

Harel Insurance Investments & Financial Services Ltd

Corporate Responsibility Report

2015-2016

Table of Contents

From the Desk of Harel Group Chairperson and CEO	3
About Harel	5
Our Operations	5
Ownership and Legal Organization	5
Economic Performance and Financial Stability	5
Corporate Responsibility in the Harel Spirit	7
Employees and Working Environment.....	8
The People Who Make Harel.....	8
Employee Recruitment, Hiring and Retention at Harel	9
Occupational Diversity – Harel’s Human Mosaic	9
Gender Diversity and Female Empowerment	9
Age Diversity.....	10
Constant Specialization – Training and Certification at Harel.....	10
Growing Together – Individual Development and Empowerment at Harel.....	10
Feedback and Employee Evaluation.....	10
Health Comes First – Employee Health and Safety	11
Adhering to Employee Rights is a Privilege for Us	11
Starting Wages.....	11
Maternity Leave.....	11
Community Involvement.....	12
Ethics and Corporate Governance	13
Our Ethical Code	13
Integrating Ethics.....	13
Corporate Governance.....	14
Board Composition – The Team that Navigates the Harel “Ship”	14
Internal Enforcement	15
Integrating Internal Compliance and Enforcement Programs.....	16
Addressing Corporate Governance upon Evaluating New Investments	16
Proper Management and Preventing Corruption	16
Risk Management.....	18
Environmental Responsibility	20
Harel’s Environmental Policy.....	20
Good Energy at Harel – Efficient Energy Use	21
Measuring and Monitoring Greenhouse Gas Emissions	22
Not Everything is on Paper at Harel – Reducing Paper Consumption	23
At Harel, Recycling Sets the Tone – Waste Treatment.....	24
Green Procurement.....	24
Responsible Supply Chain.....	26
Suppliers and Service Providers – Part of Harel’s Sphere of Influence	26
Harel’s Purchasing Policy.....	26
Ensuring Proper Dialogue with Suppliers and Service Providers.....	27
About the Report	28
Harel Group Corporate Responsibility Report.....	28



From the Desk of Harel Group Chairperson and CEO

This is Harel Group's third corporate responsibility report, reflecting the management's commitment to the promotion of social responsibility at Harel.

In recent decades, the insurance and financial industry has been greatly impacted by international trends and trends within the Israeli economy, with growing competition, increasing local and international regulations and growing demands for transparency toward the stakeholders, mainly the customers.

Concurrent with these trends, our business is influenced by social and environmental processes that require us to take measures while contemplating the near and distant future. Therefore, as a major financial group operating within the economy, we take part in the international effort of meeting the U.N.'s Sustainable Development Goals, adopted by the State of Israel.

The concept of corporate responsibility is an integral part of our business effort and it is evident among both senior management and employees in the field and service centers. We allocate many resources to the matter, including employee, board member and management time resources, striving to learn and do more while maintaining ongoing dialogue with our stakeholders.

During the reporting years, we significantly promoted our efforts on various aspects of corporate responsibility:

- **Community involvement** – In late 2016, our employee volunteer rate reached 51% and the Group's contribution to dozens of social organization (monetary and in kind) increased by ~22% compared to 2015. We have extended our "Business Partner – Social Partner" Model, elaborated in the report and, of course, we continued with our unique collaboration with United Hatzalah of Israel.
- **Service quality** – We launched a new strategy – "Direction Recalculation" – placing our customers at the center to enable us to continue guaranteeing their peace of mind. We continue our commitment to offer a good service experience and to operate in the most fair and transparent manner possible.
- **Caring for the employees and work environment** – We have increased the base salary within the Group, exceeding the current minimum wage level by ~20%. We have extended our efforts toward creating a diverse working environment and integrating people with disabilities and populations characterized by underemployment.

- **Ethical and responsible practice** – We have refreshed the Group’s ethical code and begun its implementation through workshops. When evaluating new investments, we examine the corporate governance of the potential target companies.
- **Environmental responsibility** – When requesting proposals and conducting tenders, we consider issues of sustainability. We have continued our efforts for increasing energetic efficiency and reducing the use of paper. We voluntarily reported our carbon footprint to the Ministry of Environmental Protection. We have extended our investment in local and international environmental projects, focusing on the use of alternate energy and seawater desalination.

Long-term thinking is part of how we operate – both in business and in terms of corporate responsibility. Despite our great efforts, there is still much to do and many topics to promote. To this end, the Group employs a team dedicated to the matter and we would like to take this opportunity to thank them – **Merav Ratan-Beit Dagan**, VP Communications and Foreign Affairs, who leads the effort with great dedication and has been promoting it in recent years, **Adv. Liora Kvoras-Hadar**, who accompanies and supervises the activities on behalf of the Group Board of Directors, **Doron Ginat**, Deputy CEO, Head of Long-Term Savings, leading the area on behalf of Group management, **Doron Levy** who coordinates the activity and **Ivri Verbin** and his team, who are with us every step of the way.

We thank our customers, colleagues and business partners for their faith in us and we are committed to continue transparently reporting our social and environmental activities.

Sincerely,

Yair Hamburger
Chairperson
Harel Insurance & Finance Group

Michel Siboni
CEO
Harel Insurance & Finance Group

About Harel

Our Operations

Harel Insurance and Finances is the largest insurance and finances group in Israel. We are proud to be the leader in health insurance, second in terms of non-life insurance premiums, third in terms of life insurance premiums and fourth in terms of trust funds. **As of June 30th 2017, the total assets managed by the Group insurance, pension funds, mutual funds, trust funds and financial services – amounted to 196B NIS.** As of 2016 year-end, Harel Group employs 4,695 employees.

Ownership and Legal Organization

Harel Investments is traded on the TASE under the New Tel Aviv 35 Index.

Harel Insurance and Finances Group Shareholders¹

- Public 49.9%.
- Hamburger Family 50.1%.

Economic Performance and Financial Stability

Harel's Financial Figures

(K NIS)

	2015	2016
Overall Group Profit	381,136	422,741
Group Net Profit	455,746	396,948
Total Premiums and Contribution Fees	18,977,200	20,400,815
Group Equity related to Shareholders	4,906,758	5,161,231
Balance Sheet	91,485,151	96,170,413
Total assets managed by the Group (Nostro² and members) for insurance, pension funds, mutual funds, trust funds and financial services	178,400,000	185,100,000
Payroll and Employee Benefit Costs	1,199,104	1,211,579
Shareholder Dividends	235,083	171,086
Total Monetary Contributions (Community Investments)	6,019	6,307

¹ The figures relate to voting rights.

² **Nostro** – A Nostro account is an account held at the bank at which Harel manages its own investment portfolio, unlike the account from which it manages its members' funds.

Total Investments in Kind

441

1,435

Corporate Responsibility in the Harel Spirit

As a leader in the economy, we place a strong emphasis on responsible practices and the promotion of corporate responsibility, complying with the highest standards required in the financial market.

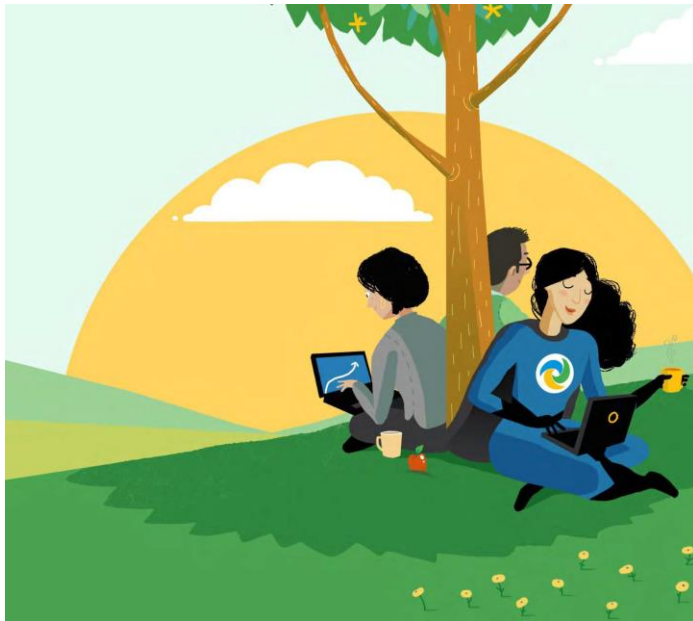
Harel's corporate responsibility policy is based on the Group's management perception and values, on creating value for our customers while providing a professional and quality response, and on community involvement and a strong social commitment.

In promoting the matter and positioning it at the top of the organizational priority, we have established a Corporate Responsibility Forum consisting of the Group Chairperson – **Mr. Yair Hamburger**, Harel Insurance board member – **Mrs. Liora Kvoras-Hadar**, Head of Long Term Savings at Harel Insurance – **Mr. Doron Ginat**, VP Communications and Foreign Affairs – **Mrs. Merav Ratan-Beit Dagan** and Corporate Responsibility Coordinator – **Mrs. Doron Levy**.

The forum convenes every quarter, receives updates and approves future action plans.

Board member, **Mrs. Liora Kvoras-Hadar**, monitors its sustainability and corporate responsibility performance on behalf of the board, closely accompanying and supporting its promotion over the years.

Employees and Working Environment



The People Who Make Harel

We employ a wide variety of employees from around the nation and from a variety of social sectors. As of late 2016, Harel employed 4,695 employees, all under individual agreements.

Harel insurance hired 100 new employees in 2016 and absorbed another 100 employees following the merger between Harel's insurance operations and Dikla.

In addition to Group employees, Harel Insurance, Harel Finances and Dikla employed 569 outsourced workers in 2015 (471 in vocational positions) and 585 outsourced workers in 2016 (493 in vocational positions).

36 and 29 outsourced employees were hired in 2015 and 2016, becoming bona fide Harel employees.

Number of Harel Employees by Districts

District	2014	2015	2016
South	185 (~4%)	195 (~5%)	204 (~5%)
Center	4,264 (~92%)	3,344 (~85%)	3,518 (~85%)
North	185 (~4%)	396 (~10%)	402 (~10%)
Total	4,634	3,935	4,124

Gender distribution at Harel

	2014	2015	2016
Female Managers	1,897	376	409
Female Employees		2,499	2,571
Male Managers	812	272	289
Male Employees		838	855

Distribution of Full and Part-Time Positions

	2014	2015	2016
Part Time	3%	11.6%	11%

Full Time	97%	88.4%	89%
-----------	-----	-------	-----

Employee Recruitment, Hiring and Retention at Harel

Low turnover rates and employees that remain in the Harel Family for years are the best proof of our employees’ sense of belonging and satisfaction. We nurture this atmosphere by offering a fair and pleasant working environment, caring for employee welfare and meeting their needs to the extent possible, offering development, empowerment and more.

The Harel employee turnover rate is low, reported at ~13% per annum, excluding turnover at customer centers, which is typical of that line of work (where Harel Call Center turnover rates are lower than the market average).

Harel Insurance Employee Turnover rate by Gender and Age (Excl. Customer Service)

Age Range	Men	Women	Total 2015	Men	Women	Total 2016
Under 30	31%	33%	33%	45%	30%	33%
30-50	11%	8%	9%	10%	9%	10%
Over 50	5%	3%	4%	10%	4%	6%
Total	12%	13%	13%	14%	13%	13%

Harel Insurance Employee Turnover rate by Gender and Age (Customer Service only)

Age Range	Men	Women	Total 2015	Men	Women	Total 2016
Under 30	81%	53%	57%	43%	45%	44%
30-50	61%	56%	58%	38%	38%	38%
Over 50		0%	0%		100%	100%
Total	72%	54%	57%	41%	43%	43%

Occupational Diversity – Harel’s Human Mosaic

Hiring employees from all walls of Israeli society promotes the economy, serves our business performance, enables us to enjoy a variety of opinions, skills and abilities, and promotes equal opportunity and social justice.

Gender Diversity and Female Empowerment

At Harel, **70% of the employees and managers are women**. Therefore, we find it important to include them in key positions and management levels. We are committed to promoting and ensuring equality between men and women.

We are proud of the significant role that women play in the Harel Group companies³:

- Harel Finances – 36% of the managerial level, 42% of the entire company;
- Harel Insurance – 59% of the managerial level, 72% of the entire company, 33% of the senior executives;⁴

³ Figures are correct for 2016

⁴ VP and higher

- Dikla – 75% of the managerial level, 85% of the entire company.

Age Diversity

We ensure a balance between the longstanding experience and perspective of our senior employees and the new spirit and concepts introduced by the younger employees.

Nearly 40% of Harel's employees are under 30, having the chance to acquire significant occupational experience and become part of the workforce within the financial industry.

The average age ranges from 34 in Dikla to 38 at Harel Finances and 39 at Harel Insurance.

Constant Specialization – Training and Certification at Harel

Harel operates a training array that is based on fixed and annual training programs. Beyond cross-company training sessions, the programs are dedicated specifically to each unit and its needs.

Throughout the reporting years, the unit training programs addressed several issues, including business targets, new regulations in the field, training required under internal enforcement procedures, training to improve professional knowledge and training to solidify the interfaces among the company units.

In 2016, Harel Insurance allocated 68,575 training hours (annual average of ~20 hours per employee).

Growing Together – Individual Development and Empowerment at Harel

At Harel, Promotion is Foreseeable

It is important to us to promote employees to managerial positions from within the company. Therefore, available positions are initially published as internal tenders for the employees.

In 2015 and 2016, ~10% of the internal mobility at Harel Insurance derived from promoting employees to managerial positions.

Feedback and Employee Evaluation

Feedback and evaluation are significant elements in developing and empowering our employees, and retaining them within the company. Manager/employee feedback and individual evaluations are performed once a year.

We make sure that the feedback is bi-directional, so that Group managers listen to the employees and enable us to generate conclusions and implement them within our work processes.

In 2016, the self-evaluation form was broadened to include the option of telling direct managers how they can help employees improve their performance.

35% of the employees chose to utilize this platform in order to raise issues in which they require professional support, tools for task prioritization, increasing job responsibilities and more.

Individual evaluation or feedback for company employees – **82% in 2015, 84% in 2016.**

Health Comes First – Employee Health and Safety

Since the nature of the work is office oriented, there were no reports of employee illnesses derived directly from the occupation during the reporting years. We promptly respond to needs raised by the employees, aiming to prevent any damage to their health. Thus, for example, we offer ergonomic solutions and tips for healthy office habits.

2015-2016 data show a monthly average of **~0.8 absence days per employee** (Harel Insurance). We pay our employees for sick leave, starting from the first day of their illness.

Adhering to Employee Rights is a Privilege for Us

We strictly comply with the provisions of the labor laws and verify this through supervision, control and sample inspections.

No cases of discrimination were detected/reported in 2015-2016.

Starting Wages

One of the significant measures taken on employee rights in 2016 was raising the starting wages in the company, for contract employees as well. Currently, the starting wage at Harel Group exceeds the minimum wage by 20%, amounting to 6,000 NIS per month.

In 2015, to celebrate the company's 80th anniversary, we distributed a 5,000 NIS bonus to all company employees.

Maternity Leave

Harel Family understands the need for helping women returning from maternity leave. Therefore, we apply a considerate approach and enable flexible work hours, so that they can return to work gradually and in a manner that is suitable to the employee and her family.

	2015⁵	2016⁶
Went on maternity leave	223	354
Returned from maternity leave	129	199

~95% of the female employees remain at Harel one year after they return from maternity leave.

⁵ 2015 figures do not include Dikla, due to a fault in the internal information system.

⁶ 2016 figures relate to Harel Insurance, Harel Finance and Dikla



Harel introduces: Over 80 years of Donations

2014 – 5.1M NIS.

- Monetary donations 5.1M NIS
- Donations in kind 505K NIS

2015 – 6.4M NIS:

- Monetary donations - 6M NIS
- Donations in kind – 400K NIS

2016 – 7.7M NIS

- Monetary donations – 6.3M NIS
- Donations in kind – 1.4M NIS



Harel Group promotes a proper business culture based on ethical rules as a precondition for achieving excellence in values and business leadership. Fair practice, complying with our stakeholders' ethical values, is the compass that guides us in our work and we do not compromise or take it for granted, not for a second.

Our Ethical Code

The ethical code comprises our value ID, presenting the core values underlying our vision. The ethical code guides all of the Group's managers and employees, sets the ethical bar that is required of us and comprises one of the major elements in our business ethic perception. We apply daily efforts toward translating these values into decisions and actions at all levels of the organization and in all Group activities.

We believe that the ethical code must act as a "live" and dynamic document, and we expect it to stimulate discussion and serve employees and managers when faced by ethical issues in their work. Naturally, in light of the dynamic business and organizational reality, new dilemmas appear from time to time, and we update the ethical code accordingly, as needed.

We did this in 2016, extending the issue of preventing sexual harassment and adding a reference to online and social network ethics. This update, like other updates integrated in the past, was approved by the Group Board of Directors.

The ethical code appears on the [Group website](#).

Integrating Ethics

Ethics training is conducted during new employee orientation days, where employees are exposed to the ethical code, the consulting and reporting mechanisms, and related issues such as preventing sexual harassment and the procedure for preventing embezzlement and fraud. The "New Employee" kit contains a copy of the ethical code.

After launching an educational software introducing the ethical code in 2014, we now distribute it regularly, on a quarterly basis, to all new Group employees. In 2016, the software review rate was 66%.

Once a year, all employees receive a refresher e-mail relating to the ethical code. In 2016, we introduced a pilot of unique employee workshops for implementing ethics within the Group and, in 2017, we intend to conduct additional workshops and increase the number of employees exposed to them.

Another method for verifying ethical practices is distributing questionnaires to stakeholders who, in turn, evaluate ethical aspects of the company's conduct toward them.

The Group Ethics Supervisor is responsible for the integration process. She is available to the employees and managers for training and guidance, and she is the person to turn to for consultations or in case of violation.

2014 – Launched an educational software, introducing employees to the Group's ethical code

2016 – Pilot of workshops for integrating ethics within the Group

2017 – Planning to extend the number of employees exposed to the ethics workshops.

Corporate Governance

As a major player in the insurance, long-term savings and financial industry in Israel, Harel Group operates in a broadly regulated environment including major legislation, standards and regulations and it is committed to compliance. This environment regulates the Group's activities, practices, the manner for performing external and internal audits and the areas in which it is authorized to operate.

Board Composition – The Team that Navigates the Harel "Ship"

The board of directors is responsible for navigating the Group, setting the course and direction and ensuring the Group's financial stability. The board defines the Group's business strategy, considering market trends, challenges, opportunities and threats.

For more information about the board, committee and board members, visit the [Company website](#), providing all of the information relevant to our investors in a transparent and clear manner.

Board Meetings: 2015 – 14; 2016 – 17.

Number of board members: 8 – 1 woman, 7 men.

4 accounting and financial specialists: – 1 woman, 3 men.

3 external directors: – 1 woman, 2 men.

Average age – 60 years old.

4 members: 50-65 years old;

3 members: 66-80 years old;

1 member: 80+ years old.

The Board operates through 6 committees:

1. **Remuneration Committee** – Prepares the remuneration policy and employment terms for controlling shareholders and position holders.

2. **Audit Committee** – Involved, inter alia, in the formulation of plans for Group and subsidiary internal audits and in the discussion of subsidiary internal auditor audit reports.
3. **Committee for determining financial statement correctness** – Responsible for discussing the financial reports and preparing recommendations for the board.
4. **Risk Management Committee** – The Risk Management Committee is a board tool, enabling it to improve its work through preliminary and in depth discussions on risk related issues among a smaller group of directors specializing in the field. As part of its roles, the Risk Management Committee:
 1. Advises the board on the overall risk strategy, including risk appetite and threshold, and on monitoring the manner in which senior management actually implements the strategy.
 2. Discusses issues relating to risk management and formulates recommendations for the board.
 3. Discusses issues relating to monitoring, supervising and auditing the implementation of Solvency II and issues of the company's and Group's capital soundness.
 4. Receives reports from the Chief Risk Manager.
5. **Nostro Investment Committee** – Examines investments performed by the subsidiaries and submit its conclusions to the board. In addition, it submits its conclusions on the investment management policy implemented by the Group and the subsidiaries.
6. **Capital Assessment Committee** – Discusses the Group's equity structure and submits recommendations on how to reach decisions on this matter.

Internal Enforcement

Aiming to improve compliance with legal provisions and in implementing the Law for Improving ISA Enforcement Procedures (Legislative Amendments) 5771-2011, the guidelines set forth in the Law for Increasing Enforcement in the Capital Market (Legislative Amendments), 5771-2011, Circular 2013-9-20 for Institutional Entities "Managing Compliance Risks in Institutional Bodies" issued by the Treasury's Head of Capital Market, Insurance and Savings Authority, the commissioner's position, provisions of the antitrust laws and the Law for Increasing Enforcement of Labor Laws – Harel Group has adopted internal compliance and enforcement program.

The program relates to security laws, instructions set forth by the Capital Market, Insurance and Savings Commissioner, antitrust matters and labor laws. The Group Board of Directors and the boards of the Group companies update these programs from time to time, as needed and as required by law.

The internal compliance and enforcement supervisor, VP of SOX⁷ and Procedure Regulation and Compliance, or anyone on his behalf – are responsible for monitoring the publication of circulars and new legal provisions and for implementing them among the relevant factors. The units, subject of the new regulations, are responsible for preparing work procedures and integrating them among the employees and for updating procedures according to regulatory updates.

The compliance and enforcement array, consisting of the Harel Finance control department and Group internal auditor, is responsible for ensuring procedure compliance with legal and regulatory provisions, based on the internal compliance and enforcement program.

Integrating Internal Compliance and Enforcement Programs

In an effort toward the effective implementation and integration of the internal compliance and enforcement programs among Group employees and key officials, we conduct seminars on the issue, along with ongoing training sessions, inter alia using a unique educational software.

To help formulate and implement internal compliance and enforcement programs, we have established steering committees dedicated to the enforcement programs relating to financial services, securities and antitrust matters.

Addressing Corporate Governance upon Evaluating New Investments

Pursuant to Investment Division procedures, we evaluate the corporate governance of public corporations when considering new investments. Underlying this activity is the understanding that proper corporate governance improves public company control and supervision mechanisms and the responsibility of investing our colleagues' and customers' money in companies that operate in compliance with rules of corporate governance. Corporate governance relates to matters of board operations and independence, the existence of corporate control and audit entities, the Group's transparency when transacting with stakeholders and controlling shareholders and regularly scheduled general assemblies. In addition, we employ external advisors who analyze the company's corporate governance.

The Investment Committee regularly (and at least once a year) reviews the corporate governance policy regarding investment in corporations, updating it as needed.

In light of our responsibility when investing our colleagues' and customers' money, we invest in corporations that comply with rules of corporate governance.

Proper Management and Preventing Corruption

Preventing Conflict of Interest

We act upon the laws applying to the Group, while meticulously executing all of the relevant provisions, and in accordance with the Group's ethical code, including as related to the prevention of conflict of interest. The directors are subject to the duty of

⁷ SOX – Sarbanes-Oxley Act – A U.S. federal law passed in 2002, obligating business position holders to disclose proper controls within the company to ensure precise monetary reporting and prevent errors in reporting a company's business status.

care, fiduciary duty, duty to maintain corporate governance and other duties applying by law and instructions set forth by the Capital Market, Insurance and Savings Commissioner.

In order to ensure the segregation between actual management and the formulation of policy and supervision, the chairperson of the board does not serve as the Group CEO.

Preventing Embezzlement and Fraud

As a financial body, we are responsible for preventing corruption, embezzlement and fraud, which may significantly impact our colleagues and customers and their confidence in us. Therefore, we have a zero tolerance policy in this regard. The Group maintains clear procedures for preventing embezzlement and fraud, reflecting the policy set forth by the Group's board of directors in this regard.

The procedures are intended to help prevent embezzlement and fraud within the Group, both by internal factors, such as position holders and employees, and by external factors, including pension consultants, agents and suppliers.

In an effort to integrate the procedures within the Group, every new employee is required to review the educational software on preventing embezzlement and fraud and all employees are sent a reminder by e-mail once a year.

Building a Wall – Structural Separation Procedure

Dedicated to prevent corruption and the use of inside information, Harel Investments has adopted structural separation (“Chinese Walls”) between itself and the institutional bodies and subsidiaries that it controls.

According to this procedure, employees who might be exposed to inside information by force of their position will not concurrently fill another position involving securities transactions or providing the Group or others with security related advice or opinions.

For further information on the procedure, visit our [website](#).

Transparency is Harel – First Place in the Corporate Transparency Scale

In November 2016, Transparency International-Israel, a branch of Transparency International, published its TRAC Index – Transparency in Corporate Reporting.

The Association evaluates transparency in the corporate reporting of 16 of Israel's leading companies (based on the 2015 BDI rating), applying a methodology identical to that applied around the world, ranking Harel Group first of all of the insurance companies.

The index evaluates three factors, perceived to be significant to increasing transparency and preventing corruption: reports on anti-corruption programs; organizational transparency and country level reporting. This index is intended to help citizens better understand the operations of Israel's most influential companies, to encourage them to publish more information regarding their business and economic operations and, finally, become a company tool for increasing transparency and the war on organizational corruption.

[Press here to read the final report published by the association.](#)

Risk Management

Risk management is a core value in the professional operation of the insurance and financial industry. Group activities expose it to a variety of risks, mainly: insurance, market and credit risks. The Group faces other risks as well, including operating, legal, goodwill and business risks. Therefore, we must operate in a cautious and responsible manner when managing Group risks.

The Group's risk management policy ensures the implementation of procedures for **identifying, evaluating, measuring, managing and monitoring** the risks in a proactive and preplanned manner. This effort aims to ensure controlled exposure to risks while meeting regulatory demands and maintaining the Group's business objectives, goodwill and financial stability.

Principles Underlying Harel's Risk Management Policy

The Group's risk management policy is based on:

- Corporate governance based on business unit management, risk control and management factors and internal auditing.
- A clear definition of delegated authorities and responsibilities for actions involving risk taking by business factors within the Group.
- Setting restrictions and ceilings to risk exposure.
- Implementing a risk management policy, including actions to identify, evaluate, measure, manage and monitor risks and new risk areas.
- Maintaining a proper internal auditing environment based on clear procedures and regulating risk monitoring and control measures enabling the spreading, offsetting and/or transfer of risks to another factor and restricting them to a predefined level.
- Disclosing and reporting the risk profile to relevant factors.



The Board of Directors as the Risk Management Gatekeeper

The Group and subsidiary boards of directors supervise business activities that involve risk taking as well as risk management procedures by defining relevant policies and strategies. Their supervision includes, inter alia, setting procedures on risk

management and limits to risk exposure, as well as defining the manner of complying with the said procedures and limits.

The board receives reports and periodically reviews information on risk management in the various fields. In addition, it receives reports on quantitative risk indices and an evaluation of their potential impact on risks relating to the Group's future financial status and the capital required to counteract such risks. The impact of various risks is calculated with internal models, stress tests and sensitivity analyses.

The Risk Management Committee formulates its recommendations and submits them to the board. In addition, various forums within the Group addresses insurance risk management issues. The Group's institutional entities implement a quarterly reporting process on substantial changes in the Group's risk profile, submitting their work to the risk manager, management and boards of directors.

Risk management methodology and working procedures are reviewed and updated on an ongoing basis, while considering the Group risk management policy, changes in the business environment in Israel and abroad, and regulatory guidelines and requirements.

We continuously invest in means of improving our control tools for various risks by training appropriate personnel, investing in technology and work processes. This effort is aimed at meeting all regulatory provisions and fully implementing Group risk management objectives and policies.

Social and Environmental Risks when Considering New Investments

Prior to executing an investment, while reviewing all of the considerations and as part of its risk management efforts, Harel examines its exposure to social and environmental risks. This procedure is grounded in the perception that responsible corporate operations must be a major consideration in a company's business activities and that there are many advantages to integrating principles of corporate responsibility, both for the organization and for its environment.

Risk Manager as a Key Factor

Harel's risk management applies a Group perspective and the Group's risk manager is a key factor, responsible for managing the risks faced by Harel Insurance, its institutional entities and Harel Finances. The risk manager operates independently and separately from the business units, objectively viewing the risks and collaborating with other support units including, inter alia, the Actuarial Division, the Group's Investment Division Control Unit, the Harel Insurance Reinsurance Department and Accounting.

Risk manager responsibilities include, inter alia, ensuring the existence of working procedures for identifying, evaluating, measuring and reporting risks, and considering the risks embedded in new operations, products and substantial transactions.

Environmental Responsibility



Harel's Environmental Policy

As an insurance and finance group, environmental responsibility fits in with our aim to ensure the future of all of our stakeholders, mainly our customers. We take measures to reduce our environmental impact and increase our investment in green ventures, such as renewable energy projects in the international market and an investment in the desalination facility in Palmachim.

Our environmental efforts are based on the following basic principles:

- Measuring environmental performance
- Taking measures to reduce substantial environmental effects
- Developing insurance and financial products of environmental value
- Harnessing employees to environmental measures
- Transparency and reporting to all stakeholders and the public
- Promoting the issue through managing investments in Harel Insurance and Harel Finances.

The Corporate Responsibility Department, together with the Logistics Division and supervised by the Corporate Responsibility Forum (consisting of management and board representatives), is responsible for promoting measures to improve the Group's environmental performance. Such activities are periodically approved by management and voluntarily reported to the stakeholders in the corporate responsibility report, "Ma'aleh rating" and the Ministry of Environmental Protection Voluntary Reporting Mechanism for Reducing Greenhouse Gas Emissions.

We identify three major environmental effects derived of our activity, mostly office work by nature:

- **Air pollutant emissions:** Derived of electricity consumption and vehicle use.

- **Greenhouse gas emissions:** Direct and indirect emissions derived mainly of electricity consumption, use of air conditioning coolants and using the organizational vehicle fleet.
- **Waste generation** – Mainly solid, electronic, paper and plastic waste.

Good Energy at Harel – Efficient Energy Use

Focusing on Reducing Electricity Consumption

Our electrical consumption is measured in structures subject to Harel’s full operational control at which our employees operate on a regular and ongoing basis: Harel House and M.E.A. Building in Ramat Gan, Harel House in Petach Tikva, Harel House in Jerusalem and Harel House in Haifa. The Assets Department is responsible for measuring electricity figures and the VP Logistics is responsible for determining measures for increasing efficient use.

Despite the absolute increase in consumption in 2016, relative consumption for the office area was reduced compared to 2015. This reduction was achieved due to a high level of energetic efficiency at the new offices at the M.E.A. Building. The absolute increase resulted from further population of the new floors with employees who worked in buildings outside of the measurement and reporting limits. As such, the overall office space grew by ~30%.

Harel Group continues to invest efforts in 2017, aimed at reducing electricity consumption, with the 2017 goal being a reduction of 1% in electricity consumption per m².

	2014	2015	2016 ⁸
Absolute electricity consumption (kW/h)	12,742,189	13,552,087	15,431,287
Electricity consumption per employee (kW/h)	4,325	4,012	4,713
Relative electricity consumption (kW/h/m ²)	280	188	148

Fuel Consumption at Harel – Going Downhill

We continued to introduce hybrid vehicles into our fleet in 2015-2016 and, as of late 2016, they comprise approximately 1/8 of our organizational fleet. In addition, dozens of employees have waived the use of a company car in consideration of a monetary incentive from the company.

These measures have proven themselves and we have successfully reduced fuel consumption in fleet vehicles in 2016, as compared to 2015, despite a slight increase in the number of vehicles.

Harel Group continues to invest its efforts in 2017 toward reducing fuel consumption, the goal being a reduction of 1% in fuel consumption.

⁸ Following data improvement, there are differences between the data presented here and those presented in the previous report in 2014

	2014	2015	2016
Fuel consumption (gasoline and diesel in liters)	1,680,033	1,786,461	1,780,272
Fuel consumption compared to vehicle quantity (liter/vehicle)	2,276	2,388	2,288

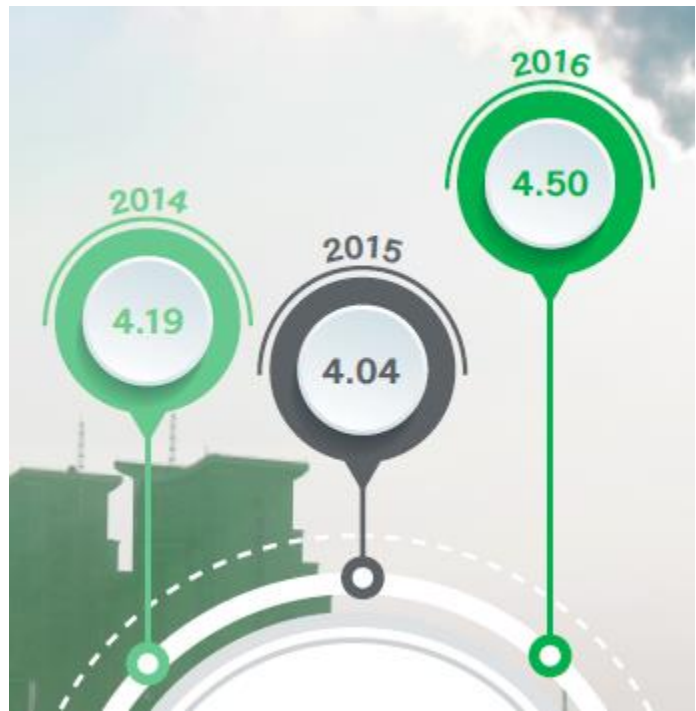
Measuring and Monitoring Greenhouse Gas Emissions

We have joined the effort for coping with climate change. In so doing, we measure the direct and indirect greenhouse gas emission data derived from the company’s operations. Greenhouse gas emissions are measured and calculated for buildings controlled and owned by the company pursuant to the Greenhouse Gas Protocol.

The emission coefficients were derived from the Ministry of Environmental Protection Voluntary Reporting Mechanism for Reducing Greenhouse Gas Emissions.

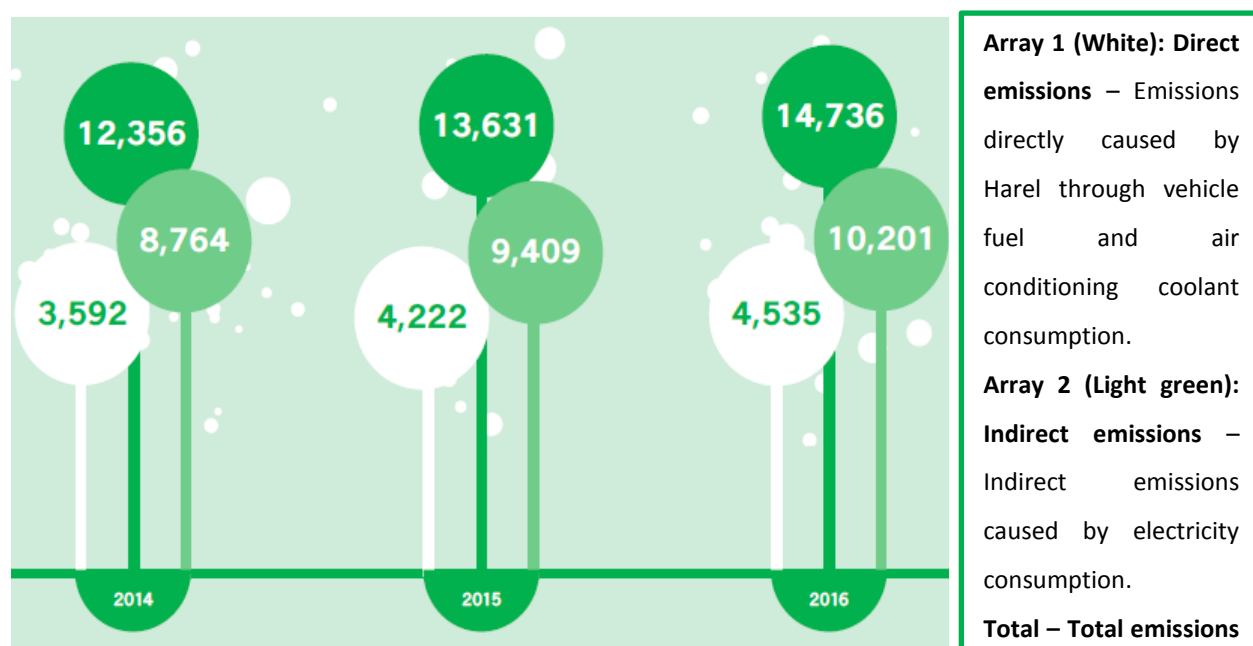
Furthermore, in 2017, we will examine the possibility of shifting to the consumption of electricity from a private manufacturer, generating electricity from natural gas. This shift is expected to reduce greenhouse gas emissions and lower our environmental footprint.

Greenhouse Gas Emissions per Employee (CO2eq tons)



Greenhouse gas emissions per employee increased in 2016, as compared to 2015, due to an increase in absolute emissions derived of electricity consumption because of increased office space and headcount stability.

Greenhouse Gas Emissions, 2014-2016 (CO2eq tons)⁹



Not Everything is on Paper at Harel – Reducing Paper Consumption

As an insurance company committed to various regulatory reporting obligations, we are a paper intense operation.

However, over the last few years and with the environment in mind, we have adopted a policy for reducing paper consumption by shifting to e-mail submission of documents and reports in accordance with regulatory requirements. The Purchasing Department of the Logistics Division and the Automation and Business Information Department are responsible for this effort.

In addition, the Logistics Division Organization and Methods Department takes measures to identify paper-generating activities by operating economical printing centers and introducing operational changes that significantly reduce, and sometimes cancel the need for printing.

	2014	2015	2016
Paper consumption (ton)	608.9	474.6	569
Electronic mailing (provident, life, pension)	990,000	1,297,107	1,597,058

⁹ Greenhouse gas emissions are measured according to a carbon equivalent unit (CO2eq). The calculation was based on the gasoline and diesel consumption figures (liters) reported for the organizational vehicle fleet, the weight of air conditioning coolants (kg) and the electricity consumption at our offices (kW/h).

The increased paper consumption in 2016, as compared to 2015, derived from an increase in the number of customers.

At Harel, Recycling Sets the Tone – Waste Treatment

Our business and operational activities generate solid, paper and electronic waste.

Although we do not generate hazardous or industrial waste, our Logistics Division takes measures to reduce material use, and to promote reusing and recycling.

Waste handling and reduction is managed by the Logistics Division Logistics Operations Department.

Waste Weight by Type (ton)

	2014	2015	2016
Cardboard	3.9	8.9	3.6
Electronic waste	0.9	3.3	2.7
Solid waste ¹⁰	473	415	337
Paper	329	211	207



Green Procurement

In an effort to create a responsible supply chain, Harel has decided to extend its environmental activities and footprint to its supplier interfaces. To this end, the Group's Logistic Division Construction and Purchasing Departments developed a

¹⁰ For technical reasons, solid waste is measured only at Harel House and M.E.A. Building the Ramat Gan, and at Harel House in Petach Tikva.

“Green Procurement” policy, integrating voluntary environmental requirements for supplier requests for information (RFI) beyond a predefined monetary limit. Supplier compliance with these demands entitles them to additional points. The environmental requirements were based on standards and leading case studies in Israel and around the world, such as the SII “Green Standard”, Standard 5281 for Green Construction and the EU Green Public Procurement Standard.

In 2015-2016, most environmental requirements were integrated in RFI’s for the construction project for adding floors to the M.E.A. Building in Ramat Gan. The environmental requirements were integrated into matters of construction, lighting, carpentry and internal systems (smoke release ducts, emergency lighting systems, etc.).

Additional points were given to suppliers who submitted a declaration of prior experience in a recognized green construction project and a declaration of the absence of environmentally related claims and proceedings. In addition, relevant RFI’s presented demands for preferring products bearing “Green Standard” marks (such as drywall, paint and adhesives), international environmental marks (carpentry products derived of responsibly managed forests), certificates of the absence of hazardous materials and preferring equipment of high energetic efficiency.

Responsible Supply Chain



Suppliers and Service Providers – Part of Harel’s Sphere of Influence

Harel Group’s activities require it to work with hundreds of suppliers and service providers in various fields, natures and scopes, such as: office equipment suppliers, automotive shops, law firms, large hospitals and more. The relationship between Harel Group and its suppliers and service providers has a bilateral impact – on the one hand, Harel Group has a strong economic effect on its suppliers (and, as such, on hundreds and thousands of households in Israel) and, on the other hand, the suppliers and service providers enable us to conduct our business activities and continue providing our customers with professional and quality service. In light of these influences, we strive to maintain strong and fruitful relations with our suppliers and service providers, based on trust, fairness and an open door policy for consulting and raising issues that arise in the ordinary course of work.

Seeing that we employ suppliers and service providers in a variety of fields, several Group factors are responsible for engaging with them, based on the professional field.

Harel’s Purchasing Policy

Harel’s purchasing policy reflects social and environmental considerations in its engagements with suppliers. The purchasing policy also implements the Group’s ethical code among suppliers and service providers. We expect our suppliers to act in a manner that corresponds with Harel Group values and to strictly maintain proper and ethical business conduct.

Our supplier agreements reflect the legal aspects of the Group’s values, inter alia by ensuring employment conditions required under regulatory provisions.

For further information on the environmental and ethical aspects of our purchasing policy, visit the Environmental Quality and Ethics sections, respectively.

We monitor employee satisfaction with suppliers and service providers in order to provide them with feedback, clarify the Group's needs and solve issues derived from our joint efforts.

Ensuring Proper Dialogue with Suppliers and Service Providers

We maintain constant and ongoing contact with our suppliers and service providers, ensuring open communication with them. The Purchasing and Logistics Division is responsible for relations with our logistical suppliers and the professional departments maintain ongoing contact with the service providers (lawyers, automotive shops, medical institutions, etc.).

About the Report

Harel Group Corporate Responsibility Report

This is the third corporate responsibility report published by Harel Group, reviewing the Group's main activities in 2015-2016 in areas considered substantial to its operations: efforts for the community, customer service, environmental responsibility, ethical practices, corporate governance and nurturing human resources. Issuing the report comprises another means for us to operate with transparency toward our stakeholders and to reliably and comprehensively present Harel Group's corporate responsibility activities.

The Hebrew version of the report was written in accordance with GRI (Global Reporting Initiative) guidelines, pursuant to the new SRS Standard (Core capability) without external validation.

For further information on the Group and its activities, read our 2015 and 2016 annual reports appearing on our website.

Harel Group constantly seeks to further integrate issues of corporate responsibility into its core business. We intend to continue reporting in the future, aiming for constant improvement.

We wish to thank all of those who made an effort and helped compile the information for this report, its analysis and formulation.

Feel free to contact us on any questions relating to the report.

We welcome our stakeholders to contact us with any comments or questions relating to the report:

- Merav Ratan-Beit Dagan – Communications, Foreign Affairs and Corporate Responsibility Manager
+972-3-754-9400, merevara@harel-ins.co.il
- Doron Levy – Harel Corporate Responsibility
+972-3-754-9091, doronle@harel-ins.co.il
- Ivri Verbin and Igal Avrahami – Corporate Responsibility Consultants
+972-3-560-0153, ivri@goodvision.co.il, igal@goodvision.co.il