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Second Party Opinion

Bank Leumi's Green Bond Framework

Jan. 9, 2023

Bank Leumi is one of the largest financial institutions in Israel, providing banking and financial services throughout the country. The bank follows a universal banking business model, serving households, small and medium businesses, corporations, and capital market customers.

In our view, Bank Leumi's Green Bond Framework, published Jan. 9, 2023, is aligned with:

 Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

Issuer's Sustainability Objectives

Bank Leumi is committed to enhancing sustainability in its operations and throughout its value chain. To this end, the bank has set several long-term objectives to address the environmental, social, and governance (ESG) aspects of its operations. To reduce the adverse impact from its operations on the environmental, climate, and natural resources, the bank targets two main environmental objectives:

- Increasing its financing and investments in green projects or companies that promote sustainability to Israeli new shekel (NIS) 35 billion by 2030; and
- Reducing its greenhouse gas emissions by 20% compared to 2021 levels over 2022-2026.

The bank also has other ESG targets, including a social goal to achieve 24% of new hires from under-represented populations by 2025, and on the governance side to maintain 30% representation of women on its board.

The green bond framework supports the bank's efforts to align its funding strategy with its goal of advancing the climate transition and expanding its green finance activities.

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Second Party Opinion Summary

Use of proceeds

Alignment  Bank Leumi's Green Bond Framework is aligned with this component of the GBP.

Score Not aligned Aligned **Strong** Advanced

Bank Leumi has clearly defined and described the eligible green projects it could finance under this framework, and has identified the environmental objectives for each of the listed categories. The bank has also committed to allocate an equivalent amount of the net proceeds raised under the framework to finance or refinance eligible green projects.

Process for project evaluation and selection

Alignment  Bank Leumi's Green Bond Framework is aligned with this component of the GBP.

Score Not aligned **Aligned** Strong Advanced

The framework describes the bank's methodology for annually identifying and assessing eligible green projects. The framework also outlines the processes by which it identifies and mitigates environmental, and to a lesser degree social, risks as part of its process for reviewing eligible projects.

Management of proceeds

Alignment  Bank Leumi's Green Bond Framework is aligned with this component of the GBP.

Bank Leumi has committed to manage an amount equivalent to the net proceeds using a bond-by-bond approach. Furthermore, unallocated proceeds pending full allocation will be held as cash deposits at the Bank of Israel or in accordance with the bank's liquidity guidelines for short-term investments and as part of its liquid assets.

Reporting

Alignment  Bank Leumi's Green Bond Framework is aligned with this component of the GBP.


Score Not aligned **Aligned** Strong Advanced

Bank Leumi has committed to annually report on the allocation of proceeds and the qualitative impact of the use of proceeds until full allocation. This will be published within the bank's annual ESG report that is available on the bank's website. Furthermore, the bank has committed to have its allocation reporting verified by an external reviewer until full allocation.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Bank Leumi's Green Bond Framework is aligned with this component of the GBP.

Commitments score

Not aligned

Aligned

Strong

Advanced


We consider Bank Leumi's overall use of proceeds commitments to be strong.

Bank Leumi has outlined six eligible project categories that are aligned with the GBP's eligible categories. The eligible project categories are: renewable energy, energy efficiency, green buildings, clean transportation, sustainable water and wastewater management, and environmentally sustainable management of living natural resources and land use. The bank has clearly identified the environmental objectives that it aims to address with each project category.

The bank has committed to exclusively allocate an amount equivalent to the net proceeds from the issuance of any green bonds under this framework to finance or refinance eligible green projects. Bank Leumi has also committed to a three-year look-back period for refinanced projects, which we consider in line with market practice and a strength to the framework. Moreover, the framework indicates that Bank Leumi will disclose, where possible, the share allocated to financing or refinancing the proceeds raised under the framework, which we view as a strength.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Bank Leumi's Green Bond Framework is aligned with this component of the GBP.

Commitments score

Not aligned

Aligned

Strong


Advanced

We consider Bank Leumi's overall process for project selection and evaluation commitments to be aligned.

The framework describes the process the bank employs to identify and assess the eligibility of green projects. The team in the bank's corporate division collects information on potential green projects and reviews the potential green projects according to the bank's criteria, including the criteria set forth in the framework, and selects certain projects. The bank's head of international operations and ESG will also review the selected green projects. These will then also be reviewed by the bank's external auditors to confirm that such projects meet the eligible green project criteria. The framework also indicates that the bank aims to mitigate any identified environmental exposure to the greatest extent possible. Under the framework, the bank considers social risks associated with financing the green projects, as part of its eligibility assessment.

Management of proceeds

The Principles require disclosure of the issuer’s management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer’s commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.


 Bank Leumi’s Green Bond Framework is aligned with this component of the GBP.

Bank Leumi has committed to manage the allocation of proceeds using a bond-by-bond approach. The bank states that proceeds pending full allocation will be held as cash deposits at the Bank of Israel or in accordance with the bank’s liquidity guidelines for short-term investments and as part of its liquid assets.

Moreover, the bank has committed to allocate the proceeds raised under the framework within three years from the date of the issuance, which we view as longer than the market’s best practice of two years.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Bank Leumi’s Green Bond Framework is aligned with this component of the GBP.

Disclosure score

Not aligned	Aligned	Strong	Advanced
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We consider Bank Leumi’s overall reporting practices to be aligned with the minimum requirements of the Principles.

Bank Leumi has committed to publish annual allocation and impact reporting on its website, within its annually published ESG report, until full allocation and in the event of any material allocation changes. The allocation report will contain information concerning the net proceeds of outstanding green bonds at year-end, net proceeds allocated to eligible green project categories, the proportion of financed versus refinanced projects, and the balance of unallocated proceeds, if any. In addition, Bank Leumi has committed to have its allocation report verified by an external auditor until full allocation.

Regarding impact reporting, Bank Leumi has committed to disclose a qualitative assessment of the expected impact of the use of proceeds until full allocation, however it has not provided a list of potential metrics. Frameworks that we consider strongly aligned with the Principles usually include a list of these metrics. Our opinion is also constrained to aligned by the lack of commitment to assess the quantitative impact of all projects and disclose methodologies used to calculate quantitative impact indicators for the projects financed.

Mapping To The U.N.'s Sustainable Development Goals

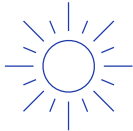
The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Bank Leumi's Green Bond Framework intends to contribute to the following SDGs:

Use of proceeds

Renewable Energy



7. Affordable and clean energy*

Energy Efficiency



9. Industry, innovation and infrastructure*

Green Buildings



11. Sustainable cities and communities*

Clean Transportation



11. Sustainable cities and communities*

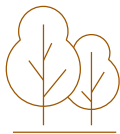
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Sustainable Water and Wastewater
Management



6. Clean water
and sanitation*

Environmentally Sustainable
Management of Living Natural
Resources and Land Us



15. Life on land*

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

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