluates the plan every six months with respect to the macro-economic environment, competitive developments in the Israeli economy, the regulatory environment, technological developments as well as changes taking place in the FIBI Group, and revises, as necessary, the plans and moves derived from the strategic plan.

Profit Distribution - the FIBI Group, 2017



Profit Distribution - the FIBI Group, 2017



Ownership Structure

FIBI Holdings owns 48.34% of the issued share capital and voting rights in the bank (constituting the controlling core, pursuant to the Bank of Israel control permit). The controlling shareholders in FIBI Holdings are: Mr. Tsadik Bino and his children - Mr. Gil Bino, Ms. Hadar Bino-Shmueli, and Ms. Dafna Bino-Or (hereinafter - the "Bino family") through the Binohon holding company; Mr. and Mrs. Michael and Helen Abeles through Instanz Number 2 Ltd, and Mr. Barry Lieberman, Ms. Casey Lieberman-Harris, Mr. Lee Lieberman, and Mr. Joshua Lieberman through Dolphin Energy Ltd. The current controlling shareholders have various arrangements with regard to their holdings interests in FIBI Holdings and, indirectly, in the Bank, as detailed in the "Details regarding the Bank's Controlling Shareholders" section in the 2017 Annual Financial Statements.

According to FIBI Holdings' report, as of the date of the financial statements, the controlling shareholders in FIBI Holdings (in capital and voting) are as follows: Binohon Ltd. - 38.29%; Instanz Number 2 Ltd. - 15.66%; and Dolphin Energies Ltd. - 11.68%.

The FIBI Group's Major Investee Companies

| | |
|--|--|
| Israel Credit Cards Ltd. (E 28% V 21%) | Bank Otsar Hahayal Ltd. (E 78% V 78%) |
| First International Issues Ltd. (E 100% V 100%) | Bank Masad Ltd. (E 51% V 51%) |

Voting - Breakdown of voting rights
Equity - Breakdown of equity interests

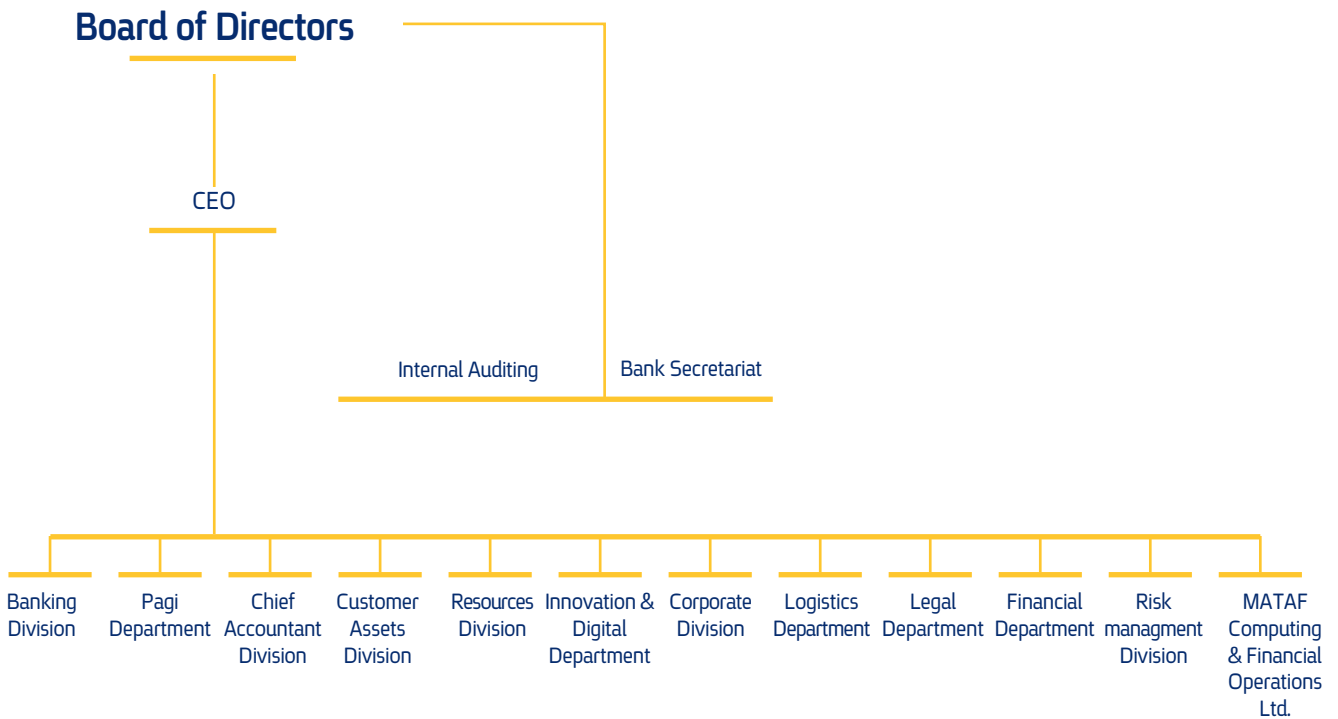
Please See Note 15.E. to the 2017 Annual Financial Statements for the Bank's acquisition of Hever's holding interests in Otsar Ha-Hayal on January 16 2018, following which the Bank holds 100% of the voting rights and the right to appoint directors and 99.99% of the equity interests.





The Bank's Organizational Structure

In 2017, the Bank had six divisions and five professional sub-divisions. Each division - including the Audit Sub-Division, PAGI and the Financial Sub-Division - is headed by a member of management. The organizational structure of the divisions and sub-divisions is in line with the management philosophy of customer-centric banking, allowing the Bank to provide tailored banking and financial services to customer segments with similar characteristics and needs. MATAF (Computing and Financial Operations Ltd.), a wholly-owned subsidiary of the bank, is engaged in computing and the operation of banking processes for all FIBI Group banks.





Creating Economic Value for Stakeholders

As a key leading financial organization, the FIBI Group has major economic impacts reflected in the value it creates for its various stakeholders. The Group's activities create direct economic value for its shareholders and investors: for the State of Israel - through the payment of taxes, creation of jobs nationwide, purchase of locally-produced goods, and more; for the Group's employees - by employing them and paying their salaries; for its customers, suppliers and business partners - by advancing their business activities; and for the community - by support and outreach through financial donations and volunteer work by the Group's employees. The Bank receives no government aid or financial support.

The FIBI Group also contributes indirectly to the development of the Israeli economy in several aspects: Branches of the Group are deployed nationwide, enabling economic activity in remote communities and regions. In addition to the main customer segments serviced by the Group, the banks provide professional services customized to the specific needs of diverse populations in Israeli society: The Ultra-Orthodox; the Arab community; career soldiers, active-duty soldiers and retirees of the defense establishment; teachers; immigrants from the former Soviet Union; as well as small and mid-size businesses

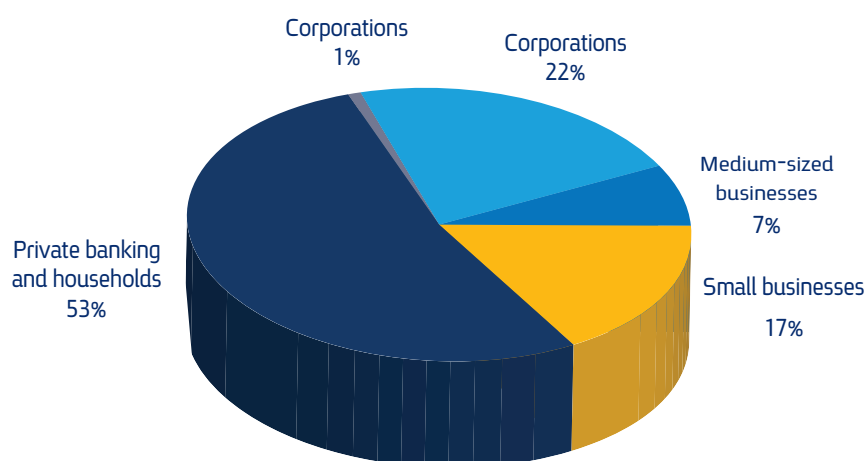
- offering them specialized, tailor-made, value-added services and products. Thus, the banks grant these customers greater accessibility to managing the financial aspects of their lives and ongoing economic activity. The Group's activity includes initiatives to promote small and mid-size businesses operating in Israel. The survivability and stability of these businesses is essential to the domestic economy. In addition, the banks initiate various activities to promote financial knowledge among customers and as part of its community outreach activity, in order to help customers and the public better manage their financial and banking affairs in both the short and long terms.

Economic Performance:

| Performance indicators - the FIBI Group (in NIS millions) | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total income | 3,752 | 3,649 | 3,494 | 3,768 | 3,851 | 3,797 |
| Operating and other expenses | 2,607 | 2,683 | 2,710 | 2,912 | 2,860 | 2,814 |
| Salaries and related costs | 1,627 | 1,656 | 1,629 | 1,780 | 1,746 | 1,676 |
| Provision for income tax | 358 | 398 | 326 | 328 | 366 | 315 |
| Net profit | 678 | 521 | 446 | 455 | 538 | 563 |
| Dividend to shareholders | 310 | 200 | 130 | 285 | 200 | - |
| Community outreach | 3 | 2.8 | 2.8 | 2.9 | 3.6 | 2 |

Loans to the Public, Net - by Operating Segment ²(in NIS millions)

As of 31 December 2017, credit granted to the public by the Group totaled NIS 80,378 billion.



2. Regulatory operating segments, as defined in Note 28 to the 2017 Annual Report (Note 28, p. XXX)



About the Report

The FIBI Group's fifth corporate social responsibility report examines and presents our achievements vis a vis the various stakeholders. The Report reviews the FIBI Group's corporate social responsibility activities in Israel during 2017. This report has been prepared in accordance with the GRI Standards: Comprehensive option and has successfully completed the GRI Materiality Disclosures Service. The objective of the Report is to transparently, reliably, and comprehensively present, as far as possible, the activity of the FIBI Group in the areas included in the Report, in order to allow the Bank's stakeholders to obtain an overview of its activity in the area of corporate social responsibility. In this context, the Report is targeted towards the Group's various stakeholders.

The Report reviews the activity of the First International Bank Group, including the activities of its three main banks³: The First International Bank (including PAGI and U-Bank, which were merged into the First International Bank in 2015), Bank Otsar Ha-Hayal, Bank Massad, as well as MATAF (where MATAF's activity has bearing on the issues presented in this Report). The Group's previous report, covering 2016, was published in 2017. The data included in the present CSR report are in accordance with those presented in previous ones.

The Report presents the issues that are material to the corporate social responsibility aspects of the Group's activity, based on a process of identifying the FIBI Group's material topics, carried out in preparation for the Group's previous CSR report, and based on feedback from stakeholders outside the Group and a review and revision process carried out ahead of the present report (see below).

3. 102-54

This report has been prepared in accordance with the GRI Standards: Comprehensive option and has successfully completed the GRI Materiality Disclosures Service

Assurance to the report was made by an independent third party through the Center for Sustainability Reports Assurance (see the full assurance report on p. 150). All data regarding issues contained in the Report were collected by relevant professional parties in the FIBI Group, with the assistance of external consultants specializing in corporate social responsibility. Most quantitative figures in the report relate to the FIBI Group. Some of the data in this report are presented in comparison to the Group's previous report (covering 2016) while other data also serve as a baseline year (in aspects where measurement was improved). The quantitative figures in the Report are based and presented on the basis of accepted indicators, as required by the GRI's standards. The FIBI Group expects publishes an annual corporate social responsibility report.

Corporate Social Responsibility in the FIBI Group:

Corporate social responsibility is part and parcel of the FIBI Group's daily activity. The Group's business activities involve corporate social responsibility considerations, based on the notion that this results in creating shared value for the Group and its stakeholders. By engaging in ongoing dialogue with the Group's employees, shareholders, various suppliers as well as the community in which we live, we create a thriving business as well as added value.

Corporate social responsibility is managed in a systematic and orderly manner. The executive-level party responsible for corporate social responsibility in the Group is the Head of Resources Division, an executive vice president and member of the Bank's management. The Bank has also appointed a CSR manager, who is responsible for integrating, implementing and liaising with subsidiaries on all matters related to the field. Corporate social responsibility issues are discussed by the Board of Directors and its various committees. In this context, the Head of the Resources Division and CSR Manager present the Bank's Corporate Social Responsibility Report to the Board of Directors. The Resources Division is responsible for coordinating the various entities involved and is in direct contact with the unit managers across the FIBI Group.

During 2017, we continued to promote a wide range of activities, with commitment to meeting the goals we have set:

- Our investment in customers is the result of ongoing dialogue held by the FIBI Group, which is expressed in providing an end-to-end personalized solution through a variety of channels and products adapted to the customer's characteristics, as well as in supporting the resolution of various social challenges in Israeli society (such as: the unique activity among the third age population and young adults from the Ultra-Orthodox community).
- We always take into consideration environmental impacts and responsible management of logistic resources within the FIBI Group. This year we have led several initiatives that have resulted in energy savings - transitioning to digital services to reduce paper consumption, transitioning to fuel-efficient cars, boosting environmental awareness among employees, and continued to incorporate environmental considerations into credit-granting decisions.
- We attribute great importance to creating an adequate supportive environment and providing ancillary conditions to help employees realize their skills and maximize their abilities. In addition, the Group adheres to equal opportunity practices between the employees and management, who conduct a direct and fully transparent dialogue.

All of the above activities have led the FIBI Group to successfully handle all the challenges we face, while continuing the path of growth and maintaining the FIBI Group's strength.

The Group's business activities involve corporate social responsibility considerations, based on the notion that this results in creating shared value for the Group and its stakeholders. By engaging in ongoing dialogue with the Group's employees, shareholders, various suppliers as well as the community in which we live, we create a thriving business as well as added value.





Material Topics

Material topics are defined as topics with economic, environmental, and social aspects in which the organization has a major impact on its stakeholders or which impact the organization

This CSR Report was written in accordance with the Global Reporting Initiative (GRI) - the accepted local and global framework for reporting on CSR. Identifying the material topics is a cornerstone of the GRI reporting process. This framework outlines a process for analyzing the issues that are material to the organization - taking into account the expectations of the organization's external stakeholders - towards the preparation of the CSR Report.

Material topics are defined as topics with economic, environmental, and social aspects in which the organization has a major impact on its stakeholders or which impact the organization. Material topics may be affected by the nature of the reporting organization's activity, the sector in which it operates, the economic or business environment in which it operates, its geographic location, its business and operational deployment, etc.

The choice of the material topics is of great significance, since these are the issues on which the Bank Group focuses. The GRI framework and the CSR Report also constitute managerial tools, with the latest GRI standard - according to which the Bank prepares its CSR Report - guiding organizations to report on the management approach on any material topic it has selected.

The process of identifying our material topics is based on analysis of the following:⁴

- Existing reporting frameworks such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standard Board (SASB).
- Frameworks dealing with material topics at the global level, such as: Sustainable Development Goals (SDG).
- Reports by ESG analysis entities such as: Sustanalytics, OEKOM, RobecoSam and Vigio EIRIS.

- Material topics identified by other members of the banking sector in Israel and abroad.
- Ongoing dialogue with stakeholders

In preparation for the writing of the 2017 Corporate Social Responsibility Report, the FIBI Group conducted a validation and revision process for the material topics to be reported. The team heading corporate social responsibility at the FIBI Group, in cooperation with the Head of the Resources Division and the Group's spokesperson, reviewed stakeholders' positions and expectations as reflected in the above components, with an emphasis on matching the material topics for 2017 with the SDG goals. The team's recommendations for validating and revising the materiality matrix for 2017 were discussed by the Group's management. Following are the decisions of the Group's management:

- The Group regards reporting on promoting financial knowledge as a top priority.
- It was decided that the material topics "Serving diverse customers" and "Vulnerable populations" will now be combined into a single material topic entitled "Serving and promoting diverse populations in Israeli society."
- It was decided that the two material topics "Management-employee relations" and "Employment conditions and work environment" - which have been reported as having a medium level of importance, will now be combined into a single material topic called "Employment environment".
- It was decided that the two material topics "Incorporating sustainability considerations in investment activity" and "Conducting environmental risk assessments when granting loans" - which have been reported as having a medium-high level of importance, will now be combined into a single material topic called "Incorporating sustainability and social considerations in credit provision and investment decisions".
- It was decided that all reporting on environmental issues (paper consumption, carbon footprint and energy consumption) will now be included in a single material topic entitled "Managing environmental aspects".

This process focuses the activity of the FIBI Group in the field of corporate social responsibility in 2017 on 18 material topics.

4. 102-45, 102-46

FIBI's Material Topics for 2017

| | | |
|--|--|--|
| <ul style="list-style-type: none"> • Serving and promoting diverse populations in Israeli society • Service accessibility for people with disabilities • Ethics and anti-corruption • Privacy and information security | <ul style="list-style-type: none"> • Fairness of products and services • Incorporating sustainability and social considerations in credit provision and investment decisions | |
| <ul style="list-style-type: none"> • Creating economic value for the stakeholders • Corporate governance and compliance • Promoting financial knowledge | <ul style="list-style-type: none"> • Equal opportunity and employment diversification • Responsible supply chain • Quality of service • Employment environment | |
| | <ul style="list-style-type: none"> • Business continuity • Product and service innovation • Investment in the community • Employee training and development | <ul style="list-style-type: none"> • Managing environmental aspects |

The FIBI Group's material topics:

Serving and promoting diverse populations in Israeli society

The Group comprises five brand names - the First International Bank, Otsar Ha-Hayal, PAGI, Massad, and U-Bank), which provide services to diverse customers, populations, and sectors in Israeli society. While promoting economic activity, as a result of working with these sectors, the banking products and services provided by the banks also advance social causes.

Making our service accessible to people with disabilities

A key service aspect, which provides value to the Group's customers in several aspects: In addition to providing innovative, quick, and professional service, promoting service accessibility allows people with various handicaps to obtain equitable service, like any other customer. In addition, service through direct channels (telephone, the Bank's website, applications, etc.) meets customer needs, prevents unnecessary use of paper, and results in cutting down emissions of pollutants caused by driving to branches.

Ethics and anti-corruption

Reducing risks embodied in the Group's activity by maintaining integrity and promoting business and moral excellence by implementing business ethics in the Group's activity.

Privacy and information security

Managing information security and protecting customers' information secrecy, while responding to, and handling customer inquiries in this area.

Fairness of products and services

Implementing the principles of transparency and fairness in the Group's products and services and meticulously adapting products to customers' needs and characteristics, by implementing the various consumer regulations that apply to the Bank and exercising responsible marketing based on accepted ethical principles in this field.

| | |
|--|---|
| Incorporating sustainability and social considerations in credit provision and investment decisions | A combination of sustainability aspects (such as long-term considerations, corporate governance, human and civil rights, environmental protection, etc.) in addition to financial considerations, including environmental risks, in the FIBI Group's significant investment and credit provision decisions. |
| Creating economic value for the stakeholders | As a leading financial organization, the Group creates value for various stakeholders: shareholders and investors, customers, employees, suppliers, the State of Israel, the community, and others. The Report presents the key economic disclosure that reflect this. |
| Corporate governance and compliance | Activity and structure of the board of directors (with regard to corporate responsibility) and the compliance units at the banks, which serve as key factors in the Group's regular activity, pursuant to the laws, provisions, and rules binding the Israeli banking system. |
| Promoting financial understanding among customers and integrating long-term considerations into capital market activity | Various initiatives to promote financial knowledge among the Group's customers and in the community. |
| Equal opportunity and employee diversification | A description of the principles and processes that allow and advance workplace equality and non-discrimination, as well as proactive measures to hire employees from populations that are under-represented in the Israeli labor market as a response to social and business needs. |
| Responsible supply chain | Incorporating corporate social responsibility values into the Group's contracts with suppliers, such as ensuring fair and proper employment conditions by manpower contractors, contributing to the Israeli economy by contracting local businesses and businesses in the periphery, and ensuring proper management of procurement processes. |
| Quality of service | Steps taken by the Group to promote quality of service and maintain customer satisfaction, including training, monitoring and measuring, learning and improving service quality. |
| Employment environment | A description of the work environment in the FIBI Group, as an employer of thousands of people, with an emphasis on the employees' circumstances, welfare activity, employee job security, managing the interfaces between the managements of the Group's banks and the employees as well as the promotion opportunities and added value which the Group provides to its employees as part of the work environment. |
| Business continuity | Promoting preparedness for maintaining business continuity and for operating under various conditions, including emergencies. |
| Product and service innovation | Promoting innovation with an emphasis on digital services through direct channels. |
| Investment in the community | Investment in the community by the Group, including policy, financial and cash-equivalent donations, volunteering by employees, and promoting a range of social activities. |
| Employee training and development | Professional training of Group employees according to the Group's business needs and for its employees' personal and professional development. |
| Managing environmental aspects | The Group places great importance on making significant efforts to reduce its environmental impact. The Group thus takes into account various environmental aspects when making decisions in its regular course of business. |



Dialogue with Stakeholders

We work with numerous stakeholders who impact, and are impacted by, our activity, either directly or indirectly, and maintain a dialogue with them on various levels. We insist on maintaining continuous contact with customers, employees, suppliers, and other stakeholders in the Group, and do our best to be attentive to their needs and feedback.

The dialogue is carried out through the relevant professional parties in the Group for each stakeholder group at a frequency and manner arising from the nature of the interface with that stakeholder. As part of our work routine, we combine and incorporate our stakeholders' positions into the Group's activity, insofar as these allow us to mitigate risk and create value for the stakeholders.

Stakeholder Key Dialogue Channels in 2017⁵

Customers

- **Direct channels** - The FIBI Group relentlessly seeks to promote and instill the use of online channels (including a website, mobile app, Beinleumi Call, texting and web-mail services, as well as a marketing website and Facebook page) and open as extensive as possible communications channels with its customers. To this end, among other things, training is provided to customers and bankers, through various means, and diverse channels are being added for the purpose of conducting dialogue with customers and stakeholders, as applicable (using e-mail, texting, push notifications, our Facebook page, etc.).
- **Conferences and workshops** - the FIBI Group promotes dialogue by providing dozens of training sessions, conferences and workshops to its customers each year. Professional conferences are held for the corporate-, capital market- and private customers. In addition, specialized conferences are held for various populations, such as teachers and educational workers, the Ultra-Orthodox sector, members of the security forces and former residents of the Soviet Union (there is also a dedicated Russian language line and Russian-speaking staff at the Beinleumi Call service). These conferences, which include a range of lectures on a variety of topics, are delivered by experts from the Group as well as external experts - according to the needs communicated in the ongoing dialogue with the stakeholders;
- **Customer satisfaction surveys** - each year, the Group's banks conduct dozens of customer satisfaction surveys, tailored to each bank's unique activity and customers. Surveys were also conducted through direct channels, for new and former customers, and for customers who have switched branches. In addition, the Group conducted qualitative focus groups among various types of customers.

Stakeholder Key Dialogue Channels in 2017⁵

Customers

- **Inquiries and requests** - The FIBI Group's customers can submit proposals, requests and complaints to its Public Inquiries Unit via the website, telephone, in writing or by fax. It is also possible to contact us through "state your opinion" on the bank's website or through our Facebook page; we strive to provide a quick and efficient response, to our customers' satisfaction.
- **Business customers** - FIBI maintains direct contact with its business customers through regional business branches providing financial support for every business need. The FIBI Group has even retargeted its business customers, by dividing them into three operating segments (according to their business volumes): small businesses, commercial businesses - medium and large. A manager was assigned to each sector, in order to adapt the products and services to the nature of each population and provide adequate solutions to their needs. In addition, the Group maintains direct and ongoing contact with the small and medium business sector through dedicated business units at the branches and teams in the credit units at headquarters.

The FIBI Group Employees

- **Direct line to Human Resources** - The Group's employees have a direct line to the employee inquiries officer for inquiries on any subject (and to the sexual harassment supervisor, if needed); there is also an emergency line for internal audit purposes; both channels can be accessed anonymously as well. **The Human Resources Department is also responsible for ethics-related inquiries, which may also be submitted anonymously.**
- **Employee feedback and assessment meetings** - The Group considers employee assessment one of the key processes in human capital management. An annual assessment process is conducted for the Group's employees through an assessment meeting between the employee and his/her manager;
- **Management-employee meetings** - All of the Group's banks hold management-employee meetings, which include visits by the CEO, members of management and senior executives in the branch network and the various headquarters units;
- **Internal communications channels** - Including each bank's enterprise portal and other communication methods;
- **Executive conferences and workshops** - A unique activity for executive development and organizational performance improvement. The conferences and workshops focused on enhancing management skills, holding discussions on core banking issues and enrichment on banking topics, as well as current affairs;
- **Process improvement teams** - Annual discussions which serve as a means for obtaining information, feedback and suggestions for improvements on a variety of strategic and procedural issues, with the participation of managers and authorized signatories. These discussions allow for a fruitful dialogue between executives from various Group units, branches and headquarters units;
- **Streamlining forum** - Streamlining proposals by employees on various topics;
- **Round tables** - Promoting dialogue through round table discussions, on a variety of professional topics;

Shareholders and Investors

- **Stock exchange filings** - To update the investors and shareholders about FIBI immediately and with full transparency;
- **Financial statements;**
- **Investor relations website** - Allows full access to reliable information and supports decision-making;
- **The shareholders' general meeting mechanism;**
- Dialogue (conference calls, meetings) with analysts and investors on a regular basis.

Suppliers

- **Periodic meetings** are held with all suppliers at a frequency that depends on the substance and scale of the activity;
- **Direct contact point for complaints and inquiries by contract workers** - The Group's procurement manager serves as a direct contact point for contract workers wishing to file complaints and inquiries on any issue.

Society and the Community

- **A close ongoing relationship with NGOs and social organizations** - the FIBI Group conducts a dialogue with various social organizations, such as the JDC, Matan Investing in the Community, Unistream, Pitchon Lev, Adopt a Soldier, Runners from the Heart, Fathers and Sons on the Court, etc. The FIBI Group runs various programs with these organizations. In addition, we hold periodic meetings with these organizations and submit reports on the issue to management and the Board of Directors.

The Environment

- **Measuring the Bank Group's key impacts on the environment** - We work together with relevant professional entities, discussing how to potentially reduce the Group's environmental impact. In this context, the Group conducted a dialogue with the Standards Institution of Israel and various consulting firms, such as when incorporating green building standards in our buildings (the Bank Headquarters and MATAF Building) or other aspects of logistical resource management related to the environment (power consumption, paper consumption, etc.)

Government Authorities

- **Ongoing cooperation and contact** - The Group cooperates with the relevant government agencies, has regular contact with them, and scrupulously updates them with any relevant information. However, the FIBI Group does not take positions on public issues nor participates in the development of public and/or political policies.



The FIBI Group & the Sustainable Development Goals (SDGs)

In September 2015, the UN General Assembly - which comprises 193 member states - adopted a set of goals to be implemented with the view of promoting global sustainable growth by 2030. The program, named 2030 Agenda for Sustainable Development, includes 17 goals and 169 sub-goals. The goals encompass numerous fields, such as the eradication of poverty, reduction of inequality, access to education, economic growth, combatting against climate change, and more.








As a member of the organization, Israel is committed to reporting on the SDGs' implementation. To realize the goals, the public, business, and voluntary sectors in Israel need to cooperate long-term, with a large portion of the work dependent on the private-business sector. As a large-scale financial enterprise, we recognize the significance of our commitment to realizing the SDGs.






This is the first year the Bank Group reports on its involvement in advancing the SDGs in its CSR report. To this end, the Group mapped its activity with respect to the goals and targets, in order to present our part in achieving the SDGs and examine our future activities in this context. We are proud to be one of the

We are proud to be one of the first entities in Israel to incorporate the UN's Social Development Goals (SDGs) into our CSR report and are committed to continue to promote the goals which are consistent with the Group's strategy.

first entities in Israel to incorporate the UN's Social Development Goals (SDGs) into our CSR report and are committed to continue to promote the goals which are consistent with the Group's strategy.

The following details cover the Group's main activities to promote the SDGs. The Report includes extensive information on the manner in which the Group promotes the SDGs across the organization.

| Material topic | SRS indicator | SDG | TARGETS | Relevant FIBI activity |
|---|-------------------------|---|--|--|
| Serving and promoting diverse populations in Israeli society | 203-2 |  | 10.2 | Customer-targeted activity designed to provide an optimal solution to the unique financial needs of diverse population segments. |
| | FS13 | | 10.3 | Promoting ongoing activity in the Ultra-Orthodox and religious sectors through the PAGI array, including through financial literacy activities and granting credit to social organizations in this population segment. |
| | FS14 | | 10.8 | Massad Bank is expanding its deployment in, and improving its service to the Arab community, offering products and services customized to employees of the education system. The First International Bank holds ongoing activity for the Former Soviet Union (FSU) and third age population segments. |
| | FS7 |  | 8.3 | Bank Otsar Ha-Hayal provides state-guaranteed loans to small businesses. |
| Accessibility for people with disabilities | FS14 |  | 10.2 10.3 | Making the Group's services more accessible, both through its physical branches, on its websites, and through the call center and additional service interfaces. |
| Ethics and anti-corruption | 205-1 205-2 205-3 |  | 16.5 | The Group takes proactive measures to prevent bribery and corruption by using several mechanisms, such as: The internal audit system, the Risk Management Division and oversight of its procurement activity. In addition, the Bank's Code of Ethics constitutes a binding declarative document. |
| Fairness of products and services | 419-1 |  | 16.5 | Ensure proper disclosure to customers, including full information and comprehensive explanations. |
| | 206-1 | | 16.6 | Fairness in marketing, advertising, sales, and investment advice. |
| | | | 16.7 | Fairness towards customers in financial difficulties. |
| Incorporating Sustainability and Social Considerations in Credit Provision and Investment Decisions | |  | 7.2 | The Group attaches importance to granting credit to environmental projects that contribute to a cleaner environment and, in this context, finances various renewable energy projects. |
| | |  | 9.1 | For many years, the Group has been instrumental in promoting Israeli industry and in recent years, has developed and initiated various financing and recruitment programs. |
| | | | 9.3 | The Bank sponsors a program to finance exporters' operations in cooperation with a credit firm. This program serves as a means to assist small and medium-sized exporters on the one hand, and to provide them with opportunities to expand their overseas business on the other hand. |
| | 9.B | | The Bank promotes innovation by assimilating products and technologies by FinTech start-ups, alongside ongoing efforts to develop in-house products and technologies through the Bank's IT Unit. | |

| Material topic | SRS indicator | SDG | TARGETS | Relevant FIBI activity |
|--|---------------|---|---------|--|
| Advancing customers' financial understanding and incorporating long-term considerations in capital market activity | 413-1 |  | 4.3 | The Group holds conferences to raise awareness and improve financial management among customers and diverse target audiences. The Group empowers its employees through ongoing training in relevant content areas, on Intranet-based tutorials. In order to advance the board members' knowledge and understanding of the FIBI Group, a dedicated training program is created each year for the directors, who participate in professional courses on business- and other issues, throughout the year |
| | 404-1 | | | |
| | 404-2 | | | |
| | 102-27 | | | |
| Corporate Governance and Compliance | 406-1 |  | 16.B | No complaints regarding discrimination were filed with the Group in 2017. |
| Equal opportunity and employment diversification | 405-1 |  | 8.5 | The Group adheres to strict equal opportunity practices and ensures full representation of the Israeli population across the recruitment, onboarding and employment processes. To be entered in the Group's procurement systems, each new supplier must submit a declaration in which it undertakes not to accept any benefits and a CPA's approval that all its employees are paid salaries and provided social benefits according to law. |
| | 102-38 | | | |
| | 405-2 | | | |
| Equal opportunity and employment diversification | 202-1 |  | 5.2 | The base salary of each manager and employee at the Bank is according to his/her role and rank, regardless of the employee's gender. Each of the banks - including MATAF - has appointed a sexual harassment prevention officer and has detailed rules and regulations outlining how to file a complaint. Women account for 67.2% of the workforce at the FIBI Group (compared with 47% of employees in the Israeli economy as a whole). Women account for 55% of the Group's managers - more than half - (compared with 34% of the managers in the Israeli economy). Women account for 42% of executives (management and senior managers) in the Group. The two most senior positions in the FIBI Group are occupied by women - the Group's chairman of the board and the CEO. |
| | 405-2 | | 5.5 | |
| | 406-1 | | 5.B | |
| | 405-1 | | 5.C | |
| | | | | |
| Responsible Supply Chain | FS10 |  | 12.7 | The Bank takes care to cooperate with suppliers and service providers which comply with local and international laws. To be entered in the Group's procurement systems, each new supplier must submit a declaration in which it undertakes not to accept any benefits. In 2017, the Group will begin drafting a responsible procurement policy, which shall be implemented across the Group. |





Our
Customers



Serving & Promoting Diverse Populations in Israeli Society

The FIBI Group addresses a broad range of customers and segments in Israeli society, adapting and creating customized solutions for various types of customers. We attach great importance to our customers' financial well-being and invest considerable resources in developing financing solutions and investment products that encourage sustainable consumption and a stable business environment.

The FIBI Group banks promote long-term relations with customers by providing professional, fair, efficient, and courteous service and creating value for the Group's diverse customers. As core stakeholder of the FIBI Group banks, customer operations and relations are managed with a view to the future and the customers' best interests - by maintaining various accessible communication channels according to each customer's specific needs. The Bank proactively encourages innovation in its various service channels so as to enable its customers to improve and boost their financial well-being, while developing a range of unique and dedicated products tailored to the various target audiences of the Group's banks, in response to the customers' dynamic and changing needs. As part of the main customer segments' activity, the Group provides solutions to the financial needs of diverse populations and segments in Israeli society (as detailed below in this chapter). Thus, the Group provides diverse audiences with improved capabilities for managing their assets and liabilities, while supporting Israel's economic growth.

The Group provides solutions to the financial needs of diverse populations and segments in Israeli society and provides diverse audiences with improved capabilities for managing their assets and liabilities, while supporting Israel's economic growth

Inequality is more prevalent in Israeli society than in other developed countries, as shown by the leading indices, especially the Gini Index. This problem has been a focus of public debate in Israel for some time. Being part of Israeli society, the FIBI Group is committed to advancing and addressing the full spectrum of population groups in its business activity.

The Group emphasizes a personal and empathetic attitude in its work, in accordance with its strategic plan and policy. As a leading financial concern, we are committed to providing thorough and professional services based on trust in both personal and digital banking. The FIBI Group aims to address diverse customers. This effort is part of its strategic plan, which is assessed semiannually by the Board of Directors. As part of this plan, improvements and adjustments are implemented according

to conclusions drawn from customer satisfaction surveys. The Group also conducts annual studies in order to monitor financial market trends. It distributes questionnaires on social media to track and measure customer satisfaction and uses the results to make adjustments and introduce innovations in its services.

The Group also regards helping all of its customers, particularly groups with financial difficulties, special-needs groups, the third age segment, and customers lacking financial knowledge, as highly important. The FIBI Group's guidelines are based on three major elements: rapid response, solutions personally adapted to the customer's needs, ongoing dialogue and complete transparency with its customers.

In adapting its solutions to disadvantaged groups, FIBI's strategy utilizes several methods:

- Adapting branches to the characteristics of the population living in the area by stationing suitable personnel in the branches and tailoring marketing language and themes;
- Adapting financial tools and services to fit the target group's way of life: loans on easy terms, crisis solutions, and tools adapted to the customer's financial ability;
- Cooperation with, and support for, a variety of social groups and organizations: supporting programs and activities on behalf of disadvantaged groups. Examples of these activities include improving financial literacy, providing tools and training for household financial management, etc.

The FIBI Group reports its activities according to the format and categories set forth in the Banking Supervision Department's Reporting to the Public Directives. For additional information about the regulatory activities, please see p. 278 of the 2017 Financial Statements.

Promoting the Small and Mid-Sized Business Segment

FIBI regards the small and medium-sized businesses sector as one of the economy's key growth engines.

The Bank offers corporate customers services and products by dividing the business customers into operating segments

according to their business turnovers and credit lines. The three main operating segments are as follows:

- Small businesses.
- Commercial businesses - medium.
- Large businesses.

Each sector has a line manager responsible for continuously adapting the products and services to the relevant target population so as to ensure their suitability to their customers' dynamic needs.

In recent years, FIBI has been investing resources in developing dedicated banking products and services tailored to the segment's needs:

- **Customized service** - The Bank offers the segment's customers with a broad range of banking products and professional services for small businesses, provided by dedicated bankers in the branches and through a variety of digital tools on the Bank's website and app.
- **Credit** - Credit to small businesses is granted through the Bank's 70 branches and is professionally managed by a dedicated team at headquarters specializing in small business. FIBI offers small businesses a range of credit products under convenient terms and conditions, as well as professional and comprehensive advice in order to adapt the credit solutions to each customer's unique needs. The Bank is developing tools for granting credit digitally, and is considering cooperating with other entities in order to expand the range of credit products offered to our customers.
- **Foreign currency and investment services** - The Bank offers small businesses a range of products and professional advice on foreign trade, foreign currency and investments, which are based on the Bank's specialization in these fields.
- **Unique benefits** - The Bank grants unique benefits to small businesses opening an account with FIBI. This includes discounts on current account management fees, credit rates and foreign trade tariffs. The benefits are granted individually, according to each business's characteristics and needs.



Assistance to Israeli Exporters and Importers

The FIBI Group, which promotes economic activity in Israel, views exports and imports as a central anchor in Israel's economy and industry. For many years, the Group has been instrumental in promoting Israeli industry and in recent years, has developed and initiated various financing and recruitment programs:

- **Exporter financing program in cooperation with a credit firm** - The Bank sponsor a program to finance exporters' operations in cooperation with a credit firm. This program serves as a means to assist small and medium-sized exporters on the one hand, and to provide them with opportunities to expand their overseas business on the other hand.
- **Recruitment of industrial companies and entrepreneurs as customers** - The Business Development and Marketing Unit of the Corporate Division focuses on the recruitment of industrial plants and entrepreneurs with turnovers of at least NIS 25 million, as customers. Applications are reviewed by the relevant functions at top priority and responses are fast-tracked in order to promote new business activities as quickly as possible.
- **Financing agreements for the purchase of industrial equipment in cooperation with the Manufacturers Association** - An agreement was signed with the mutual fund of the Manufacturers Association to provide up to 90% financing for the purchase of industrial equipment for an unusual maximum period of 12 years.

Assisting Businesses - Factoring:

Bank Otsar Ha-Hayal also operates a specialized financing service (factoring), which provides a comprehensive solution for the risks involved in granting credit to customers. The service is based on the purchase of some or all of the customers' receivables in respect of credit sales made locally or with overseas customers. Bank Otsar Ha-Hayal's factoring services include:

- Neutralizing the risk of customer credit - upon the sale of the invoices to the bank, the supplier is no longer under credit

risk for that invoice (except in case of a commercial dispute).

- Advances - cash payment of 70%-85% of the invoice amount.
- Collection services - the Bank carries out the collection process both in Israel and worldwide.

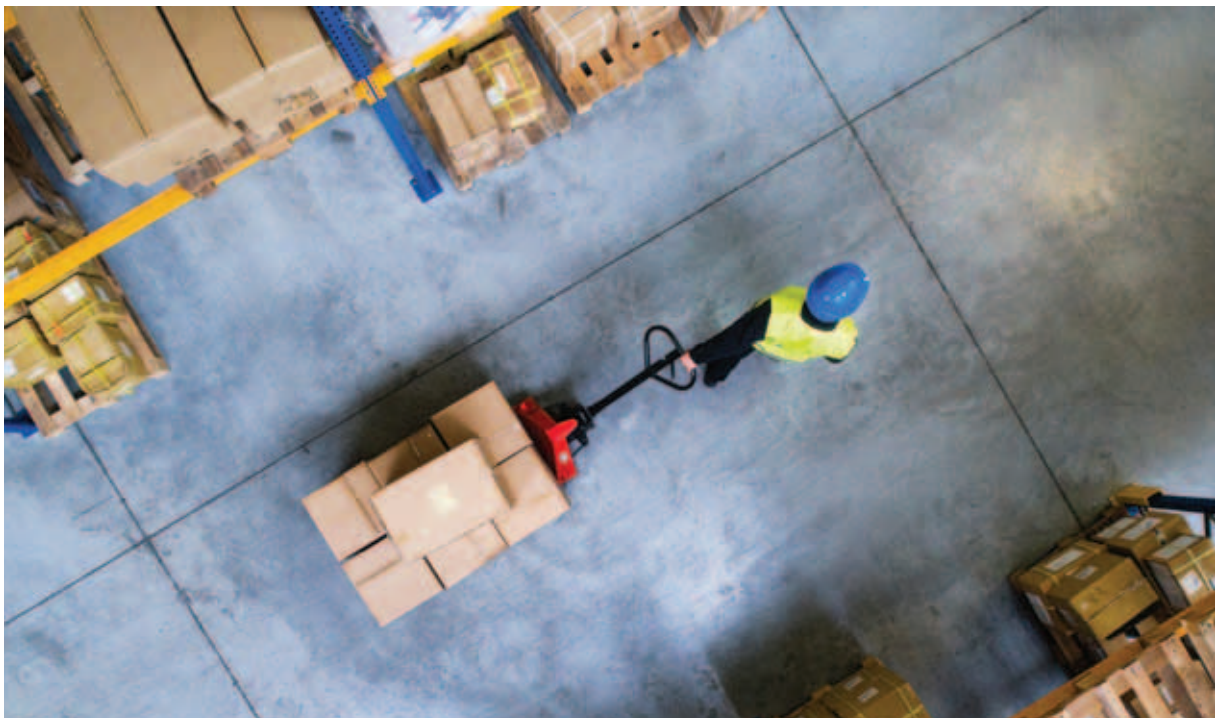
The factoring services provide numerous benefits to the customer, including: early payments and improved cash flow; neutralizing credit risks; increasing the company's financing resources beyond traditional bank credit; improving the financial ratios in the financial statements; marketing means to expand the company's turnover; ongoing assessment of customers' robustness and freeing up customer credit management resources.

The Small and Medium Enterprises Fund - Bank Otsar Ha-Hayal

Bank Otsar Ha-Hayal focuses on providing small and medium-sized businesses with loans from assistance funds, including the Small and Medium Enterprises Fund. Ahead of the new tender for the funds, which took place in January 2016, the Bank prepared - in cooperation with Meitav Dash Provident Funds - an extensive infrastructure for bidding in the tender published by the Accountant General at the Ministry of Finance to select financial partnerships for granting state-guaranteed loans to small businesses. The loans, which will be granted by the new fund, replace the loans granted by the fund whose activity ended in April 2016.

In the last tender held by the State in January 2016, Bank Otsar Ha-Hayal won, as did three additional banks: Leumi, Mizrahi-Tefahot and Mercantile. The tender is for a period of four years with an option for two additional extensions of three years each. Following this win, the Bank and Meitav Dash Provident Funds are expected to extend small and medium-sized businesses credit in the amount of NIS 830 million in the next four years.

The strategic plan placed emphasis on boosting Bank Otsar Ha-Hayal's activity in this field and new customers. This will be reflected in the work plan for the coming years.





The FIBI Group's PAGI established and leading business in this community - is aware of the unique characteristics of the sector. The result of this approach is the diverse channels through which the Bank creates value for its customer

Promoting Economic Activity in the Ultra-Orthodox and Religious Communities

The PAGI Array at FIBI (until December 31, 2015 - PAGI Bank) focuses on serving the Ultra-Orthodox and religious communities, constantly developing new products and services tailored to these communities' unique needs. The PAGI Array was successfully merged into FIBI in 2015, while preserving the Bank's brand name, the nature of its activity in the Ultra-Orthodox and religious sectors, and the deployment of its branches. The objective of the PAGI Array - whose employees are Ultra-Orthodox or religious - is to have presence in significant Ultra-Orthodox population centers, in response of the unique need of this community, most of which avoids using the internet. This reality results in heavy use of the Bank's branches, requiring the Bank to provide the necessary services by deploying numerous branches in Ultra-Orthodox population centers and employing suitable personnel, while offering time- and cost-saving solutions, such as ATMs for depositing cash and checks, etc.

The FIBI Group's PAGI Array is working to create a continuous, consistent and ongoing dialogue with its target audience - the Ultra-Orthodox sector. Unlike most large businesses, which view the Ultra-Orthodox community as homogeneous, PAGI - as a well-established and leading business in this community - is aware of the unique characteristics of the sector. The result of this approach is the diverse channels through which the Bank creates value for its customers:

- Conducting frequent surveys to examine changing trends and needs of different segments in this sector.
- Providing adequate solutions to the unique characteristics of different customer segments.

- Offering relevant banking products to each segment and each stage in the Ultra-Orthodox life cycle.
- Cooperating and providing sponsorships for organizations and institutions promoting the welfare of various sects in Ultra-Orthodox society.

Since 2010, PAGI has been implementing strategic moves for the retail sector, which focus on accounts which clear paychecks, under the name PSS (PAGI's Stations System). In this framework, the Bank created three financial retail plans targeting the three stages in the Ultra-Orthodox life cycle - Good Start, Midway, and Full Settlement. In ultra-orthodox households, each stage is generally characterized by a different level of income, on which each specific plan was based, providing a package of various benefits and products suited for that stage. The objective of the move is to better match the products and services offered to each household customer, according to his/her needs at each stage of life, through a deeper understanding of the Ultra-Orthodox life cycle and its associated needs, according to the accepted financial criteria of income, disposable income, repayment capacity, etc. PAGI has a dedicated credit card club for the community, in which more than 1,000 businesses offer discounts to cardholders on charges for consumer goods and at businesses for the Ultra-Orthodox community.

In addition, PAGI specializes in providing services to Ultra-Orthodox and religious NGOs and institutions, thereby contributing to economic activity as well as to advancing social processes and causes. The Bank's relevant departments have accumulated many years of experience in working with non-profit organizations, and its professional staff specializes in finding creative solutions and leading long-term processes for the proper management of these entities' activities over time, while scrupulously complying with regulatory restrictions.

Activity in 2017

- The PAGI array operates through a network of 18 dedicated branches catering to the Ultra-Orthodox sector, while adapting the nature of the service, manner of address and language to this specific group. The branches' deployment offers easy access to all significant Ultra-Orthodox population centers. PAGI has also identified small Ultra-Orthodox communities in which there was no bank branch, and established temporary branches to make its services available to local residents. Temporary branches operate for up to three months, providing limited banking services through mobile computer stations, to make the bank's services accessible to existing and potential customers in remote locations. Eight such branches were operated during the year.
 - The possibility of opening an account with a bank that specialized in the Ultra-Orthodox sector, which allows customers to obtain attractive benefits, according to their specific needs. In 2017, PAGI opened temporary branches in seven Ultra-Orthodox communities. In 2016, PAGI identified a new segment in the Ultra-Orthodox segment - working young people. Later on, PAGI conducted a comprehensive study, with the assistance of a strategy development firm specializing in this field, to examine the trends and needs of a growing segment in the Ultra-Orthodox community - employed young adults. A qualitative study, it was based on numerous interviews, analysis of academic studies and studies carried out by government entities, as well as analysis of the Bank's data relating to this segment. In 2017, PAGI launched a broad strategic move to provide a solution to the employed young adults population working in the Ultra-Orthodox sector, which included a dedicated track - entitled the PAGI Beat - for this segment, offering unique benefits for each stage of the family's and financial development.
 - The "Language for the Ultra-Orthodox" venture: This program is designed for people with a basic knowledge of English. Its aim is to expand and reinforce knowledge of the language, while developing skills until a working proficiency of English is achieved. The emphasis is on the labor market. The course has been specially designed for the Ultra-Orthodox sector. It features:
 - Adaptation to the level of English acquired from the basic English courses common in the Ultra-Orthodox sector;
 - Adaptation of the content to the Ultra-Orthodox world;
- The PAGI array operates through a network of 18 dedicated branches catering to the Ultra-Orthodox sector, while adapting the nature of the service, manner of address and language to this specific group. The branches' deployment offers easy access to all significant Ultra-Orthodox population centers.
- A strong emphasis on the labor market through development of a relevant vocabulary and creating exercises focused on situations at work;
 - The course includes workshops on writing CVs and how to be interviewed in English.
- The "Ketzev Hai" program on the Kol Hai radio station is a business radio program on routine daily affairs. Every program focuses on a challenging topic involving an issue typical to the Ultra-Orthodox sector. During the program, an adviser from the Bank provides insights and tips for coping with the economic challenge.
 - Focusing on the new Ultra-Orthodox student population and providing a unique solution to their needs as heads of families (most) - a student loan to be repaid after graduation. The appeal to students includes cooperation with the Lev Academic Center, a technological college which caters to the Ultra-Orthodox population. This cooperation includes lectures on subjects of interest to students: prudent financial practices, time management, etc.
 - A benefits program for small business owners - In 2017, PAGI launched a program of benefits for small business accounts as part of its general appeal to working people in the Ultra-Orthodox sector. This program offers benefits for new customers in a range of banking activities typical of small businesses, classified according to the various stages in a business's life: launch, expansion, as well as well-established businesses. The program also includes a meeting, at no charge, with an expert financial adviser at the end of the business's first tax year. It begins with opening an account aimed at fostering correct planning of the monthly cash flow in the business.

Objectives Control Status in the Ultra-Orthodox Sector:

| Objectives | Status |
|---|--|
| In 2017, PAGI will initiate a strategic move, which mostly consists of marketing to the employed young adults segment of the Ultra-Orthodox sector. As part of the program, campaigns will be conducted to present the benefits track aimed at assisting this segment with its unique challenges it faces in significant life stages: student grants, interest-free loans repayable when the student begins to work, meeting with an expert consultant on family budget planning when the third child is born, pension advice to customers aged 35 and above. The Bank is also planning joint projects and ventures for this target audience: activities for the welfare of the students in cooperation with student associations (e.g., resume writing workshops, interview preparation workshops, participation by the Bank's experts in hack-a-thons, etc.). | Done |
| PAGI will continue its financial education drive in accordance with various target audiences: university students, yeshiva students, growing families, etc. The financial education program will be carried out through joint ventures with three leading Ultra-Orthodox newspapers: Yated Ne'eman, Hamevasser and Mishpacha, and through 15 lectures across Israel in a variety of conferences aimed at PAGI's target audience. | Done |
| Providing sponsorships for community activities: events to benefit various populations, workshops and seminars for a variety of target audiences, as well as sponsoring various NGOs for the benefit of the community. | Done |
| PAGI continues to set up temporary branches in small Ultra-Orthodox communities. In 2017, the Bank is planning to open branches in five communities and academic campuses with significant Ultra-Orthodox populations, such as the Lev Academic Center. Towards Q4/2017, PAGI is planning to expand this area of activity and to operate partial branches, in accordance with directives of the Bank of Israel on this matter, in order to make banking services available to the religious and Ultra-Orthodox population, in as wide a geographic area as possible. | Completed, except for a temporary branch in Kiryat Yearim. A temporary branch was established in Emmanuel and in the Lev Academic Center, instead of in Kiryat Yearim. |

Objectives for the Ultra-Orthodox sector:

- In 2018, PAGI will continue to pursue a strategic move, which mostly consists of marketing to the employed young adults segment of the Ultra-Orthodox sector.
- Expand the "Language for the Ultra-Orthodox" venture to include a program for teaching high-level English to members of the Ultra-Orthodox community. The program is marked for expansion into additional geographic areas: Jerusalem, Elad, and Beitar. A website - As part of its widespread activity on behalf of young working people in the Ultra-Orthodox sector, PAGI will launch a website dealing with a variety of areas relevant to them. The website will display special information on the subject. The goal of the venture is to provide young Ultra-Orthodox working people with customized information and content.
- Providing sponsorships for community activities: events to benefit various populations, workshops, multi-participant conferences, and seminars for a variety of target audiences, as well as sponsoring various NGOs for the benefit of the community.

The "Language for the Ultra-Orthodox" venture: This program is designed for people with a basic knowledge of English. Its aim is to expand and reinforce knowledge of the language, while developing skills until a working proficiency of English is achieved. The emphasis is on the labor market.

- PAGI is launching a move to open partial branches in small Ultra-Orthodox towns, in order to make banking services available to the religious and Ultra-Orthodox population, in as wide a geographic area as possible. Partial branches are planned in Rechasim, Neve Yaakov, and Kiryat Yearim.
- Ventures on behalf of business owners - As part of the program of benefits for small businesses, cooperative efforts and ventures will be conducted with business owners from the Ultra-Orthodox sector.

Expanding Service in the Arab Sector

As part of its effort to improve the service for the Arab sector, Bank Massad has hired employees from this sector for its branches, and more than 15% of its employees now come from the Arab community.

Bank Massad is continuing its widespread activity and deployment in the Arab sector. - as part of its retail customer strategic plan in general, and designated activity for the educational system and teaching employees in particular. In the past few years, several branches have been opened in communities with significant Arab populations and additional points in mixed towns and locations accessible to the Arab sector. As part of its effort to improve the service for the Arab sector, Bank Massad has hired employees from this sector for its branches, and more than 15% of its employees now come from the Arab community. The products and services offered by the Bank are adapted to the customers as well as to the holidays in this sector, wherever relevant.

Activity in 2017 - Bank Massad:

- The Bank operates six branches in the Arab sector. The branches' deployment provides access to the range of services provided by the Bank.
- Special loans were tailored to specific needs and to the various holidays of the sector throughout the year.
- Throughout the year, various activities were initiated in the Arab community with social aspects: activities for the Ramadan - holiday greetings, distribution of Imsakiya (Islamic prayer schedule) at schools and bank branches, special holiday loan, etc.; opening of the school year in September and activity for Mother's Day.
- Unique activities at the end of the year, including distribution of gifts in schools.
- In 2017, the bank began providing benefits to employees in the paramedical professions, with a focus on the Arab sector.

Objectives for the Arab Sector:

- Recruiting education students and providing benefits to students in educational and teaching studies at the Alqasemi Academy and the Haifa Academic Arab College for Education in Israel;
- Opening another bank branch in Umm al Fahm to make the bank's services more accessible to local residents;
- Opening temporary branches and offices in Arab communities in order to make services and benefits more accessible to teachers.

Promotion of Special Activity for New Immigrants from the CIS

FIBI caters to new immigrants from the former Soviet Union (CIS). The Bank has mapped and identified 30 branches in relevant cities, where a Russian-speaking point of contact works to handle this community. The Bank promotes ongoing activity in the sector, such as lectures on financial conduct, publishes articles in the Russian press and on leading Russian-language websites (in 2017, the Bank focused on stories about its innovative and digital products), assists in organizing conferences for this audience and takes part in the community's key events. To provide the optimal response to the segment's needs, the Bank is assisted by external consultants.

Activity in 2017:

Nation-wide activities

Cooperation with organizations with a high percentage of Russian speakers by Russian-speaking contact persons. Russian-speaking employees of the Bank participate in all activities taking place in locations with a large presence of Russian speakers and assist them wherever needed. The Bank conducts dozens of activities in the sector with Russian-speaking professionals.

Local Activities

The events and conferences for customers from the former Soviet Union are held on two levels:

- **In the Bank's branches** - Conferences in Russian on financial and other topics in order to raise financial awareness in accordance with the different stages of life. The conferences provide customers with a wealth of information in various financial fields, in order to optimize their understanding and tools for proper financial conduct according to their personal needs. The conferences also help promote behavioral change and improve financial conduct among the target audience in this sector. In 2017, the Bank held 13 such activities.
- **Outside the Bank branches** - Russian-language conferences aimed at promoting financial literacy in this sector are also held outside the branches, for example in various ulpanim (Hebrew classes for new immigrants) and branches of the Jewish Agency. In 2017, 8 such conferences were held. In addition, financial lectures are held for customers from time to time and on-demand.

Partnerships

The Bank forges and maintains partnerships with large organizations that cater to a large part of the target audience in order to assist and respond to the segment's unique financial needs.

Products and Services for Education System Employees

Bank Massad targets teachers and education employees in general and the Arab community (which is characterized by numerous teaching and education employees) in particular. The bank offers financial products and services tailored to this population, as well as a range of special plans and benefits, in the realization of its unique banking and financial needs.

Activity in 2017:

- The Bank operates Teachers Club 10, a special plan for teaching employees, for the management of current accounts at a fixed, all included, monthly fee of NIS 10. Teachers who transfer their salaries to the accounts are also eligible for an unlinked interest-free loan of up to NIS 30,000, an interest-free credit line equal to their salary, and a welfare loan. Alternatively, clients can choose to make a three-year deposit of up to NIS 50,000 at attractive interest rates.
- Another plan, offered to teachers who transfer their salaries and charge at least NIS 2,500 a month on their credit card, grants them an exemption from current account fees, a discount on deposit fees for securities, and five free checkbooks a year.
- The Bank operates five temporary branches across Israel to provide access to its services according to customers' needs. The Bank offers a special benefits plan to students enrolled in teaching certificate programs, treating them as "teachers of the future". This clientele receives unlinked, interest-free loans of up to NIS 12,000 to pay for tuition, a free credit card (of the Ashmoret customer club), and fee-exempt current account management.
- The Bank sponsors "Israel's Leading Teacher" project - in cooperation with newspaper Yedioth Ahronoth, the Teachers Union and the national lottery, Mifal Hapayis - in which the country's most inspiring teachers are ranked. The panel of judges includes a representative of the Bank. In addition to the sponsorship, the Bank awards laptops to all winning teachers.
- The Bank serves as a strategic partner in the Athena Fund, dedicated to empowering Israel's teachers. Of all the Athena Fund programs, the flagship project - which was initiated by the bank - provides iPads, combined with professional training, to special education teachers. To date, the Fund has distributed computers to approximately 6,000 special education teachers. The program enables students with special needs to communicate more effectively with teachers, friends, families, and the community, and helps them fit in better with society.



Children who previously had difficulty communicating with their families and teachers can now use the iPads to express their feelings and desires. The experience accumulated over the past three years shows that the iPads enable teachers and special-needs students to engage in significant and rewarding learning, allowing teachers to prepare customized study programs for individual students. The use of the iPad is immediate and intuitive, which improves motivation. It also enables students to display thinking and understanding skills at a high level.

- In a survey conducted among the teachers participating in the project, 99% said their status in the class had improved. 75% indicated their teaching had improved, and 35% said there was a significant improvement in concentration levels and discipline issues in their classroom as a result of computer use. The number of weekly classes in which the teachers used computers as a teaching tool grew seven-fold. Furthermore, the number of weekly classes in which the students were assigned tasks requiring use of a computer grew four-fold. According to the surveys, the mobile computers also helped the teachers improve their instructional methods and assimilate a variety of new approaches. Using the iPads also significantly improved motor skills and eye-hand coordination. Student can now complete tasks they previously had difficulty performing. Using the iPads enables the students to cope better with their difficulties. To summarize, using iPads helps narrow educational gaps, makes the teaching materials more accessible, and strengthens the social and motor skills of students with special needs. Improving learning by special-needs students through the use of iPads helps them realize their potential - an important contribution to both the students and society as a whole.

Objectives for employees of the educational system:

- Intensify activity among teachers at schools and kindergartens; Provide banking benefits to families of teachers;
- Provide sponsorships and participate in teachers' conferences and events in cooperation with the Israel's Teachers Union;
- Open two more bank branches: one in Modi'in, and one in Umm al-Fahm for the Arab sector;
- Open temporary branches and offices throughout Israel in order to make the service and benefits more accessible to teachers;
- Recruit students as teachers and providing banking benefits to students at educational colleges all over Israel;
- Continue the partnership with the Athena Fund - distribute computers to teachers as part of the "Computer for Every Teacher" program and distribute iPads to approximately 3,000 special education teachers;
- Sponsor the Teacher of the Year venture;
- Provide sponsorships and cooperate with the Israeli Organization for ADHD - a volunteer organization that serves the needs of students with attention deficiency disorders.

Special Activity with Members of the Defense Forces

As of the end of 2017, the bank had 14 branches and offices at defense establishment facilities and IDF bases across the Israel.

Bank Otsar Ha-Hayal specializes in retail banking with an emphasis on customers serving in the defense forces (IDF soldiers and officers, employees of the defense establishment, etc.) and their families.

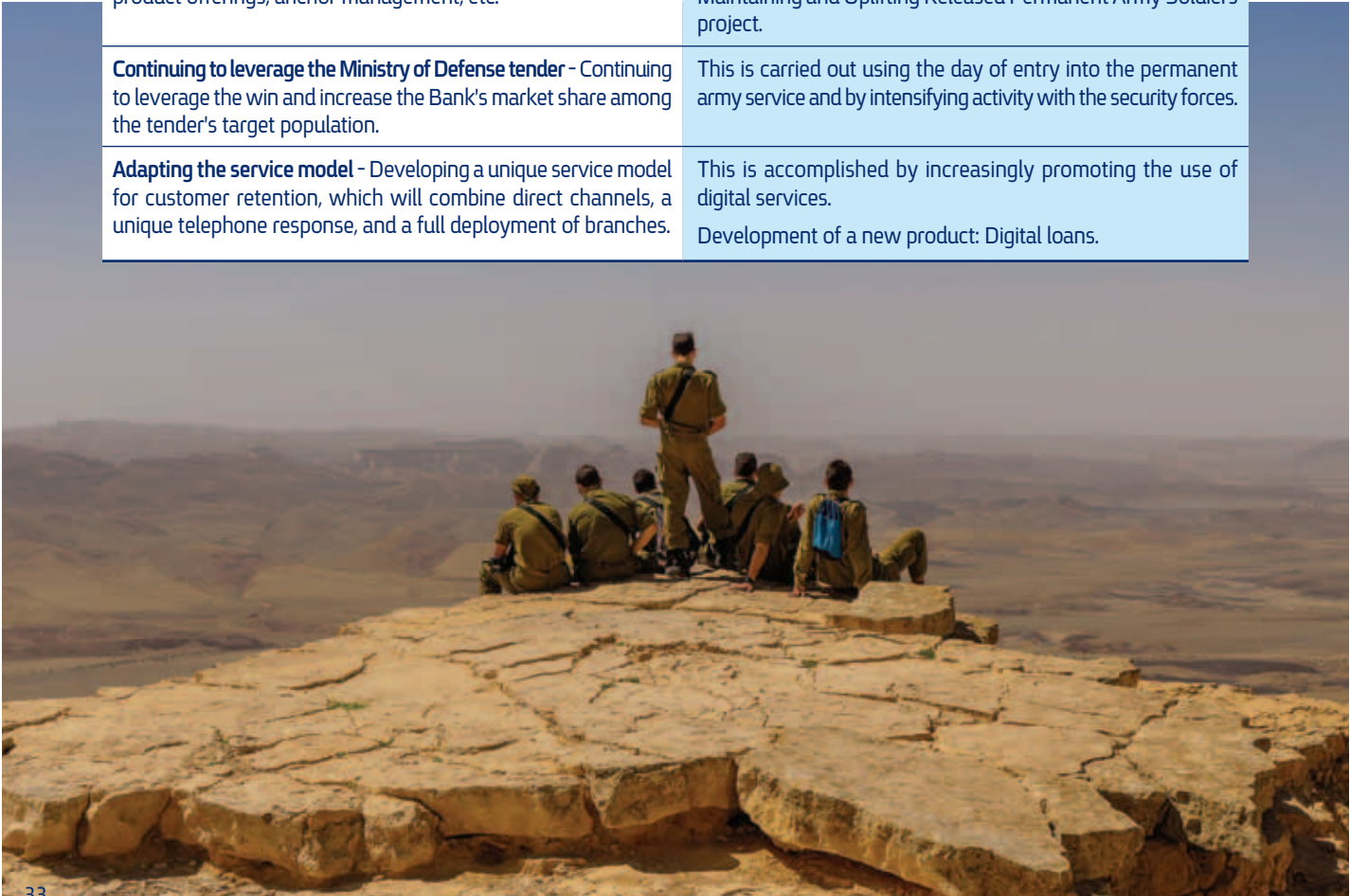
As of the end of 2017, the bank had 14 branches and offices at defense establishment facilities and IDF bases across the Israel. The Bank has developed special programs for diverse groups in this segment, such as: career officers, NCOs and IDF pensioners; Ministry of Defense employees and pensioners;

civilian employees of the IDF; disabled IDF veterans; discharged career officers and NCOs, conscripts, and the families of members of the defense forces, defense enterprises, and organizations. In addition to retail banking, the Bank has developed a range of plans and products for these defense forces groups' business activity. The Bank has a special-purpose unit for fostering relations with the defense forces and providing rapid response to this group's special needs. These measures include opening the branches on Fridays, for members of the defense forces for whom this is the only day they are available to go to a bank branch near their home.

Activity in 2017:
 In September 2017, the agreement between Hever, an NGO for IDF and security forces servicemen and pensioners, and Bank Otsar Ha-Hayal - under which Hever members receive special terms and benefits at Bank Otsar Ha-Hayal - was renewed for an additional period until February 19, 2020.

Objectives Control Status - Special Activity with Members of the Defense Forces:

| 2017 Objectives | Status |
|---|--|
| Focusing on recruiting members of the security forces and their core circles - by developing special recruitment and retention programs to prevent attrition. | As part of the new agreement with Hever, the following types of accounts were launched: Hever Account, Hever Business Account, and Hever Spouse Account. |
| Expanding the core circles - Developing a plan for additional target audiences - family members of security forces personnel and others. | Creating a special account for families of the security forces - "Hever for the family." |
| Value propositions according to the customer lifecycle - Creating value propositions tailored to the customer's life cycle, including product offerings, anchor management, etc. | This is accomplished as part of the new agreement with Hever and as part of SHAHAK (Social Services for the Community) - Maintaining and Uplifting Released Permanent Army Soldiers project. |
| Continuing to leverage the Ministry of Defense tender - Continuing to leverage the win and increase the Bank's market share among the tender's target population. | This is carried out using the day of entry into the permanent army service and by intensifying activity with the security forces. |
| Adapting the service model - Developing a unique service model for customer retention, which will combine direct channels, a unique telephone response, and a full deployment of branches. | This is accomplished by increasingly promoting the use of digital services. Development of a new product: Digital loans. |





Promoting Activities for the Third Age

During this period, customers' lives undergo material financial changes, stemming from retirement and reduced revenues, as well as increased expenses due to new needs. In addition, this new period in life brings new experiences to customers' lives, alongside concern for their future and the future of their family. These challenges require services and products targeted to third-age customers.

The Bank has a comprehensive package for third-age customers:

- **Pension advice** - advice on maximizing the use of income resources and adapting investment products to the investment horizon and risk level appropriate for this population's age range.
- **Strategic investment consulting** - adapting the customers' investment portfolio, while focusing on the unique needs of this sector's age range.
- **The "Living to be 120" plan:** An index-linked deposit designed as a type of pension supplement - the deposit enables to make a monthly deposit through direct debit.
- **All-purpose loans:** Flexible loans on preferential terms with a focus on customers' needs typical of this age, among other things - taking into account the needs of children and grandchildren. These loans include an option to begin repayment at a later date, according to the customers' needs.
- **Customer conferences for the third age** - Customer conferences featuring content adapted to this population, such as: coping with intergenerational transition, proper entry into retirement, digital education for direct training, etc.
- **Training third age customers in digital banking** - Training in digital banking for existing customers over 50: Third age customers conducting transactions that can be made using digital devices, and all other customers who do not use digital devices for banking purposes.



Service Accessibility for People with Disabilities

The FIBI Group furthers access for people with disabilities, so that everyone can exercise their basic right to receive the services offered.

The FIBI Group is committed to making its banks' services accessible to all its customers - physically at the branches and at call centers and online services as well as automated kiosks which meet the accessibility regulations. In a "beyond compliance" move, the Bank has appointed an accessibility coordinator responsible for implementing the accessibility plan at the Group level pursuant to accessibility laws and regulations. As part of the access coordinator's duties, he is responsible for maintaining direct contact with this population group, and for handling all inquiries coming through all channels. In addition,

FIBI has a group-level plan in place to make its services more accessible, with the assistance of the Access Israel NGO.

As of the end of 2017, the proportion of accessible branches in the FIBI Group was 97%. A few branches are still not fully accessible and their accessibility will be fully completed in 2018.

Rendering the Group's Branches Accessible

Rendering the Group's branches accessible began as early as 2007. By the time regulatory accessibility guidelines came into effect in 2012, about 20% of the Group's branches were already accessible to the handicapped. Pursuant to the new regulations, an accessibility survey was conducted at all the Group's branches, and an orderly access plan was prepared, which included setting targets and implementation oversight of accessibility at the various branches. Means of accessibility implemented at all of the Group's branches in anticipation of the new standard include:



Nearby disabled parking



Accessible entrance to the branch



Reception desks adapted to the visually impaired and mobility impaired



Adapted teller counters



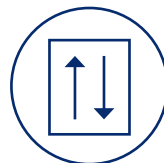
Adapted waiting corner



Aids for the hearing impaired



Accessible toilets



Accessible elevator

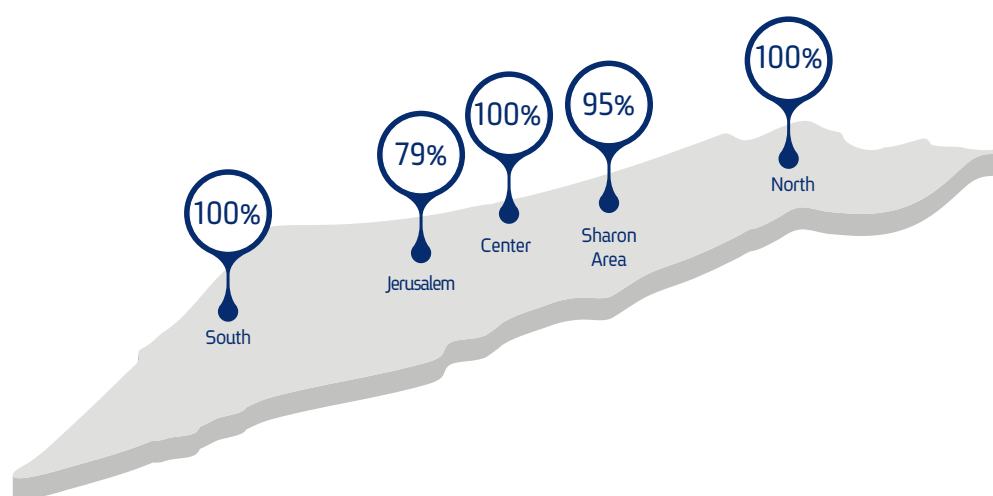


ATMs adapted to the visually impaired and mobility impaired

Below is a summary of handicapped accessibility data at branches of the FIBI Group in 2017*:

| | No. of branches | No. of accessible branches | % of accessible branches | Number of partially accessible branches | % of partially accessible branches |
|--|-----------------|----------------------------|--------------------------|---|------------------------------------|
| First International Bank (including PAGI and U-Bank) | 94 | 90 | % | 4 | 3% |
| Otsar Ha-Hayal | 43 | 43 | 100% | 0 | 0% |
| Massad | 21 | 20 | 95% | 1 | 5% |
| Total | 158 | 153 | 97% | 5 | 3% |

* Due to unexpected delays, the remaining 5 inaccessible branches of the Group will be rendered accessible in 2018.



Accessibility to Services for People with Disabilities in Other Channels

As part of the Group's efforts to render banking services accessible to customers with disabilities, and in addition to providing physical accessibility at the branches of the Group's banks, the following efforts to facilitate accessibility to service channels and service activity are underway via the following channels:

- **ATMs and customer stations** - As of the end of 2017, all automated machines have been made accessible, pursuant to the regulations (these measures are in addition to accessibility for the mobility impaired, which has been completed for most machines).
- **The websites** - The Group's websites were made accessible (using User1st).
- A standards mark will be installed on the Group's website in the near future.

- **Telephone access** - the call center was rendered accessible to disabled persons and a special telephone line for inquiries about accessibility was activated.
- **Training** - The Group developed an accessibility tutorial which was approved by Access Israel and is available on the Bank's training website. Lectures on accessibility are given as part of in courses provided by the Training Department.
- **Oral and written information** - as of July 2015, the Group provides information accessibility services via various means, pursuant to the regulations and in coordination with customers: reading out loud, audio files, PDF files (adapted for reading by software), and Braille. The information accessibility services are provided by Access Israel's Information Accessibility Center.

In addition, the various disabled accessibility services provided by the Group are available online for the benefit of all users.

Objectives Control Status

| Objectives | Implementation status |
|---|---|
| The Group will continue to implement the disabled accessibility program under the multiyear plan and pursuant to the regulatory requirements. | 97% of the Group's branches in Israel have been rendered fully accessible. In 2018, disabled access will be enabled at the Group's 5% remaining inaccessible branches, following unexpected delays. |

Objectives for People with Disabilities

Complete accessibility of all the Group's branches and conduct regular accessibility maintenance surveys at the branches.



Privacy & Information Security

The FIBI Group attaches great importance to safeguarding its customers' information, and implements a clear information security and cybersecurity policy that is approved by management and the boards of directors of the various banks in the FIBI Group. The Group's information security and IT policy reflect management's commitment to information security, and to the availability, secrecy, integrity and reliability of the information assets and system of the Bank and its customers, while safeguarding customer privacy, banking secrecy and robustness, as well as functional continuity. In this field, the Group follows strict information security regulatory requirements issued by the Bank of Israel (Directives 357, 361, 362 and 367) and other government and international bodies (the Protection of Privacy Regulations, the Information Security Regulations of the Commissioner of the Capital Market, etc.). As a result, the Group's IT Department is ISO 27001- and ISO 27032-certified in information security and cybersecurity, requirements which are mostly included in mandatory regulations.

Accelerated technological development both poses challenges to the Group and provides it with opportunities. Cyber attacks, which are increasing worldwide, especially in the financial sector, are posing more sophisticated threats of increasing magnitude and speed. This fact requires the Group to take action to ensure banking stability and protect its customers. At the same time, digitalization enables the FIBI Group to become more efficient and deploy stronger defenses against cyber attacks. In order to make sure that the most up-to-date security methods are applied, the Group cooperates with the stakeholders relevant to this sphere. In addition, in order to be at the forefront of technological developments in this field, the First International Bank operates

a cybersecurity incubator for start-ups engaged in boosting cybersecurity capabilities. The incubator is located at MATAF, the FIBI Group's IT arm, in an effort to develop cybersecurity systems and integrate them quickly into the Bank's systems.

The Bank's Information Security and Cybersecurity Manager is responsible for implementing the policy, issuing instructions, requirements and procedures to the various units, including the Development Unit and the Computer Infrastructure Operations Unit, with control over the periodic performance and reporting to the managements and Boards of Directors of the Group's banks.

The strategy is applied through a supportive organizational structure that includes the Information Security and Cybersecurity Defense Unit and the IT Department. The Information Security and Cybersecurity Unit's duties include coordination, instruction, enforcement, supervision, and reporting on these matters in cooperation with the relevant business and operations units. The IT Department installs and operates defensive lines and technological tools for preventing and monitoring information security incidents in real time and providing a response to information security incidents through the cyber defense center.

In this framework, the overall risks are mapped, reviewed, analyzed, managed and evaluated, including processing of intelligence and implementation of processes and technologies to hedge and mitigate risk and detect unusual access attempts. The Group also attaches great importance to training people through a Group-wide effort to increase the employees' and suppliers' awareness, involvement, and commitment by way of tutorials, training seminars, and exercises. The Group operates a hotline for employees for reporting information security incidents.

To validate its level of information security and cybersecurity defense mechanisms, the Group conducts regular drills and tests designed to test the level of defense for the existing systems and thorough tests before activating new services. These drills test the technological and human aspects of defense. Realistic drills are conducted, as well as simulation drills based on actual incidents that occurred in various organizations in Israel and elsewhere.

According to the Bank's lawful disclosure requirements, the Bank and its employees are bound by secrecy and the duty to safeguard the customers' privacy, whether they be individuals or corporations. The details and data about the customers and others related to the account (whether given by them or obtained through other sources), including account information and balances, are stored in whole or in part in the Bank's databases or of anyone acting on its behalf, or by other entities engaged in information processing for the Bank or providing other services to the Bank, in relation to the existence or management of the account. The stored information serves the Bank for decision making purposes on relations with the account holders and/or others related to the account and for providing various banking services.

The Bank does not provide the information in its possession to others unless providing the information is mandatory under law and/or required in order to uphold a vital public interest or if the customer has agreed to have his information provided to another entity.

Activity in 2017:

- The IT Department and Information Security & Cybersecurity Department underwent certification for the following information security standards: ISO 27001 for information security management and ISO 27032 for cybersecurity. Such double certification is uncommon in Israel. The certification process included internal and external inspections (by the Standards Institution of Israel) to assess the effectiveness of the organization's information security processes.
- The second class of the cybersecurity incubator commenced at MATAF, with the participation of 4 companies.
- Awareness training for employees and customers continued, due to the Bank of Israel's directive on online banking.

Our task is to protect our customers, while maintaining the confidentiality and reliability of their information. Policy implementation combines a proactive strategy to safeguard information, defend IT infrastructures, and protect the Bank's online presence.





Advancing Customers' Financial Understanding & Incorporating Long-Term Considerations in Capital Market Activity

Consultation regarding Investment in Securities and Taking into Account Long-Term Considerations

Recent economic and technological changes in financial markets have increased the need to advance the financial understanding of customers, who need to take responsibility for their financial future and manage it independently, proactively, and in an informed manner. The low interest rate environment has made traditional methods of savings (which bear minor returns) less worthwhile compared with long-term investment alternatives in the capital market.

At the FIBI Group, we believe in our ability to help our customers safeguard their financial future, and to help them select the most suitable investment instrument, including long-term investments. The advisory services we provide are of the highest professional standard and are characterized by caution, objectivity and responsibility. The Group has developed and implemented methodologies that include investment advice milestones with the objective of providing each customer a solution tailored to his/her personal needs and wishes. We favor applying an educational concept which will contribute to optimal capital market activity by as large a public as possible. For this purpose, we invest resources in making knowledge accessible and developing tools intended to support sustainable capital market conduct by our customers. A central part of the Group's capital market activity is the understanding that customers with financial knowhow will be able to make the right decisions and higher quality transactions in the capital market.

As a leading banking group in the capital market, the FIBI Group has identified the need and importance in referring its customers to diverse investment instruments that would help them deal with the negligible interest rate and adapt their investments to their character, risk appetite and needs.

This active approach positions the capital market as one of the Group's business growth engines and is an important social activity which contributes to the education and financial development of the public, so that this growth engine creates added value for the Group, its customers and the public. The share of the investments segment at the Group is greater than the share of other banking segments compared with the banking sector in Israel.

Opportunities for increasing financial knowledge exist in several channels - the direct banking channels, through the website, the application, and at the bank branches by banking experts specializing in all financial spheres. We develop tools, knowledge, and technology platforms, and provide advanced personal advisory services to our customers. In addition to our Second Opinion services, which are provided free of charge, we offer the general public a second opinion about investment portfolios managed elsewhere.

Dynamic and Customized Investment Management through Various Life Stages

The Group is concerned with the financial future of its customers, directing them to think about long-term investments across the various life stages. This approach is reflected in an orderly methodology that includes investment advice milestones with the objective of providing each customer with a solution tailored to his/her personal needs and wishes.

- **Customer characterization** - The first stage is to characterize the customer, during which the investment objectives, the customer's needs, his/her risk appetite, and characteristics are examined. In addition, the investment adviser and customer hold a discussion regarding expected returns based on the customer characterization.
- **Diversified investment portfolio** - The second stage is to build a diversified investment portfolio composed of off-the-shelf investment products according to the customer's characterization in the first stage. Through properly matching a diversified investment portfolio to the customer's needs and adhering to the recommendations of the Group's Research Department, which provides content services to all the banks in the Group, the banks can offer their customers optimized portfolios. The Bank's research unit provides ongoing professional support, both in terms of the recommended investment portfolio composition and the suitability of a specific investment product and the level of risk derived from it to the customer's portfolio, as reflected in the initial characterization.
- **Current and proactive maintenance** - The third stage involves the ongoing maintenance of the portfolio by keeping regular contact with the customer, updating him/her about significant events related to his/her portfolio, and providing recommendations for actions needed due to market changes or to his/her needs and characterization.

To support a high-quality and efficient investment service, the FIBI Group has developed investment products, help systems, and supportive technology tools that provide real value to customers and help them in their financial planning for the future.

- **A share deposit** - A long-term investment track that enables customers to issue a standing order for exchange traded share notes and tracker funds (in 2018, tracker funds and

exchange traded notes became exchange traded funds), thereby benefiting from the long-term return that shares provide, in addition to ordinary standing orders for investment in a wide variety of mutual funds.

- **Flexible direct debit orders** - Flexible direct debit orders that allow efficient long-term savings through mutual funds or ETNs, taking into account the customer's current accounts balances. The customer determines the current account balance earmarked for ongoing use, above which the deposit will be made, as well as the maximum deposit amount. The product's flexibility allows for maximum compatibility with the customer's characteristics and needs, both in terms of investment choice and customer's current uses.
- **Dynamic investment portfolio** - A long-term investment product characterized by a long average duration and high equity exposure, based on concept that, long-term investment in stocks and long-term instruments may offer a higher than usual return on risk-free assets. The dynamic investment portfolio model is built so that the proportion of risk components shrinks as the target date approaches.
- **Investment radar** - An automated system which identifies events in customers' investment portfolios and warns them of specific events that they should take into account in managing the portfolio.
- **Autopilot** - A tool that enables automatic and thorough review of all the data in the portfolio, allowing the Group's investment advisors to draw customers' attention to portfolio events, thus streamlining their work and enabling them to provide higher quality service.
- **Advise.me** - A system that enables an investment adviser to send his/her customers recommendations through a mobile application. The system enables the adviser to reach a large group of customers in a short time, and customers - to obtain service with convenience and availability according to his/her needs.

Objectives for 2018:

The FIBI Group will continue developing investment products, supportive systems, and technological tools to help customers in planning their financial future. "Smart trade" services, which will enable customers to give trading orders independently, will be launched in 2018.



Pension Advisory Service at the FIBI Group - Taking Care of Our Customers' Future

As part of its long-term outlook, the FIBI Group attaches great importance to planning its customers' post-retirement financial needs. The Group therefore provides its customers with pension advice, which gives them a clear and full view of their pension savings and examines whether the savings are in line with the customers' personal needs and characteristics. The pension advisory service tracks changes in the customers' needs, resources, and characteristics while taking into account short- and long-term considerations, based on the Group's extensive experience and knowledge of financial and pension advice. The combination of these factors provides customers with real added value as to obtaining an overview of their financial situation, of which the pension arrangement is a component.

With the understanding of the importance of proper pension planning, and with the aim of exposing the Group's professional and objective pension advisory services to as wide an audience as possible, the FIBI Group holds numerous conferences and lectures throughout Israel to teach and advance knowledge in this area. Some of the conferences are held at bank branches while others are initiated by the pension advisers, branches, and external parties. The extensive deployment of the Group's branches and the Bank's willingness to share knowledge with the general public enable the FIBI Group to make the highly professional pension savings field accessible to the Israeli public throughout the country.

The Group's pension advice is based on the following principles and channels:

- **Continuous advisory service** - including continuous and initiated advice that tracks changes in the customer's needs and personal details, and ensures that the customer has a pension arrangement that is in line with his/her family and financial situation, regularly monitors and oversees the various pension products in the market, and uses a sophisticated analytical model to systematically analyze the products.
- **Active pension planning (prompted by the Group)** - initiating a constant review of the pension plan and adapting it to the customer's needs, while providing an optimal response to personal changes in his/her life and to the frequent regulatory changes.
- **Advanced advisory and service systems** - the Group's advanced systems use complex mathematical models to adapt the various kinds of products to the customer, his/her personal situation and needs, so as to ensure that the pension products are best suited to him/her.
- **Objectivity** - as a pension adviser, the Group collects identical and uniform commissions from the product producers (distribution fees), thereby preventing bias of any kind on the part of the Group's pension advisers about all available pension products and ensuring the best fit for the customer.
- **Transparency** - the customer is openly and explicitly updated about the management fees for each pension product, including distribution fees (which are uniform, as mentioned above) paid to the Bank.
- **Accessibility and availability** - the Group makes available to its customers all of its branches across Israel, a call center,

application and website, so as to allow them to readily manage their pension portfolios.

- **Supervision and oversight** - the Group applies advanced supervisory and oversight arrangements and is committed to the highest standards of quality, to guarantee customers a minimum of errors and no manipulation.

The Group's pension advisory process comprises four stages:

- **Review of the customer's needs** - review of the financial needs of the customer and his/her family at retirement and other insurance options.
- **Review of sources** - review of the customer's pension- and financial assets, their quality and suitability to his/her needs.
- **Evaluation of the risk level** - examining whether the risk level is suited to the customer and his/her characteristics in terms of the risk level of the customer's pension products and their suitability to his/her risk appetite.
- **Review of costs** - a review of the costs of the customer's pension products and reducing them as far as possible.

This advisory process improves the customer's pension savings by:

- Reducing management fees paid to savings product producers.
- Matches the pension funds' risk level to the customer's age and characteristics.
- Choosing funds recommended by the rating system.
- Improved insurance coverage and adapting it to the customer's marital status
- Aligning the contributions with the salary and current tax benefits to maximize the pension savings.

Pension Portfolio - Locating and Viewing Pension Products

As of 2016, the FIBI Group provides its customers with a preliminary pension advice service that enables them to locate their pension products and view them on FIBI's website. To obtain the service, customers need only to log on to the Bank's website, read the power of appointment and sign it. Another option is to sign the form at the branch.

After the form has been signed, a request is dispatched to the Pension Clearing House, which then sends a request for information to all institutionals in Israel, who are required to provide the Bank with the information. The information arrives at the Bank several days later and can be viewed online. At this point, the customer decides whether to contact his/her branch to schedule an appointment for a pension consultation, or make do with the update.



Objectives Control Status - Financial Advisory Services:

| Objectives | Implementation status |
|--|---|
| Continue to give lectures at additional forums to expand pension- and financial education. | Done |
| Provide advisory services tailored to the needs of the Third Age. | Specific advisory services for the third age began, and will be extended to additional areas during 2018. |
| Provide retirement advice to customers based on their needs and subject to regulatory restrictions. | The project was postponed to H1/2018 |
| Expand knowledge and adapt the automated systems to regulatory changes. | Done |
| Expand the use of digital means in providing pension advisory services. | Postponed to 2018 |
| Expand the Pension Clearing House's interfaces to allow for ongoing monitoring of customers' pension portfolios and streamlining the ongoing support process. | Interfaces were expanded and adjusted. |
| Expand the use of the telephone as an additional platform for providing pension advisory services, so as to make it accessible to more customers (subject to regulatory approval). | Postponed to 2018 |

Objectives in Pension Advisory Services:

- Provide retirement advice to customers based on their needs and subject to regulatory restrictions.
- Continue to give lectures at additional forums to expand pension education.
- Expand the use of digital means in providing pension advisory services.
- The possibility of transferring some types of advisory services to digital channels is being considered.
- Expand the Pension Clearing House's interfaces to allow for ongoing monitoring of customers' pension portfolios and streamlining the ongoing support process. Interfaces will be added to various events in order to streamline operations.
- Use the telephone as an additional platform for providing pension advisory services, so as to make it accessible to more customers.
- A broader range of customers will be offered valuable pension counseling.

Additional Initiatives to Promote Financial Knowledge by the Group

The Group attaches great importance to promoting financial knowledge both among its customers and the general public, with the understanding that the more knowledgeable customers are, the better their decisions, financial conduct and financial situation. As a result, dozens of conferences are held each year on a variety of financial topics in the fields of capital markets, pension counseling, financial planning and family finances. The presentations are delivered by external content specialists and the Bank's experts.

In this context, the Group has various initiatives to advance financial knowledge among its customers, tailored to each customer segment. These include conferences featuring presentations on a wide range of topics: The capital market, managing household finances, real estate, investment, and even family and parenting issues, with the objective of enhancing the participants' financial literacy, sharing knowledge, and winning new customers. The presentations are delivered by external content specialists and the Bank's experts. In addition, the Bank prepares the conferences' content according to the issues raised by the customers.

Activities in 2017:

First International Bank:

- This year, the Bank held dozens of conferences a year on pensions, mortgages, the capital market, financial planning and family finances, smart banking, etc. These conferences are held at bank branches (for current customers and their friends) and outside the bank across Israel (workplaces, community centers, etc.).
- The bank is participating in a joint venture of the Ministry of Education, Bank of Israel, the banking system, the Association of Banks in Israel, the Forum of Parents Community Committees, and the Israel National Student and Youth Council. This venture, the first nationwide activity of its kind, is aimed at increasing financial awareness among 9th grade students and giving them practical tools for dealing with banks in order to bolster their financial independence and welfare. The bank has representation on the forum, including the project's implementation and inculcation committee. Some bank employees received a full day of training as instructors in the bank's training department - 48 instructors were taught in two courses in 2017. The first course took place at eight educational institutions (41 classes) and the second at four educational institutions (13 classes).

Financial education in the Ultra-Orthodox sector:

- PAGI has teamed up with a financial advisor who specializes in the Ultra-Orthodox community's financial conduct. As part of the project, lectures are delivered across Israel and financial guidance is provided by various means. The focus of the financial education efforts provided under the auspices of PAGI is to offer a different approach than the one customary in Ultra-Orthodox society - In addition to the prevailing approach, which advocates lowering expenses, the training also focuses on increasing income, long-term planning and adopting a new way of thinking about financial matters, so as to allow sound financial conduct over time. Other than being more appropriate, such financial education also conveys a deeper message regarding proper financial conduct as a way of life, even in times of prosperity, rather than only during a deep financial crisis or to prevent financial collapse.
- Ventures and joint projects were carried out for the target group - Local and national conferences combining lectures on financial education and other subjects of interest to the

target group, media stories about prudent financial conduct, cooperation with the National Union of Israeli Students, and the "Language for the Ultra-Orthodox" social venture, which is described in detail in the relevant section.

- Collaboration with a leading media outlet in the Ultra-Orthodox community, the Mishpacha newspaper, which featured a series of articles on sensible financial conduct, with emphasis on the unique characteristics of this sector. Additional articles were published in various newspapers: Hamodia, Hamevasser - on sensible financial conduct across the various life stages of the Ultra-Orthodox family, how to prepare for taking out a mortgage, etc.
- The "Language for the Ultra-Orthodox" venture - A lack of basic knowledge of English constitutes a barrier to the integration of Ultra-Orthodox workers into the labor market. The "Language for the Ultra-Orthodox" program, initiated by PAGI, is designed for people with a basic knowledge of English. Its aim is to expand and reinforce an acquaintance with the language, while developing skills until a working knowledge of English is achieved. The emphasis is on vocabulary needed in the labor market. This specially designed course is adapted to the level of English acquired from the basic courses common in the Ultra-Orthodox sector. It is also adapted to the characteristics of the Ultra-Orthodox sector, with a strong emphasis on the business sector through development of a relevant vocabulary and exercises centered around work situations. The course includes workshops on writing CVs and how to be interviewed in English. Two pilot groups were held in Bnei Brak in 2017.
- Lectures for customers on prudent economics: 13 lectures were given in Ultra-Orthodox population centers in 2017.
- As part of the appeal to students, collaboration took place with the Jerusalem College of Technology - Lev Academic Center for the Ultra-Orthodox religious sector. As part of this cooperation, lectures were given on subjects of interest to the students - prudent economic practices, time management, etc. PAGI took part in the annual hackathon event and also opened a temporary branch on the college campus, thereby making PAGI's special products accessible to students - A NIS 1,200 grant and a tuition loan.

| | |
|--|---|
| <p>Bank Otsar Ha-Hayal:</p> <ul style="list-style-type: none"> • The Bank holds lectures on various topics, such as: family financial planning, as well as "The Bank and I" talks for teenagers, to raise awareness and knowledge about basic banking issues • The Bank cooperated with the Hever organization in giving lectures at schools and community centers. | <p>Bank Massad</p> <p>conferences for teachers and educational system employees to provide guidance on budget management and household financial planning, as well as customer conferences. In addition, customer conferences were held in Arab communities as part of the financial awareness week of the banking system.</p> |
|--|---|

Objectives for Further Initiatives to Promote Financial Knowledge:

| Bank | Objective | Status |
|----------------------------|--|---|
| FIBI | Financial education for customers from the Ultra-Orthodox community: In 2017, FIBI will collaborate with leading Ultra-Orthodox newspapers to provide information and solutions to financial situations characteristic of Ultra-Orthodox life. | Done |
| | A strategic move aimed at the young working Ultra-Orthodox population , which will offer a unique benefit plan suited to the life stages and financial challenges characteristic of this segment. The move will also include cooperation with entities working with this population segment, such as academic institutions offering special programs for the Ultra-Orthodox, various entities working to integrate the Ultra-Orthodox into the job market, etc. | Done |
| | Financial education for business customers: In 2017, the Bank will hold a professional conference on various topics to provide updated and relevant information to its business customers. | Nationwide conferences were held - one for women and one for men. |
| Bank Otsar Ha-Hayal | Continue activity to enhance financial literacy among the Bank's customers. Conduct financial enrichment conferences for the Bank's customers. | Done |
| Bank Massad | Interfaces were expanded and adjusted. | Done |



Product and service innovation

The past decade brought extensive technological changes in the banking sector - new channels of communication with the customers, automation of processes, information management technologies, etc. The FIBI Group is developing products and services adapted to the needs of its customers, while leveraging the technological possibilities offered by the new developments. We believe that the technological developments in the financial sector offer us an opportunity to adapt services and empower customers. The Group is making great efforts to promote innovation and adapt its services to these developments.

The FIBI Group's strategic plan focuses on investing in the customer, expressed in providing a comprehensive and personal solution in a variety of channels adapted to the customer's characteristics. Special emphasis is placed on promoting and upgrading digital banking tools and enhancing the use of direct banking channels, while assimilating innovation through unique online and mobile products and technologies and collaborating

with FinTech companies. We believe that these steps improve our customer interfaces and his/her user experience, while maximizing their added value. The Group promotes innovation by assimilating products and technologies by start-ups, alongside ongoing efforts to develop in-house products and technologies through the Bank's IT Unit.

As a result, the Group is implementing solutions in a variety of channels, with emphasis on customer experience and the availability of banking services without the need for physical access to branches. The Group thus invests considerable resources in the development of digital services. At the same time, an effort is made to expand the deployment of ATMs in order to reduce customers' dependence on the branches' opening hours.

The First International Bank Group strives to enable its customers to perform most of their ongoing banking activity through the digital channels and ATMs. The following are the direct channels available to our customers:



Websites



Mobile apps



FIBI Call - a call center available in flexible hours



ATMs / check deposit terminals / cash deposit terminals / self-service information terminals

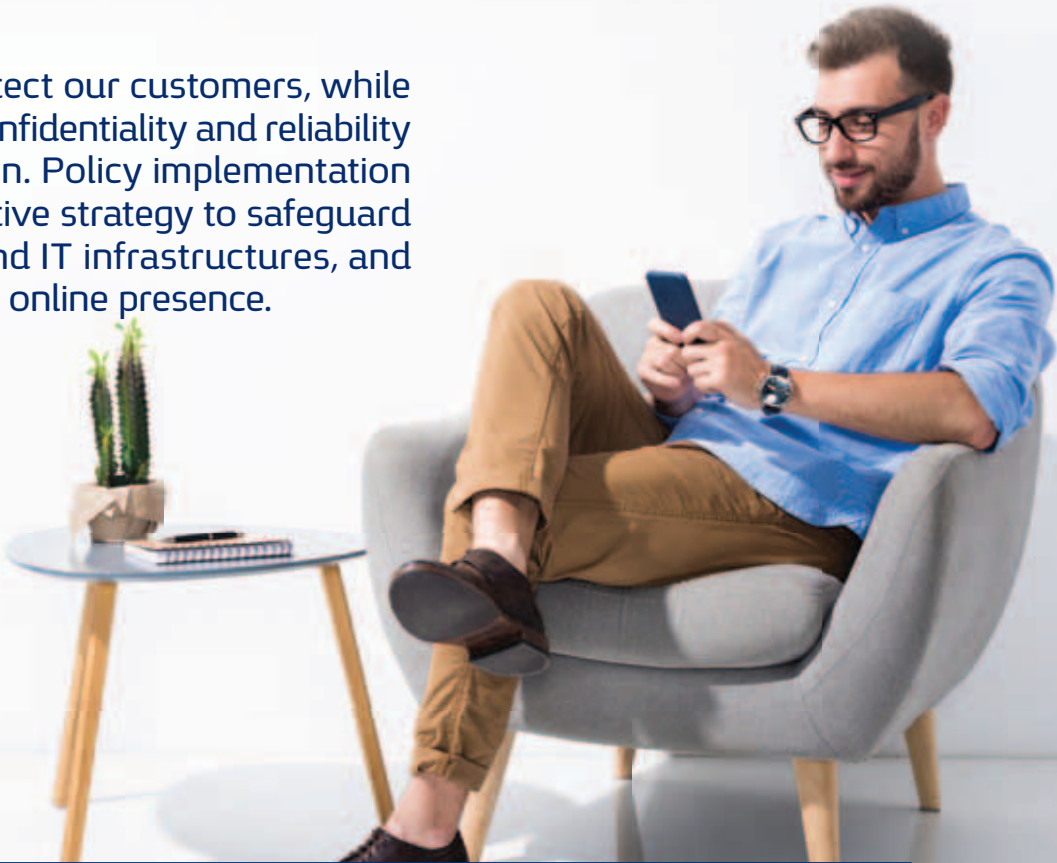


Text services, personal messages by push technology and web-based email

At the same time, the Group takes care to maintain a high level of service and empathetic response. The Group's branches have service representatives in place who explain to customers how to use self-service machines and train customers on using the

tools on the banks' websites and applications. Customers who fail to execute an online transaction (a transfer, loan, checkbook order, etc.) are invited to chat with, or write to, a banker, who will then get back to them.

Our task is to protect our customers, while maintaining the confidentiality and reliability of their information. Policy implementation combines a proactive strategy to safeguard information, defend IT infrastructures, and protect the Bank's online presence.



Activity in 2017:

As part of our promotion of digital services for the Group's customers - including private, business, our capital market customers - we launched a wide range of new services and products on the website and application. The principal ones are as follows:

- **"Advise.me"** - A groundbreaking service, the only one of its kind in Israel, that makes it possible to provide investment advice simultaneously to a large number of customers (instead of in one-on-one meetings). This is accomplished through the banks' mobile applications, with no need to place a telephone call or conduct a face-to-face meeting with the customer. The advice provided to customers through the new service is adapted to their characteristics (needs, risk level, financial situation, preferences, personal limitations, etc.), taking into account the rules set by the consultant in the system. Recommendations are sent to the relevant customers according to these rules. Customers can view the recommendations on the bank's mobile application and use it to approve them. After the customer approves the recommendations, the latter will be sent for execution through the bank's trading system.
- **Customer-banker correspondence** - A new service that provides a channel for direct two-way correspondence between the customer and his/her banker through the bank's website and mobile application. The service is being activated gradually for the bank's customers. At this stage, the service is used for information purposes only.
- **Upgrading the capital market area on the bank's website** - Activity screens for the capital market were upgraded and options for searching securities were added in an innovative and clear display of technical and financial analyses.
- **"Transfer to a contact person"** - A new service operated through the bank's mobile application. The service enables a private customer who subscribes to online services at a fourth service level to transfer funds to a beneficiary who appears on his/her mobile contact list, or to any beneficiary whatsoever according to a mobile number entered during the transfer. There is no need to enter the particulars of the beneficiary account.
- **Transfer for approval by the branch** - When a transfer is made through the bank's website from a business account with an inadequate balance (or if it is necessary to present a tax approval), the customer can shift the transfer request to the branch ("stopping at the branch").
- **Extensions and improvements in the application** - Inclusion of a web-based email system in the application, including an option to register for the service, foreign currency transactions, improvements in depositing checks, displaying photocopies of deposited checks, etc.
- **Establishment of authorization for withdrawing larger sums from ATM machines** - The service enables customers to make cash withdrawals of up to NIS 40,000 beyond the daily withdrawal ceiling for the card, subject to the existence of a sufficient balance in the account for the withdrawal, regardless of the branch's work hours.
- **Uploading a list for shekel transfers** - An option for uploading a file by the customer prepared in advance in the customer's internal software (salary, bookkeeping) and confirmation of the transfer on the bank's website.
- **Future shekel transfers** - The service enables customers to issue orders for shekel transfers at a future date (up to six months in advance) through the bank's website.

Fintech at FIBI

In 2017, the Bank continued to adopt innovation, while furthering collaboration with FinTech and other technology companies. This included the adoption of innovative solutions across the organization in response to set strategic targets. In addition, the big data project was launched. Implementing the project included: Building infrastructure to support the gathering, transmission, and storage of information from the bank's digital assets; analysis and generating insights and recommendations; sending offers to the customer in real time; monitoring customers' activity in order to improve their user experience.

Several other joint projects with FinTech companies were started in order to improve customers' digital user experience, upgrade service, and improve efficiency. These projects will be launched in 2018.

Objectives Control Status - Innovation in Products and Services

| Objectives 2017 | Status |
|---|--------|
| FinTech - In 2017, the Bank will continue to drive its FinTech activity, and even establish a dedicated unit, which will coordinate and implement advanced digital innovation for all of the Group's customer lines and be responsible for assimilating innovation processes. | Done |
| Corresponding with a banker - In 2016, customers will be given the option of securely contacting a banker online or through the app. (Postponed from 2016. The service will be launched in 2017.) | Done |

Objectives - Product and Service Innovation:

FinTech - In 2018, the Group will continue to implement and apply digital innovation across all customer business lines.





Fairness of Products & Services

We at the FIBI Group scrupulously maintain fairness toward its customers, believe in maintaining long-term relations with them, and always have the customer's best interest in mind, alongside business considerations. We therefore scrupulously adhere to fairness and transparency in the banking products and services offered by the Group.

As an entity that provides services to its customers, the Group is subject to a series of laws and regulations related to the provision of banking services and products, including various prohibitions and general duties towards various types of customers (such as: misleading or taking advantage of distress, doing harm, making service conditional on another service, the duty of care, fiduciary duty, duty of secrecy, duty to act in good faith and not negligently, duty of trust etc.) and various obligations (proper disclosure, calculation methods, revocation of pledges). These provisions apply to all products and services provided by the Group.

Each new product is thoroughly and meticulously examined by business managers, the legal department, and the compliance officer, and we operate on the basis of several principles, as detailed below. We are committed to operating clearly and openly towards our customers, by presenting the information relevant to them:

- We scrupulously maintain proper disclosure, providing our customers with any information that may be relevant to them so they can reach calculated and informed decisions.
- We scrupulously work with our customers in compliance with the provisions of the law that apply to the Group for

We scrupulously comply with these laws and regulations by using dedicated control and auditing mechanisms - the most important of which is the compliance system - which is responsible for ensuring that the Group's banks implement applicable regulations to which they are subject.

- our customers' best interest, avoiding taking any direct action which is not to their benefit.
- We notify our customers about everything related to their assets and liabilities toward the Group (each of the Group's banks may provide customers with information on their liabilities and assets in that bank only, rather than in the Group).
- We present our with customer diverse solutions and products and seek to provide clear information about the various options, including the advantages and disadvantages of each product or service (for each customer).
- We are happy to discuss with, and provide full information and comprehensive explanations to, our customers, correcting and improving our actions where necessary. (from the Group's Code of Ethics).

We scrupulously comply with these laws and regulations by using dedicated control and auditing mechanisms - the most important of which is the corestem neceperectem

Furthermore, we instill the values of fairness and transparency in all Group employees through training and the Code of Ethics of the banks in the Group. This is reflected, inter alia, in the Group's websites' openly featuring its Code of Ethics, price lists for the services and products, etc.

Instilling proper and fair business principles and values in all of the group's banking endeavors

When analyzing the crises in the global banking industry in the past few decades, conduct risk emerges as one of the causes - in addition to significant failure events, operational and financial failures - due to non-transparent and unfair conduct or lack of proper disclosure by the bankers towards the customers, investors, suppliers and employees (hereinafter - the "Stakeholders") of these corporations.

Conduct risk is a cross-organizational risk based on a long series of lawful provisions and regulations, the foundations of which are fairness and transparency in the bank's conduct towards its various stakeholders.

Thus, and as part of its risk management in general, and compliance risks in particular, the FIBI Group and the organs leading it strive to instill and implement adequate and fair business principles and values in the Group's banking practices, including developing and characterizing the products it offers to its customers according to their changing needs, proper disclosure to customers and to other stakeholders about the various products, including the risk components embodied in them, and having the Group's professionals match the offered solutions to their customers' needs and to the changing market conditions, while adopting technologies which make the Group's products as widely available as possible to its diverse customers. The FIBI Group makes a point of responding to each and every customer professionally, responsibly, and with great care. We handle each inquiry in a thorough and unbiased manner, with an emphasis on fairness and objectivity.

Fairness in Investment Consulting

A key part of the FIBI Group's investment consulting approach is to ensure the financial future of our customers and to guide them to consider long-term investments. The Group believes in tailoring the service to the customers' characteristics and needs. The Group has developed and implemented methodologies that include investment advice milestones with the objective of providing each customer with financial understanding as well as a solution tailored to his/her personal needs and preferences.

Fairness in Marketing, Advertising and Sales

The FIBI Group is diligent in its proper disclosure. The Group scrupulously adheres the principles of responsible marketing and always operates on the basis of the accepted ethical rules. The FIBI Group banks promote long-term relations with customers by providing professional, fair, efficient, and courteous service and creating service and product value for the Group banks' diverse customers.

The Group is extremely careful to use several strict layers of screening and control to ensure that all of its messaging conforms to the requirements of the law. The advertising policy is set by the Bank's management, in line with its business strategy and the objectives and characteristics of the target audience, etc. At times, the Bank is assisted by external specialists and external consultants. The Bank manages the brand on a regular basis, and adapts the products to the target audiences, while complying with legal and regulatory requirements and adopting ethical principles.

All content published by the Group (marketing brochures, banners, ads, etc.) undergo an orderly approval process by the legal department and compliance officer in each bank in the relevant bank. The banks in the Group ensure that their publications are clear and understandable and include all the fine print of which the customers should be aware. In 2017, no fines or other sanctions were imposed on the Group for non-compliance with marketing and marketing communications laws and regulations.

Fairness towards Customers in Financial Difficulties

When our customers encounter financial difficulties, the Bank's policy is to do our utmost to reach debt arrangements with them prior to initiating legal procedures, which may be very costly. The FIBI Group has developed and uses processes which combine sensitivity, professionalism and will to help these customers regain financial stability.

In this context, the Bank initiates, from time to time, processes to repay old debts, with an effort to assist the customers. The Bank strives to reach agreements with customers who fail to meet their repayment schedules. The Bank has also signed a convention requiring it to give preferential treatment to women in shelters for battered women.



Quality of Service

The Group's customer service policy is derived from the provisions of the law and regulations and directives of the Banking Supervision Department, but also from the values of the Group banks' ethical codes, which include the principles and rules of proper conduct. The response provided to customers reflect the values of professionalism, care, and responsibility, and emphasis is placed on the values of fairness in customer relations and efficiency, as well as compliance with the laws, regulations, Bank of Israel positions, and other regulatory provisions.

Decisions taken regarding customer inquiries reflect the values of integrity, fairness, and reliability. The Group's public inquiries units - headed by the public inquiries officers - handle each inquiry in a thorough and unbiased manner, emphasizing fairness and objectivity. The findings resulting from the inquiries are examined in depth, and any deficiencies are handled systemically, with strict adherence to the Group's purpose and vision, which stresses fairness, reliability and commitment to customers and the environment. After a complaint has been fully handled, findings are drawn, including remedies, as relevant, with detailed reasoning and addressing the claims raised in the complaint, which is then sent to the inquiring party within a reasonable time. The FIBI Group constantly strives to shorten response times to complaints and to handle complaints promptly and sometimes immediately - in the case of urgent complaints, while complying with Proper Conduct of Banking Business Directive 308A, which regulates the activities of the Public Inquiries Unit and of its Ombudsman.

We continue to develop innovative and advanced products for our customers. It is important for us to hold a dialogue with

Providing the best possible service is part and parcel of the Group's way of doing business and is reflected in providing professional, fair, efficient, and courteous service to all customers and constantly striving to improve the level of service, with an emphasis on proactive and customized service, and on improving the service and response provided through the direct channels on a regular basis.

our customers, and to understand and address to their needs at the highest level. The Group's service approach is common to all our employees and we take care to equip our employees with up-to-date professional tools and knowledge in order to maximize and streamline customer service.

The FIBI Group is proactively improving its service, implementing several major measures to this end, including: Adapting the service to customers so that each customer is assigned to the appropriate team at his/her branch; development of products and services that meet the customers' needs; providing employees of all ranks with service quality training; as well as monitoring and measuring customer satisfaction.

Customer Satisfaction at the FIBI Group⁶:

The FIBI Group conducts surveys among its customers in order to learn about their satisfaction from the service, and draw lessons and insights for improvement purposes. In addition, as required by the Group's policy, an annual work plan conference is conducted, in which teams discuss implementing solutions.

Activity in 2017:

First International Bank and Otsar Ha-Hayal

- To improve the telephone service to customers, a callback system was installed at the banks' branches, through which customers can leave contact details for a banker to call them back. The purpose of this system is to improve customer service and, as a result, their satisfaction.
- The banks appointed service coordinators, which undergo dedicated workshops to improve service at the branches. In addition, FIBI began to conduct in-depth surveys among customers who abandoned the Bank, in order to understand the reasons for their dissatisfaction and formulate a response and solution. Improvements were also made to the website and app to speed up and streamline the service using the direct channels, so as to save customers the need to arrive at the branches.
- The bank holds general and specific seminars, tailored to each branch's needs, nature and the environment (type of population, culture, competitors, etc.).
- Promoting the use of direct channels. Training was provided at branches, a booklet was issued and distributed to customers, which includes all the options and how to use them easily.
- Expansion of advisory services for a holistic view of all of a customer's assets, with an emphasis on risk management. The process included ongoing training of the banking and advisory staff.

Bank Massad

As part of its service improvement efforts in 2017, the Bank conducted regular meetings at the branches focusing on customer satisfaction and analyzing relevant cases and events on an ongoing basis. In addition, in meetings conducted at the branches every six months, the findings of customer satisfaction surveys are presented. Special-purpose conferences on the subject are held regularly for managers at the branches, including department managers and branch managers, to discuss the surveys' findings and special cases, etc. Workshops were held in all branches to improve knowledge and information about the FIBI Group's digital tools. In some branches, assistants taught customers to use the Bank's digital tools using special-purpose tablet computers.

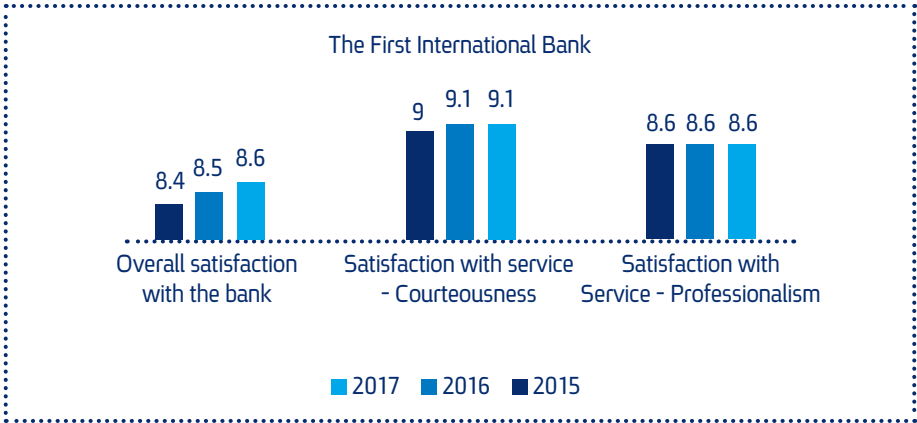
Customer Satisfaction Surveys

Customer satisfaction surveys showed increased customer satisfaction from the service provided by the three banks.

Following are the results of the main customer satisfaction surveys conducted by the Group's banks:

The First International Bank -

The surveys are conducted among all population segments, among customers who have visited branches and the users of the direct channels. It can be clearly seen that the satisfaction scores in all parameters have been rising steadily since 2014.

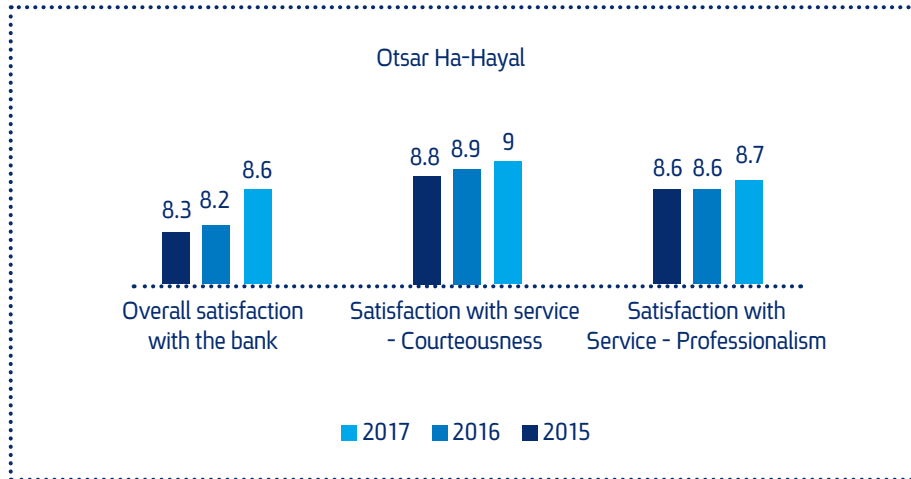


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Bank Otsar Ha-Hayal:

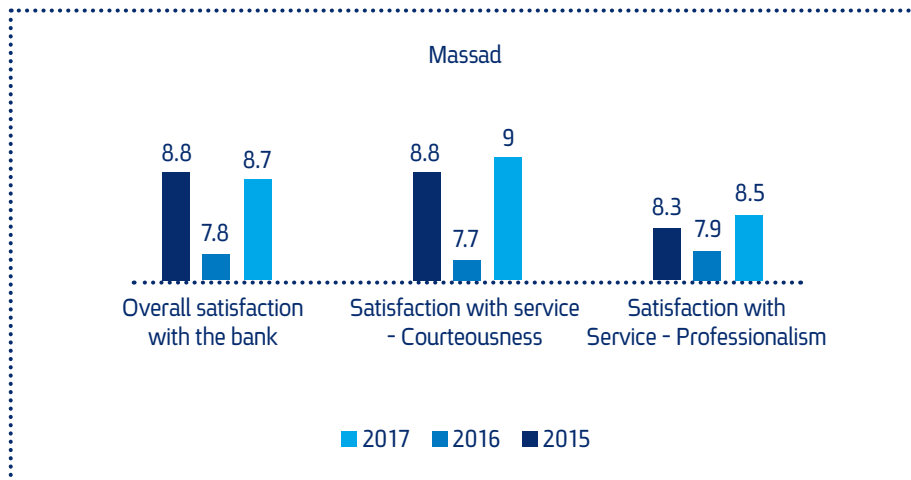
A customer satisfaction survey was conducted in the second half of 2017. The purpose of the survey was to examine overall satisfaction with the service provided at Bank Otsar Ha-Hayal branches. The telephone survey targeted three customer segments: Personal banking customers, private banking customers and business customers.

The survey shows an increase both in professionalism and courtesy. The rating for both was high - 9. There was a slight increase in the overall customer satisfaction - from 8.2 in 2016 to 8.3 in 2017



Bank Massad:

Bank Massad - the annual customer satisfaction survey was conducted in the first half of 2017. The telephone survey targeted households - comprising both personal and private banking customers. The survey included questions about service, proactiveness and use of digital services. According to the survey, there has been an increase in customer satisfaction in each of the key indicators:



Public Inquiries:

The FIBI Group seeks to respond to every customer professionally, responsibly, and with great care. Decisions taken regarding customer inquiries reflect the values of integrity, fairness, and reliability. The Group's public inquiries units - headed by the public inquiries officers - handle each inquiry in a thorough and unbiased manner, emphasizing fairness and objectivity. The findings resulting from the inquiries are examined in depth, and any deficiencies are handled systemically, with strict adherence to realizing the Group's purpose and vision, which stresses fairness, reliability and commitment to customers and the environment.

Customer inquiries are handled on the basis of legal and regulatory provisions, and Banking Supervision Department guidelines, as well as on the principles and rules of proper conduct included in the Code of Ethics of the banks in the Group. Responses to customers reflect the values of professionalism, care, and responsibility, and emphasis is placed on the values of fairness in customer relations and efficiency, as well as compliance with the laws, regulations, Bank of Israel positions, and other regulatory provisions. After a complaint has been fully handled, findings are drawn, including remedies, as relevant, with detailed reasoning and addressing the claims raised in the complaint, which is then sent to the inquiring party within a reasonable time

| Type of inquiry | Received | Handled | Percentage of inquiries / complaints handled | Justified complaints |
|-----------------|----------|---------|--|----------------------|
| Inquiry | 828 | 820 | 99% | |
| Complaint | 1,748 | 1,733 | 99% | 262 |
| Total | 2,576 | 2,553 | 99% | |

We are committed to responding to every complaint within reasonable time and to provide a clear, courteous and thorough response, supporting our responses with documentation when necessary, on the basis of the following principles:

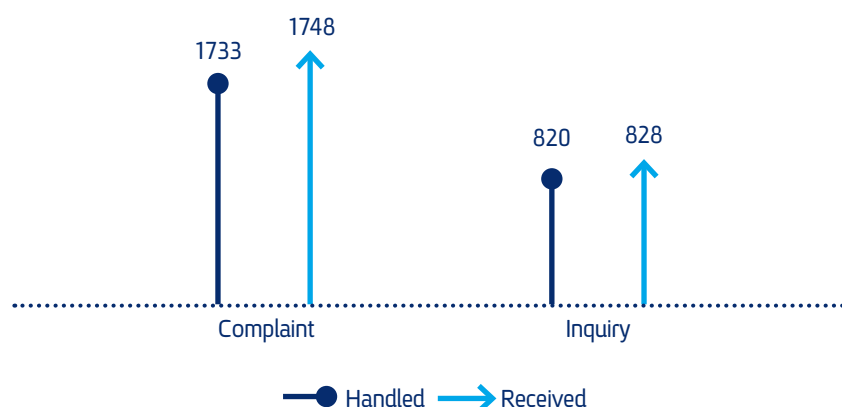
- Rapid and efficient response to customer inquiries in compliance with the criteria set by the Bank of Israel.
- Raising awareness of adhering to consumer-related directives and fairness towards customers among the Group's employees.
- Turning complaining customer into satisfied customers.
- Placing emphasis on service and courteousness.
- Drawing lessons from complaints in order to improve service and professionalism.

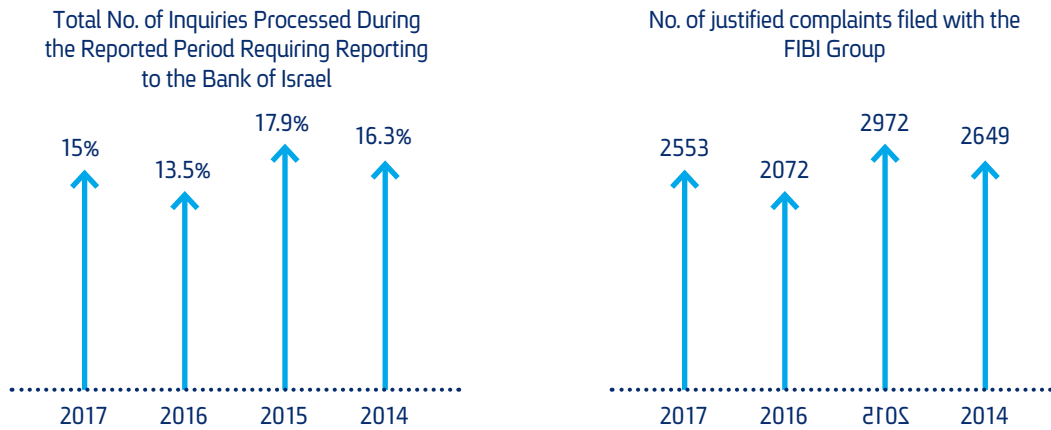
In 2017, the First International Bank focused on improving customer service and preventing complaints from being filed with the Public Inquiries' Ombudsman. Indeed, the number of complaints filed by the Bank's customers with the Ombudsman was the lowest in the Israeli banking system. 1,151 inquiries and complaints, compared with over 2,300 for the bank immediately preceding it. The number of appeals filed by the Bank's customers with the Bank of Israel following the Ombudsman's response was also the lowest in Israel's banking system - 57 appeals.

Only 7 of the complaints reviewed by the Bank of Israel's Banking Supervision Department were found to be justified - the smallest number in the banking system.

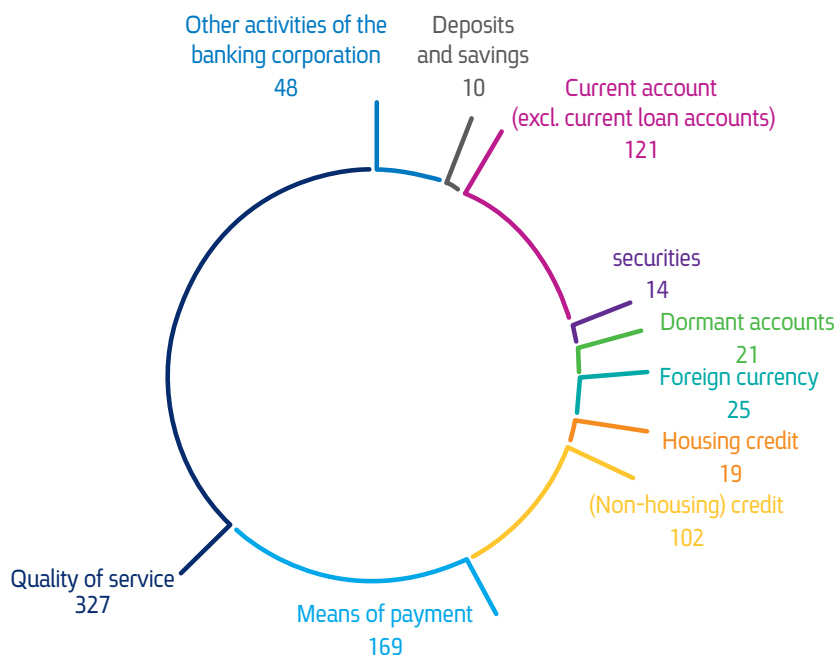
Regarding the response time to complaints, we continued to respond within an average of only 17 days, compared to the 45 days permitted under Proper Conduct of Banking Business Directive No. 308A.

Number of Inquiries Received or PROCESSED by the Ombudsman and Public Inquiries Unit during the Reporting Period (January to December 2017)





7 Breakdown of Inquiries by Subject Matter



*No complaints concerning breaches of customer privacy and losses of customer data were received

Objectives Control Status - Quality of Service:

Objectives Control Status - Quality of Service:

| Target | Status |
|--|---|
| In 2017, the FIBI Group will continue to promote customer service and satisfaction, by extending its methods of measurement, including conducting regular surveys at all bank branches and handling any findings, as needed. | Done |
| Conduct online surveys on a regular basis. | Not performed. Implemented during 2018. |
| Foster and develop the digital means of communications which contribute to the customers' satisfaction, as evidenced in the surveys. | Ongoing - The digital services on the website and application are updated on a regular basis. |
| In 2017, FIBI will continue its cross-organizational process to improve internal customer service as a tool for improving customer service and will conduct internal service satisfaction surveys. | Done |

7. Breakdown of Inquiries - by Subject Matter: No inquiries were made regarding privacy and information security.



Incorporating Sustainability & Social Considerations in Credit Provision & Investment Decisions

The activities of some of the Bank's customers may have impact on the environment and society and we must strike the right balance between the various considerations. The FIBI Group therefore treats environmental and social aspects as part of its credit risk management process.

Environmental risk to the Group may be embodied in various risks to which it is exposed, such as credit risk, market risk, operating risk, and image risk. Environmental risk which is included in credit risk could be manifested as a decrease in the value of collaterals or deterioration in a borrower's financial position due to environmental costs resulting from environmental regulations. Another possibility is reputational risk, due to an environmental hazard being attributed to the Group as a result of its connection to the party responsible for the hazard.

Pursuant to the Banking Supervision Department guidelines from 2009 regarding exposure to, and management of, environmental risks by banks, the Group formulated, approved and has been implementing an environmental risk policy. Implementation of the policy is based on the classification of operational segments, industry-wide, as well as specific environmental risk assessment with regard to each customer's profile (based on financial, business, and other relevant publicly available information).

The policy defines a methodology and regular work processes for monitoring environmental risks in credit provision, and which include identification of high-risk borrowers and material risks, assessment of the borrowers' risk level and quality of risk management, and supervising transactions identified as embodying high environmental risk. The policy sets guidelines

The environmental risk policy is the responsibility of the Corporate Division, and is approved annually by the Bank's Board of Directors as part of the policy papers. Employees performing work that is relevant to this policy are trained on a regular basis by the Group's Training Department as part of the relevant course on credit, in cooperation with representatives of the Corporate Division.

for enlisting external environmental consultation, and defines the risk assessment and decision-making processes.

As part of its overall credit portfolio, the FIBI Group attaches importance to granting credit to environmental projects, products that contribute to mitigating negative environmental impact and projects that contribute to a cleaner environment and, in this context, finances various renewable energy projects. The Group encourages investments and businesses that develop and create innovative products and services, technologies, or processes that contribute to preventing and reducing waste pollution, decreasing the use of natural resources, as well as promoting biological reclamation and land and water purification.

The FIBI Group is currently developing products and services tailored to special groups, in the realization that Israeli society has diverse social and cultural features. These groups have unique financial needs requiring tailored solutions in order to encourage their integration into Israeli society.

The FIBI Group's strategy for promoting social credit works in the following ways:

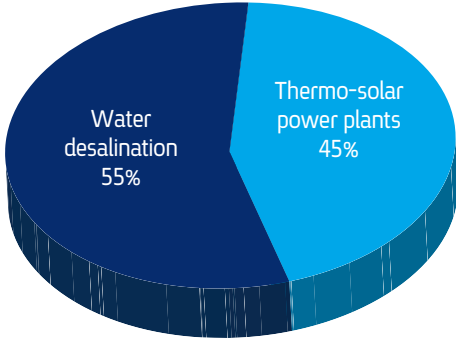
- Credit services are tailored to the target group's way of life: loans are granted on easy terms, credit solutions for crises are provided, and personalized tools are offered to customers according to their financial capabilities.
- A range of social entities and organizations are supported, and credit programs for social organizations that support disadvantaged groups are promoted.

Activity in 2017

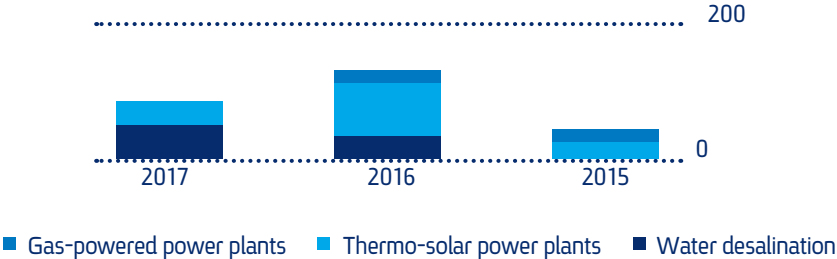
Environmental credit:

- The FIBI Group has granted loans to projects promoting sustainability for a total of NIS 98 million. This includes a total of NIS 44 million in loans granted to thermo-solar power plants and a total of NIS 54 million to industrial wastewater treatment projects.
- In 2017, the FIBI Group granted a total of NIS 470 million in loans to projects promoting sustainability.

Breakdown of Credit Granted to Environmental Products -2017



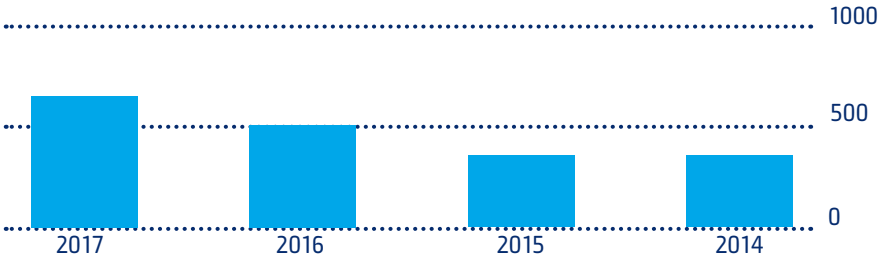
Credit Granted for Environmental Products - Multi-Year (in NIS millions)



Social Credit:

- In 2017, the balance of credit granted by the Bank to social organizations in the Ultra-Orthodox community (in the areas of education, welfare and assistance services, social community organizations, religious services, etc.) was NIS 650 million.

Credit Granted to Social Organizations in the Ultra-Orthodox Sector (in NIS millions)







Our
Employees



Employment Environment

We, at the FIBI Group, view human capital as a significant growth engine and a major stakeholder and partner. The Group promotes an adequate and responsible work environment while adhering to the up-to-date provisions of the law as well as to universal norms for upholding human rights.

We attribute great importance to creating an adequate supportive environment and providing ancillary conditions to help employees realize their skills and maximize their abilities. We believe that promoting employee welfare, development of their leisure time, and responding to needs related to their private lives help create a good working environment. We realize this approach from the employee's first day on the job through every stage of his/her career until retirement, including beyond working hours.

The FIBI Group's human resource departments are responsible for managing human capital in the various banks and in MATAF, serving as supportive partners in realizing the banks' goals. The human resource strategy focuses on combining the needs of the various banks with providing solutions to the employees' needs, development, and welfare, and ensuring a proper work environment. This approach allows the banks to have highly professional employees, who operate in a work environment that is oriented towards achieving the organization's objectives while enabling employees to serve as partners in an organizational culture which promotes dialogue, transparency, and welfare as its cornerstones.

Human resource management includes several key principles with the aim of striving towards constant improvement in all areas of activity:

- Development of human capital and long-term human resource management - strengthening and developing human capital in accordance with the bank's needs and business targets, with a long-term view: identifying and fulfilling employees' potential, mapping knowledge gaps and imparting core capabilities, adjusting career paths, recruiting and training leadership succession candidates and professional reserves according to the Group's needs, professional and managerial training, and management development.
- Organizational development - developing advanced tools in every area of human capital in the organization, including: improving hiring, onboarding, and retention of employees; honoring employees; streamlining organizational processes and building control and performance assessment tools; and supporting the Bank's units, etc.
- Employee hiring and onboarding - the FIBI Group places special emphasis on the onboarding period, under the assumption that the nature of the onboarding process affects the performance, integration in the Group, and motivation of the new employees. The banks' and MATAF's onboarding processes emphasize several aspects: professional onboarding, including imparting the knowledge needed by the employee; employee orientation, which helps employees learn the Group's rules, norms, and values; and social absorption, which facilitates teamwork and connection to the unit where the employee is placed.
- Internal communications - Managing internal communications to create organization-wide dialogue and cooperation through the empowerment of human capital, with an emphasis on openness and information transparency, and encouraging ongoing internal dialogue by various means and communication channels.
- Organizational culture - supporting a culture that strengthens the Bank's values and goals with an emphasis on excellence in every area, ethics, social responsibility, and community outreach.

98%

Of the Group's employees work full-time, with the rest working part-time.

61%

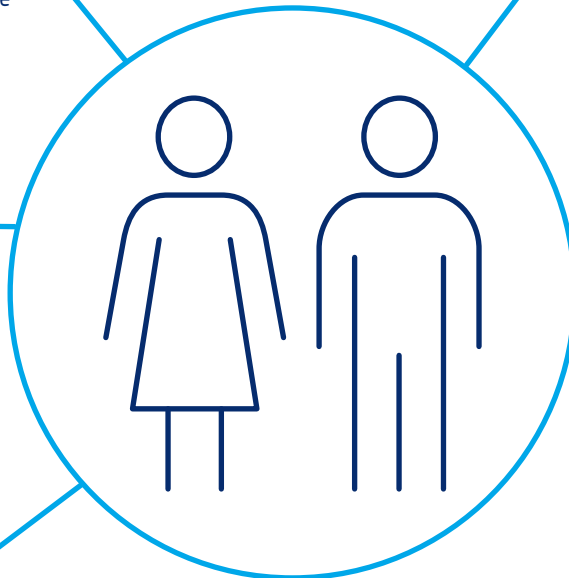
Of the Group's employees had academic degrees - a figure which has remained unchanged since 2016.

96%

Of employees are directly employed by the Group, while the remainder are contract workers.

46.75

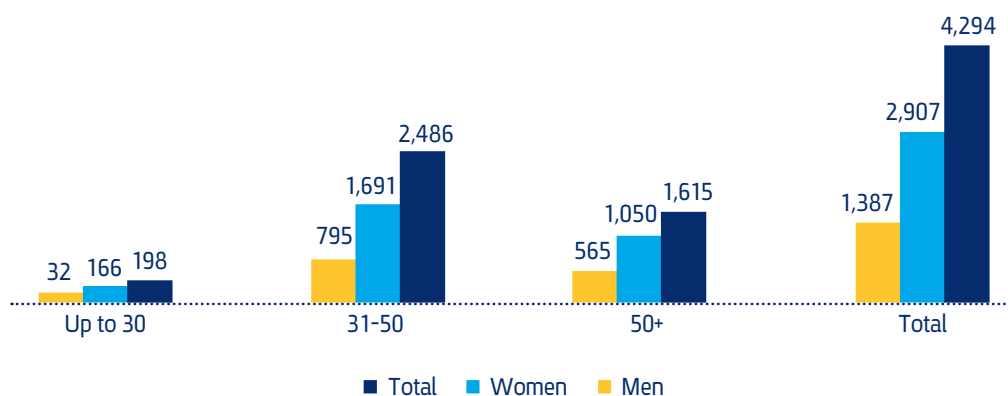
The average age of the Group's employees and the average seniority of employment at the Group is approximately 14 years and 8 months.



The Group's Employees - by Age and Gender

| Age | 2015 | | | 2016 | | | 2017 | | |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Women | Men | Total | Women | Men | Total | Women | Men | Total |
| Up to 30 | 166 | 32 | 198 | 205 | 59 | 264 | 286 | 88 | 374 |
| 31-50 | 1,691 | 795 | 2,486 | 1,737 | 810 | 2,547 | 1,812 | 874 | 2,686 |
| 50+ | 1,050 | 565 | 1,615 | 1,016 | 580 | 1,596 | 987 | 602 | 1,589 |
| Total | 2,907 | 1,387 | 4,294 | 2,958 | 1,449 | 4,407 | 3,085 | 1,564 | 4,649 |

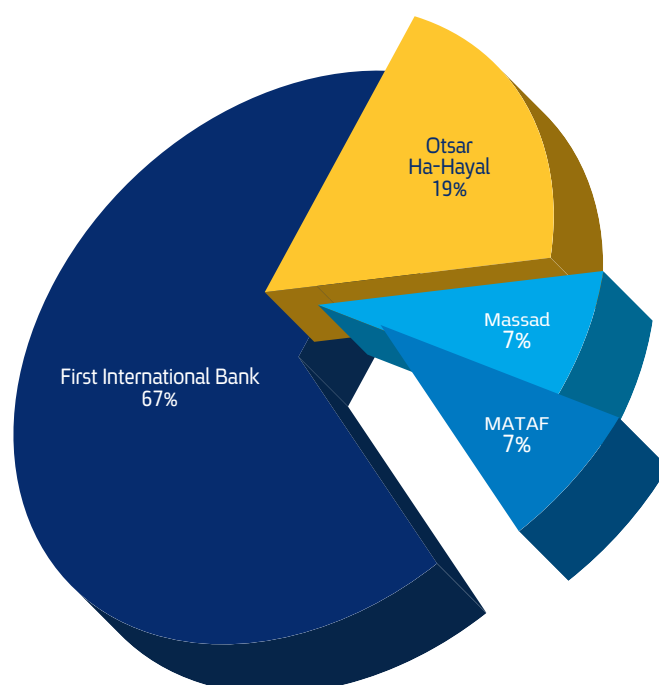
The Group's Employees by Age and Gender



The Group's Employees by Bank, Gender and Age

| Age | First International Bank (including MATAF) | | | Otsar Ha-Hayal | | | Massad | | |
|----------|--|-------|-------|----------------|-----|-------|--------|-----|-------|
| | Women | Men | Total | Women | Men | Total | Women | Men | Total |
| Up to 30 | 111 | 25 | 136 | 39 | 6 | 45 | 16 | 1 | 17 |
| 31-50 | 1,222 | 632 | 1,854 | 335 | 115 | 450 | 134 | 43 | 177 |
| 50+ | 816 | 440 | 1,256 | 170 | 90 | 260 | 64 | 35 | 99 |
| Total | 2,149 | 1,097 | 3,246 | 544 | 211 | 755 | 214 | 79 | 293 |

Percentage of Employees in the FIBI Group Companies



The Group's Employees in 2017 - by Type of Employment Agreement

| Type of employment | Employment agreement ⁸ | | | |
|----------------------|-----------------------------------|-------|-------|------|
| | Women | Men | Total | % |
| Collective agreement | 2,672 | 1,049 | 3,721 | 87% |
| Personal agreement | 235 | 338 | 573 | 13% |
| Total | 2,907 | 1,387 | 4,294 | 100% |

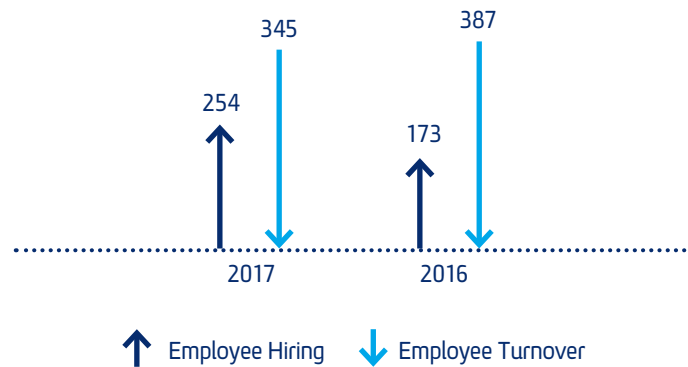
Employee turnover in 2016

| Age | Hired | | | | Exited | | | |
|----------|-------|-------|-------|------|--------|-------|-------|------|
| | Men | Women | Total | % | Men | Women | Total | % |
| Up to 30 | 27 | 88 | 115 | 66% | 21 | 77 | 98 | 25% |
| 31-50 | 25 | 30 | 55 | 32% | 73 | 90 | 163 | 42% |
| 50+ | 2 | 1 | 3 | 2% | 66 | 60 | 126 | 33% |
| Total | 54 | 119 | 173 | 100% | 160 | 227 | 387 | 100% |

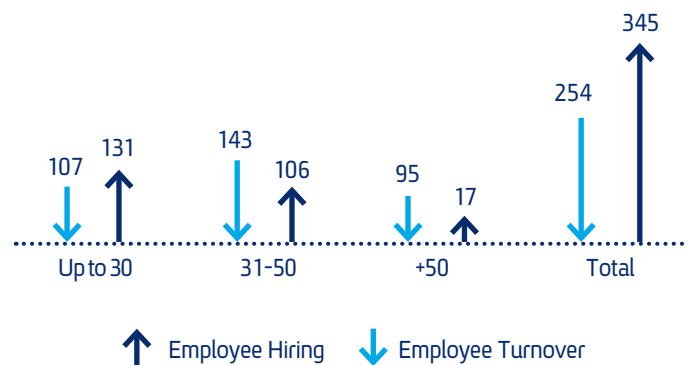
Employee Turnover in 2017

| Age | Hired | | | | Exited | | | |
|----------|-------|-------|-------|------|--------|-------|-------|------|
| | Men | Women | Total | % | Men | Women | Total | % |
| Up to 30 | 25 | 106 | 131 | 51% | 26 | 81 | 107 | 30% |
| 31-50 | 40 | 66 | 106 | 42% | 57 | 86 | 143 | 42% |
| 50+ | 2 | 15 | 17 | 7% | 39 | 56 | 95 | 28% |
| Total | 67 | 187 | 254 | 100% | 122 | 223 | 345 | 100% |

Employee Hiring and Departures at the FIBI Group



Employee Turnover (by Age) - 2017



Employee Absences in⁹ 2017 (in days)



Illness¹⁰



Work accidents¹¹



Total days of absence¹²



Total absence days net of vacation leave

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Percentage of sick leave days | 5.87% | 0.11% | 17.6% | 6.41% |
|-------------------------------|-------|-------|-------|-------|

The FIBI Group's Employees by Gender and Rank

2017

2016

2015

| | Women | Men | Total | Women | Men | Total | Women | Men | Total |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Management and senior executives | 66 | 83 | 149 | 60 | 145 | 60 | 67 | 93 | 160 |
| Middle management | 290 | 265 | 555 | 288 | 570 | 288 | 287 | 310 | 597 |
| First level management | 375 | 221 | 596 | 372 | 601 | 372 | 400 | 243 | 643 |
| Employees | 2,176 | 818 | 2,994 | 2,238 | 3,091 | 2,238 | 2,331 | 918 | 3,249 |
| Total | 2,907 | 1,387 | 4,294 | 2,958 | 4,407 | 2,958 | 3,085 | 1,564 | 4,649 |

9. Including all employees of the FIBI Group who have worked during 2017 (and employees who left)

10. **Including reported illnesses and illness of a family member

11. Including car accidents

12. Total number of absence days, including family members' illness, reserve duty, bereavement leave, high-risk pregnancy leave, paid volunteering days.



We at the FIBI Group regard our employees as full partners in the enterprise and encourage regular open dialogue between employees and management and among the various units in the organization, with the objective of strengthening employees' identification with the organization and enhancing collaboration between the various units.

Dialogue with the Group's Employees

We at the FIBI Group regard our employees as full partners in the enterprise and encourage regular open dialogue between employees and management and among the various units in the organization, with the objective of strengthening employees' identification with the organization and enhancing collaboration between the various units.

Dialogue Channels with the Group's Employees

| | FIBI | Otsar Ha-Hayal | Massad | MATAF |
|--|------|----------------|--------|-------|
| Open line to Human Resources | ✓ | ✓ | ✓ | ✓ |
| Feedback sessions | ✓ | ✓ | ✓ | ✓ |
| Management-employee meetings, including visits by the CEO, members of management and executives at branches and various HQ units | ✓ | ✓ | ✓ | ✓ |
| Employee inquiries supervisor | ✓ | ✓ | ✓ | ✓ |
| Internal communication channels: enterprise portal, newspaper | ✓ | ✓ | ✓ | ✓ |
| Management conferences | ✓ | ✓ | ✓ | ✓ |
| Streamlining forum - streamlining proposals by employees on various topics | ✓ | ✓ | ✓ | ✓ |
| Round tables - management and employees | ✓ | ✓ | ✓ | ✓ |
| Customer satisfaction surveys | ✓ | ✓ | - | ✓ |

The Group places great importance on communicating with the employees on an ongoing basis, and maintains a dialogue with them by various means through a range of channels. We strongly emphasize the development and effective management of internal communications, in order to promote transparency, create dialogue, connect the employees to the organization, and strengthen communications among all Group employees.

In addition, employees may contact relevant officials in the Group through various channels, including anonymous ones, about auditing, compliance, and ethics.

13. MATAF was included with First International Bank in the 2016 report.

Round Tables at FIBI

During 2017, management at First International Bank held meetings with employees in all of the bank's lines of business in order to start a direct dialogue between management and the employees, tighten the connection between the Bank's various units, and inform the employees about the Bank's targets and work plans.

25 meetings took place from April 2017 until December 31, 2017, and were attended by 450 employees. These meetings deal with topics on the Bank's agenda, including the employees; a survey of the Bank's business environment and the work plan's targets in the Bank's core business is conducted, and an open discussion on professional and other matters is held. Topics for discussion and proposals for improvement and streamlining are sent to the relevant parties for handling.

Round Tables at MATAF

As part of the dialogue process at MATAF, two round table forums were held, one with the Company's CEO and the other with the VP Administration, Finance and Human Resources, with the objective of creating an open dialogue, raising ideas, improvement, and streamlining. In addition, during 2017, four meetings were held with the VP Administration, Finance and Human Resources and MATAF's CEO. One of the results of the process was the promotion of enterprise learning and information sharing across the organization.

Internal Surveys

In 2016, several internal surveys were conducted at FIBI as part of an extensive project to improve the internal service at the Bank. These surveys examined the quality of the service and internal interfaces between the headquarters units and between the headquarters units and the branch network. The results of the surveys were analyzed and their findings were delivered to all the Bank's units in order to create a service improvement plan where needed. In view of the findings and the need to devise inter-departmental service indicators and targets, work began in 2017 on a large-scale internal organizational survey. This survey was aimed at measuring the internal organizational service experience, preparing infrastructure for drawing up service-level agreements (SLAs) between the various units, and establishing indicators for meeting the inter-unit targets. In order to compose the survey, broad focus groups in all the Bank's fields of business met in order to map the internal services at the Bank, so that all of the service providers are rated by those directly receiving the services. Based on the focus groups, a comprehensive survey was composed that included all of the services provided by both the Bank and MATAF. The survey findings will be used to draw up a plan for improving service and establish SLAs between all of the Bank's units.

Objectives control status

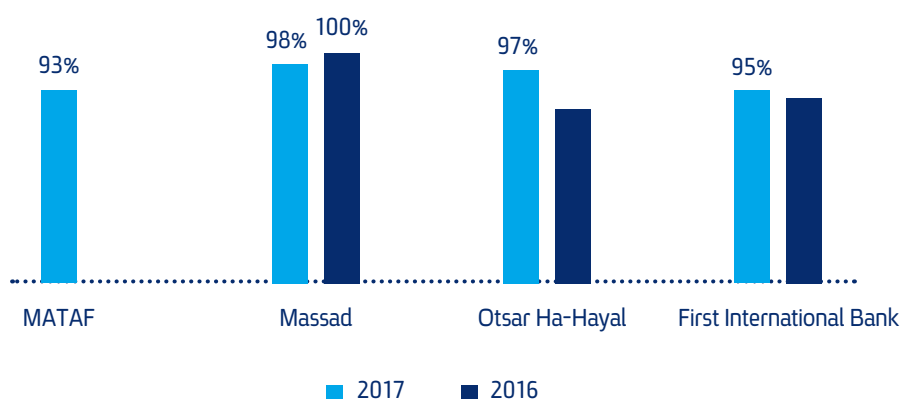
| Objective | Status |
|---|-------------------|
| In 2017, the round tables of employees with members of FIBI's management will be resumed. The meetings will be held weekly and will be attended, alternately, by all members of the Bank's management. The meetings will include employees from all fields of activity at the Bank - managers and clerks, branches and headquarters, etc. The purpose of the meetings is to create a direct dialogue between management and employees, to strengthen the connection between the Bank's various units, and to allow the employees to become closely acquainted with the Bank's objectives and the long-term work plan. | Done |
| In 2017, following surveys conducted in 2016, FIBI will hold internal surveys on organizational climate, service and work interfaces. The findings of the surveys will be processed, analyzed and presented to the unit managers for improvement purposes. | Postponed to 2018 |
| Massad - in 2017, the Bank will once again conduct workshops for personal banking managers in order to support the managers and enhance knowledge on work management processes. | Done |
| Massad - workshops will be held for the managers of the Corporate Department, in order to include them in the Department's change process. The purpose of the workshops is to create a professional dialogue among the department managers and to contribute to further business development. | Done |

Direct Dialogue - Employee Evaluation and Feedback:

The Group's employee assessment process takes place once a year. At the heart of the process is an assessment meeting between an employee and his/her direct manager. For the employee, the process is an opportunity for dialogue with his/her direct manager and creates a legitimate platform for discussing various topics, an opportunity to obtain feedback about job performance and functioning, as well as to coordinate expectations and set targets for career development. The employee assessment process is an opportunity for managing an open dialog between a manager and an employee, empowering the employee, and obtaining a broad picture of the functioning of the unit and organization. The process also allows to create an open dialogue between a manager and an employee and serves as a tool that supports the fostering of employees and the setting of standards and a uniform language for managing performance.

The annual assessment process is re-evaluated each year and updated in accordance with changes occurring at the Bank and in the business environment and the challenges facing the Bank.

FIBI Group's Feedback - The Proportion of the Bank's Employees Who Received Face-to-Face Feedback¹³



In 2017, the percentage of employees who received feedback at the FIBI Group was 96%, compared with 92% in 2016. This increase reflects the continued investment in employees and the improved dialogue between employees and management.

Management-Employee Relations:

In the Group, there are unions, which are responsible for the rights and duties of all employees, their welfare and entertainment, and assist employees where necessary.

Performance:

In 2017, 86.6% of the Group's employees were employed under collective agreements, while 13.4% were employed under personal agreements.

Bank Activity in 2017

First International Bank

There are two representative organizations for employees of the FIBI Group: Union of managers and authorized signatories, which represents about 750 people; and the union of clerks, which represents about 1,900 employees. The Bank has collective agreements with its employees that require a certain linkage of the terms of the clerks, managers and authorized signatories to the agreements signed between the management of Bank Leumi (hereinafter: "Bank Leumi") and its employee unions.

Otsar Ha-Hayal

There is a union at the Bank for employees organized under a special collective employment agreement. The union represents approximately 750 employees and managers. The Bank's management holds regular dialogue with the workers' union on various matters that come up from time to time.

Massad

The bank has a union, which represents all the employees employed under a collective agreement, 302 in total. The Bank's management maintains an ongoing and open dialogue with the union and the labor relations are good. The Bank's management and the union signed a salary and employment conditions agreement in 2012, which is valid through 2017.

MATAF

On March 8, 2017, a notice was received from the New Histadrut (the "Histadrut"), according to which more than a third of MATAF's employees have joined the Histadrut, and as of that date, the Histadrut will serve as the employees' representative body. MATAF's management is negotiating a collective labor agreement with representatives of the employees and the Histadrut.

Investing in Human Capital

The FIBI Group - A Good Place to Work At

FIBI, the largest employer in the Group, is regularly ranked among the 100 Best Companies to Work For jointly published by BDICoface and The Marker magazine. The rankings are based on an annual survey conducted among thousands of employees at hundreds of companies, and among the Bank's employees (a representative sample). In the past few years, the Bank has been among the top 40 companies in the rankings.

In 2017, FIBI was ranked 37th and Otsar Ha-Hayal ranked 60th on the 100 Best Companies to Work For list.

All in all, the two banks employ about 80% of the entire Group's employees (Massad does not take part since it is a relatively small organization).

All Group employees, permanent and temporary alike, are eligible for the social conditions set in law and various benefits offered by the banks without distinction. The Group also attaches great importance to employees' health and recreational development, offering them a variety of benefits as well as enrichment and leisure activity.

Together, the banks offer employees the following benefits*:

- **Account management benefits** - The benefits provided by the various banks in the Group include, inter alia, various discounts on employees' personal bank accounts, such as exemption from main fees, reduced fees, loans at preferential terms, and preferential interest rates on deposits.
- **Loans to employees** - The Bank offers its regular employees a wide variety of special purpose loans at convenient terms, such as: car loans, home improvement loans and mortgages. Even employees on trial periods can receive loans subject to approval in principle by the Human Resources Department.
- **Health insurance** - The Bank subsidizes a significant portion of the cost of health insurance for employees and their families, including dental insurance, health insurance, life insurance and workers' compensation.
- **Convalescence pay** - Bank employees are entitled to paid vacation leave pursuant to the law, but in most companies in Israel, the number of convalescence days granted to employees and their calculation method is significantly higher.
- **Sports activities** - FIBI offers its employees subsidized health club membership, as well as full funding for employees playing in teams in various sports fields competing in the Workplace League. The Bank has 30 sports teams in various fields, including soccer, basketball, tennis, swimming and more,

which compete throughout the year in the Workplace League. All employees, male and female, can take part in the teams of the FIBI Group and its subsidiaries, subject to passing a fitness stress test as required by law.

- **Recreational workshops and courses** - as part of the Bank Club, employees are offered recreational workshops, courses and lectures on various subjects throughout the year.
- **Periodic medical check-ups** - at FIBI, employees are eligible for periodic medical check-ups with low deductibles, and subsidized psychological consultation and treatment by psychologists or social workers.
- **Subsidized vacations** - FIBI employees are entitled to a fixed annual amount towards their vacation either in Israel and abroad either, undertaken privately or through the Company. The personal vacation budget is NIS 2,100 per year and can be accumulated for up to five years.
- **Holiday gifts** - FIBI employees enjoy personal gifts on Rosh Hashana, Passover, Purim, Family Day and other occasions.
- **Team building events** - FIBI holds regular unit team building events and social events for employees and their families.
- **Discounts and subsidies** - FIBI offers its employees discounted subscriptions to theaters, museums, the Nature Reserves Authority, etc.
- **Assistance in paying tuition for children of employees** - The bank pays part of the tuition for children of employees enrolled in academic studies and/or studies towards a diploma in order to foster and develop these young people and further their education.

* Not all benefits are available in every bank

Recognizing Outstanding Employees

The banks in the Group believe that recognizing outstanding employees contributes both to the employees, personally, and to the organizational climate in general, as part of promoting a culture of excellence in all fields, with an emphasis on branding and communicating excellence as part of the organizational culture.

Employee Transfers and Organizational Changes

Transferring employees to other roles in the FIBI Group is another way the Group nurtures and develops its human capital by enabling employees to diversify and gain experience in different work environments. The Group's nature and variety enable employees to experience diverse banking roles, areas of activity and work environments. The character and diversity of the Group's activity enables employees to gain experience in a variety of positions, fields of business, and work environments. This contributes to realizing the potential of each employee and keeping him/her highly motivated throughout his/her career at the bank.

In the Group's business environment, we must, or see fit to, make structural changes and business adaptations from time to time, which also involve the transfer of employees and are carried out pursuant to the law and agreements at the FIBI Group. We are aware of the impact of organizational changes on employees' working conditions and welfare and take into account reasonable geographical limitations and provide at least two weeks' advance notice.



Welfare, Health, and Recreation Development

The banks' human resources departments are responsible for handling employee welfare and their recreational cultural development. These departments accompany the employees throughout their working life: At the work place, celebrations, leisure time, times of distress and on retirement. As part of this approach, the various banks and MATAF offer cultural activity year-round, including special recreational days for the entire family at various sites, trips, workshops, and representative teams in sports and other recreational fields).

The FIBI Group makes every effort to maintain comfortable physical work conditions and preserve the employee's health on the job. Whenever necessary, we perform radiation and air tests in the Group's various headquarter units and branches. We comply strictly with safety and other standards. Systems are planned in accordance with air quality standards. We do our best to place electrical panels as far as possible from the employees' work stations in order to prevent radiation. If necessary, protective systems against radiation are installed.

Supporting Reservists

Employees are entitled to paid reserve duty, including all wage benefits that are usually provided only for actual work. In addition, to express support and recognition for the reservists' contribution to the nation, the Bank grants each employee who serves at least 14 days per year a prestigious recreational gift for two. The Bank also implements the law dictating a shorter workday for spouses of employees on military reserve duty.

Work-Life Balance

The FIBI Group recognizes the great importance of a home-life balance and enables its employees to combine personal and professional development with family life, thanks to favorable work agreements and regular welfare activities:

- **A shorter work week** - FIBI employees enjoy an average of 39 hours of work per week (40 hours during winter and 38 hours in the summer).
- **Overtime** - FIBI strives to organize the work schedule so as to avoid overtime, except in special cases, where necessary, and only subject to the approval of the unit manager. In such cases, employees are entitled to overtime pay of 125% of their regular wages for the first 15 hours and 150% for every additional hour. The Bank also allows to convert overtime into vacation leave.
- In addition, in exceptional cases in which an employee is required to work on his/her day off (usually Friday or Sunday), he/she is entitled to an alternative day off. If this occurs more than twice per quarter, the employee is entitled to two alternative days off from the third time onwards.
- **Vacation leave** - the number of vacation leave days provided by FIBI is significantly higher than that required by law. In addition, in addition to their annual vacation leave, FIBI employees are entitled to special leave for family and personal occasions:

- Marriage - one week's vacation
- Birth of a child - one day
- Circumcision - one day
- Marriage of a son/daughter - one day
- Bereavement leave - the day of the funeral and the seven days of mourning (for a first-degree relative)
- First degree relatives of fallen soldiers/victims of terrorist attacks - on Memorial Day.
- **Sick leave** - Procedures for the accumulation and use of sick leave days are more favorable than those customary in Israel - FIBI employees are entitled to 30 annual sick days, which can be accumulated up to a maximum of 540 days, and are eligible for sick leave pay from the first day of absence. Every employee is also entitled to two days of sick leave per month without presenting any medical confirmation of an illness.
- **Breastfeeding time** - to help women returning from maternity leave, FIBI's employees are entitled to one hour of breastfeeding for an entire year from the date of birth, far beyond the statutory requirement. The feeding time is coordinated with the unit manager and can be at the beginning or end of the workday.
- **Kindergarten and summer camp subsidies** - FIBI subsidizes kindergarten and summer camp for its employees, offering cooperation agreements with and discounts at numerous summer camps.

- **Gifts on personal occasions** - to maintain and strengthen the personal relations with its employees and their families, FIBI grants gifts on various family occasions. FIBI currently gives gifts on the birthdays, to children of employees who begin first grade, and to the children of employees who enlist in the IDF.
- **Ongoing activities for the employees' families** - throughout the year, the Bank offers exclusive activities to employees and their children, for a nominal fee.

Retirement

The FIBI Group supports employees on retirement, offering a preparatory program on a variety of topics for employees nearing retirement. In addition, the Group places great importance on keeping contact with retirees on an ongoing basis. In this context, the Group's banks meet all their pension and retirement commitments to employees in respect of pension or provident fund contributions.

The Bank offers retiring employees a variety of benefits and activities:

Participation in a preparatory retirement course to acquire basic tools for exhausting the various possibilities. The four-day program includes the following topics: processing the retirement process and transition to a "second adolescence" (the core of the program); retirement financials: annuities, rights, taxation, family budget, inheritances and wills; lifestyle: exercise, nutrition and lifestyle in old age; and pension from the Bank. In view of the importance of the topic, we also offer employees' spouses the opportunity to participate in the workshops, free of charge.

Activity in 2017

- **Anniversary and retirement event** - The Group held its annual recognition ceremony for the retiring employees of FIBI and MATAF, or those celebrating their employment anniversaries (20, 30 or 40 years of work), as a token of appreciation for their long-standing work at FIBI.
- **Women's Day** - Each year, the Group holds an event for its female employees (of FIBI, PAGI, U-Bank and Massad) to mark International Women's Day. The event includes a festive breakfast, a guest artist performance and a gift for each employee. FIBI also offers the employees a subsidized vacation in Eilat on the occasion of Women's Day, at a nominal price.
- **Sports at the First International Bank** - 75 employees competed in an athletics meet in 2017 (the annual tournament of the Workplace League) in six different sports. In addition to the teams, the Group's "Internationals" band performed at the Workplace Choir Conference. The Group also supports the Walkers' Team, which won second place in the Jerusalem march during the Sukkot holiday.
- **Events for Employees' Children**
 - A Purim celebration and a festive event for children entering first grade
 - Event for employees and their families
 - Two large events were held during the year: One in Superland (theme park) and the second at the Yamit 2000 water park.
 - Team Building Days for Employees' Families
 - During the year, especially during the summer, the group's employees are offered various family welfare activities, including a morning and night safari, tours of visitor centers, day trips to various sites, and a variety of vacation offers.

Departmental Team Building Events

- Each unit at FIBI is entitled to an annual team building budget, to be spent on an event of its choice, taste and according to its objectives.
- Keeping in touch with the Group's retirees: In addition, the Bank continues to support and maintain contact with its retirees through the Retirees' Club, which is supported by the Bank and is active throughout the year, offering various cultural, leisure and recreational activities.

In 2017, 79 employees took part in three classes of retirement preparation courses.

Bank Otsar Ha-Hayal:

Events for Employees' Children

- Event to celebrate the start of first grade - a festive event was held for the Bank's employees and their children, featuring gifts and a fascinating activity.

- Participants in an army enlistment event received a gift and attend relevant enrichment lectures shortly before beginning their military service.

- **Participation in Sports Events** - 54 employees participated in the athletics meet in Eilat; medals were won in various sports contests.

• **Departmental Team Building Events** - Each unit at FIBI is entitled to an annual team building budget, to be spent on an event of its choice, taste and according to its objectives.

- **Enrichment Events** - Two enrichment days were held for retiring long-serving employees in order to make their retirement easier.

| | |
|--|---|
| <p>Bank Massad:</p> <ul style="list-style-type: none"> • Team Building Events - The Workers' Committee sponsored overseas trips, which were partially subsidized by the Bank's management. • Award Ceremonies - An award ceremony for outstanding and veteran employees. • Departmental Team Building Events - Day-long workshops for managers of the Private Banking, Personal Banking and Corporate Banking departments. The managers of the various departments participated in a team-building day. • A work plan conference - for all of the Bank's employees was held in Cinema City. | <p>MATAF:</p> <ul style="list-style-type: none"> • Holiday events - Events were held for Rosh Hashanah, Tu B'Shvat, Hanukkah, and Purim. Every holiday event was in a different format and included a gift for employees and team spirit building activities. • Award ceremonies for outstanding employees - A ceremony was held this year in front of the MATAF building for winners of the CEO outstanding employee prize. Ten employees were selected and honored for excellence in their work. • Healthy Lifestyle Classes - Yoga and Pilates - Off-hour classes were held onsite for the second consecutive year. The activity is paid for by the Workers' Committee, takes place after work hours, onsite, enabling employees to maintain a healthy way of life and to benefit from the service and convenience. The classes boast 30-40 participants. |
|--|---|

Objectives status

| Objectives for 2017 | Implementation status |
|--|---|
| In 2017, roundtable meetings for the First International Bank employees and members of the Bank's management will be resumed. The meetings will be held weekly and will be attended, alternately, by all members of the Bank's management. Employees from all of the bank's lines of business will participate in the meetings in order to create a direct dialogue between management and the employees, tighten the relations between the various bank units, and provide the employees with a thorough understanding of the Bank's targets and long-term work plan. | Done |
| In 2017, following surveys conducted in 2016, FIBI will hold internal surveys on organizational climate, service and work interfaces. The findings of the surveys will be processed, analyzed and presented to the unit managers for improvement purposes. | Work on the survey began in 2017. The survey will be distributed in 2018. |
| In 2017, a cross-organizational project will be conducted to improve inter-organizational service. The project will include improvement of internal processes and interfaces between internal service providers and their customers within the Bank, with the aim of streamlining work processes, improving intra-organizational service level and enhancing performance. | Done |
| <p>The following activities are planned for 2017:</p> <ul style="list-style-type: none"> • Women's Day - in March 2017, a festive event will be held to celebrate Women's Day, which included breakfast and a musical performance. Also planned: a women-only vacation in Eilat. • Family event - in May of 2017, a family event will be held at Superland, as well as a summer event at a water park during the month of August. • FIBI athletes participated in the 2017 Sportiyada. • 2017 Anniversary and Retirement Event. • Outstanding employees award ceremony. | Done |
| In 2017, a group-wide HR management system will be implemented across the FIBI Group, which will improve the Group's human resources service. | Done |

2018 Objectives

First International Bank

- Continue implementation and automation of the Group's processes for managing the human capital in the subsidiaries.
- Distribute an internal organizational survey for evaluating the Bank's internal interfaces with participation from all of the employees, including MATAF employees.
- Write an internal organizational SLA - The survey results will be used to draw up an internal organizational service level agreement.
- Boost welfare and team building activities in the FIBI Group.
- Hold events and conferences - Women's Day - A morning event will be held for all of the women in the Group. 2018 Anniversary and Retirement Event
- FIBI athletes participated in the 2018 Sportiyada.
- Outstanding employees award ceremony



Equal Opportunity & Employment Diversification

The FIBI Group opposes discrimination of any kind. Full representation of the population at the FIBI Group is important to us. We want to create a diverse work environment that provides equal opportunity to employees, regardless of gender, religion, race, origin, nationality, disability, age, and sexual orientation.

We scrupulously maintain equal opportunity in all organizational processes at the Group, including hiring and onboarding, salary and job conditions, promotion, and professional training, and in any other organizational process. These values are based on the FIBI Group's ethical code principle of "Providing equal opportunity to every one of us to prove his abilities and skills." The Group does everything in its power to implement this policy.

As part of its hiring policy, the Group supports diversity at work by hiring employees from sectors constituting minorities in Israeli the population. Empowerment of these groups has added value for all those involved - on the one hand, it provides employment opportunities for members of these minorities and on the other - allows the Group to offer specialized service to customers from these groups. The Group's Human Resources Department cooperates with placement agencies specializing in specific sectors to make the necessary adjustments in the hiring and onboarding processes. It also devotes resources to creating a work environment suitable to all employees. Furthermore, the Group cooperates with NGOs specializing in empowering and integrating diverse population groups in the labor market.

We in the FIBI Group believe that a diverse labor force is crucial for managing a sustainable business. As a bank group providing service to a range of clients from various sectors and backgrounds, we understand the importance of promoting employment of persons from various sectors in Israeli society, both from a business perspective and in due to the favorable impact on Israeli society.

Equal Pay

The base salary of each manager and employee at the Bank is according to his/her role and rank, regardless of the employee's gender. There are differences in wages paid to different employees, in line with the employees' personal characteristics, such as seniority, education, and professional experience, etc.

In 2017, the highest salary paid to a First International Bank employee was 12.4 times the median salary at the Bank (excluding the highest salary at the median). In 2016, this ratio stood at 21.3. The ratio of the highest salary paid to an employee to the median salary (excluding the highest salary at the median) was 43.3% lower in 2017 than in 2016. As of 2017, the minimum wage paid to an employee at the FIBI Group was 0.35 percent higher than the minimum wage in Israel.

Salary Ratio by Gender and Rank at First International Bank:

The chart below shows the ratio between women's and men's wages by rank (men's wages divided by women's wages minus 1). It should be noted that the ratio was calculated according to the monthly wages for each rank.

| Rank | Ratio of men's to women's salaries in the same rank |
|-----------------------|---|
| Management | -22% |
| Middle management | 7% |
| First line management | 9% |
| Clerk | 12% |

Women's wages are 22% higher than those of men at managerial ranks. At the first line management level, men were paid 9% more than women; mid-level men managers were paid 7% more than women and men tellers were paid 12% more than women tellers.

The lowest monthly salary paid to a male in 2017 was 38 percent higher than the legal minimum wage in Israel, and the lowest monthly salary paid to a female in 2017 was 34 percent higher.

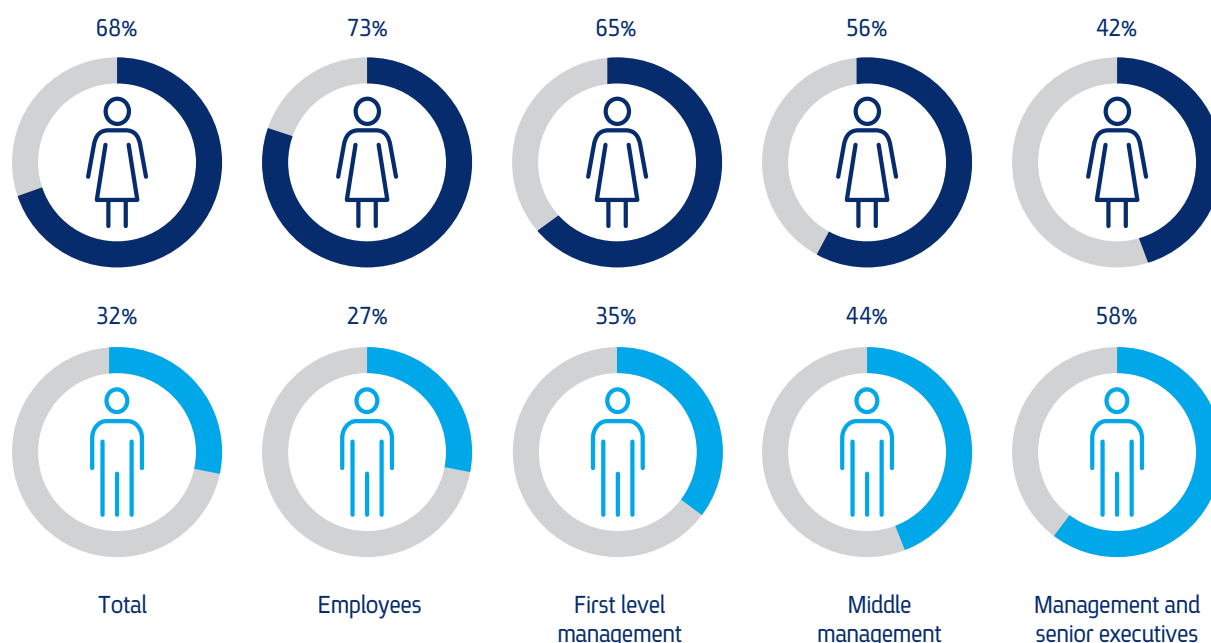
Equal Rights

All employees in the Group, irrespective of gender, are eligible for maternal or paternal leave by law. Parents returning to work enjoy a considerate attitude in the period following their return to work and understanding of their need to balance their personal and professional lives. The Group takes into consideration the needs of employees with newborn babies by allowing them to work flexible hours and giving them more sick leave and vacation days as well as higher convalescence pay than in the market. In addition, the banks in the Group provide new parents with conditions that exceed those prescribed by law, such as eligibility for "parenting time" for up to one year from the date of birth, compared with the four months prescribed by law.

Gender Equal Opportunity

The FIBI Group makes an effort to realize women's potential in the workplace. We are aware of the special contribution of women to the Group and the economy. We maintained a high proportion of women at every level of the Bank, appointing them to key positions. Women constitute 68% of all employees in the Group - 65% of first line managers, 56% of mid-level managers, and 42% of senior managers.

Breakdown of Management Levels by Gender



Prevention of sexual harassment

Each of the banks (and MATAF) has appointed a sexual harassment prevention officer and each bank's unit has detailed rules and regulations outlining how to file a complaint with the officer. During 2017, the procedure and regulations for prevention of sexual harassment were revised and sent to all of the Group's employees. One sexual harassment incident was reported in 2017. It was evaluated and verified by the Officer for Prevention of Sexual Harassment. The employee was summoned to a pre-dismissal hearing and his employment at the Group was terminated.

In addition, a tutorial on the topic was also updated and sent to the employees in 2018. All of the Group's employees are obligated to study the topic using the tutorial. In addition, the Bank's employees undergo regular training on the law and its significance, as well as proper conduct by the organization in this field.

Equal Employment Opportunity

The Group encourages recruitment and integration employees from less privileged backgrounds. For this purpose, the Group is promoting initiatives and cooperating with NGOs specializing in the integration of these groups in the labor market.

Promoting Employment in the Ultra-Orthodox Sector

PAGI specializes in serving the Ultra-Orthodox and religious communities. We use media targeting this population segment to place job ads in Ultra-Orthodox newspapers and make proactive efforts to hire suitable employees in cooperation with Ultra-Orthodox education institutions and job placement companies specializing in this segment. Even after hiring Ultra-Orthodox employees, the FIBI Group continuously works to adapt the work environment to the employees' needs, both professionally and through various welfare activities. The bank makes adjustments to accommodate the needs of the Ultra-Orthodox sector by providing food with strict kosher certification, customized vacations, and tailoring its dialogue with Ultra-Orthodox employees.

Promoting Employment in the Arab Sector

About one third of the bank's branches and extensions are located in areas that mostly serve the Arab population. Hiring is made through ads in media outlets which cater to this sector (newspapers and the internet), through partnerships with various parties in the education system and Teachers' Union, and through cooperation with job placement companies specializing in this sector.

Hiring People with Disabilities

The FIBI Group attaches great importance to hiring people with disabilities and adheres to the Expansion Order for the Encouragement and Increased Employment of People with Disabilities, adapting the work environment to their needs in the following ways:

- The FIBI Group has appointed officers responsible for hiring persons with disabilities. These officers were trained and took part in events and activities related to the employment

The Group encourages recruitment and integration employees from less privileged backgrounds. For this purpose, the Group is promoting initiatives and cooperating with NGOs specializing in the integration of these groups in the labor market.

of people with disabilities, in cooperation with organizations specializing in this field, such as Access Israel, Esek Shave, the JDC, and the Ministry of Economy.

- The FIBI Group is careful to provide a suitable work environment for employees with physical disabilities or employees who undergo a change in their medical condition.
- If needed, the FIBI Group strives to identify a role suited to employees with disabilities, in terms of distance from their place of residence, work hours and type of position.
- If necessary, screening processes are adapted to the needs of job candidates or employees in managerial or professional career tracks. The Group's human resource departments fully cooperate with placement and screening companies to provide maximum adaptations in screening and placement tests.
- Some of the banks in the Group are in contact with hiring entities who specialize in employees with disabilities.

Activities in 2017:

- No complaints regarding discrimination were filed in the Group in 2017.
- The number of FIBI Group employees from under-employed population segments (the Arab and Ultra-Orthodox sectors, Israelis of Ethiopian origin, people with disabilities) was 372 in 2017, 8.4% of the Group's employees.
- In 2017, the Group began developing a program for hiring people with disabilities, in cooperation with the Esek Shave NGO. As part of the program, the methods used to recruit people with disabilities will be improved, new procedures will be drafted and communications - improved, boosting awareness to the issue among managers and employees, etc.

Objectives Control Status for Promoting Hiring of Employees with Disabilities:

| Objectives for 2017 | Implementation status |
|--|-----------------------|
| Continued monitoring of the Bank's compliance with the Employees with Disabilities Extension Order - | Done |

Objectives:

The Group aims to complete its work plan and improve awareness to working with people with disabilities.



Employee Training & Development

In the competitive environment in which we operate, the strength of the FIBI Group is reflected in our human capital, which is the Bank's face, both vis-à-vis our customers and internally. As high-level financial service providers, we are committed to giving our customers and other stakeholders the most professional service possible. To this end, we continuously strive to empower and nurture our employees through training, personal development and encouragement to excellence. The Group fosters a culture of learning and development of professional tools for empowering its employees and improving their capabilities. These training programs encourage personal development, organizational growth, and maintaining of professional excellence.

The FIBI Group's training programs nurture and develop individual and organizational capabilities, provide tools and skills to managers of all levels, and maintain ongoing processes for imparting knowledge and skills aimed at improving the enterprise's overall performance. To maximize our professionalism while encouraging ongoing excellence among managers and employees of the Group, we use structured and gradual processes to help them acquire the level of professional knowhow and the additional skills they require.

The Group fosters a culture of learning and development of professional tools for empowering its employees and improving their capabilities. These training programs encourage personal development, organizational growth, and maintaining of professional excellence.

The Group has three training units:

1. A group-wide training department, run from the FIBI Group headquarters, which serves all the banks;
2. The training department at Bank Otsar Ha-Hayal, which provides in-house training services with an emphasis on retail banking and procures services from the Group's Training Department.
3. The Control and Quality Assurance Department at MATAF, which is responsible for specialized training in the organization, with emphasis on technology.

The departments provide solutions to the banks' needs and objectives, while advancing and developing the professional and personal skills of the managers and employees and building long-term promotion horizons.

The training activity advances the knowledge of the Group's employees in the following content worlds:

- Basic banking skills.
- Expert training in credit, the capital market, mortgages, foreign currency, and foreign trade.
- Acquiring soft skills (personal, social, and communication skills that help job performance).
- Executive training.
- Professional assistance for implementing operating systems.
- Advancing specialized professional skills.
- Tech training (at MATAF).
- Training according to regulatory requirements.

all the departments routinely assess training needs by examining objective and subjective knowledge gaps & using various mapping processes. The departments continuously review their professionalism through feedback from participants in the various courses and other tests which reflect the quality of the training.

Professional Training

The Group's employees' professional training includes basic 101 courses in various fields of knowledge, which serve as the basis for more specialized training.

To qualify as banker, each newly hired employee in any position undergoes several basic courses. In recent years, the departments have worked to reduce knowledge gaps among veteran employees as well, through extensive knowledge mapping processes and building special courses for experienced employees. Employees subsequently receive in-depth training on professional topics according to their field of work. In addition to professional knowledge, workshops are held on soft skills, enrichment and personal and managerial development as a platform for implementing professional knowledge and maximizing professionalism and excellence.

Activity in 2017

- In 2017, the employees' knowledge was mapped individually by using and analyzing information from the Group's computer data. The work done by the employees was identified and their skills were assessed in comparison with their work. In addition, monitoring processes were examined and evaluated in which faults were found in the employees' work process and actions.
- In 2017, FIBI held 15 professional courses of at least 3 days each, as well as 65 professional workshops and seminars spanning up to two days.

- Around 250 employees participated in the professional courses on various topics: Course for call center employees (7 classes); investment course (5 classes); computer courses (5 classes); advanced credit course (two classes); credit for real estate (one class); equity investment (one class); bonds course (one class).
- In the professional courses, 1,230 employees took part in courses pertaining to their professional work. Examples include a workshop for opening an account (12 classes), a workshop on deposits and savings plans (12 classes), a credit and collateral workshop (11 classes), a personal banking accounts workshop (11 classes), a credit systems workshop (11 classes), a loans workshop (10 classes), a more comprehensive foreign currency workshop (six classes), a workshop in the process of granting credit to a business customer (five classes), a workshop in attaching property liens to commercial credit (five classes), and a collateral and liens workshop (five classes).
- Professional training at MATAF included special technological courses for development, infrastructure, and information security personnel on software versions, tools, products, etc.

Management Training

The FIBI Group holds managerial training for all levels of management that deal with the provision of managerial and leadership tools, maximizing the managers' skills in their respective positions and towards their next ones, along with a regular leadership succession training program and imparting knowledge, tools, and skills in professional areas and supporting current managers. The training includes long-term courses, dozens of management enrichment courses and workshops adapted to the various management levels.

In 2017, the Training Department trained 370 managers in the following:

Activity in 2017:

First International Bank

- Senior management course
- In 2017, a leadership succession course was held for senior executives, which covered a variety of management topics, including: strategic thinking and planning; familiarity with the changes taking place in the global economy and banking industry; innovation; management and leadership; banking technology; managing human capital and implementing values in management practices.
- Training Employees as Branch Managers and Department Managers
- In 2017, a course was opened for training branch managers and department managers, and for teaching current concepts and tools in management, leadership, and banking.

Bank Otsar Ha-Hayal

- The Bank held several training activities tailored to its specific needs, including workshops to enhance banking knowledge in the Bank's area of specialization with the aim of improving its performance in personal and private banking.



- As part of the change in the Bank's branch deployment and the transfer of military branch customers to urban ones, training was held for the employees of the military branches - with emphasis on the work processes at both the transferring branch and the new branch as well as workshops on change management and cohesion for the senior staff of the military branches.
- In addition, following the Bank's win in the Small Business Encouragement Fund's tender, the Bank held seminars for the business units' managers and a conference for external consultants and business branch managers.

Bank Massad

Individual consulting and personal training is provided for branch managers and department managers at the branches. The objective is to improve management skills, help managers function in a complex work environment, and provide them with guidance in a new management position. The training included:

- Guidance and training workshops were held to raise motivation and involvement among the business unit managers, improve teamwork in formulating and selling business credit plans, and upgrade work processes and sales skills.
- Individual consulting and personal training is provided for branch managers and department managers at the branches. The objective is to improve management skills, help managers function in a complex work environment, and provide them with guidance in a new management position.

MATAF:

- A conference of MATAF managers was held; it included organizational messages, lectures on labor law - our obligations as an organization and as managers, including a refresher on the issue of sexual harassment - and a summary of the year, with an emphasis on objectives for the next one.

On-The-Job Management Training

The Training Department, in cooperation with the Human Resources Department, trains the Bank's managers through structured development training. Upon receiving signatory rights, all signatories undergo an advanced management course according to the needs and requirements of their positions.

One class of an advanced management course was held in 2017.

Regulatory Training

To complete the all-around training, emphasis is placed on regulation as an additional pillar of professionalism and excellence, in addition to the ongoing integration of regulatory content in training courses and activities, an issue that has been one of the most complex challenges added over the year: to provide a professional and readily available solution to regulatory requirements combined with a focus on business targets.

In 2017, the Training Department held training courses on a variety of regulatory subjects: seminars on prohibition on money laundering, practical training for anti-money laundering trustees, compliance workshops, a "Know the Customer" seminar, and lectures on compliance and prohibition on money laundering as part of professional courses. A total of approximately 1,700 managers and employees participated in the training.

Activity in the First International Bank Training Department in 2017:



In 2017, 20,178 annual training days were provided to all Group employees, amounting to an average of 30.4 annual academic hours (about 4 annual training days) per employee in the Group.

Objectives status

| Objectives | Implementation status |
|---|---|
| First International Bank: | Done |
| Training of fairness and proper conduct with customers - The Training Department will create a tutorial on fairness and proper conduct with customers, for use by numerous employees. | |
| Training on the Code of Ethics - a broad practical training will be held for all Bank managers and employees on the new Code of Ethics and ethical conduct, which was approved in early 2017. | Done |
| Training on digital banking - training will be held for Bank employees on the following topics: the Bank's website, the mobile app and online projects to be launched during the year. | Done |
| Examining the effectiveness of the training through an assessment test and a final test - the process of examining the effectiveness of the training will continue to be implemented in 2017 - as part of the professional workshops. | Done |
| Sales skills training - in continuation with the training program that began in 2016 as part of sales workshops for managers and business banking employees. The three-day workshops focus on developing sales management skills, providing tools and sales routines and teaching how to serve new and existing customers. | Done |
| Bank Otsar Ha-Hayal: | Done |
| Build a process of enterprise training and support to change the work structure of the Corporate Division, including identifying knowledge gaps and creating complementary training programs. | |
| Advanced credit to individuals course - enhancing knowledge on retail credit. | Done and completed |
| Support process of formulating the service / sales concept in the digital age and holding specialized training on the topic. | Still ongoing; work will be completed in 2018 |
| Create training for investment advisors which includes regulatory dilemmas and updates. | Done |

2018 objectives:

First International Bank

- The Bank is launching a program for developing middle-managers, with an emphasis on the concept of the managers' role in a dynamic business environment. The program will focus on the special challenges facing managers in their daily work environment, such as engagement, mobilizing employees, working in a dynamic environment, and instilling a culture of excellence.

Otsar Ha-Hayal

- Increasing knowledge about business credit - A special course in senior credit will be held for management (ended in June 2018).
- The bank is switching to a management training system - Ofek for the conversion of tutorials and monitoring their implementation.
- Retirement consulting will be provided, including workshops for retirees.
- Guidance will on organizational transition to personalized training be provided to headquarters staff. The staff will be trained in digital tools and the adoption of technological features, in coordination with the digital unit of the retail division.

Evaluation of Satisfaction with the Training

The Training Department evaluates the effectiveness of training and the level of employees' satisfaction with it in the following ways:

- Examining the effectiveness of the training through an assessment test and a final exam. The extent of knowledge acquired during the training is evaluated through tests taken before and after the training. 21 key courses in four main types of training were held during 2017.
- Feedback - At the end of every course, all students fill out an anonymous automated feedback questionnaire that measures their satisfaction with the classes and level of training. In addition, a wrap-up talk is held at the end of every course, attended by the Training Department Manager or his deputy. Every student is given the opportunity to express his/her opinion.





Our Management



Corporate Governance and Compliance

As part of the banking system in Israel, we are subject to an extensive legal and regulatory system that regulates the banking industry. This system is the main legal basis for our activity. The main laws governing our activity are the Banking Ordinance, the Bank of Israel Law, banking laws on licensing and customer service, and more. Pursuant to these laws, the Group's banks are subject to the supervision of the Bank of Israel, specifically that of the Governor of the Bank of Israel and the Supervisor of Banks and to all the provisions, rules, guidelines, and directives under their authority. In addition to the banking legislation, our activity is subject to additional legislative systems that regulate the Group's activity in various fields, such as: By virtue of being a publicly traded company, our capital market activity, and mortgages, etc. In these fields as well, the Group is subject not only to legislation, but also to provisions, rules, and guidelines of the authorized government regulators, including the Israel Securities Authority, the Capital Markets, Insurance and Savings Supervisor at the Ministry of Finance, the Tel Aviv Stock Exchange, the Israel Antitrust Authority, the FATCA directives and the Antitrust Authority's directives.

Additional laws on special matters impose specific obligations and provisions on the entire banking system, for example, prohibition of money laundering and the financing of terrorism laws, the Credit Information Service Law, and more. The FIBI secretariat assists the activity of the Board of Directors and coordinates its activity, in areas such as: holding meetings of the plenum and the various committees, general meetings, recording of the minutes, monitoring decisions of the board of directors, monitoring the holding of periodic discussions on regulatory matters, sending various reports to the regulators,

managing the shareholders registry, paying remuneration to directors, handling transactions with "affiliated persons" and "parties at interest", and payment of dividends.

The Board of Directors' Activity and Composition

The managements of the banks in the Group are directed and guided by the Board of Directors and the committees of each bank with regard to the business strategy and policy of the bank, in line with the policy of the Group as set by FIBI. In this context, the board of directors approves the objectives, qualitative and quantitative targets, the bank's areas of activity, and the allocation of resources among them.

The board of directors of each bank in the Group acts in accordance with the corporate governance guidelines set in law, and serves as the guiding hand for the bank's management, including setting policies in all areas of the Bank's activity, risk management, compliance, credit, prohibition on money laundering, internal enforcement plan, etc. The Board of Directors of the bank has a critical role in outlining the business strategy and risk appetite of the Group. On the basis of the bank's multiyear strategic plan, management submits to the Board of Directors annual work plans and the bank's budgets, including qualitative and quantitative details of the mix of income, expenses, and investments that management has set as long-term targets and specific targets for the current working year. As part of this function, once a year, the Board of Directors approves the annual work plan and risk management policy of the bank in the material risk areas, and sets

out standards for the management, measurement, control, and reporting of exposure to the various risks. Corporate responsibility issues are discussed by the Board of Directors and the various committees. In this context, the Head of the Resources Division presents the Bank's Corporate Social Responsibility Report to the Board of Directors' plenum. The boards of directors of the banks in the Group operate under the corporate governance guidelines prescribed by law.

The Board of Directors also has an important role in supervising the Bank's senior executives, so as to ensure that they comply with the organization's policies. It is important to note that the Board of Directors is the body that appoints the CEO and decides the nature of his/her work and duties toward the Board of Directors, and approves the appointment of senior officeholders and other officeholders, as well as their remuneration. Furthermore, the board of directors assesses the performance of these parties.

The board of directors of each bank in the Group is responsible for: setting the vision, values, strategy, and objectives in the bank's areas of business; outlining the organizational culture and standards of professional conduct and a plan for instilling them at all levels at the bank; ensuring the presence of clear areas of accountability and reporting with regard to compliance with laws and regulation; and reporting any exceptional incident and any matter of material importance to the activity of the bank or supervision and control of its management. The members of the board approve the capital planning, periodically discuss the bank's financial position, and are also responsible for approving the financial statements. Once a year, the board of directors reviews the internal control system and procedures for capital assessment. Furthermore, the board's areas of responsibility also cover the appointment and functioning of the internal and external auditing and control parties; contracts and activities requiring approval by law or by decision of the board of directors; making changes in the structure of the Group; raising capital and investments, including the disposal of permanent investments, issuing securities, and periodic review of the capital adequacy of the bank, and more. In order to advance the board members'

knowledge and understanding of the FIBI Group, a dedicated training program is created each year for the directors, who participate in professional courses on business- and other issues, throughout the year. In 2017, the Board of Directors attended several advanced educational programs in various fields. These included topics such as cybersecurity, artificial intelligence, the digital revolution, FinTech trends and the FinTech industry in Israel, antitrust, and Basel 4 and other regulatory revisions.

Additional functions of the board include supervision over the effective implementation of the bank's risk management policy; once a year, the board of directors of each bank in the Group approves the annual work plan and risk management policy in the various material risk areas, such as credit risks, market risks, liquidity risks, and operational risks. The work plan and policy set standards for the management, measurement, control, and reporting of exposure to the various risks, which includes, inter alia, the risk appetite, risk frameworks, and permitted exposure limits in the different areas of business and sectors. In this context, the board of directors adjusts the exposure policy for the various risks to changes in the bank's financial markets and business environment.

In accordance with the board of directors' procedures at each of the banks in the Group, if and when it is necessary to raise an urgent matter before the board of directors' plenum, an urgent meeting may be convened, including a conference by way of communication means or decision in writing, in order to make the decision as needed, all pursuant to the terms set in the board of directors' procedures and according to law. The board of directors' procedures at each of the banks in the Group establish the provisions that regulate a director's right to receive the information he/she needs in order to fulfill his/her duties as director and, if necessary, to consult with various parties as part of fulfilling his/her duties, pursuant to the provisions of the law (including the Companies Law, 5759-1999) and pursuant to Proper Conduct of Banking Business Directive 301 regarding the board of directors.

Corporate social responsibility issues are managed and supervised by the Board of Directors and discussed in several forums, both by the Board of Directors' plenum and by the various committees. The topics discussed by the Board of Directors include responsible hiring, providing credit for environmental projects, and reducing environmental impact.



Members of the FIBI Group Boards of Directors - 2017

| | First International | Otsar Ha-Hayal | Massad |
|--|--|----------------|--------|
| Total no. of directors | 13 | 14 | 12 |
| No. of external directors | 8 | 5 | 4 |
| Directors with accounting and finance skills | 12 | 9 | 9 |
| Directors with accounting and finance skills in the Audit Committee | 5 | 6 | 5 |
| No. of women on the board | 2 | 4 | 5 |
| Directors under 30 years of age | 0 | 0 | 0 |
| Directors aged 31-50 | 2 | 2 | 1 |
| Directors aged 51+ | 11 | 12 | 12 |
| No. of the board plenum meetings | 28 | 16 | 15 |
| No. of the board's committees' meetings | 58 | 33 | 30 |
| Is the chairman of the board independent (yes/no) | No | No | No |
| What is the age of the youngest director | 43 | 42 | 47 |
| What is the age of the oldest director | 77 | 72 | 81 |
| Average age on the board of directors | 65 | 60 | 63.5 |
| The duration of each director's term of office (seniority on the Board of Directors) | Please see the Financial Report, section on the Board of Director's composition. | | |

* External directors in accordance with the Companies Law and 5 external directors according to Proper Conduct of Banking Business Directive

*As of the end of 2017

Board of Directors' Committees

The board of directors of each of the banks in the Group has the following committees:

- A. An audit committee (which also reviews the financial statements).
- B. A remuneration committee
- C. A risk management committee
- D. A loans committee (at Bank Massad, it is called the Credit, Business, and Risk Management Committee).

In addition, every board of directors in the Group appoints additional committees as necessary, such as an administration and information systems committee, and a problem debt committee. Bank Massad has a strategy committee (which is active every five years).

In the area of human capital, the Board of Directors determines the remuneration policy, retirement terms and compensation methodology for employees and managers, taking into account the bank's business position and the impact of the remuneration policy on the corporation's risk profile, all in accordance with Proper Conduct of Banking Business Directive No. 301A. The Board of Directors' remuneration committee discusses, inter alia, the remuneration policy, ensuring that it is in line with the bank's corporate culture, its long-term strategy and control environment. The remuneration committee is also responsible for ensuring that the remuneration incentives do not encourage risk taking beyond the established risk appetite. The committee also recommends to the Board of Directors which principles to adopt for the remuneration agreements of the Bank's employees, and discusses negotiation processes with the bank's workers' unions.

In addition, the Board's administration and information systems committee discusses, inter alia, the implementation of the annual work plan of the Resources Division on issues such as management succession plans, corporate development plan and the annual training program. The Committee receives annual reports on community outreach, and occasionally receives requests for exceptional donations. Every three years, the committee reviews the bank's code of ethics, its means of distribution, as well as the control and enforcement mechanisms. The committee also discusses IT and innovation matters and the bank's construction unit.

The Board of Directors is responsible for: approving the policy paper for managing each of the bank's material risks, periodically (at least once a year); reviewing and approving the risk management framework based on the policy paper for each of the bank's material risks (including money laundering and terrorism financing risks); and ensuring that the bank is implementing the risk management policy effectively, including overseeing management's work. The Board is also responsible for establishing a corporate culture of risk management as well as professional conduct and integrity standards, and to ensure that they are instilled at all levels of the bank.

Compliance risk is the risk of a legal or regulatory sanction imposed on the bank, substantial financial loss, or reputational damage the bank may incur due to non-compliance with the provisions of the law. To maximize its ability to assess the effectiveness of compliance risk management and to address the challenges, failures and quality of risk management at the bank and the Group, the Board of Directors conducts - via the Audit Committee - at least once a year, a meeting with

the Compliance Officer only. The Board of Directors is also responsible for approving the Compliance Officer's annual and multi-year work plans, after ensuring that the plan outlines the risk management and control mechanism, and that the plan is risk-based and risk-oriented so as to adequately address the risk appetite. Each year, the Board of Directors or a committee thereof reviews the definition of the risk appetite and tolerance for the compliance risk, ensuring the existence of an appropriate and efficient infrastructure to ensure compliance and manage the compliance risk according to the risk tolerance established for the compliance risk and oversees that the bank's management addresses the compliance findings adequately.

The Audit Committee discusses, inter alia, employees' complaints about deficiencies in the management of the Bank's business. The committee established procedures for handling complaints and protecting employees who filed grievances.

In addition, for several years, the FIBI Group has had a steering committee, with two members that are responsible for community outreach, in an effort to closely monitor, direct, initiate and formulate a group-wide community outreach policy on a regular basis.

The Board of Directors is responsible for approving the public grievance policy and the Service Charter of the Public Grievance Officer. The Board of Directors discusses the periodic reports of the Public Grievance Officer at least once each year, shortly after they have been filed. In this context, the Board of Directors ensures that the public grievance function is properly staffed and has the resources and powers necessary to carry out its duties.

Composition of the Board of Directors by Committee

First International Bank:

| | Remuneration Committee | Auditing | Administrative & IT |
|---|------------------------|----------|---------------------|
| Composition (no. of directors) | 5 | 6 | 6 |
| No. of independent directors | 4 | 4 | 4 |
| Percentage of independent directors relative to the total number of directors | 80% | 67% | 67% |
| Is the committee chairman independent (yes/no) | Yes | Yes | No |
| No. of the board's committees' meetings | 7 | 25 | 4 |

Bank Otsar Ha-Hayal

| | Remuneration Committee | Auditing | Administrative & IT |
|---|------------------------|---|--|
| Composition (no. of directors) | 4 | 6 | the committee was dissolved on December 22, 2016 |
| No. of independent directors | 3 | 4 | |
| Percentage of independent directors relative to the total number of directors | 75% | 66% | |
| Is the committee chairman independent (yes/no) | Yes | Yes | |
| No. of the board's committees' meetings | 3 | 18 of which were balance sheet meetings | |

Massad:

| | Remuneration Committee | Auditing |
|---|------------------------|----------|
| Composition (no. of directors) | 5 | 7 |
| No. of independent directors | 3 | 5 |
| Percentage of independent directors relative to the total number of directors | 60% | 71% |
| Is the committee chairman independent (yes/no) | Yes | Yes |
| No. of the board's committees' meetings | 3 | 9 |



The Directors' Skills and Experience

As of the end of 2017, pursuant to the provisions of Proper Conduct of Banking Business Directive 301, at least one third of the members of a Board of Directors were external directors; at least one fifth of all the directors have proven experience in banking; at least one fifth of all the directors have expertise in accounting and finance (as per its definition in Section 240 to the Companies Law, 1999); at least one external director has accounting and finance expertise, and the others are professionally eligible or skilled in accounting and finance (as these terms are defined in the Companies Law); at least one of the directors has expertise and experience in risk management and auditing (and serve on the Remuneration Committee). The above are in addition to the skills required under the provisions of the Companies Law.

According to the Bank of Israel's directives (Proper Conduct of Banking Business Regulation No. 301 - hereafter - "Regulation No. 301"), the Board of Directors must collectively have proper knowledge, qualifications, expertise, and experience corresponding to the bank's strategy and the character of its activity. Regulation No. 301 also states that at least one third of the directors must have "banking experience," at least one fifth must have "accounting and financial expertise," at least half must have "professional qualifications," at least one director must have proven knowledge and experience in information technology, and at least one director must have expertise and experience in risk management and oversight (as these terms are defined in Regulation No. 301).

Directors at First International Bank are appointed in accordance with the provisions of the law, the Bank of Israel's Proper Conduct of Banking Business Regulations, and with approval from the Bank of Israel. These requirements include:

- The Companies Law (Section 57) provides that the appointment of external directors shall be approved by the general meeting;
- Chapter 4 of the bank's Articles of Association (the "Bank's Articles of Association") sets forth instructions for the process of appointing a director. Article 86 of the Articles of Association accordingly states that the general shareholders' meeting has the authority to appoint directors. The Articles of Association nevertheless also allow the Board of Directors to appoint directors, subject to the provisions of the legislative arrangement and conditions set forth in Article 87 of the Articles of Association. In such cases, the appointment is valid until the end of the first general shareholders' meeting following the appointment. Under the provisions of the Banking Ordinance, a vote on

the appointment of directors is held at the general meeting, separately for each candidate. In addition, an advance notice should be issued at least 21 days prior to the publication of a notice on convening a general meeting on whose agenda is the appointment of directors (in the form of an immediate report filed with the MAGNA System). The right to request the convening of a general shareholders' meeting and to propose topics for discussion at it, including submitting a candidate for appointment as director, is granted in accordance with the Companies Law (Sections 63, 64, and 66 of the law). For example, the Board of Directors is entitled to propose a candidate for the Board of Directors, and any shareholder with at least 1% of the voting rights is entitled to propose a candidate. The composition of the Board of Directors is subject to the provisions of the Companies Law, the Proper Conduct of Banking Business Directive No. 301, and the Bank's Articles of Association.

Each of the banks in the Group implements all of the provisions set in the legislation, standards, and regulations with regard to the prevention of conflicts of interest by the directors. Accordingly, each of the banks has a dedicated procedure for the matter, the objective of which is to set guidelines for situations in which a candidate for the position of director may regularly find himself facing a conflict of interest between his business or ongoing occupations and the position that he is due to fulfill at the bank, in a way that will result in his disqualification to serve as a board member. None of the directors, including the chairman of the board at each of the banks in the Group, serves in another management position at the bank where he/she serves as director or chairman of the board of directors (for further information about the directors in the Group, please see the 2017 financial statements: FIBI, pp. XXX; Bank Otsar Ha-Hayal, pp. XXX; Bank Massad, pp. XXX;

Assessing the Board of Directors' Performance

Every two years, the board of directors of each of the banks in the Group conducts an internal self-assessment process intended to improve the Board of Directors' work. The assessment process is included in a procedure drafted by the bank pursuant to the requirements of Proper Conduct of Banking Business Directive 301. The process is intended to evaluate the efficiency of the work by the board of directors, identify weaknesses, and make changes as needed. The assessment process focuses on aspects

of corporate governance, risk management, and the control and supervision undertaken by the board of directors.

Mechanisms for Contacting the Board of Directors

We operate under a normal administrative hierarchy: at each bank, issues, questions, and grievances by employees are submitted to management, and, if necessary, forwarded to the board of directors. Inquiries to the board of directors are made through each bank's secretariat. Issues forwarded to the board by the shareholders are presented through the general shareholders meeting mechanism. In addition, some members of FIBI's management serve as directors in the banking subsidiaries. In 2017, 6 general meetings were held in the FIBI Group, of which 3 were annual meetings and 3 special meetings.

| Bank | Annual meeting | Special meeting |
|--------------------------|----------------|-----------------|
| First International Bank | 1 | 1 |
| Otsar Ha-Hayal | 1 | 1 |
| Massad | 1 | 1 |

Employee Remuneration Policy

In accordance with Proper Conduct of Banking Business Directive No. 301A regarding remuneration policy in a banking corporation (hereafter - The "Directive"), the Bank approved in April 2017, three years after the earlier approval, a revised remuneration policy for all of the Bank's employees, including key employees, and principles for a collective remuneration policy. The remuneration policy for officeholders, as approved by the Bank's general shareholders' meeting on February 23, 2017, constitutes part of this revised policy. As part of the remuneration policy for employees, the provisions concerning remuneration for employees and key employees were revised according to the amendments to the Directive passed after the date on which the Directive was first published. Provisions concerning the division of

responsibility between the relevant parties at the Bank dealing with the remuneration mechanism were also revised. In addition, as part of the Group's remuneration policy, the principles for fixed and variable remuneration of officeholders in controlled corporations were revised to comply with the principles stated in the remuneration policy for officeholders at the Bank.

Compliance with the Law

The compliance units at the Group banks, which are headed by the Chief Compliance Officer, are charged with: ensuring implementation of the customer-related provisions; ensuring implementation of legislation regarding to the prohibition of money laundering and financing of terrorism; internal enforcement of securities, the Code of Ethics, adequate banking business conduct with customers, the FATCA provisions (taxation of American customers), and the declared money policy (the objective of which is to address risks derived from the possibility that money deposited in the bank originates from tax evasion in the source country). The compliance officer at each bank in the Group participates in drawing up work procedures by approving procedures and circulars, developing new products, systems and processes, and advising on aspects of proper disclosure, proper business conduct, money laundering prohibition and the financing of terrorism in complex transactions, etc.

In addition, the Group assumes a conservative policy of low risk with regard to entering into agreements and legal commitments, and conducts its business with customers by proper banking business conduct, using adequate legal advice, while scrupulously complying with any legal provision and regulation and the restrictions and duties derived thereof. Furthermore, the Group has a strict policy toward bank managers and employees in all matters pertaining to administrative or criminal violation of the provisions of the law that apply to the Group's activities.

All employees of the FIBI Group, both clerks and managers, at the branches and at headquarters, have free and direct access to the Chief Compliance Officer and/or a representative thereof at the various units of the Compliance Department, in order to obtain expert advice and/or report flaws discovered in aspects of compliance. Inquiries are made directly by telephone, email, through designated systems, or at various forums concerned with banking issues.

Compliance - Annual Activity and Figures

In addition, the bank had no significant fines or sanctions for non-compliance with laws or regulations in 2017.

First International Bank

- Management and the FIBI Group's board of directors have approved the Group's compliance policy papers and compliance plan (including adjustments for the various banks).
- Compliance trustees at the branches attended annual seminars in which expert lectures were given by external speakers and bank employees.
- The compliance unit conducted proactive audits to identify and prevent alleged violations of various laws.
- As part of the training about, and instilling of, a compliance culture with the Bank's employees, lectures were given at 29 branches and 12 courses initiated by the bank's Training Department.
- The employee information website is regularly updated - "The Risk Management World", which includes various banking issues, constituting a source of information for all employees of the Bank.

Otsar Ha-Hayal

- As part of its ongoing activity, the Bank's Compliance Unit found several high-risk areas for possible breaches of various compliance directives. All of these areas are being monitored, and training is being provided to mitigate the risk.

The Compliance Unit conducts inspections during the year. In most cases, the inspections' findings were forwarded to the branches for handling, along with instructions about the necessary actions and/or requirements to pay special attention to the issues at hand. The findings were also forwarded to the Retail Division for notification purposes and further handling.

The Compliance Unit regularly evaluates various banking activities, products, operating systems specifications, advertisements, and dozens of circulars and procedures. The unit's approval is required before they are distributed. At the approval stages of products or activities, the unit places emphasis on compliance of the work processes with the law and a proper business conduct policy (to mitigate conduct risk). The unit also verifies that the various products or activities are fully automated, primarily in order to avoid manual transactions liable to result in breaches of the compliance directives.

- In 2017, actions aimed at stressing the importance of compliance with the directives to employees continued. Employees attended lectures in various courses in the Training Department and at the bank's branches.
- The MERUTZ system was also installed to help carry out and document the monthly branch inspections required under the compliance trustee procedure. Use of the system saves a great deal of time in documenting the inspections and improves the quality of the documentation. It makes sample monitoring of the necessary implementation easier, and accommodates feedback on the quality of the inspections.

Objectives Control Status - Corporate Governance and Compliance:

| Objectives | status |
|--|--------|
| <ul style="list-style-type: none"> The policy paper and work plan is expected to be updated in 2017. In 2017, drills will be carried out according to the drill policy and procedure. In 2017, a three-year revision project will be carried out for mapping essential processes according to Proper Conduct of Banking Business Directive No. 355. | Done |
| <p>FIBI</p> <ul style="list-style-type: none"> In 2017 the Bank will deepen the implementation of policies and procedures to prevent bribery and corruption of foreign officials. In the first quarter of 2017, new remuneration policies were approved for the Bank's officeholders and employees, which are updated according to the Remuneration Law and amendments to the Directive. | Done |
| <p>Bank Otsar Ha-Hayal</p> <ul style="list-style-type: none"> Training and implementation through visits to the branches, relevant training courses and approval of procedures. Continued implementation of controls. Finalize integrated infrastructure survey in accordance with Proper Conduct of Banking Business Directive No. 308. | Done |
| <p>Bank Massad</p> <ul style="list-style-type: none"> Finalize integrated infrastructure survey in accordance with Proper Conduct of Banking Business Directive No. 308 and addressing the gaps discovered therein. Deepen knowledge among the employees through training courses, tutorials and knowledge tests, to increase awareness as part of an organizational infrastructure that encourages compliance. Conduct inspections to identify risk focal points. | Done |

Objectives for 2018 - Corporate Governance and Compliance:

First International Bank

- Explaining of and instilling the importance of compliance among the Bank's employees through:
- 11 basic courses will be given by the Training Department.
- Three yearly lectures will be given to the compliance trustees in the branches.
- Lectures will be delivered in the bank branches, and talks will be held with employees about the importance of compliance at about 25 branches.
- About 16 training sessions will be conducted for new compliance trustees at the branch and division level.

Otsar Ha-Hayal

- The findings of a compliance infrastructure survey will be implemented.
- Training: Measures aimed at increasing knowledge will be taken regularly. Plans include two one-day seminars for compliance trustees (one seminar in a group framework and one at the bank), lectures in basic courses in the Training Department, and 12 lectures during visits to the branches.
- Instilling the compliance policy among the employees - Further instruction will be provided at periodic meetings with branch managers and employees about the importance of complying with the law, the bank's procedures, and the bank's ethical code. Keeping up-to-date on the bank's procedures and activity conducted according to them will be stressed.

Massad

- Deepen knowledge among the employees through training courses, tutorials and knowledge tests, to increase awareness as part of an organizational infrastructure that encourages compliance.
- Policy on proper banking business conduct will be implemented and principles of fairness and integrity will be instilled among the bank's employees and managers.
- A computer system will be installed for management of compliance risks. A detailed multi-year work plan will be drawn up, based on a mapping of the risk assessment for directives applicable to the bank.
- Conduct inspections to identify risk focal points.
- Innovation and technology will be promoted, and the risks incurred in the integration of new technologies and new products at the bank will be managed.



Ethics and Anti-Corruption

The ethical codes constitute an additional pillar in the FIBI Group's organizational culture, which combines business and moral excellence. The Code of Ethics sets a high threshold of that which is proper and fitting to strive for, and is a clear and explicit statement of what we believe in and seek to uphold. The Code of Ethics applies to all employees of the Group, at any rank and in any position, including members of management and the Board of Directors, both of which have approved it. The Group attaches great importance to the implementation of the Code in its activities with the various stakeholders and expects all employees, members of management and the Board of Directors to work in the spirit of the values included in the Code. The Code of Ethics functions as a binding declarative document. To view the Code of Ethics, please visit the websites of the Group's banks.

Main Objectives of the Code of Ethics

1. To create a value-driven, moral environment at the Group and offer a solution where the law or procedures are ambiguous.
2. To present the values that guide our activity vis-à-vis customers, employees, and the external environment.
3. To clarify how the values should be implemented in day-to-day life through rules of conduct.
4. To serve as a moral guide in instances of possible conflict or dilemma at work.
5. To help employees choose the right path and to direct decision-making processes at both the business and interpersonal levels.

We seek to develop and consolidate tools for instilling the Code of Ethics and foster an ethical culture. For this purpose, ethics functions have been established at each bank in the Group, where an ethics committee (chaired by a member of management) is responsible for instilling the Code and providing

The FIBI Group banks and non-bank subsidiaries have ethical codes. The ethical values to which we have committed shape the moral structure of our activity at the Group. The Code of Ethics, which imbues these values, is a moral identity card for each and every bank in the Group and functions as the moral compass of each employee in their day-to-day work.

advice and training in accordance with its values, as well as an Ethics Supervisor (member of management) and Ethics Officer. The means available for requesting advice or reporting ethical issues are regularly advertised and available to all of the Group's employees. We allow managers and employees to remain anonymous on submitting an inquiry. In addition, to enable employees to present to an objective and independent party cases in which there is suspicion of significant deviations from the bank's procedures regarding business conduct, integrity and financial reporting controls, the Group has appointed the Head of the Finance Department and Capital Markets in the auditing array to serve as the employee complaints supervisor in FIBI and Massad, and in Bank Otsar Ha-Hayal - the Head of the Auditing Department. The Head of the Resources Division, the supervisor of employee complaints and their counterparts at Bank Otsar Ha-Hayal are responsible for providing protection to employees who complain in order to ensure that their rights are not compromised as a result of filing the complaint.

The Group's content on ethics is available to managers and employees via each bank's enterprise portal. In addition, each bank chooses different channels for promoting and instilling ethics (employment agreements, employee conferences, emails, etc.) Each new employee hired by the Group reads the Code of Ethics when he/she begins working, and each employee is required to read the code periodically (the period varies from one bank to another - and ranges between one and three years).

- In 2017, no ethics-related inquiries were filed in the FIBI Group.
- In 2017, two cases of bribery and corruption were identified and handled through disciplinary actions.

Upholding Integrity

The FIBI Group recognizes the importance of upholding integrity and preventing corruption in its various banking activities. Accordingly, we act to prevent such incidents through a number of complementary mechanisms to estimate, prevent and control the risks, and to handle them when necessary, so that these areas are fully covered.

The risk management and auditing are conducted by the Group through an adequate infrastructure of control, supervision, and auditing, which are implemented by means of three lines of defense:

The **first line of defense** is held by the people responsible for creating and managing the risk;

The **second line of defense** is held by the independent units of the Risk Management Division and auditing;

The **third line of defense** is held by the internal and external audit array.

The FIBI Group's employees undergo training on the subject through the following tutorials:

1. 86% of the employees completed tutorials on banking business risk as one of the compliance risks.
2. 89% of the employees completed tutorials on operational risk management.
3. The proportion of those completing tutorials on information security (ransomware, information security, and social engineering) is 95%.

The audits conducted by the banks' internal audit arrays also examine exposure to risks of embezzlement and fraud. The internal audit work plan is based on a systematic methodology of assessing various types of risk, including embezzlement and fraud. These risks were evaluated as part of the operational risks survey conducted in 2017. The bank's employees are regarded as public officials for purposes of accepting gifts. The provisions of the criminal code forbidding acceptance of a bribe apply to them. Gifts and discounts beyond the reasonable discounts given by a customer or supplier are therefore liable to be considered a forbidden benefit, with all the relevant implications. The internal audit unit reviews information regarding suspicions of embezzlement and fraud, or other ethical incidents - both through the audits conducted as mentioned above, and through complaints that reach the relevant party in each bank in their capacity as supervisors of employee inquiries. If necessary, an audit report is written, which is sent to the bank manager for the purpose of taking corrective action against those responsible and the incident is reported to the board of directors' Audit Committee. The audit reports are reviewed by a dedicated committee headed

by the Head of the Resources Division, with the participation of other members of management and senior executives. The committee issues a recommendation for disciplinary sanctions against employees who were found to be responsible for the deficiencies in audit reports.

The Risk Management Division regularly acts to improve the management and prevention of risks associated with integrity and conduct which do not meet the requirements of the Group's procedures. Before promoting any employee to a first managerial position, to the next managerial rank or to any position, or to a new managerial position (in the same rank) or to the position of a branch manager, the Human Resources Division asks for a "no objection" from the Chief Compliance Officer at the Risk Management Division and from the Internal Auditing Unit, in order to verify that there have been no incidents involving the candidate which are liable to prevent his/her promotion.

Preventing Conflicts of Interest

The Ethics Committee and the FIBI Group's management held several discussions on this subject. Among other things, a quarterly discussion led by the CEO was held as part of the Operational Risk Forum, a quarterly meeting was held on the risks document, and a special annual discussion was held on embezzlement, fraud, and unethical conduct. The Board of Directors also receives a quarterly report in the framework of the risks document.

Matters pertaining to prevention of a conflict of interest are reported to the employees, and are revised as part of a procedure for employees. This procedure regulates the conditions under which transactions with a customer or supplier require disclosure and special authorization before being carried out. It also instructs the bank's employees concerning the prohibition on accepting gifts and benefits. Furthermore, the bank's employees are forbidden to handle and/or authorize transactions in accounts reported as belonging to their relatives. Every employee is responsible for declaring the existence or non-existence of accounts kept by his/her relatives at the bank in which he/she works.

Inquiry Mechanisms for Employees

To enable employees to present to an objective and independent party cases in which there is suspicion of significant deviations from the bank's procedures regarding business conduct, integrity and financial reporting controls, the Group has appointed the Head of the Finance Department and Capital Markets in the auditing array to serve as the employee complaints supervisor in FIBI and Massad, and in Bank Otsar Ha-Hayal - the Head of the Auditing Department. The Head of the Resources Division, the supervisor of employee complaints and their counterparts at Bank Otsar Ha-Hayal are responsible for providing protection to employees who complain in order to ensure that their rights are not compromised as a result of filing the complaint.

Employees also have various ways to make inquiries about ethical matters - they can contact one of the ethics entities (members of the Ethics Committee, an Ethics Officer, or an Ethics Supervisor) for the purpose of consulting them or reporting unethical conduct, either verbally or in writing, in one of the following ways: Through the ethics portal on the Human Resources website; to a special-purpose telephone number; by internal mail or email; by faxing the Ethics Officer. The ethics



entities can also be contacted anonymously. Names and contact information for Ethics Committee members are published through various channels in the internal communications system, as well as through various implementation devices for employees.

Inquiries on the subject of compliance can also be addressed to the compliance trustees at any branch, to the compliance system through the website, or by personally contacting officeholders.

First International Bank's activity:

- Following the revision of First International Bank's ethical code, seminars were held for all of the Bank's employees, managers, and clerks. These seminars included new information and refreshers about the values of the ethical code and the Bank's ethics entities, business ethics, tools for solving ethical dilemmas, and related questions. The purpose of the day-long seminar was to make the employees more aware of the importance of the ethical code's values and the rationale behind them, highlight sensitivity to ethical issues arising during everyday activities, and stress that each of them was responsible for complying with the Bank's values.
- Procedures and work processes concerning the ethical code and ethics in general were revised.
- A desk calendar in the spirit of the ethical code was distributed to all employees. The calendar highlights First International Bank's new values and their significance.

Bank Massad's activity:

- The ethical code was revised and approved by the Board of Directors.

Bank Otsar Ha-Hayal's activity:

- The ethical code tutorial was validated, and a revised ethical code booklet was issued.

MATAF's activity:

- In 2017, a refresher tutorial was distributed to all employees.

Objectives Control Status

| Objectives | status |
|---|--|
| Continued follow-up of the recommendations of the report on prevention of embezzlement, fraud and unethical behavior. | Done |
| An annual discussion on embezzlement and fraud by FIBI's management. | Done |
| Map embezzlement and fraud risks as part of the operational risks survey update and new product approval. | Done |
| Implement policies and procedures to prevent bribery and corruption of foreign officials. | Done |
| <p>First International Bank</p> <p>FIBI: launch of the new Code of Ethics for all employees - upon completing the revision of the Code and accompanying training aids, all employees will undergo training on the new Code. Initially, managers and authorized signatories will undergo training on this topic, followed by all of the Bank's employees. The training will include a theoretical part, which will focus on business ethics and ethical conduct, and a practical part that will include analysis of case studies and hands-on experience in using decision-making tools.</p> <p>Developing value-based leadership - to emphasize the role of leadership in the process of instilling the Code of Ethics in the organization, a kit for managers was prepared, to be used in team meetings discussing ethics and daily dilemmas.</p> <p>A booklet of sample dilemmas, a tutorial and an ethics portal - while holding training courses on ethics, the various training tools will be revised and prepared, primarily a sample dilemma booklet, which will include possible ethical dilemmas in banking activity, vis-a-vis customers, colleagues, suppliers and other stakeholders, and how to deal with them. The dilemmas booklet will serve as an advisory and guidance tool for all employees in their day-to-day work.</p> <p>For this purpose, focus group will be conducted to identify possible dilemmas.</p> | <p>Done</p> <p>The kit's distribution was postponed to 2018.</p> <p>To write the dilemma booklet, focus groups were held.</p> <p>The dilemma booklet will be distributed to employees in 2018.</p> |
| <p>Massad</p> <p>Updating and maintaining the Code of Ethics in line with the changes in the parent company. If an updated tutorial is created, it will be distributed to all employees.</p> | <p>The ethical code's values were revised and clarifications about the rules of conduct expected of employees were added to make them practical and express them in easily understood terms.</p> |
| <p>MATAF</p> <p>Development and implementation of ongoing programs to instill</p> | Done |

2018 Objectives:

First International Bank

- The book of dilemmas will be distributed for use by the employees.
- A manager's kit will be created for continuous implementation of the ethical code.

Massad

- Training and a lecture about the ethical code will be provided to managers, including all of the code's various aspects.
- Computerized lessons based on the ethical code and its values will be distributed to all employees.

Otsar Ha-Hayal

- The ethical code will be instilled through special-purpose workshops.
- The implementation of the tutorial will be monitored.
- The ethical dilemmas raised before the Ethics Committee will be disclosed and shared.



Business Continuity

Preparation for business continuity is a critical factor in maintaining the bank's financial stability and its ability to survive and function, even in an emergency and under various disasters or failures. This preparation is mandated by our commitment to providing service to our customers; preserving their assets and those of depositors and holders of the bank's securities; providing a safe work environment to our employees under an emergency; and complying with the Proper Conduct of Banking Business Directive and the Basel Committee recommendations.

Pursuant to the provisions of Proper Conduct of Banking Business Directive 355 on the matter, the Group prepared for disaster recovery and business continuity during various types of emergencies.

A member of the Group's management and head of the Risk Management Division are responsible for coordinating the matter at the Group level. The Operational Risk Management Unit at the bank handles preparedness, which comprises several layers: developing a comprehensive policy paper on business continuity, which was approved by the Group's board of directors; a work plan outlining adequate technological infrastructures; formulating and implementing comprehensive action plans and a support procedure infrastructure; and carrying out drills simulating various types of emergencies. The Group has a situation room and emergency preparedness forum, headed by the Head of the Risk Management Division, who coordinates this activity across the Group. The forum is responsible for implementing the policy and procedures, and monitoring the Group's preparedness for various types of emergencies. The forum convenes at least once per quarter. Management and the board of directors receive a quarterly report on business continuity and emergency preparedness. The Group regularly undertakes a process to improve preparedness for business continuity as part of the updated mapping of all critical activities and resources needed in an emergency, and updates the emergency scenarios and policy document accordingly. The Group constantly preserves

and improves preparedness in headquarters units and branches by regularly maintaining operational plans and emergency preparedness files, including detecting and filling in gaps and holding a multi-year training program.

In 2015, the Group transferred its main computer facility from Tel Aviv to the Rishon LeZion area, which is another important step in maintaining business continuity, since this is a new and protected facility that is far from the site located in Tel Aviv.

In July 2017, the bank group approved a policy document on business continuity. This document included: The targets and goals and how they are to be applied; areas of responsibility and authority; actions the bank should take to maintain its readiness; a list of emergency scenarios and possible failures; the framework for managing business continuity; the framework for reporting and developing business continuity management.

Objectives

- A quarterly meeting will be held on preparation for business continuity.
- A report will be delivered as part of the quarterly risk report to management and the Board of Directors about the business continuity activity of the bank and its subsidiaries.





Our Circles
of Influence



Responsible Supply Chain

The FIBI Group adheres to fair and responsible practices in its conduct with the suppliers and service providers with which it works. We take care to cooperate with suppliers and service providers which comply with local and international laws. When contracting them, we take into account service quality considerations and compliance with quality and reliability standards, past experience, experience in the sector, meeting the requirements, and the quality of the service or product, in addition to cost considerations. The procurement process at the FIBI Group is transparent, and includes notifying the suppliers and bidders about the Group's practices vis-a-vis suppliers. Procurement is based on principles of fairness, integrity, upholding employees' rights, and reciprocity.

All of the Group's procurement activities are managed by the Group's Procurements Department, which is responsible for all procurement and the Group banks' interfaces with suppliers and bidders, in accordance with the Group's procurement procedure.

The Procurement Department is divided into four main groups: technological procurement, personnel-related procurement, general procurement, and procurement in the construction and real estate domain.

We believe that creating reliable and long-term relationships with suppliers results in true partnerships that add business value in the long term. Such relationships are achieved by behaving responsibly and considerately and practicing true give and take with our suppliers.

Adequate Procurement Processes

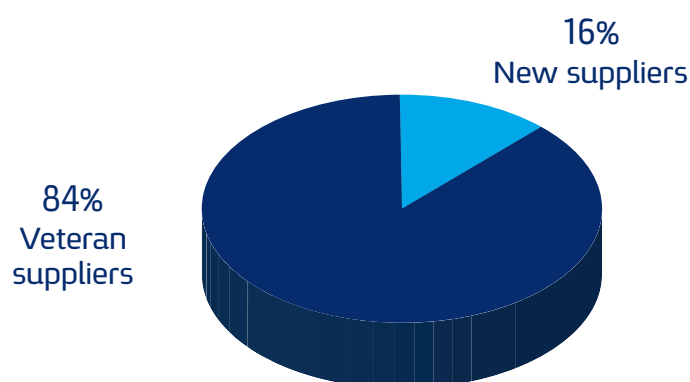
Before signing any contract, the Group Procurement Department conducts a thorough review of the market and the bidders. This review is intended to allow the Procurement Department to choose the most suitable suppliers. To be entered in the Group's procurement systems, each new supplier must submit a declaration in which it undertakes not to accept any benefits and a CPA's approval that all its employees are paid salaries and given social benefits according to law, in addition to other certifications concerning prevention of sexual harassment, maintenance of security and safety, promotion of equal opportunity, preservation of the environment and the use of environmentally friendly materials..

First International Bank takes pride in maintaining and encouraging competition in the economy. As a result, as part of the Group's policy, the maximum contract period with a supplier is capped at seven consecutive years or seven non-consecutive years over a ten-year period, except for extraordinary cases defined in the Group's contract procedure. This procedure encourages new suppliers to enter the market and supports their ability to grow. In addition, we take care to constantly work with new suppliers and service providers, which we consider to be a mutual opportunity that allows the Group to learn about new products, services, and ideas, and, of course, to be exposed to new work methods.

The Group's Supplier Profile

The Bank Group has working relationships with a large number of suppliers across a wide range of procurement segments. In 2017, the active suppliers database included approximately 2,345 suppliers, of which 366 are new suppliers, which the Group has not previously worked with. We take care to constantly work with new suppliers and service providers, which we consider to be a mutual opportunity that allows the Group to learn about new products, services, and ideas, and, of course, to be exposed to new work methods.

The FIBI Group's Suppliers in 2017

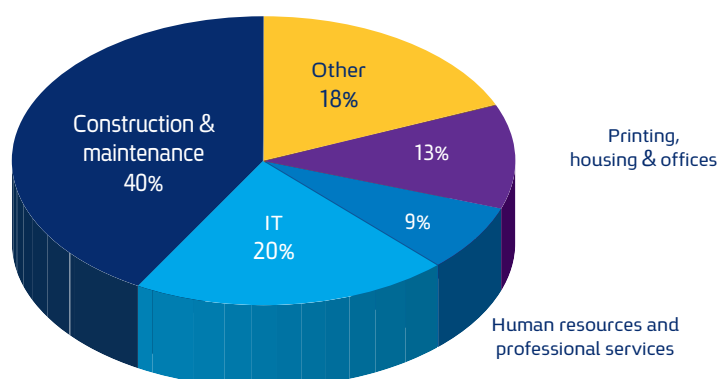


There are four main types of procurement areas which together constitute about 82% of the Group's total annual purchases:

- Construction, real estate, building and property maintenance (40%).
- IT, technology and communications infrastructures (20%).
- Printing, mailing, telephony, office supplies, archiving, and transport (13%).

- Personnel, training, professional and consultancy services (9%).
- In 2017, the Group contracted 16 suppliers for manpower for cleaning and security services, for a total of 195 workers (excluding management company personnel) - 0.8% of the Group's active suppliers.

The FIBI Group - Main Procurement Areas



Preference for Social Suppliers:

The Procurement Department's goal is to increase the volume of procurement from social suppliers, such as NGOs and social businesses, environmentally friendly suppliers, small suppliers, suppliers from outlying areas, etc.

Prioritizing Domestic Procurement

The FIBI Group regards giving preference to contracting Israeli suppliers as important, and encourages Israeli achievement and production as much as possible.

Preference for Small Suppliers:

The Group Procurement Department gives preference to small suppliers (a small supplier is one whose volume of activity with the Group does not exceed NIS 100,000). This is accomplished through a priority rating of bids, all else being equal.

The absolute majority of the Group's suppliers are Israeli. Only 40 suppliers, accounting for 4% of all our suppliers and service providers, are foreign businesses and companies.

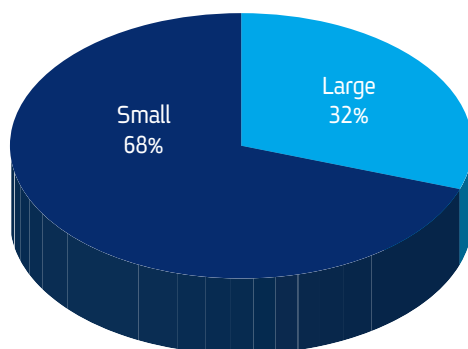
Protecting the Rights of Contract Workers:

Pursuant to the Law Enhancing Enforcement of Labor Laws, 2011, which applies to engagements with contractors for cleaning, security, and catering services, and in view of the Group's principle of fairness and the preservation of human rights, the Group has drawn up an enhanced enforcement procedure to regulate the handling of relations with contractors and contract workers. Under this procedure, the Group Procurement Department verifies that relevant contractors employ their employees pursuant to the provisions of the law. The Group Procurement Manager is the person responsible for complying with and instilling the provisions of the procedure, and also serves as the direct contact for contract workers to file complaints and other inquiries on any matter.

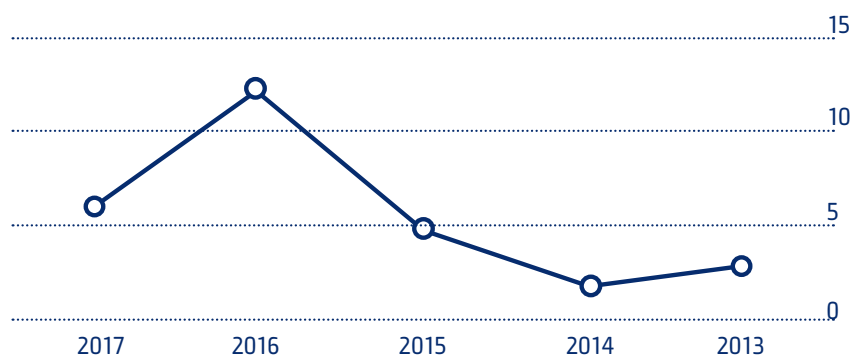
When a supplier begins working with the Bank, it is required to notify all its employees who work at the Bank about the direct contact details for filing a notice or complaint about the terms of their employment. The Procurement Department may be contacted in writing or by telephone. In addition, under the procedure, when a complaint is received by the Group Procurement Department, the relevant supplier is notified, and the subsequent review and handling of any complaint is carried out according to the timetable set out in the procedure. The Group is legally obligated to document the complaint, examine it thoroughly, contact the contractor in writing, and, of course, respond to the complaint.

All 6 complaints received in 2017 were handled by the end of the year, to the satisfaction of the complainants. The increase in the number of complaints by employees and contractors stems from ongoing efforts to raise awareness of the Group's grievance mechanism.

Supplier by Size



No. of documented complaints regarding contractors in 2013-2017





Dialogue with Suppliers:

The FIBI Group's procurement team maintains a dialogue with suppliers and is careful to provide them with professional information and tools for making their work more efficient. The Group holds conferences and personal meetings for making the work environment more responsible and managing risks. The purpose of these conferences is to increase awareness and create a connection between the procurement staff and the suppliers.

Payment Policy:

As part of its activity, the FIBI Group arranges the payment dates with suppliers upon first contracting them. The FIBI Group is aware of the financial capabilities of small suppliers with limited credit. Furthermore, the FIBI group shows empathy and support for suppliers in times of crisis, while exercising judgment.

Activity in 2017:

- In 2017, all manpower suppliers were examined, and 53 pay slips of cleaning and security contract workers were sampled, representing 27% of all pay slips. 22 more payslips, 11% of all payslips, were sampled through an external salary examiner.
- In 2017, the Exceptions Committee discussed 19 suppliers and approved contract extensions with 13 suppliers; one supplier was not approved. Other suppliers are still being examined.
- In 2017, the Group held a conference titled "Information Security in the Supply Chain Process". The purpose of the conference was to increase suppliers' awareness to existing cyber risks, thereby helping them to do preserve the existing critical information in their possession in the best possible way.
- Procurement from suppliers with added value for the community - Gift packages for children at a Hanukkah event were purchased by MATAF from AKIM.



Managing Environmental Aspects of the Group's Activity

We in the FIBI Group are aware of environmental occurrences at both the global and local level. Climate change is likely to affect all spheres of life, large population groups, and the diversity of species. In addition to the growing scarcity of resources, the level of the sea is likely to rise even in Israel, damaging water resources and changing ecological systems. These environmental processes can impact the Group's business environment, its customers, and its financial stability.

Self-management by the FIBI Group: The main environmental impacts created by our activities result from office operations. The main environmentally significant impacts of the Group's operation activity stem from consumption of electricity to operate its properties, the use of fuel for transportation purposes, paper consumption in office and business activities, and the creation of office waste during daily activity. In addition to these direct impacts, the Group indirectly contributes to climate change, mainly through the direct and indirect emission of greenhouse gases, mostly from the consumption of fuel and electricity.

The FIBI Group owns many buildings that consume substantial amounts of power and a fleet of vehicles that consume fuel. Efficient and economical management is both environmentally and economically important. Furthermore, we believe that implementing an environmental policy will provide our employees with a better work environment and a higher quality of life, which improve satisfaction and benefit everyone.

We recognize our responsibility and therefore manage the key environmental resources of our activity, seeking opportunities to reduce their use and improve the efficiency of resource

As a financial concern providing services at the national and global level, the Group regards helping to mitigate these adverse effects as highly important. The Group thus takes into account various environmental aspects when making decisions in its regular course of business.

consumption, by adapting and changing operating and business processes and the responsible management of waste through an accepted hierarchy of reuse, recycling, and proper handling. The various environmental aspects are managed while monitoring key operational aspects, setting multi-year targets, and implementing initiatives for increasing energy efficiency. We also spend resources on increasing environmental awareness among our employees, so that they will adopt environmentally friendly behavior both within and outside the Group.

Power Consumption and Increasing Energy Efficiency

Energy is the main environmental resource used by the Group through its power consumption. Increasing energy efficiency in headquarters and branch buildings of the FIBI Group is a key priority of the Group's environmental management. The Group's logistics array is the body responsible for the Group's energy management. Logistics is formulating a policy and procedures for resource management and energy use.

Power Consumption from Natural Gas

In recent years, the FIBI Group has begun to use power supplied by Dorad (which produces electricity using natural gas and a cleaner mix of fuels compared with power produced by the Israel Electric Corporation) to power some of the banks' branches. In 2017, about 80% of the Group's power consumption came from Dorad. Consumption of electricity from Dorad saves 25% on greenhouse gas emissions for each kWh, compared with consumption of power from the Israel Electric Corporation.

Power Consumption by the FIBI Group*

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------------|------------|------------|------------|------------|
| Power consumption (kWh) | 17,121,671.95 | 24,029,960 | 27,110,604 | 25,013,696 | 26,165,505 |
| Area (m ²) | 89,234 | 120,308 | 131,271 | 77,375 | 76,375 |
| Power consumption (kWh per m ²) - Energy Intensity | 191.87 | 199.74 | 206.52 | 323.28 | 342.6 |

Buildings of the FIBI Group

New facilities

The energy management process at the FIBI Group places special emphasis on the construction of new buildings. Consumption efficiency considerations are included from the initial planning stage and implemented in the construction process and maintenance of the buildings. In this context and in view of additional environmental advantages, significant new structures are built in accordance with the Green Building Standard - Israeli Standard 5281 (2011).

Existing structures

In addition to the Group's new buildings, most activity and consumption takes place at the branches and other existing structures. These are mostly properties in commercial centers, malls, etc. which are not directly owned by the Group. Nonetheless, and notwithstanding the absence of operational control, the Group undertakes a range of measures to save electricity, including the following:

- **Installing a main circuit breaker** for the lighting and power circuits
- **Adjusting the lighting fixtures' brightness level** to the nature of the activity and reducing the number of bulbs
- **Installing presence detectors for turning off lighting and air-conditioning** whenever relevant
- **Building a single remote control center** which turns the systems on and off
- **Using power-saving lighting fixtures** - in the past five years, the Group has completed the gradual replacement of lighting fixtures with T5 units in most properties.
- **Installing air conditioning system controllers** to maximize the compressors' efficiency.
- Customers are encouraged to receive regular updates and reports through digital channels, rather than by ordinary mail.

Consumption of Materials:

The FIBI Group regards reducing the consumption of paper and printer toner as an opportunity to reduce its impact on the environment, thereby contributing to the organization's efficiency and to a more sustainable planet.

Paper is one of the main raw materials consumed by the Group's banks on an ongoing basis. The FIBI Group therefore manages this resource in accordance with its overall concept of boosting efficiency, reducing consumption, and increasing recycling. In addition, paper consumption is directly linked to toner consumption for printing. Printer toner contains ink, which has a significant environmental impact. To optimize paper consumption, the FIBI Group now offers its customers the option of receiving mail through its application or website, in line with the regulations. As part of its resource management, the Group monitors paper and ink consumption by internal systems and is gradually expanding the measurement baseline, in order to obtain more accurate results.

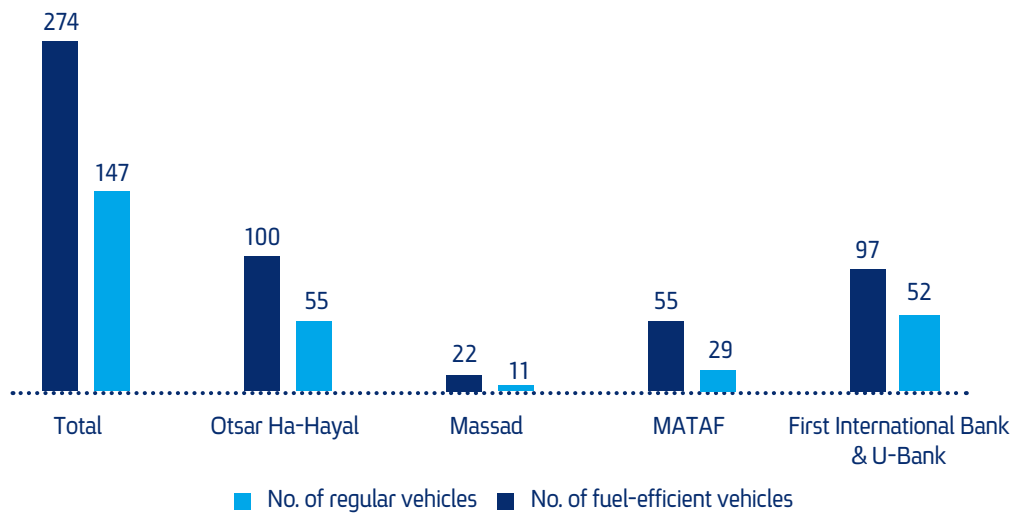
Fuel Consumption

Besides power, another component of the FIBI Group's energy consumption is fuel consumed by the Group's vehicle fleet. The Group's vehicle fleet is mainly based on gasoline-powered sedans. To reduce air pollution from car emissions and increase fuel consumption efficiency, the Group is promoting the use of fuel-efficient cars in its fleet, and is expanding the supply of these cars, publicizing their advantages for employees and providing information on safe and fuel-saving driving.

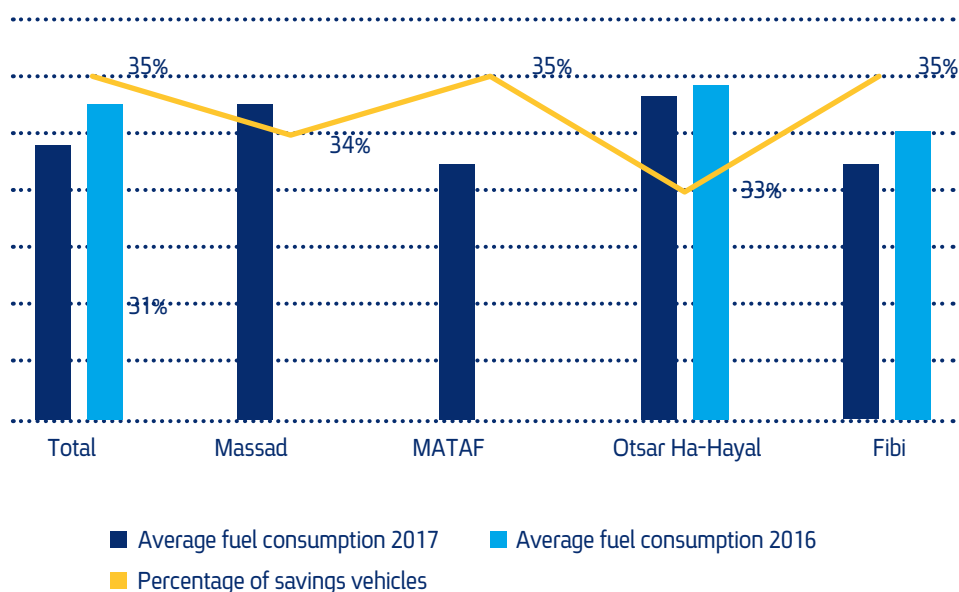
Fuel consumption activity in 2017 was as follows:

- In 2017, the Group's fleet had 421 vehicles, 35% of which were fuel-efficient (with an engine smaller than 1400 cc and/ or a turbo TSI engine). In 2017, the Group's vehicles consumed 1,011 thousand liters of fuel.
- In 2017, 46% of the Group's car replacements were to fuel-efficient vehicles.
- The FIBI Group purchased no diesel fuel during the year.

Size of the Vehicle Fleet and Number of Fuel-efficient Vehicles in the FIBI Group



Comparison of Average Annual Fuel Consumption¹⁴



14. The FIBI Group's 2016 CSR Report also included vehicle figures for MATAF, PAGI and was no separate reporting for Bank Massad in 2016. U-Bank. There

Waste Recycling

The waste created by the Group's activity can be classified into three main types:



General mixed office waste



Paper waste (including cardboard)



Computer equipment waste

In terms of scale and content, the most substantial types of waste characteristic of the Group's activity are paper waste and computer equipment waste.

As a principle, all paper consumed by the Group is collected after consumption and sent for recycling. Major facilities also collect cardboard, which are sent for recycling together with the paper. Out of the total amount of paper and cardboard consumed by the Group in 2017, 7.15 tons of paper and cardboard were recycled.

Similarly, nearly all the toner consumed by the Group, about 94%, was collected and sent for recycling in 2017. In 2017, the FIBI Group consumed 9,236 kgs of toner. Some of the toner consumed by the group is recycled and some is not. (In 2017, 800 HP printers were replaced by Samsung printers, for which only original toner is available). The reduction in toner consumption is due to the use of original toner with a capacity for printing 30,000 pages each.

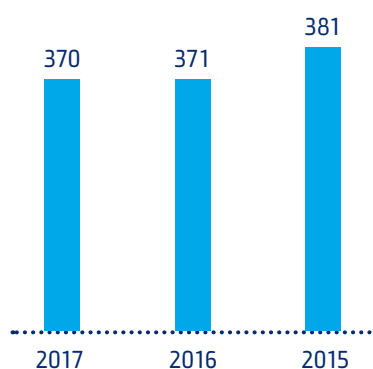
Computer equipment waste, electronic products waste and appliances waste, including: magnetic storage devices, batteries, computer equipment and peripherals, appliances, and communications equipment, are centrally collected by the Group Procurement Department and sent for handling by a certified party (an entity recognized under the Environmental Treatment of Electrical and Electronic Equipment Waste Law).

Below is the FIBI Group's paper consumption in 2013-2017 (in Kgs):

| Type of paper | 2017 | 2016 | 2015 | 2014 |
|---------------------|---------|---------|---------|---------|
| A4 photo-copy paper | 359,923 | 360,173 | 368,578 | 376,000 |
| Stationery | 1,477 | 1,713 | 2,610 | 2,310 |
| Brown envelopes | 5,662 | 5,527 | 5,967 | 4,891 |
| White envelopes | 2,692 | 3,610 | 4,160 | 4,806 |
| Total (kg) | 369,753 | 371,022 | 381,315 | 388,007 |

Many forms were put online in 2017, which prevented an increase in paper consumption.

Total Paper Consumption (tons)

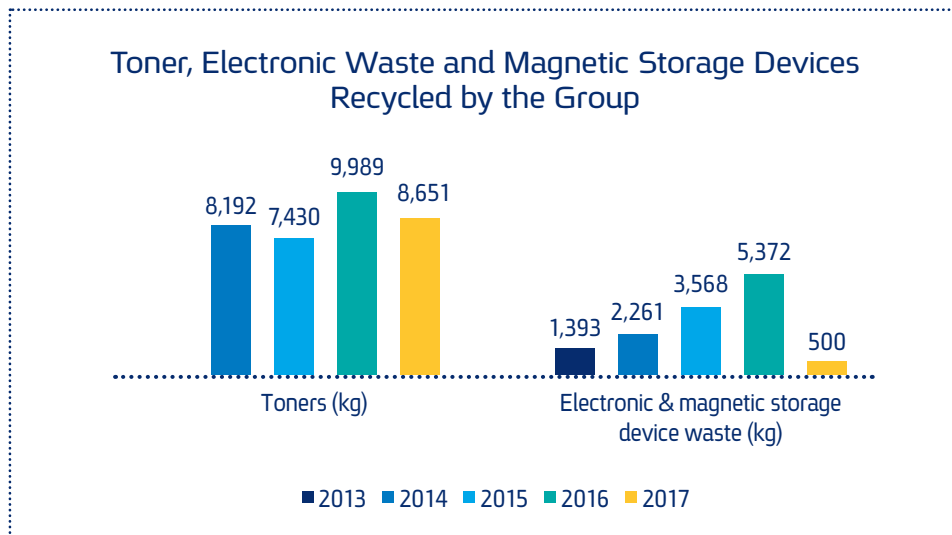
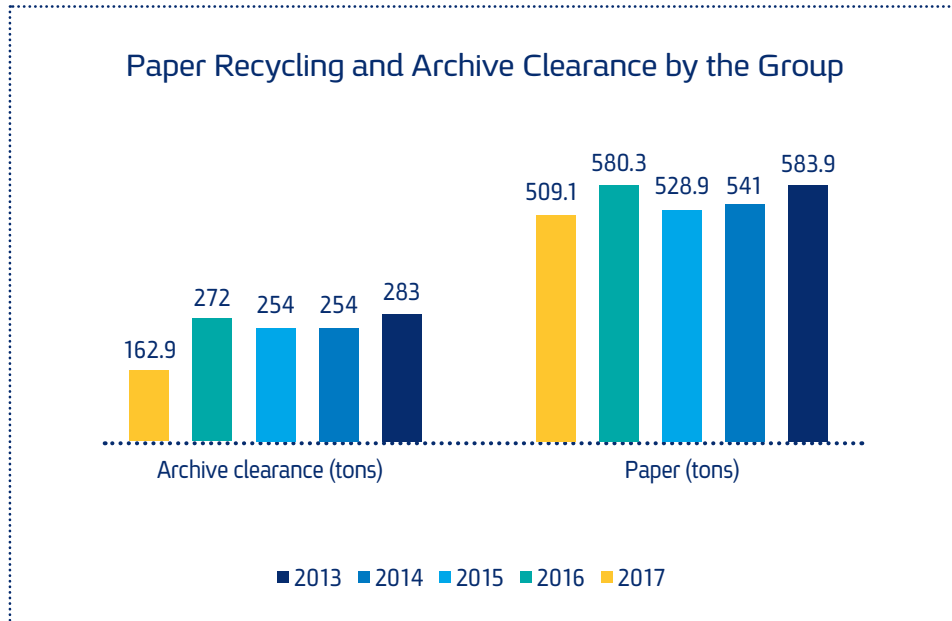


** There are no data on toner recycling for this year. (2013)

** This figure in the 2015 CSR Report was reported in units rather than in Kgs. In addition, 472 units (566 kg) that were not reported were added to this figure. (2015)

The First International Group's waste recycling was as follows:

| | 2017 | 2016 | 2015 | 2014 | 2013* |
|--------------------------------------|-------|-------|---------|-------|-------|
| Paper (tons) | 509.1 | 580.3 | 528.9 | 541 | 583.9 |
| Archive clearance (tons) | 162.9 | 272 | 254 | 254 | 283 |
| Toners (kg) | 8651 | 9,989 | **9,482 | 8,192 | - |
| Electronic and magnetic storage (kg) | 500 | 5,372 | 3,568 | 2,261 | 1,393 |



In 2017, 800 HP printers were replaced by Samsung printers. The transaction included original toner at a reduced price for a year. The consumption of recycled toner declined as a result.

In 2015, the FIBI Group improved its energy consumption measurement (see the FIBI Group's

2015 CSR Report, p. 112). In 2016, the process included the collection of power consumption data from 117 branches. In other buildings and branches, the power consumption was calculated by average consumption per area (average kWh per square meter) based on the existing consumption data.



The Group's carbon footprint is monitored in accordance with accepted standards in Israel and other countries and is calculated using calculation tools developed by the Ministry of Environmental Protection and in accordance with the international Greenhouse Gas (GHG) Protocol.

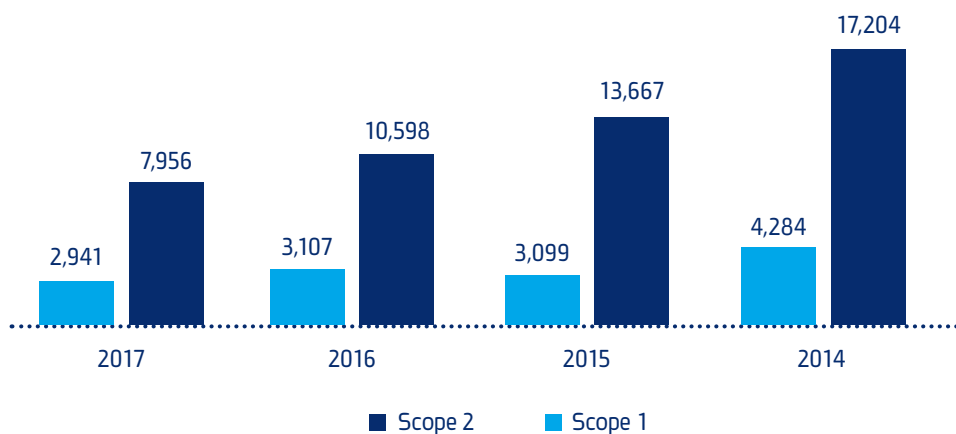
Carbon Footprint

The FIBI Group recognizes the climate change phenomenon and monitors the main factors in its activity that impact it. The Group's carbon footprint is monitored in accordance with accepted standards in Israel and other countries and is calculated using calculation tools developed by the Ministry of Environmental Protection and in accordance with the international Greenhouse Gas (GHG) Protocol. The FIBI Group's carbon footprint comprises direct emissions (Scope 1) - the burning of fuel by the vehicle fleet; and indirect emissions (Scope 2) - power consumption. Additional indirect emissions (Scope 3) are immaterial to the Group's activity and are therefore not monitored.

Dealing with climate change and reducing emissions at source is undertaken as part of the energy conservation plan, green building, use of fuel-efficient vehicles, and the purchase of electricity from private power producers which generate power by natural gas (that has lower greenhouse gas emissions compared with the fuel mix used by Israel Electric Corporation).

The FIBI Group's total carbon footprint in 2017 was 10,898 tons CO₂eq. This constitutes a 20% reduction in the Group's greenhouse gas emissions compared to 2016. This downtrend results from energy efficiency processes, closing down branches, transferring old branches to environmentally friendly buildings, and reducing travel in private vehicles.

The FIBI Group's Carbon Footprint in 2014-2017 (in tons CO₂eq)



In 2017, the greenhouse gas emissions intensity stood at 0.122 tons CO₂eq per square meter. This figure represents a 7% increase over the 2016 figure, which was 0.114 tons CO₂eq per square meter.

Status of objectives

| Sector | Objectives | status |
|-------------------|--|--|
| Power | The Group intends to continue expanding the measurement baseline for power consumption to its remaining branches. | Under implementation |
| | In 2017, the Bank aims to reduce its power consumption by 2%. | Done |
| Paper consumption | Reduce the use of A4 photo-copy paper by 2% compared with 2016; reduce the use of stationery and envelopes by 10% compared with 2016 | The use of stationery and envelopes was reduced by 13.8% as compared with 2016 |
| Fuel Consumption | Due to the lower fuel-efficiency gap between hybrid and fuel-efficient vehicles, the Group will consider leasing new generation gasoline-efficient vehicles. | Use of non fuel-efficient vehicles was reduced. |
| Waste recycling | Due to the implementation of various processes, toner usage has increased in recent years. In 2017 we will strive to maintain the existing balance. | Done |

Objectives:

- **Power** - The Group plans to have an external company examine the its power bills and evaluate the feasibility of reducing consumption and costs.
- **Paper consumption** -
 - Continue to reduce the use of all types of paper.
 - Boost the use of online forms.
 - Increase digital activity, which will reduce use of paper.
- **Fuel Consumption** - Objective for 2018 - reevaluate the use of hybrid vehicles and increased use of fuel-efficient vehicles.
- **Waste recycling** - Boost use of digital channels and reduce use of toner.

The Group's Employees Contribute to the Environment

In 2013, the FIBI Group established the Process Streamlining Forum, which is charged with assessing and promoting streamlining and savings by the Group. The forum is engaged, inter alia, with issues of significant environmental impact (such as reducing the consumption of consumable resources). Any employee may submit to the Forum any idea whose implementation may result in future financial savings, even if it has no practical short term impact. We are looking for proposals that will result in renegotiating contracts with suppliers, streamlining work methods, and improvement of processes at the Group.



Investment in the Community

At the FIBI Group, we consider ourselves committed to active community involvement, with an emphasis on employees' involvement, in line with the vision, strategy, and values of the Group and in line with our broad economic impact and leadership in the business world.

Our community activity is diverse and extensive, including regular strategic cooperation with social organizations. It includes social involvement and volunteer activity, in addition to monetary donations. The Group does not donate money or cash equivalents to political parties, politicians, or political institutions.

Several years ago - as part of our community outreach efforts - the FIBI Group established steering committee, which includes the Chairman of the Board and two members of the Board of Directors and additional officeholders, who are responsible for community outreach, in an effort to closely monitor, direct, initiate, formulate and oversee the group-wide community outreach policy and activities on a regular basis. The banks' donation policy is approved once a year by their Boards of Directors.

The Group regards support for teenagers and children at risk as an extremely important tool for their growth, and for equal opportunity in Israeli society. We invest in this population group

Our community activity is diverse and extensive, including regular strategic cooperation with social organizations. It includes social involvement and volunteer activity, in addition to monetary donations.

through education, personal guidance, mentoring, promoting a healthy way of life, welfare, and assistance to teenagers and children with special needs and population groups at risk. From time to time, the FIBI Group also invests in other areas.

The Group conducts a continuous dialogue with the community and the various volunteer organizations it supports. Every community program is drawn up after the NGO's needs are clarified. The character and method of the investment and its goals is developed in cooperation with the organization.

Furthermore, as part of their selection process, the NGO or social entity are asked to present their activity and means of measuring their effectiveness. At the same time an evaluation is made of whether the short-term and long-term objectives are being achieved.

The FIBI group operates on two main levels:

- Donation Policy:
- Monetary investment and involvement of employees in joint projects

Donation Policy:

The Group banks' donations policies (the main focal points of which are outlined above) are approved annually by each bank's board of directors. The First International Bank's management, through the bank's Resource Division, is responsible for managing the donations budget. Bank Otsar Ha-Hayal manages its donations budget separately from the rest of the Group through its Human Resources Department. The two banks have a donation committee, which handles requests on a regular basis and allocates donations to various entities in accordance with the Group's policy.

Applications for general donations are referred to the Donations Committee, along with a reasoned recommendation. The Committee is responsible for collecting all the requests and issuing recommendations. Donations are approved only to lawfully managed NGOs (with all required certificates, exemption clauses, etc., and with no political affiliations). Each donation that meets the above criteria is evaluated and considered by the Donations Committee. Support is provided to the many entities supported by the Group in accordance with a clear policy that reflects its vision. The donation process is structured and regulated, with an assessment of the need and the necessary approvals. The Donations Committee considers, inter alia, the following: donations to the needy (children and youth at risk, children and youths with special needs or illnesses, etc.), how effective the donation will be, and gives priority to employees'

requests in order to encourage their involvement in the community outreach efforts.

Joint projects include monetary investment by the Group and involvement by its employees.

As part of its financial investment, the Group also operates the United Way program in cooperation with NGO "Matan - Investing in the Community", in which the Group's employees can donate any amount of money to NGOs of their choice, and the Group matches that donation (in accordance with the program's definitions). The venture is designed to promote joint and empowering donations.

Over the past few years, thousands of FIBI's employees have invested thousands of hours volunteering in a range of activities at the expense of working hours.

Financial investment:

A donation campaign - The group donated NIS 260,000 in this framework, in addition to the employees' donation.

Technological products of monetary value are donated:

The Group also donates cash equivalents, for example: collecting necessities for the needy, donations of equipment, etc. Bank Massad has been a strategic partner in the "A Laptop for Every Teacher" program for over seven years. The venture is run by the Athena Fund with additional partners. The objective of the program is to empower teachers and advance their professional standing, including in the area of online classes. As part of the program, about 3,000 laptops are provided to teachers in Israel every year, as well as a 120-hour training program to improve knowledge and add tools and skills for using the laptop for teaching purposes. To date, the Fund has given out over 20,000 laptops to teachers in 220 towns across Israel. The Group's flagship program is giving iPads to special education teachers as part of a joint project of the Group and the Fund. In 2017, the Fund gave out laptops to 3,300 teachers.

* In addition, each year the FIBI Group sponsors various entities.

Financial Data - 2017

NIS 3.08 million

In 2017, the Group's donations totaled

0.3%

constituted 0.3% of the gross profit before tax (NIS 1.002 million in 2017 versus NIS 886 million in 2016).

NIS 15.18 million

Over the past 5 years, donations by the Group

Investment in the community - the FIBI Group (in NIS millions)

3.08

2017

2.8

2016

2.8

2015

2.9

2014

3.6

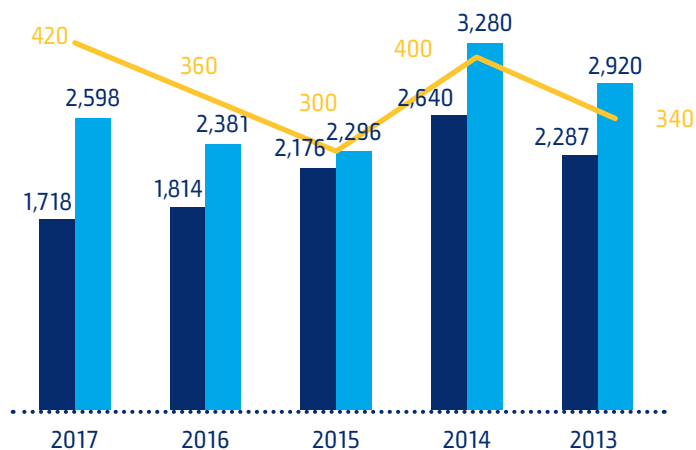
2013

Volunteering by Employees:

In 2017, 420 employees of the FIBI Group - which constitute around 10% of the Group's total number of employees (a 20% increase over the previous year) volunteered, contributing 2,598 volunteer hours to the community, of which 1,718 hours (about 75%) were at the Group's expense. In 2016, 360 FIBI Group employees volunteered 2,381 hours, of which 1,547 hours were at the Group's expense.

The following is a summary of the banks' activity for teenagers and the periphery:

Total no. of volunteers and volunteer hours in the FIBI Group



■ Total no. of volunteer hours by the FIBI Group ■ No. of volunteer hours at the Group's expense ■ No. of volunteers per year

The flagship program is "We Believe in You"

The FIBI Group's main social involvement program in 2017 was "We Believe in You," in cooperation with "Matan - Investors in the Community." The program focuses on teenagers from the socially and geographically outlying areas in the margins of society. The program's goal is to integrate them into society through educational and social programs designed to empower them and provide them with tools for leadership, business and social entrepreneurship, and financial literacy. This is combined with ecological and athletic tools in order to reinforce values with a feeling of capability, a positive self-image, and a stronger inter-generational connection (among children and teenagers at risk and disadvantaged population groups in general).

Unistream

Training of youth from disadvantaged populations and the periphery to become part of the business world and create ventures in addition to social responsibility, leadership and youth empowerment.

2017 Results

26,236

From the time it was launched until the end of 2017, the "Turning Point" and "We Believe in You" programs aided 26,236 children and teenagers at risk across Israel.

2,850

In 2017, the "We Believe in You" program helped aided 2,850 teenagers and children at risk all over Israel.

The Group was a partner in two important programs:

Preparing Future Leaders: Support for five entrepreneurship centers, in Netanya, Eilat, Netivot, Rahat, and Afula. The Group supported five entrepreneurship centers in the program, which included 200 youths from all over Israel. Their business knowledge and skills were improved, with a focus on starting a business venture.

StartUp Now - The FIBI Group cooperated with a high-tech professional in leading a group of youth at risk in the development of the SchoolChips technological venture - a wearable bracelet that keeps track of student attendance in class, thereby saving valuable time for the teacher. The program included weekly meetings, participation in competitions and conferences, and individual attention to the students.

As part of its investment in the community, the Group assists volunteer organizations and programs that empower the lives of teenagers, including the emotional and family aspect. The goal of these programs is to generate family resilience, boost feelings of capability, prevent risky behavior, and create added value through diverse activities.

The following is a summary of the banks' activities in the domains of art, culture, and health:

"Fathers and Sons on the Playing Field" groups

The teams create an important meeting place for fathers and sons through team sports, comprising a supportive group to encourage sports and promote a healthy lifestyle.

2017 Results

- The activity included support for 19 groups across Israel - from Kiryat Shmona in the north to Sapir Regional Council in the south. 420 children and their fathers participated in the program.
- All of the communities in which the program's activity was conducted cited its importance and success and asked that it be continued next year. Some of them also asked to increase the number of groups.
- The fathers participating in the activity were grateful and very appreciative of its contribution to their relationship with their sons and the more profound understanding they gained of their role as fathers.

Eco-friendly sitting corners

One-day workshops in which volunteers and youths at risk establish sitting corners made from recycled materials with the help of an artist, experiencing "making something from nothing". The project is accompanied by explanations about recycling and protecting the environment, and produces artwork that upgrades the aesthetics and functionality of the youths' schools.

2017 Results

- The activity was carried out at 10 boarding schools and schools of children and youths at risk nationwide.
- 120 volunteers from among the Group's employees participated in the activity days with the children and youth in their respective schools.

Cooperation with the Nahum Gutman Museum -

We held workshops for children and youth at risk from boarding schools.

The following is a description of the Group's activity in initiatives, involvement, and investment in additional domains:

The Group launched a project to donate food packages to needy families ahead of the holidays. The activity, which included Group employees, was held towards Passover and Rosh Hashana, in cooperation with NGO Pitchon Lev.

The Group supported the "To Give Aid for Life," program for needy elderly Holocaust survivors. The program's objective is to improve the quality of life and immediately alleviate the distress of needy Holocaust survivors through physical and social assistance enabling them to live in dignity, by expressing empathy, caring about them, and showing concern about their situation. The program provides a holistic assistance package to Holocaust survivors that affects all spheres of life, with a special emphasis on adapting the assistance and bringing it to the survivor's home. This assistance package is designed to improve the lives of Holocaust survivors suffering from want, loneliness, ill health, and feelings of despair and helplessness. The program supports over 1,000 needy Holocaust survivors in Israel.

An Israeli journey to wounded IDF soldiers - A national venture aimed at reinforcing the social, moral, and national resilience of Israel, with the participation of volunteers from the Group and wounded IDF soldiers.

As part of the involvement in the community, MATAF employees volunteer at the Na'amat Technology High School and College. The volunteering effort is designed to enable the students to realize their potential and escape the cycle of poverty. The Group devotes resources to the program with the aim of enabling its graduates to continue studying after high school, on the same premises, for a practical engineering degree, later to be drafted into one of the IDF's computer units. MATAF's involvement in the project includes one-on-one guidance in the following areas: English, mathematics, and computers, as well as technological guidance aimed at providing assistance in projects, giving lectures, setting up a server in a virtual environment, etc.



Objectives Control Status

| Objectives | Implementation status |
|--|----------------------------|
| Expand the community outreach program for educational programs and financial literacy among youth at risk in accordance with a program developed in cooperation with NGO Matan Community Investors. | Done |
| Forge new collaborations with NGOs and entities in accordance with the work plan. Cooperate with NGO Unistream in a program that trains youth from disadvantaged populations and the periphery to become part of the business world and create ventures in addition to social responsibility, leadership and youth empowerment. | Done |
| Cooperate with additional new sectors and populations. | Done |
| Build collaborations among the various partners to create synergy and added value. | Done |
| In 2017, United Way will continue its joint annual activity with NGO Matan and different, additional activities will be evaluated. | Done |
| The FIBI Group will continue the expansion of employee volunteering through the various programs and encourage employees' involvement in the community. | Done |
| Continue the food donation activity and assist FIBI's volunteers in packing food baskets to the needy ahead of the holidays. | Done |
| Survey employees to assess the current activity and needs - following a preliminary questionnaire distributed in 2016, an additional, broad survey will be carried out, to closely examine how to match between the needs, current volunteer work and optional activities. | Partially done |
| In late 2016, we created a new branding, byline and logo - "FIBI - Investing in You and the Community". In 2017 the logo will be incorporated into all of FIBI's community activities. | Done |
| Hold an event to recognize the Bank's volunteers. | Did not take place in 2017 |
| MATAF: <ul style="list-style-type: none"> Continue activities to empower and assist the high school and Naamat College students. Continue activities with "Kukiyot Children". | ? |

Objectives for 2018:

- Support for the core of the "We Believe in You" flagship program - children and teenagers at risk - was increased. The various activities with this target group were continued, in accordance with the program devised in cooperation with the Matan - Investing in the Community NGO.
- The circle of social support for business entrepreneurship for women was expanded and new joint projects were launched in this area with the aim of helping women attain financial independence.
- Support was continued for other social issues related to the Group, and for other disadvantaged population groups.
- A widely-based comprehensive survey was conducted to assess the compatibility and needs of the Group's employees vis-a-vis the requested volunteer activity.

External Assurance and Disclosure

GRI Content Index¹⁵



| Standard | Disclosure | Description | Page |
|-------------------------------------|------------|--|--|
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Declaration regarding Auditing of Reporting Adequacy

December 2018

Quality Assurance Statement: The FIBI Group, 2017 Corporate Social Responsibility Report

Introduction

The Corporate Social Responsibility Institute is an independent public entity promoting corporate social responsibility among corporations. The Institute is part of the College of Law and Business, a private college for law and business management (accredited by the National Council for Higher Education). The Institute holds professional meetings, writes reports, studies and market surveys, and localizes applicative methodologies from around the world, etc. In April 2018, the FIBI Group asked the Center to perform a quality assurance process on its 2017 corporate social responsibility report.

It is hereby declared that the Institute receives payment to cover the time invested in this process. In addition, it is hereby noted that neither the Institute nor Mr. Liad Ortar (who performed the work) have business relationships with the FIBI Group and that the quality assurance process was independent. As part of the quality assurance process, a draft of the report was examined, comments were made and the attached quality assurance statement was drafted.

Methodology

The aim of the quality assurance process for corporate social responsibility reports is, first and foremost, to improve the final reporting outcome by providing professional feedback. As part of the process, we examined whether the report is in line with three key principles:

1. Inclusiveness - full coverage of the topics from the reporting process and reporting parties and inclusion of a wide range of stakeholders in the report.
2. Materiality - coverage of the topics material to the company's activity.
3. Responsiveness - reporting on issues raised by stakeholders.

Findings

This is the FIBI Group's fifth published CSR report. It is in line with the entire local banking industry's adoption of CSR reporting, as required by the Supervisor of Banks. The Group has adopted the Global Reporting Initiative's (GRI) reporting standard, SRS, complying with the Comprehensive reporting scope. I hereby declare that the FIBI Group does comply with the disclosure and reporting scope required for this level and complies with the three principles stated above.

The report presents significant and important progress in terms of implementing and commitment to the UN's Sustainable Development Goals (SDGs). Large corporations worldwide incorporate this methodological approach into their CSR reports, as did the FIBI Group in this report, and it should be congratulated for doing so. Beyond identifying the goals, there is also identification of targets specific to the organization, and such a commitment should be reflected in the following reports as well, with reference to the specific performance indicators associated with each target. I would also like to note the continued detailed reporting of compliance with the previous year's goals and setting of new ones for the coming year.

Suggestions for improvement:

- **Timing of the report's publication** - The report is being published towards the end of 2018, while presenting the Group's performance for a period of over a year prior. It is well known that financial reporting by banks is a meticulous process, supervised by the relevant regulator, with a publication deadline by the end of the first quarter of the year following the reported year. Despite the significant organizational difficulties and challenges involved, the goal is to publish the CSR report as close as possible to the publication of the financial statements. Ideally, the reports should be published at the same time, giving both shareholders and stakeholders a comprehensive snapshot of the organization's performance.
- **Mapping of the Group's customers' ages and specific reporting on the services provided to the third age group** - Demographic changes have resulted in the growth of this segment - the third age group (65-80) and fourth age group (80+). Such information about the services tailored to this segment is highly important. It would also be beneficial for readers to learn about the age distribution of the Group's customers. This also applies to other population segments and I therefore recommend that reporting such information be considered.

I hereby extend my appreciation to the preparers of this report,

Liad Ortar

CEO

Corporate Social Responsibility Institute

College of Law and Business

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