

## Policy on implementation of corporate social responsibility **Bank Mizrahi-Tefahot**

July 2019

## Introduction

Corporate social responsibility is a management approach based on managing operating interfaces of the organization with stake holders – with cooperation, dialogue and striving to create mutual value in these areas: economic, social and environmental. Integrating these three areas allows for a long-term viewpoint and generating commitment to future generations. These are the principles that the Bank strives to incorporate in all facets of its operations.

As one of the fastest growing banks in Israel, the Bank applies an over-arching policy that takes into consideration the complex business environment and the changing social reality. The Bank considers it a privilege to be able to contribute in return to the community in which we live and understand that as an organization, we are committed to and capable of helping protect our environment.

In recent years, this topic has gained traction with many organizations in Israel and world-wide.

On October 3, 2011, the Supervisor of Banks issued a circular re Report on Corporate Social Responsibility (circular no. H-2311-06). According to this circular, banking corporations should make public a report on corporate social responsibility for the period starting on January 1, 2012. Pursuant to this requirement, reporting shall be at the highest level of the banking group, for a period of up to two years. Moreover, the corporate social responsibility report should be published by July of the year following the reported year.

Such report includes extensive details about activities carried out in each of the core areas of corporate social responsibility, as listed in this policy document.

**Therefore and due to the importance of this subject, the principles listed in the policy document on corporate social responsibility consolidate reference to the diverse activities at the Bank.**

This policy document was first created in 2013, and has been revised in conformity with development in the Bank's social responsibility.

## Management of corporate social responsibility at the Bank

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

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

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

As part of deployment of the corporate social responsibility policy, in 2013 the Bank **appointed the Manager, Organizational Development and Training Department in the Human Resources and Administration Division to head the field of corporate social responsibility at the Bank.** The appointed manager is responsible for implementation of the policy, its deployment across all employees

and for monitoring achievement of objectives in this area, as set by the Bank. Furthermore, in 2018 the Bank appointed a **Manager of Corporate Social Responsibility, in charge of Bank operations** in this field and of continued dialogue with the various stakeholders inside and outside the organization.

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

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

### Policy principles

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

### Reporting and control

In conformity with the directive of the Supervisor of Banks, the Bank implements measurement pursuant to principles of the international reporting standard typically used for corporate responsibility, GRI, as revised from time to time. This report describes Bank operations in each year, with the reference point for each year being December 31 of the previous year.

In 2015, the Bank joined the UN's Global Compact initiative and has committed to annual reporting of Bank activities in conformity with the principles listed in this initiative.

- The report is approved by management and by the Board of Directors plenum.
- The report describes operations all of Mizrahi-Tefahot Group (including subsidiaries, Bank Yahav and overseas affiliates), focusing on core areas of corporate social responsibility, presenting the activities and objectives for issues material to the organization.
- **The report is subject to due diligence by the an independent third party.**
- The information used in compiling this report was collated using the Bank's information systems, various organizational sources (including, , *inter alia*, financial , statements, policy documents and interviews with key executives) – with assistance from external advisors. To this end, the Bank has put in place tools and means for measurement, monitoring and control based on the different activities.

## Management approach with regard to material aspects of Bank activities

### Our customers

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

### Wide banking deployment

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

### Customer experience and service quality

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

Bank customers are a key pillar of Bank success; hence the Bank attach great importance to ensuring customer satisfaction, with a professional response to their needs. The Bank also strives to create an optimal customer experience, providing knowledge for informed use of banking and financial tools. The Bank's strategic plan is based on personal, human, professional service integrated with advanced technology. These guidelines are a vital key component of customer operations at the Bank."

Optimal customer experience and service quality are achieved in various ways:

- **Adapting products and services to the customer** – adapting products and services to the business environment and to customer needs and making them more accessible to customers and to the general public, with understanding of the unique attributes of customers in different segments of Israeli society.
- **Dialogue and listening** – conducting a constant, on-going dialogue with customers is a key tool, at the heart of the concept, allowing for a successful implementation of the concept. The Bank

conducts public opinion surveys, monitors the online discourse and operates a website and a Facebook page for gathering customer feedback.

- Customer satisfaction – The Bank monitors and controls customer satisfaction and response to inquiries and complaints.
- Avoiding discrimination – The Bank acts to avoid discrimination, which , effort is reflected in equality in customer recruitment, allowing any person to become a Bank customer, and in providing equal service absent of any discrimination to all employees.
- Handling customer inquiries – The Bank regularly measures customer complaints and contacts, reviews the cases, learns lessons and acts as needed. The Bank has an improved system designed to improve analysis and composition by topic, classification and client contacts with the department.

### Fairness and transparency towards clients

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

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

### Responsible marketing and advertising

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

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

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

### Diverse customers and promotion of various demographics

The Bank sees the great importance of approaching diverse clients and segments in Israeli society. As part of its policy on promoting customer interests, the Bank strives to create products and services in response

to various customer needs. This is based on the understanding that different customers have different needs and on the desire to adapt for each customer the products and services most appropriate for them. This is designed to allow anyone who so wishes to become a Bank customer.

To this end, the Bank acts in different areas:

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

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

- **Arab sector** – This is based on establishing a branch network in Arab and mixed-population towns and by translating banking and marketing content into Arabic.
- **Jewish Orthodox sector** – Aligning marketing messages with the Jewish Orthodox population and development of products relevant for this sector.
- **Retirees** – Adaptation of products and services and conducting specific activities for this population.

### Promoting disadvantaged populations and help customers in crisis

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

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

### Promoting Accessibility for persons with disabilities

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

The Bank is made accessible on these key levels:

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

### Development of environmental and social products

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

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

### Information security and keeping information confidential

The Bank sees great importance in information security and in maintaining the privacy of client information.

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

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

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

The Technology Division deploys and operates lines of defense and technology, based on the policy and requirements specified

at the Bank and the Division – and is responsible for monitoring, identification and avoidance of any deviation from such policy and requirements.

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

### Impact on Israeli society through involvement and volunteer work

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

The Bank's community engagement is carried out accompanied by a constant dialogue and realization of broad initiatives with community partners throughout Israel, engagement of employees and managers, geographic and other diversification of activities utilizing the Bank's nationwide presence, through partnerships and with internal and external communication of the Bank's community involvement.

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

- a. **Promote children and youth from disadvantaged populations**
- b. **Supporting NGOs and businesses who promote social causes or employ persons with disabilities**

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

- **Involvement of employees and their families in the community** – contribution to the community has become a key objective for Bank employees, and management provides incentives to employees to participate in this activity.
- **Involvement in broad projects to help youth at risk and persons with disabilities** – The Bank and its employees are involved in projects which empower youth at risk and promote volunteer activities with youth – as well as in projects which assist NGOs that employ persons with special needs.
- **Investment in financial education** – supporting and increasing financial awareness among youth, customers and the public at large.
- **Including stakeholders in community involvement** – The Bank attaches great importance to including its customers in community activities, by including them in decision making on targets for charitable donations by the Bank to NGOs and by including them in various projects initiated by the Bank.
- **Investment through charitable donations, sponsorship and equipment** – The Bank donates furniture, electric appliances and PCs to various NGOs, after reviewing their compliance with rules for proper management.



### Reinforcing Israel's economy through responsible supply chain management

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

Responsible supply chain management is applied as follows:

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

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

### Mizrahi-Tefahot employees

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

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

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

### Promoting fair work environment and employment terms

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

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

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

### Diversity, equality and avoiding discrimination in employment

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender, age, place of residence nor any other attributes. This commitment is based on the belief that promoting sector equality in the workplace generates social and economic value for the Bank, for employees and for all of society. Hiring employees of diverse ethnic backgrounds

allows Bank customers of these ethnic backgrounds to receive service while recognizing their unique needs and providing them with an appropriate response. Diversity is reflected in being able hire any person to work for the Bank; equality is reflected in providing equal conditions to all Bank employees.

### Equal opportunity employment and prevention of discrimination

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

### Promoting gender equality

The Bank attaches great importance to promoting gender equality in the work place. The Bank has an equal opportunity employment policy, with employees hired and promoted based solely on their skills and on needs of the Bank. Each employee's pay, in all ranks and positions at the Bank, is determined regardless of the employee's gender – but rather based on their skills, professional experience and their designated position. Therefore, there are no pay differences between men and women at the Bank. At all locations where the Bank operates, the Bank strictly pays wages in conformity with statutory provisions, including compliance with the mandatory minimum wage, as well as equality in terms of benefits provided to employees.

### Staff training and development

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

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

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

### Training employees on human rights topics

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

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

### Group responsibility for the environment

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

Bank operations are primarily office work; key environmental impact due to our operations is from power consumption for operation of properties, use of fuel for transportation, paper consumption for office use, and office waste generated by current operations. Along with this direct impact, the Group indirectly impacts climate change by direct and indirect emissions of greenhouse gas, due to fuel and power consumption. Therefore, the Bank promotes the following:

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

### Group commitment to accountable conduct

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

#### Group Board of Directors

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

### Commitment to regulatory compliance

The Bank strictly complies with the law and implements any corporate governance rules and regulations applicable there to. The Legal Division advises on application of statutory provisions and implications of Bank Group operations, and also assists in deployment of regulatory updates. The Risk Control Division verifies Bank activities on these fronts:

- **Organized deployment of operating procedures** – The Bank strictly complies with statutory provisions through an organized set of operating procedures, working processes and IT systems. The process of implementing laws and statutory provisions and updates there to are monitored by the Compliance Department of the Risk Management Division.
- **Training and employee publications** – Training on various regulatory issues is delivered as part of banking training delivered as part of training of Bank employees and specifically, based on role and department. The Compliance Department publishes from time to time brochures and notices which highlight issues of compliance with statutory provisions.
- **Control over implementation** – Compliance is verified, *inter alia*, by implementing controls over compliance with provisions in various areas.
- **Compliance risk identification and mapping** – Identify focal points of increased risk, potentially due to breach of statutory provisions, so as to focus effort on mitigating such risk and on avoiding such breach.
- **Handling exceptions** – The Bank handles any exceptions identified by controls, at both HQ and branches. This includes implementation of recommendations for improved processes and controls, verifying that faults are corrected, lessons learned and disciplinary action taken, if needed.
- **Anonymous hot line for employee inquiries to Compliance Department** – The Bank operates an anonymous hot line for employee reporting, as needed, with regard to fraud and manipulation of securities and other compliance issues.

- **Audit** – The Bank conducts independent audit of compliance with procedures and provisions related, inter alia, to material departments and processes at the Bank.
- **Fair competition** – The Bank adheres to fair competition with its competitors, does not promote any public agenda and does not apply any lobbying.
- **Fairness** – The Bank maintains a fair relationship with everyone, in particular with customers, including sales of products and services which match the customer and their needs.

### Risk management and control

The Bank has an organized system in place for risk control and management including, inter alia, a framework document on risk control, which specifies the Bank's risk appetite, guidelines for risk management and corporate governance (Master Document) and policy documents on management and control of specific risk in various areas. These policy documents are approved at least once per year by Bank management and the Board, by the Risk Management Committee of the Board of Directors and by the Board of Directors plenum and govern, *inter alia*, how the Bank addresses any risk identified as material risk to Bank operations. These risks include: strategic and reputation risk, credit risk, including environmental risk, financial risk, operational risk including information security and cyber risk, human resources and legal risk, compliance risks including: Compliance and regulatory risk, AML and terror financing, cross-border risk, conduct risk, risk associated with management of online banking, policy with regard to the Bank's branch strategy, including principles for opening new branches and managing branch closure. In 2018, a new policy was approved with regard to management of overseas affiliate risk.

### Management of environmental and social risk

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

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

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

### Deployment of business ethics

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

that arise from the field, and to outlines policies and actions for deployment of values of the Code of Ethics.

### Group commitment to accountable conduct

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

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

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

In all of these cases, when malfeasance is suspected due to monitoring or due to information received, the Audit Division is involved in review of such event. The Bank reviews these cases with debriefs and lessons learned from relevant cases, in order to avoid their recurrence. Moreover, where required, a complaint is filed with the Israeli Police and/or reports are sent to the relevant authorities.