



2022 Climate Report



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Introduction

In recent years, global awareness of the potential impact of climate change for ecological systems, for society and for the global financial system has been growing. These effects are expected to continue in the coming years, to increase and to pose a key challenge to countries around the world.

Bank Mizrahi Tefahot, being a leader in the Israeli banking system, is preparing for climate change and the resulting implications thereof. The Bank operates in conformity with Bank of Israel requirements and based on generally accepted global practices, in order to make the required adjustments to its operations in a professional, responsible manner – so as to benefit, inter alia, its stakeholders and to ensure stability of the Bank and of the Israeli economy. The Bank acts to expand preparations for risks that may arise from climate change, in conformity with revised requirements and with evolving maturity level of global practices and of the Israeli economy. This is done while discharging its responsibility to provide optimal service to Bank customers.

This report is the first of its kind issued by Bank Mizrahi Tefahot, with regard to management of climate-related aspects at the Bank. It is produced in conformity with TCFD¹ – the generally accepted global standard for reporting on management of financial implications of climate change for business enterprises. This report provides an overview of the methodology, mechanisms and processes implemented by the Bank in order to properly prepare for challenges that may result from climate change. The report provides an extensive overview of all processes undertaken at the Bank over the past two years, so as to prepare for climate-related aspects, in conformity with regulatory requirements in Israel. These processes include, inter alia, creation of designated forums for managing this area, development of mechanisms for classification and assessment of climate risks, development of mechanisms for risk identification, management measurement and mitigation, as well as development of custom products to harness business opportunities arising from climate change and preparation there for. Implementation of these processes is based, inter alia, on operational management infrastructure at the Bank, including regular processes for monitoring and improvement of environmental performance, such as improved energy efficiency, reduced consumption of power, water and fuel, as well as comprehensive integration of environmental risks into credit risk management policy at the Bank.

The publication of this report is a further component of the Bank's long-standing commitment to ESG (Environmental, Social and Governance) – as documented in the Bank's annual ESG reports that review the Bank's extensive activity related to the environment, society and corporate governance.

Climate change is a multi-dimensional global challenge. Even today, climate phenomena have direct and indirect effects on the global economy, as well as on daily lives of many people around the world. These effects result, on the one hand, from the need to address climate change and its implications, and on the other hand – from the global effort to product prevention and mitigation mechanisms for climate change and its future effects. The realization whereby, in order to further sustain a prosperous world, one must adapt the global economy to climate change – is getting ever more traction in economic discourse. Along with the many challenges posed by climate change, it also provides financial opportunities arising from market demand for adapting to and addressing such change, for products and services with reduced greenhouse gas emissions and for technology to assist in prevention of climate change and adapting there to. These challenges and opportunities should have a long-term effect on the economic structure and should bring about diverse macro-economic changes.

1. Task Force on Climate-Related Financial Disclosures.

In recent years, the global financial system has been preparing for climate changes and for its potential effects on the economy. Financial institutions, banks, insurance companies, investors and regulators world-wide have been adopting diverse practices for mitigating the potential effects of climate change and for management of the risks associated there with. In this regard, banks world-wide have adopted reduced emission targets in their financing operations. The main initiative in this area is the NBZA¹ treaty, an international alliance of top banks, committed to make economic progress towards zero emissions through their financial operations. The alliance has been signed to date by over 300 leading banks around the world, who have committed to setting advanced targets for net zero emissions in their financial portfolio by 2030.

As part of this global preparation, the financial system in Israel has also been preparing for these possible effects. Regulators supervising financial institutions in Israel, such as the Bank of Israel and the Supervisor of Capital Market, Insurance and Savings, have put in place over the past years revised preparatory directives. The most extensive regulatory directive in Israel on this matter is Proper Conduct of Banking Business Directive 345 regarding "Guidelines for effective management of climate-related financial risk", issued by the Bank of Israel in June 2023, in conformity with Basel Committee directives on this matter. This directive requires banks and settlement providers in Israel to incorporate material climate risks into financial risk management processes.

The Bank considers that climate risk is not a stand-alone risk, but rather risk factors that increase the traditional risks managed by the Bank (such as: credit, market, liquidity, reputational risk and so forth). The risk management processes and corporate governance for climate risk at the Bank, as listed below in this report, are based, inter alia, on this concept.

1. Net Zero Banking Alliance.

Overview of Bank Mizrahi Tefahot

Bank Mizrahi-Tefahot Ltd. "the Bank" was among the first banks established in Israel. The Bank Group ranks third among the top banking groups in Israel, and also operates in the UK and in the USA. Since 2008, Mizrahi-Tefahot Group also includes Bank Yahav for Government Employees Ltd. (with the Bank holding 50% of all rights and means of control over Bank Yahav). In late 2022, the Bank concluded the merger of Union Bank Le-Israel Ltd. (the acquisition transaction closed in September 2020).

The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nationwide network of 204 branches,¹ business centers and affiliates nation-wide. Business customers are supported in their activities by business centers and professional departments specialized by sector. The Bank serves a wide range of supervisory segments, from households and private banking through medium and large businesses. As of end of 2022, the Bank's overseas operations are conducted via two bank affiliates (in London and Los Angeles).

Mizrahi Tefahot Group has a conservative, stable credit risk profile thanks, inter alia, to the composition of its credit portfolio, which is oriented more towards retail and mortgage operations, which account for more than 73% of credit activity at the Bank Group. In addition, the Group's nostro operations are primarily focused on investing in liquid, high-quality assets carrying low market risk, mostly debentures of the State of Israel. Bank operations in the negotiable portfolio are subject to restrictions which reflect low risk appetite.

All data provided in this report applies to Bank Mizrahi Tefahot, unless otherwise explicitly noted. Anywhere in this report denoting that data is for Mizrahi-Tefahot Group, this includes data for Bank Yahav and overseas affiliates (hereinafter: "the Group").

For more information about the Bank's business operations, see the Bank's annual financial statements.²

Forward-looking information

Some of the information in the TCFD Report, which does not relate to historical facts, constitutes "forward-looking information", as defined in the Securities Law, 1968 hereinafter: "the Law"). Actual Bank data may materially differ from those included in the forward-looking information, due to many factors including, inter alia, changes to capital markets in Israel and overseas, macro-economic changes, geo-political changes, changes to legislation and regulation, climate change and other changes not within the Bank's control, which may result in assessments not materializing or in changes to business plans.

Forward-looking information typically includes words or expressions such as "we assume", "expected", "forecasted", "estimate", "intend", "plan", "may change" and similar expressions, as well as nouns such as "plan", "targets", "desire", "should", "may", "shall be". Such forward-looking expressions involve risk and uncertainty, as they are based on current Bank assessments with regard to future events, which include the following: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; expectation of changes and developments in the currency markets and the capital markets, forecasts related to other factors affecting the exposure to financial risks, forecasts of changes in the financial stability of borrowers, the public's preferences, changes to legislation and supervisory regulations, the behavior of competitors, the Bank's image, technological developments and human resource developments.

The information presented below relies, inter alia, on publications from the Central Bureau of Statistics, Ministry of Finance, Bank of Israel, Ministry of Environmental Protection, Ministry of Agriculture, UN Environment Programme (UNEP), Network for Greening the Financial System (NGFS) and others in Israel and overseas who publish data and estimates with regard to capital markets in Israel and overseas, climate change and impact thereof for and on forecasts and future estimates on various matters, as noted above, and any anticipated events or developments may fail to materialize, in whole or in part.

1. As of December 31, 2022.

2. https://www.mizrahi-tefahot.co.il/mizmedia/10826/200012242_e.pdf

Key climate-related achievements in 2022

In recent years, Bank Mizrahi Tefahot has acted to support various moves to assist in addressing climate change from both the operational and business aspects. These activities demonstrate the Bank's achievements in this area.

Supporting the transition to low-carbon economy

Setting meaningful targets with regard to climate, involving the scope of green financing and development of green products:

The Bank will invest resources and will develop **green financial products** to be used to promote green environmental projects.

The balance of financing and investment in projects that promote a green environment will be **NIS 10 billion**.



As of December 31, 2022, **green credit** extended amounted to **NIS 4.4 billion**.¹

Reduction of environmental impact



Measurement of emissions financed by the Bank for commercial credit with an information quality rating of **3.9**, the best in Israel as of the report issue date.

Reduction of the Bank's carbon footprint intensity per m2 **by 10.6%** compared to 2021. Total reduction of 32% compared to 2018.

1. On-balance sheet credit only for the Group.

Climate governance and climate risk management

Creation of dedicated system for preparation for deployment of climate-related aspects, including a head administration and three work teams, attended by representatives of all Bank divisions. These teams operate regularly to formulate the Bank's preparations for climate change.

Performing **climate-related stress scenario analysis**, including scenarios for flooding and for rise in sea levels, for risk assessment of properties pledged to the Bank.

Formulation of methodology for management and assessment of credit-related climate risk and measurement of risk exposure for commercial credit at the Bank.

Total credit risk to the public in economic sectors subject to increased exposure to transition risk is **5.86%** of total credit risk to the public for the Group as of December 31, 2022.



Setting meaningful targets with regard to climate, involving reduction of carbon footprint and avoidance of financing sectors with material environmental impact:

Reduction of operational carbon footprint and emissions intensity **by 40%** by 2030, compared to 2020 (the base year).

Reduction to zero exposure in the nostro portfolio to coal mining and new oil drilling by 2030. Furthermore, the Bank will not participate in IPOs of assets that carry exposure to these sectors.



Given the Bank's strong commitment to address climate issues, this area is managed by the Bank as part of ESG (Environmental, Social and Governance). As such, it is under joint responsibility of the Manager, Human Capital and Resources Division (the Bank's ESG risk manager) and of the Bank's senior management, which leads the management of climate-related aspects in various areas, for each division based on its business, and under supervision of the Board of Directors. In this context, the Bank has formed a corporate governance structure for management and supervision of climate-related aspects. The structure includes roles and responsibilities of various Bank entities, as well as inclusion of management of climate-related aspects in business activity, in accordance with Bank-set policy.

The Bank has extensive ESG-related corporate governance. In order to quickly and efficiently implement climate-related aspects, the Bank has expanded its ESG policy to also include climate-related issues. The Bank has assigned authority for management and integration of climate-related aspects to relevant officers, and has specified responsibilities for existing organs. Furthermore, the Bank created new, specific administrations and teams for regular management and operation of all work processes regarding Bank preparations for climate change. These administrations are tasked with formulating Bank operations, assisting on various work processes and ensuring that these processes are carried out and holistically implemented across the Bank. These administrations join all other administrations and teams operating at the Bank with regard to all ESG aspects. These administrations and teams may change based on future needs of the Bank with regard to management of climate-related aspects and the resources invested by the Bank in this area.

Key entities responsible for management of climate-related aspects at the Bank:



Bank Board of Directors supervision of climate-related issues

The Board of Directors is responsible for Bank business and financial robustness; its involvement in climate-related issues is part of the regular work of the Board of Directors plenum and committees.

Board of Directors plenum

The Bank's Board of Directors is responsible for setting and confirming policy guidelines for ESG risk management (including climate-related aspects), and for ensuring that these policy guidelines are implemented and are supportive of the Bank's business strategy. In 2022, policy was set for identification, management and control of ESG risk at the Bank, with climate risk being part thereof. In December 2022, this policy was approved by Bank management and by the Board of Directors. This policy is validated and submitted for approval annually.

The Board of Directors receives reports on Bank preparations for climate change, in all various aspects, from Bank management and content experts. Such reports include updates on management of climate-related aspects at the Bank, including overviews of management of this area at the Bank and key milestones in formulating policy on climate-related aspects. Climate-related aspects are brought for discussion by the Board of Directors, having previously been discussed by the professional parties and control functions at the Bank, as well as by Bank management. Management recommendations, as the case may be, are included in background material sent to Board members. In 2022, the Board of Directors held two discussions on climate risk. Moreover, the Board of Directors approves the quarterly and annual risks reports. In this regard, the Bank identifies environmental and climate risk as an evolving risk.

Board of Directors committees

The main Board committee involved in supervision of climate-related issues is the Risk Management Committee. The authority of this Committee includes the discussion of issues and policy regarding risk management and control at the Bank, including the overall risk strategy and risk appetite, as well as formulating recommendations on this matter for the Board of Directors. The Committee, in the course of its work, supervises the inclusion of climate-related aspects in risk management frameworks at all Bank divisions. The Committee also receives a semi-annual report on climate risks.

Training and continuing education

The Board of Directors has an internal annual training program and Board members attend from time to time external professional training. Such as: training on climate change, workshop on climate risk and discussion of the climate risks map and implications thereof for risks at the Bank.

Management responsibility for climate-related issues at the Bank

Bank management

ESG, including climate-related issues, is an organization-wide matter. All Bank divisions touch on these issues in their regular operations. Climate affects diverse aspects and operations at the Bank; therefore, management of climate-related issues does not take place at one location at the Bank, but rather is managed across divisions at various levels, with involvement of all Bank management. In order to implement the work processes required for climate risk management and for realizing climate-related opportunities, significant work interfaces are in place to implement this topic in regular operations of all Bank divisions. In particular, each risk manager at the Bank independently reviews, in tandem with the Manager, Human Capital and Resources Division, how to correctly incorporate climate risk into the risk management for which they are responsible, and implements the desired risk management practices into the appropriate work processes, based on their materiality.

ESG steering committee

Management involvement in climate risk issues is achieved through a quarterly steering committee, headed by the Manager of the Human Capital and Resources Division. Committee members include managers of relevant divisions, along with unit managers at the Bank involved in promotion of ESG (Environmental, Social and Governance). The Committee is tasked with leadership on policy, activity, control and reporting in the course of promoting ESG across all Bank activities. The Committee reports to Bank management on progress made on improvement in ESG performance. The Committee's roles and responsibilities include integration and leadership of the processes required to prepare for climate change. The Committee is responsible for formulating Bank strategy in order to address climate change and to take advantage of related opportunities, review and creation of risk management mechanisms, review of products offered by the Bank in order to take advantage of opportunities and supervision of regular reporting processes.

Bank divisions

Human Capital and Resources Division

Integration of all Bank efforts with regard to promotion of climate-related aspects, including implementation of regulation applicable to the Bank in this regard, falls under the responsibility of the Manager of the Human Capital and Resources Division.¹ The Division Manager is responsible for reporting to Bank management quarterly, for reporting to the Board of Directors' Risk Management Committee semi-annually and for reporting to the Bank Board of Directors annually on any developments in this area at the Bank. Moreover, based on needs arising from time to time, current reports are made by the Division Manager to the Bank President & CEO, about the status of processes implemented at the Bank and Bank preparations.

ESG unit

Deployment and implementation of principles in the TCFD work framework at the Bank, used as a framework for integrating management of climate-related aspects, are carried out by the Corporate Governance Officer, who is the Manager of Organizational Development and Sustainability who leads ESG (Environmental, Social and Governance) operations at the Bank. This activity is carried out in full collaboration between business and operational units across various Bank divisions, based on their areas of operation. There are also regular work interfaces with designated division representatives, who are partners in ESG control, reporting, deployment and implementation processes. The ESG Unit of the Human Capital and Resources Division is tasked with leading the process of formulating climate strategy at the Bank, integration of climate-related aspects across the Bank, as well as internal and external reporting based on generally accepted global practice. The Unit integrates the Bank-wide efforts to realize climate-related opportunities, as well as Bank-wide efforts to deploy climate risk as part of the relevant risk management processes. The Unit also spearheads training on climate-related issues for all Bank divisions. The Unit is responsible for creating reports and data summaries reported by the Manager, Human Capital and Resources Division to management and to the Board of Directors. The Unit is also responsible for external reporting on management of climate risk aspects at the Bank, as part of the annual ESG report and the annual TCFD report.

Business Division

Credit, being a major area of Bank operations, is the key banking aspect that impacts and is impacted by climate. The Business Division is responsible for management of all credit risk at the Bank, and spearheads the formulation and deployment of climate-related aspects in credit-related operations at the Bank, both in terms of opportunity and risk. The Division discharges its responsibility in this area through a designated work team on climate-related issues in credit (for more information see below). The Division is in advanced stages of formulating methodology for identification and assessment of climate-related risk factors which may affect credit risk of the Bank or of a specific borrower. The Division is responsible for further development of the methodology, in line with evolution of the risk and the management tool thereof, as required. This methodology is an expansion of existing processes for managing environmental risks in business credit aspects. In order to formulate methodology, expand capabilities and provide high-quality reporting and for regulatory compliance, the Division conducts significant, challenging processes for gathering, collating and analyzing data, establishes GIS tools for collateral and works with various professional entities to improve methodology and tools. The Division also leads efforts across the Bank to identify and review climate-related opportunities in credit, and is responsible for development of unique, innovative green credit products, as well as for expansion of green credit extended by the Bank. The Division is tasked with revising the credit policy in line with established climate risk management mechanisms.

1. As part of their responsibility in their role of ESG risk manager at the Bank.

Retail Division

The Retail Division is responsible for deployment of climate-related aspects across its operations, including diverse aspects of credit opportunity and risk (in collaboration with the Business Division). In this regard, the Division maintains a Passive Opportunities Realization Team (see more information below). The Division also takes part in promoting deployment of various climate-related aspects at the Bank, by taking part in forums and work teams created, as follows.

Risks Control Division

The Risks Control Division forms a second line of defense for climate risk management. In this regard, the Division is tasked with reviewing and challenging policy documents on risk management and control at the Bank, from climate risk aspects. The Division is also responsible for development and implementation of stress scenarios from climate-related aspects (including climate-related scenarios). The Risks Control Division is also tasked with setting and incorporating climate risk management processes into the overall risk assessment processes, and adapting them to the risk management framework at the Bank. The Bank intends to add reporting of developments in climate risk during the reported quarter, as part of the quarterly and annual risks document (including quantitative data). The quarterly risks document provides an overview of developments across the Bank's entire risk profile, and is discussed by management, by the Board Risks Management Committee and by the Bank Board of Directors.

Climate-related administrations and teams

In early 2023, the Bank established general forums for integration, leadership and management of climate-related aspects. The purpose of such forums is coordination between various Bank entities in promoting this field, making decisions and approval of required actions.

TCFD Administration and implementation of Proper Conduct of Banking Business Directive 345¹

For regular management of the deployment of climate-related aspects, and in particular for Bank preparations for initial publication of its TCFD report and multi-annual preparation for implementation of Proper Conduct of Banking Business Directive 345, the Bank established an administration, headed by the Manager of the Human Capital and Resources Division and attended by various division managers and other representatives from relevant divisions at the Bank.

This administration consists of three teams: Credit-related Climate Risk Management and Opportunity Development Team; Passive Opportunities Realization Team; and Scenario Analysis Team.²

The TCFD Administration convenes monthly to review and approve team activity, to review professional material and to make decisions on required actions to promote this area at the Bank and to ensure that regulations are implemented. The Administration is responsible for formulating policy recommendations for Bank management with regard to climate risk management and taking advantage of opportunities.

1. Proper Conduct of Banking Business Directive 345 is the most significant regulatory directive with regard to climate for banks in Israel, and provides guidance on management of financial risks associated with climate change.
2. For list of participants in this administration and in these teams, see Appendix A to this report.

Credit-related Climate Risk Management and Opportunity Development Team

The team is headed by the Deputy Manager of the Business Banking Division and participants include representatives from the Retail Division, Human Capital and Resources Division, Financial Information and Reporting Division and the Risks Control Division. It was set up to help Bank preparations for inclusion of climate risk in processes and methodologies for credit underwriting at the Bank and for identifying and taking advantage of climate-related opportunities through green financing products. In 2023, the team convened bi-weekly. The team formulates recommendations on revising Bank policy on credit risk management with regard to climate and to put into place the required mechanisms for deployment of current policy. These include, inter alia, means and processes for identification, classification and overall assessment of risks, as well as risk assessment tools for individual credit transactions.

Passive Opportunities Realization Team

This team is headed by the Manager of the Customer Assets and Advisory Sector and participants include representatives from the Finance Division; various advisory and investment departments; and the Risks Control Division. It was set up to review and formulate work plans for realization of climate-related opportunities in business areas other than credit. This year, the team convened several times, has reviewed various opportunities in passive products and has acted to promote development of diverse climate-related financial products, including deployment of relevant information within advisory and analysis systems and incorporating such considerations within investment advice provided to customers.

Scenario Analysis Team

This team is headed by the Manager of the Risk Control Division. It is responsible for development and implementation of stress scenarios that may arise from materialization of climate risk. The team convenes to discuss the methodology, the outline and the outcomes of the required stress scenarios, and has led the analysis of stress scenarios presented later in this report.



Bank Mizrahi Tefahot is preparing for climate change and implications thereof, and acts to assist customers in addressing any potential adjustments that may be required of them. Management of climate-related aspects consists of three pillars that provide a comprehensive solution for impact of climate change for the Bank and its customers:



Supporting customers in the transition towards a low-carbon economy

Understanding the Bank's unique position in the Israeli economy and the challenges associated with addressing climate change and attempting to minimize these challenges, the Bank is developing advanced financial products that will allow Bank customers – and thus, the Israeli economy – to route financial resources in order to reduce greenhouse gas emissions. These products are designed to contribute to the global fight against climate change, as well as to the business readiness of Bank customers for a low-carbon future.



Responsible management of climate risks

Climate change results in diverse risk factors for the economy, which gradually evolve. The Bank is required to adapt its current risk management frameworks to the nature of such new risks. The Bank acts to deploy comprehensive, in-depth risk management mechanisms, that would allow it to continue to optimally provide its services in conformity with its risk appetite, with due attention to customer needs and to their current maturity levels.



Responsibility for the environment

The Bank strives to reduce its direct impact on climate and on the environment, to prepare in its operations for potential impact for climate change and to ensure operational continuity and readiness to address any potential climate challenges. Thus, the Bank strives to minimize its operational carbon footprint, to improve its energy efficiency benchmarks and to reduce resource consumption.

Supporting customers in the transition towards a low-carbon economy

Green taxonomy for identifying and managing climate-related opportunities

Climate-related opportunities arise from the global transition to a low-carbon economy, with all implications thereof, such as: development of new technology for low-carbon manufacturing processes, use of alternative raw materials and energy sources. Furthermore, preparation and adjustment of diverse infrastructure for physical climate risk generates many business opportunities.

The Bank sees the importance in promoting environmental issues, and extends credit designated for development, construction and operation of green products, services and infrastructure with reduced climate and environmental impact. The Bank has started development of custom credit products for individual and business customers, that provide a solution for diverse operations with reduced climate impact and reduced negative environmental impact of the business sector.

In conformity with global green credit trends, the Bank has created its own taxonomy to specify the criteria for environmental credit, in accordance with generally accepted international standards¹ and in accordance to the Israeli market. This taxonomy is used as a basis for development of diverse green credit and passive products.

The Bank's green taxonomy includes seven categories, each with multiple optional financing options.



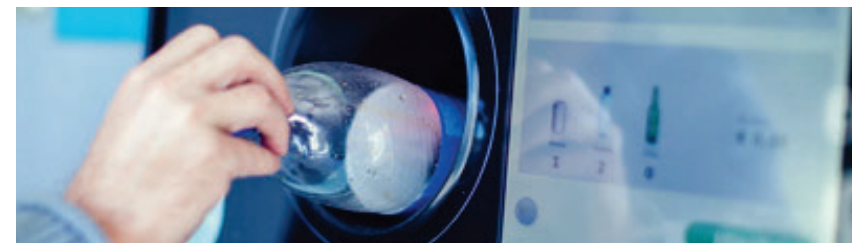
Renewable energy

A key component of the transition to a low-carbon economy is generating energy from renewable resources, rather than burning fossil fuels (coal, oil and natural gas). Renewable energy projects in Israel include the following: solar energy (installation of PV cells by renewable energy companies for sale, or by businesses for their own use), hydro-electric energy, geo-thermal energy and wind energy. The renewable energy market in Israel is growing rapidly due to growing demand, and Israel's geography that allows for utilization of renewable energy sources. The Bank is involved with financing of many renewable energy projects across Israel. This classification includes companies or infrastructure ventures in the renewable energy field, as well as companies or ventures involved in installation of solar panels at private / business properties.



Improved energy efficiency

Other than generating energy from renewable sources, reducing greenhouse gas emissions also involves efforts to improve and reduce energy consumption by existing systems. Efforts to improve energy efficiency include the following: technology upgrade for high-emission generation systems; property refurbishment for improving energy consumption; and construction of energy storage systems. Companies or ventures included under this classification: projects for replacing energy-intensive machinery used by industry with more energy-efficient machinery, refurbishment of properties to improve energy efficiency¹ and national infrastructure ventures involving energy storage.



Pollution prevention and control

Waste reduction and treatment are vital in the transition to a low-carbon economy, due to the significant emissions associated with un-treated waste. Systems for waste collection, sorting and treatment allow for reducing the negative effects of waste, and may even allow waste to be put to other secondary uses by recycling, manufacturing or energy recovery. This classification includes companies that recycle and treat waste, as well as companies or ventures involved in rehabilitation of polluted soil.

1. The Bank taxonomy is based on the GBP standard for green bonds, adopted by leading global banks as a standard which also applies to green credit.

1. To level B or higher pursuant to Israeli standard 5282 for energy rating of buildings, and to higher energy rating than prior to refurbishment.



Clean transportation

Vehicles are a significant source of greenhouse gas emissions world-wide, and in particular in Israel, which is a vehicle-intensive country. In recent years, demand has been growing for electric vehicles, development of mass transit systems and improved walkability in the urban space – all of which allow for significant reduction of greenhouse gas emissions. The Bank provides financing for such projects, such as the High-occupancy vehicle lane (HOV) and the light rail Green Line. Companies or ventures included under this classification: construction and operation of public transportation infrastructure and systems, financing urban development supportive of walkability and non-motorized transportation, as well as financing the purchase of electric vehicles and construction of charging infrastructure.



Green construction

Green construction is designed to mitigate the negative effects of construction processes, and to improve environmental performance and readiness for climate risks of the buildings thus being constructed. In 2005, an Israeli green construction standard (Israeli Standard 5281) was published, specifying the principles for green construction, along with other generally accepted international standards (such as the LEED construction standard). The real estate and construction sector is a major sector in Israel, and the Bank sees great importance in promoting green construction in Israel. This classification includes companies or ventures involved in construction, operation and acquisition of buildings / properties that are compliant with green construction standards.²

1. For compliance with Bank taxonomy, the building must qualify under the LEED standard or under Israeli Standard 5281 at two star level or higher.



Sustainable water and sewage management

Efficient use of water and sewage treatment form an important factor in preparing for climate change, due to the potential impact of increased desalination and water treatment operations during dry and drought periods, and due to the need to mitigate the negative impact of greenhouse gas emissions due to sewage. Israel is considered to be advanced as far as water treatment goes, but desalination and water treatment are energy-intensive operations – and their cost may significantly increase as energy costs rise. Israel, due to its geographic location, faces multiple water-related challenges that require resolution. The Bank sees great importance in financing projects that provide a solution for such challenges, and is currently involved in the financing of many projects in the field of desalination and sewage treatment. This classification includes companies and projects for construction and operation of sewage treatment and water desalination plants.



Technological developments

Technology innovation and climate technology are significant tools used by the world in response to climate change and to potential implications thereof. Israel's innovation and technology industries provide diverse solutions for preparing for climate change or mitigating the effects thereof. The Bank sees great importance in financing technology companies that develop diverse solutions in response to challenges posed by climate change. This classification includes companies or ventures involved in the financing investments in green companies, as well as companies that develop climate tech and clean tech.

Development of other products for realization of climate-related opportunities

The Bank is reviewing several passive products (products for management of customer capital, such as investment and deposit products) that are unique for realizing climate-related opportunities by Bank customers. Thus, for example, the Bank is incorporating climate data (and ESG in general) into analysis and customer investment advisory processes, in line with customer needs and with Israel Securities Authority (ISA) directives.

Responsible management of climate risks

Climate change generates diverse risk factors for the global and local economy, typically categorized into two types:

- **Physical risks** – are created by change in weather patterns and by geographical changes, including increased frequency and intensity of severe weather events due to global warming.
- **Transition risks** – are business risks arising from the global transition to a low-carbon economy, designed to stop and mitigate the impact of climate change, including promotion of climate-related regulation and technology innovation.

Such risk may also impact the Bank and its business environment, thus increasing the traditional risks managed by the Bank on regular basis (including credit, market, liquidity and reputational risk).

Physical risks

Risks arising from direct implications of global warming, including diverse climate phenomena. Such risks are divided into two major categories:

- **Acute risks** – risks including increased frequency and intensity of extreme climate phenomena such as flooding, fires, heat waves and tropical storms.
- **Chronic risks** – risks including gradual, long-term change in climate systems that include gradual increase in temperatures, changes to precipitation, rising sea levels, land erosion and increased salinity of natural water sources, as well as other climate-related phenomena.

Currently accepted global scenarios, from a scientific and political viewpoint, estimate that long-term climate change and specific climate events have extensive potential effects on the labor market, on fiscal and monetary policy, on growth and on other macro-economic benchmarks. These may all affect the Bank's credit risk profile and credit ratings of individual and business borrowers, as well as other financial risks managed by the Bank.

Physical risks may also carry extensive micro-economic effects. Physical risk may impact borrowers and investments by the Bank, due to impacting the valuation of assets impacted by extreme events, impact for business continuity (due to disruptions in supply chains, difficulties in employees' commute and so forth), as well as lower demand for products due to loss of technology or business relevance arising from physical changes.

Transition risks

These risks arise from transition of the global economy to a low-carbon economy, in order to prevent and address climate change. These risks fall into several sub-categories: policy and regulatory, technology, market and reputational risks.

- **Policy and regulatory risks** – arising from frequent changes in requirements stipulated by legislators, in Israel and world-wide, with regard to climate, as reflected in changes to taxation, disclosure and licensing. Such changes are already materializing around the world, such as the EU carbon tax (known as CBAM) imposed on imports of goods in emission-intensive industries, which may impact many companies in Israel (including in the metal product and fertilizer sectors).
- **Technology risks** – arising from development of alternatives for existing technology in emission-intensive areas, in order to address climate change. This may impact companies that rely on current technologies.

- **Market risks** – arising from volatility in availability and prices of commodities and goods traded on markets, such as raw materials, energy, water and securities.
- **Reputational risks** – arising from loss of confidence in diverse companies and industries due to preparation for climate change and changes to preferences of consumers and business customers, who wish to purchase more sustainable products and services with reduced impact on climate change.

Transition risks also may potentially carry significant economic effects, due to macro-economic changes to market structure of diverse economic sectors, as well as changes to international trade volumes between Israel and developed nations. From micro-economic aspects, many companies may be financially impacted by transition risks. This is due to changes to the business, regulatory, technological and public environment in which they operate, which may result in lower demand for their products and in higher operational expenses. Changes to these financial benchmarks may also translate into impact to such companies' repayment capacity.

Responsibility for the environment

Improved efficiency in resource consumption

Due to the nature of Bank activity in office buildings, energy consumption is the major climate-related effect at the Bank. It is also one of the major opportunities with regard to improving the Bank's operational efficiency. The Bank is managing and measuring this area, and applying various efforts for improving energy efficiency. The key effort in this area, in recent years, has been construction of the new Bank headquarters building in Lod, in conformity with the LEED advanced green construction standard. The Bank also promotes other initiatives on Bank premises, including replacing energy-guzzling systems with advanced ones, which are more energy efficient.

This issue is managed at the Bank by an Energy Efficiency Committee, consisting of professionals from the Logistics Division and permanent professional consultants. The role of the Committee is to consider any idea and suggestion for improved efficiency – from buying advanced systems with the capacity for analysis and control, to help reduce energy consumption, through adjustment of the temperature of cold water in cooling units according to the temperature outside, business hours, turning off lights or turning off air conditioners in bulk after business hours etc. For more information about activity in this area and the Bank's operational performance, see chapter Environment in the Bank's 2022 ESG Report.

Resilience of business strategy to climate change

Climate change may develop at different pace, intensity and manner, depending on the pace and nature of the global transition to a low-carbon economy, and may bring about changes in the business environment in which the Bank operates, while creating new risks and opportunities. In order to review the resilience of Bank strategy to potential effects of climate change, an initial review was conducted of two different types of climate scenarios and their effect on the Bank – one scenario with material transition risk and two scenarios with materialization of material physical climate risks (flooding and rise in sea level).

Potential impact of Net-Zero scenario for the Bank – transition risk

A Net-Zero scenario is a scenario whereby the global economy goes through a gradual, managed transition to zero emissions by 2050, so as to curb global warming at no more than 1.5 degrees centigrade (compared to pre-industrial revolution), based on principles of the 2015 Paris Accord – the most comprehensive international treaty on climate issues. This scenario is globally considered to be the most desirable scenario for achieving the Paris Accord targets, while reducing the economic impact of transition to a low-carbon economy. Consequently, many countries (primarily in Europe) and many business enterprises globally have stated their commitment to achieve zero emission targets, as stipulated by this scenario. In this context, countries that have committed to these targets are carrying out significant processes to promote the transition to a low-carbon economy in these countries, including adoption of advanced regulation, investing in more green infrastructure and promoting innovative climate-related technologies. This is an ambitious scenario, assuming rapid regulatory changes and accelerated technology development over the short term. This scenario entails significant transition risks, as well as lesser physical risks compared to the alternatives. However, these risks are not negligible, given the 1.5 degree increase in temperature.

Note, in this regard, that Israel has not committed to emission targets in conformity with the Net-Zero scenario. In fact, Israel's target for reducing emissions by 2030 is considered low compared to other developed nations, most of which have set a target of at least 40% reduction in emissions by 2030. The current structure of the Israeli energy market is not compatible with a low-carbon economy, and currently there are no steps taken to rapidly transition into such an economy. This also affects preparations by the Bank, being a large Israeli bank that reflects the local economy.

The sectors expected to be most severely impacted under the Net-Zero scenario are those related to the fossil fuel value chain. Under this scenario, the Bank is exposed to relatively higher credit risk, due to its financing operations involving the fossil fuel energy sector.¹ Bank exposure to operations in the fossil fuel energy sector is due to attributes of the energy market in Israel: as of 2022, only 7.5% of power generation in Israel is based on renewable energy sources; according to Electricity Authority forecasts, this rate will only increase to 13.9% by 2025. The primary energy source for power generation in Israel is natural gas, which accounted for 68% of energy generated in 2022. This share should increase to 80% by 2025, according to Electricity Authority forecasts.² The current structure of Israel's energy market and its expected future dependence on fossil fuels, according to current plans, mitigate Bank exposure to risks associated with the transition to a low-carbon economy, at least for the coming years. Nevertheless, Bank preparations to promote green financing and to expand green credit extended by the Bank, in particular in the renewable energy sector, may mitigate the overall risk under this scenario.

1. As of December 31, 2022, 1.08% of the Bank's total credit risk was attributable to exposure to economic sectors in the fossil fuel value chain (including exploration, mining, production, refining, marketing and sale of products based on fossil fuels, including coal, oil and gas); a further 0.74% of the total credit risk was attributable to power generation based on fossil fuels.

2. Source: Electricity market report, September 2023, Electricity Authority.

Analysis of flooding scenario and rising sea level scenario – physical risk

The physical risks of flooding, inundation and rising sea level, considered to be reference threats in Israel, may potentially significantly impact physical property of the Bank or property pledged to the Bank. In order to assess Bank exposure to such risks, the Bank has analyzed stress scenarios for materialization of flooding risk and rising sea level risk.¹ These scenarios considered the extent to which property pledged to the Bank, both in the mortgage portfolio and properties pledged to secure business credit, may be impacted in case of significant flooding resulting from extensive precipitation over a short time, as well as under a rising sea level scenario – an event which may materialize over the longer term. Note that events involving flooding and inundation, as well as rising sea level, may result in further impact, such as damage to infrastructure, impact to business continuity and supply chains and loss of revenue, which have not been taken into account in the current scenario analysis.

This analysis is based on mapping of flooding areas by the Ministry of Agriculture. These maps are based on flooding events, as recorded in 1992, and on flooding areas as mapped by the Ministry of Agriculture for National Zoning Plan 1. Note that this mapping is only partial and under stress scenarios, other areas, not mapped as of the report date, may also be impacted. Therefore, in order to allow for a more extreme scenario, we have added to the mapped areas margins that extend the affected area. Moreover, for the rising sea level scenario, areas close to the shoreline were mapped under multiple proximity levels.

The extent of damage assessed under the scenario was affected based on proximity to the shoreline / to the center of the mapped flooding area. We assumed that all properties would be equally impacted based on their proximity to risk areas, and based on different impact rates (sensitivity analysis, regardless of property-specific features such as its height, floor, building age and quality of local drainage infrastructure).

The scenario was calculated both for the mortgage portfolio and for property pledged to secure business loans, and we mapped all pledged properties based on the mapped risk areas. The impact rates were calculated based on a conservative property valuation (for mortgages – original value excluding any change in housing prices since mortgage origination; for business loans – at the lowest current valuation), and were determined based on risk attributes of the different areas. After calculating the new property value after erosion (if the property is located in a risk area) and based on the impact rate as determined, we considered the difference between current loan balances and the value of the impacted property, resulting in the credit balance under potential risk. Because with business loans, one borrower may have multiple pledged properties, we added up valuations of all pledged properties after impact and compared this to the customer's outstanding debt balance.

In both cases, we carried out the analysis for six scenarios with different severity levels, three including a rising sea level scenario in addition to the flooding scenario and three consisting of flooding scenario only. The analysis results, based on conservative initial assumptions, indicate that impact to the Bank's loan portfolio is non-material, even without accounting for insurance coverage of the properties. Note, however, that this analysis is subject to limitations due to the limited data availability in Israel with regard to flooding maps. These maps are not specifically designated for mapping flooding risk due to increase in climate risk, and do not refer at all to drainage infrastructure, construction density and so forth. The Ministry of Environmental Protection is currently in the process of creating maps specific to climate risk, including flooding risk. The Bank shall continue to monitor evolution of this risk and to consider further impact aspects and scenarios, so as to revise the scenario from time to time based on the most current data available for this purpose.

1. Note that flooding risk and rising sea level risk are different in nature and in terms of time horizon. Moreover, flooding risk is a periodic risk with relatively short-term impact, whereas rising sea level is a permanent change to the local geography.



The Bank continues to develop and revise the climate risk management frameworks used in its operations, including methodologies for identification, assessment and mitigation of risks, as part of the management frameworks for traditional banking risks. In this regard, the Bank has expanded the management framework for environmental risks in credit, used in recent years to also include climate risks. The Bank has created dedicated teams and worked with expert external consultants in this field, in order to develop the climate risk management framework. The Bank invested considerable resources in this process, so as to create infrastructure providing a long-term solution to the Bank's business and regulatory needs in this regard, while maintaining an effective response to customer needs. The Bank has chosen to launch this process prior to approval of any regulation on this matter in Israel, recognizing the importance of advance preparations and understanding the complexity of climate issues and their potential impact on the Bank.

Identifying climate risks that affect traditional banking risks

Risk category	Risk definition Examples of potential effects of climate change on risk
Credit risk	<p>Risk definition</p> <p>Credit risk is the risk that a borrower or counter party of the Bank would not meet their obligations to the Bank. Credit risk is a material risk for Bank operations. This risk is affected by these major factors: Business risk due to customer activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks and climate risks, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks.</p>
	<p>Examples of potential effects of climate change on risk</p> <ul style="list-style-type: none"> Climate change is expected to have macro-economic effects, which would impact growth and employment benchmarks, thus affecting the financial robustness and repayment capacity of individual and business borrowers.

Risk category	Risk definition Examples of potential effects of climate change on risk
Credit risk	<ul style="list-style-type: none"> Climate change may impact borrower capacity to meet their obligations, due to impact on profitability or due to physical impact on properties. Physical risks may impact the valuation of collateral provided to secure loans.
Market risk	<p>Risk definition</p> <p>Market risk is the risk of loss from on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities .</p>
	<p>Examples of potential effects of climate change on risk</p> <ul style="list-style-type: none"> Changes in market conditions may result in higher volatility in values of Bank holdings in securities of companies doing business in sectors expected to be affected by climate change. Extreme climate events may result in change in value of various financial instruments related to areas affected by such extreme events, including prices of securities and commodities as well as exchange rates.
Liquidity risk	<p>Risk definition</p> <p>Risk due to uncertainty with regard to resource availability and the capacity to realize assets within a specified time and at a reasonable price. Liquidity risk is a unique, material risk due to the need to respond to such risk within the shortest time possible.</p>
	<p>Examples of potential effects of climate change on risk</p> <ul style="list-style-type: none"> Extreme climate events may result in significant and rapid increase in customer demand for liquidity and credit, in order to adapt or address climate change. Changes to investor preferences and to climate regulations may result in higher financing costs for the Bank, should the Bank fail to meet market expectations as to its climate-related performance.
Operational Risk	<p>Risk definition</p> <p>Operational risk is defined as the risk of loss due to inadequacies or failure of internal processes, people and systems or due to external events.</p>
	<p>Examples of potential effects of climate change on risk</p> <p>The Bank's business continuity may be affected by physical impact to Bank properties, or impact to operational continuity due to extreme climate events and the impact thereof on energy and transportation infrastructure in Israel (which may prevent employees from reaching their workplace). Moreover, the Bank's operating costs may increase due to climate change.</p>

Risk category	Risk definition Examples of potential effects of climate change on risk
Reputational risk	<p>Risk definition</p> <p>Reputational risk is risk to corporate earnings, stability or capacity to achieve its targets due to impact to reputation which may arise from practices at the corporation, from its financial standing or from negative publicity whether true or false).</p>
	<p>Examples of potential effects of climate change on risk</p> <p>Bank reputation may be affected by higher expectations of Bank customers and other stakeholders with regard to adapting operations to climate change.</p>

In the first stage of deployment of climate-related aspects in risk management frameworks, the Bank focused on including climate risks in management of business credit risk, primarily emphasizing the first line of defense. This is due to the material potential impact of climate risks on business credit, and materiality of business credit risk for the Bank.

In order to effectively include climate-related aspects in management of business credit risk, the Bank is required to conduct regular processes including risk identification, assessment, monitoring, control and mitigation. As of the report issue date, the Bank is conducting risk identification and assessment; the subsequent stages will be implemented further in the preparation process.

Along with the focus on business credit, the Bank takes diverse steps to reduce exposure in terms of operational risk; as part of preparation for business continuity management, the Bank incorporates climate scenarios, such as flooding scenarios, into its business continuity plan. Based on other evolving needs and subject to review of materiality, the Bank will develop methodologies and tools to incorporate climate risks in other traditional risk management frameworks.

Identification and assessment of climate risk in business credit

The methodology for identification and assessment of climate risk in business credit was developed for two objectives: firstly, to map and quantify Bank exposure to climate risk; and secondly, to develop appropriate measures for risk mitigation and management at the individual and aggregate levels.

The Bank invested significant resources in the development of this methodology. In this context, the Bank adopted leading global practices in this area, adapting them to the maturity level of the Israeli market. The process involved mapping and analyzing the Bank's business credit portfolio, leading to the identification of sector groups based on economic activity attributes, credit characteristics, and the nature of the Bank's exposure to associated credit risks. These groups were observed to share a similar climate risk profile. The Bank, assisted by expert external advisors, carried out a risk survey for each sector group, thus identifying material, specific climate risks for each sector group, taking into consideration the specific profile of Bank customers. The Bank also assessed the time frames in which each material risk is expected to significantly materialize – based on information available to the Bank. The risk survey was also validated by sector experts in the Business Division.

Based on conclusions from the risk survey, the Bank created an internal rating scale for exposure to climate risk, which separated physical risk from transition risk, due to their different attributes. Each sector group was assigned an initial rating, reflecting the root exposure to climate risk.

This risk mapping resulted in a heat map, listing all risks by their potential impact on each sector. This map provides a coherent picture of diverse climate risks for the entire loan portfolio. The heat map describes the existing root risks in the specified operating sectors, but does not refer to any management and mitigation measures applied by the customers, which may reduce such risk (residual risk, individually reviewed at borrower level).

Mapping climate risks for commercial credit by operating segment, as defined by Bank Mizrahi Tefahot:

Operating sector	Intensity of exposure to physical risks	Time frame ¹	Intensity of exposure to transition risks	Time frame
Fossil fuel based energy	4	Medium	5	Short
Metals (manufacturing and trading)	3	Medium	5	Short
Chemicals-based industries	4	Medium	5	Short
Electronic, optical and mechanical industries	3	Long	4	Medium
Infrastructure and environmental protection	4	Short	3	Medium
Construction (closed projects)	4	Short	2	Medium
Use of land (including renewable energy)	4	Medium	3	Medium
Trading of energy-intensive products and services, including transportation and shipping services	4	Medium	5	Short
Food product manufacturing and trading	4	Medium	4	Long
Trading – other	3	Long	3	Medium
Agriculture	5	Short	2	Medium
Other sectors	2		3	

● High intensity ● High-medium intensity ● Medium intensity ● Low intensity

1. Short time frame is up to two years; medium time frame is up to five years; and long time frame is over five years.



In order to correctly assess the specific risk level attributable to each Bank customer, the Bank has developed a tool for assessment of the individual risk profile of a single borrower. The individual assessment process is based on sector-specific risk assessment questionnaires, that consider customer exposure to climate change, based on analysis of their business activity and the risks associated there with. Furthermore, any mitigation measures and preparations by the customer for materialization of various risks, as well as the effectiveness of such measures, are also reviewed. These questionnaires for assessment of residual risk are intended to be completed by Bank customers, in order to help the Bank more accurately estimate its risk exposure, taking into account customer-specific attributes and any mitigation and management measures applied by the customers. These questionnaires may also increase customer awareness of the major risks they are exposed to, and later on adapting their operations to climate risk.

Currently, the risk assessment tool is only intended for Business Division customers, and it is being deployed for a sample of division customers operating in sectors subject to material climate risk. After a trial and improvement period, this tool would be deployed among other Business Division customers, subject to a materiality threshold to be specified by the Division.

Management of climate-related operational risks

The Bank acts in order to prepare for operational risks arising from climate change, and to adapt its policy to prepare for materialization of such risk. The Bank is taking proactive measures to adequately prepare for forthcoming challenges and ensure business continuity for critical services across diverse scenarios, including those related to climate. This commitment extends to delivering uninterrupted services to clients, even in emergency situations, to the best extent possible. The Bank has a well-defined business continuity plan, including a policy document for disaster recovery and business continuity, that is approved by Bank management and by the Board of Directors. With regard to business continuity, the Bank acts in conformity with the Bank of Israel's Proper Banking Conduct Directive 355 "Business continuity management" and Proper Banking Conduct Directive 357 "IT management". As stipulated in the policy document, the Bank maintains detailed plans for managing business continuity for critical services under various scenarios, and for providing a response to customers during emergencies as well. The Bank has a recovery plan with regard to critical services (Business Impact Analysis - BIA), as specified by the Bank, which also specifies the order of system start-up and recovery times under extreme events.

The Bank has detailed work plans and operating procedures in case of emergency. The business continuity plan is implemented in systems of all Bank divisions, led by the Business Continuity Unit. Bank preparations for diverse national extreme events, primarily earthquake events, should provide a solution for business continuity needs, even under extreme climate events. Concurrently, in order to properly prepare for materialization of climate risk, the Bank has mapped its strategic assets in order to verify their resilience to materialization of climate scenarios, primarily flooding risk - which is highly relevant due to the location of such assets. There are plans in place for the relevant assets, for risk mitigation and preparations for materialization of such risk. Bank preparations for operational climate risks also applies to planning and construction of new Bank buildings. The Bank's new headquarters building in Lod is constructed in conformity with an advanced green construction standard, and includes systems for protecting against natural disasters, such as flooding or fire, as well as systems for monitoring and reducing the use of resources (for more information see chapter "Targets and benchmarks"). Moreover, the electricity sector in Israel is characterized by a low readiness for climate risks. The large number of power outages is a material risk in Israel and is expected to increase. Climate change will result in a increased demand for electricity as well as damage to various electrical infrastructures.¹ In order to prepare for this risk, the building in Lod includes a power plant that will allow the Bank to maintain energy independence.

1. Based on the INSS (The Institute for National Security Studies) review titled "Energy security in the face of the climate crisis".

Bank Mizrahi Tefahot sees great importance in management and decision making processes based on data, as well as on setting long-term climate-related targets for its operations. Based on the understanding that addressing climate change is an extended effort that requires deep commitment to finding reliable, safe and achievable solutions, the bank has formulated a number of objectives according to which the bank's policy and activity on these issues will be determined. These targets have been set by a comprehensive process, and reflect Bank efforts to prepare for climate change, and to develop its dynamic response capacity to the changing reality requirements.

The bank's targets involve three key components: reducing the bank's direct climate impacts; reducing the bank's exposure to activity sectors with high emissions and increased climate risk; developing and expanding the use of green financial products in order to provide the bank's customers with the appropriate tools for transitioning to a low-carbon economy. The bank is committed to achieving these targets and has developed the work processes required to meet them.

Bank climate targets for 2030

The balance of financing and investment in projects that promote a green environment will be **NIS 10 billion**.

Investment of resources and development of **green financial products** that will be used to promote green and environmental projects.

Reduction to zero exposure in the nostro portfolio to coal mining and new oil drilling by 2030. Furthermore, the Bank will not participate in IPOs of assets that carry exposure to these sectors.

Reduction of operational carbon footprint and emissions intensity by **40%** by 2030, compared to 2020 (the base year).

Management and reduction of carbon footprint

The carbon footprint of Mizrahi-Tefahot Group consists of two key components: greenhouse gas emissions due to Group operational activity, and greenhouse gas emissions attributable to Group financial activity.¹ The Group has been managing its operational carbon footprint since 2012² and has set a long-term reduction target for this footprint. The Bank strives to improve its capacity to measure and reduce its footprint every year, and assigns significant resources for this purpose.

This year, for the first time, the Bank is measuring its complete carbon footprint, including financed emissions. These financed emissions are calculated in conformity with international standard PCAF³, currently the leading global standard for calculating emissions attributable to financial activity; this is part of the Bank commitment to reducing its emissions and climate impact.

Reduction of the Bank's operational carbon footprint

2030 Goal:

Reduction of operational carbon footprint and emissions intensity by 40% by 2030, compared to 2020 (the base year).



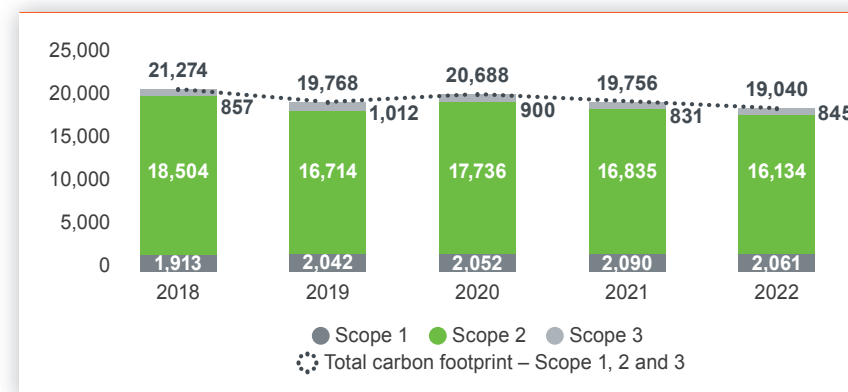
As part of the desire to reduce climate change, the Bank carefully measures greenhouse gas emissions caused by direct consumption of fuel and diesel (scope 1), indirect emissions as a result of power consumption at the Bank (scope 2) and other indirect emissions along the supply chain due to business air travel, paper consumption and paper waste sent to be recycled, electronic waste sent to be scrapped (scope 3).

In 2022, the Bank continued the multi-annual trend of reducing carbon footprint intensity per m² and per employee, as well as the total carbon footprint, thanks to Bank efforts to improve its environmental efficiency. Comparing data for 2022 vs. 2021, the Bank reduced the total carbon footprint by 3.6%, reduced the carbon footprint intensity per m² by 10.6% and reduced the carbon footprint intensity per employee by 2.9%.

Mizrahi-Tefahot Group operational carbon footprint (CO₂eq tons)¹

	2018	2019	2020	2021	2022
Scope 1 – direct emissions due to fuel consumption	1,913	2,042	2,052	2,090	2,061
Scope 2 – indirect emissions due to power consumption	18,504	16,714	17,736	16,835	16,134
Scope 3 – Other indirect emissions in the supply chain	857	1,012	900	831	845
Total carbon footprint (CO ₂ eq) – scopes 1, 2 and 3	21,274	19,768	20,688	19,756	19,040
Carbon footprint intensity (CO ₂ eq tons per employee) – scopes 1, 2 and 3	3.3	3.03	2.73	2.58	2.51
Carbon footprint intensity (CO ₂ eq tons per m ²) – scopes 1, 2 and 3	0.171	0.158	0.136	0.129	0.116

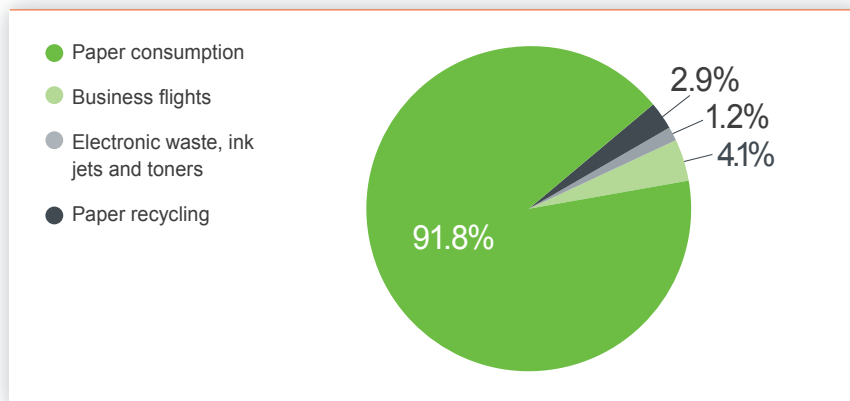
Group operational carbon footprint (CO₂eq tons)²



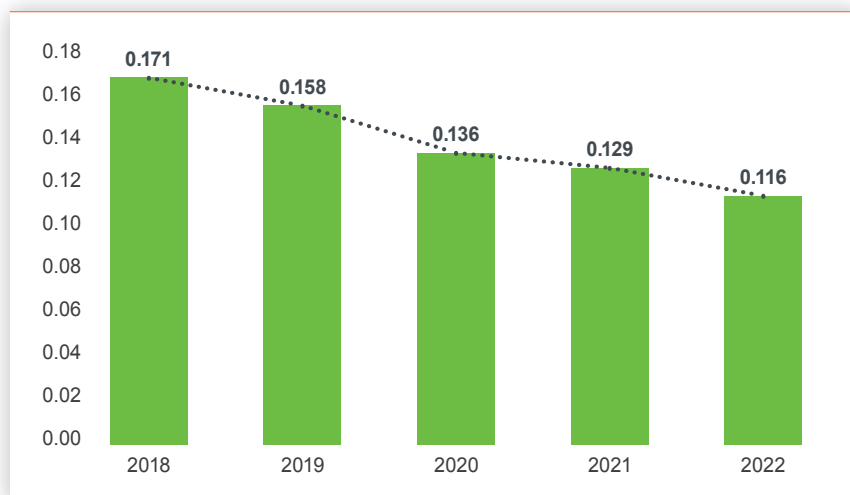
1. Category 15 in Scope 3 of the GHG protocol taxonomy, the leading global standard for calculation of carbon footprint.
 2. In 2012, the Bank issued its first ESG report, including data on its carbon footprint.
 3. Partnership for Carbon Accounting Financials.

1. The Group's operational carbon footprint data include Mizrahi-Tefahot Bank and major subsidiaries. Union Bank has been included since 2020.
 2. In 2020, Union Bank joined Mizrahi Tefahot Group.

Emission source – Scope 3



Operational carbon footprint intensity (CO2eq tons per m²)



Key measures to reduce carbon footprint and other direct environmental effects¹

Bank Mizrahi Tefahot strives to reduce its direct impact on climate change, and acts to promote environmental activity as much as possible. In this context, the Bank measures its energy consumption, use of paper, handling of waste as well as other benchmarks. The extensive measuring by the Bank provides a detailed image, allowing the Group to promote plans for improving operational efficiency, so as to reduce negative impact on the climate. Some of the key measures promoted by the Bank in recent years include:

- Using led lighting throughout the Bank.
- Using automated command and control systems to turn off lighting at Bank headquarters buildings in Lod.
- Installing a temperature adjustment system in the AC system at the headquarters building in Lod.
- Installing and upgrading AC systems to more energy-efficient systems throughout the Bank.
- Preferring hybrid and electric vehicles, and operating shuttles for Bank headquarters employees.
- Expanding the use of digital services and reducing the use of paper.
- Promoting green construction in conformity with LEED standard – The Bank-owned headquarters building was constructed in conformity with the Outstanding Green Building standard of the Israeli Standards Institute. Currently, the Bank is planning construction of the future headquarters building – this building is being designed with assistance from an expert environmental consultant in green construction.

Total financed emissions

For the first time, Bank Mizrahi Tefahot is disclosing its total financed emissions this year. This is a significant step in the process applied by the Bank to address climate change, allowing the Bank to review its exposure to emission-intensive financing, and to launch an internal database in this regard. This information will help decision making in the future. Such measuring will allow the Bank to assess multi-annual trends in credit-related exposure to climate risk, will allow the Bank to review the effectiveness of its risk management mechanisms, and will allow the Bank to discuss with customers the need to manage and mitigate risk on the customer side.

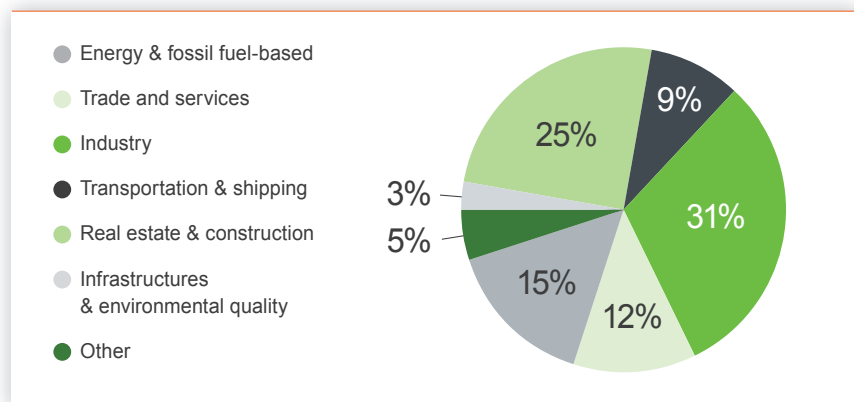
Financed emissions were calculated in accordance with the PCAF standard and subject to restrictions due to the quality of information available in the Israeli economy. The Bank acts to improve its measuring capacity, by developing internal capacity with regard to automation and collection of the required data, as well as through collaboration with Bank customers designed to increase disclosure of total emissions.

1. For complete details of Bank activities to reduce its carbon footprint and of the Bank's environmental performance, see chapter Environment of the 2022 ESG Report.

Total financed emissions out of total commercial credit in 2022¹

Sector	Total financed emissions (MTCO _{2e})	Percentage of total debt ²	Emission intensity (Tons per NIS 1 million) ³	Information quality rating ⁴
Other	0.4	0.7%	218.7	4
Fossil fuel based energy	1.4	1.4%	364	2.2
Commerce and services	1.1	6.3%	58.9	3.9
Real estate and construction	2.3	10.6%	74.8	4.1
Transportation and shipping	0.8	0.4%	634.1	4.1
Industry	2.9	2.5%	396	3.8
Infrastructure and environmental protection	0.2	1.1%	82	3.9
Total amount	9.4	23%	138.2	3.9

Financed emissions in 2022 – Segmented by sector



1. Total financed emissions in 2022 include credit data classified as material, out of total on-balance sheet commercial credit extended by the Bank in the Business Division and in the Retail Division. This data excludes credit at the Bank's overseas affiliates, credit extended to municipal authorities and credit in amounts under NIS 10,000. Note that credit extended to municipalities is not included in this calculation, pursuant to directives of the PCAF standard on this matter.
 2. Credit to the public at the Bank.
 3. Total emission intensity is calculated separately by sector and for total commercial credit. Intensity is the ratio of total emissions to NIS 1 million in debt.
 4. The information quality rating is measured in conformity with the PCAF standard, and is assigned to each financing / investment based on reliability of information available there for. The rating range is from 1 (High) to 5 (Low).

Green financing



2030 Goal:

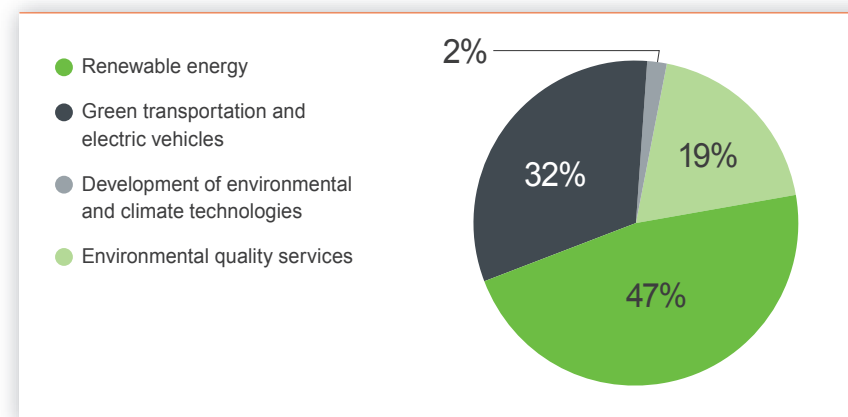
The balance of financing and investment in projects that promote a green environment will be NIS 10 billion.

In order to support and promote the Israeli economy during this transition period to a low-carbon economy, the Bank is expanding the financing available for transactions that support economic sectors and business processes that have a beneficial environmental and climatic impact.¹ The Bank intends to expand its product offering in this area, and has set an ambitious financing target for the Bank.

In accordance with the accepted global practices and with the aim of managing and reflecting to the stakeholders the impact of the bank in practice, the bank measures the green financing it provided according to the credit amounts actually used by the customers to promote environmental goals (on-balance sheet credit). The Bank has set targets for such measurement, as is customary world-wide. The Bank also measures other and future commitments to extend green financing off-balance sheet credit, including future guarantees and commitments yet un-utilized by customers).

Total financing² provided by the Bank for environmental causes, through December 31, 2022, amounted to NIS 4.4 billion.

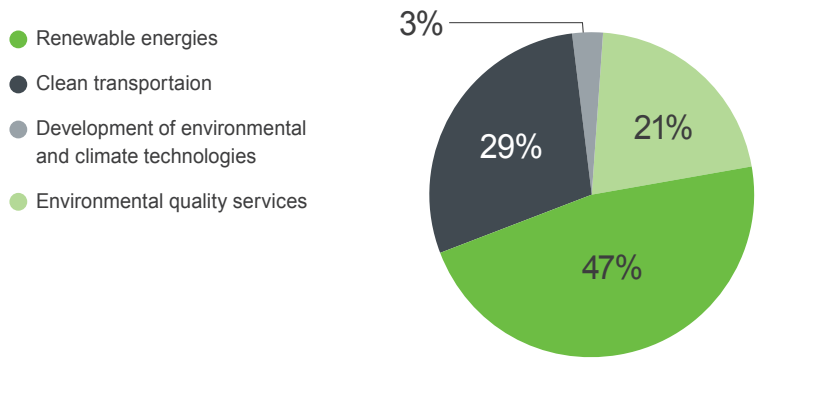
Financing for environmental causes in 2022



1. This is in line with the internal taxonomy developed by the Bank. For more information, see chapter "Strategy".
 2. On-balance sheet credit only.

Total credit exposure¹ provided by the Bank for environmental causes, through December 31, 2022, amounted to NIS **8.3** billion.

Scope of credit exposure to environmental issues in 2022



Nativ Lalr – green financing project

As part of green financing extended by the Bank to projects supporting the transition to a low-carbon economy, the Bank is proud to lead the financing for one of the important infrastructure projects: reducing mileage of private vehicles in Israel – Nativ Lalr (Path to the City). The Project is designed to address the congestion problem at the entrance to the Gush Dan metropolitan area from the north, south and east while emphasizing a transition to public transportation and encouraging shared trips to the centers of demand in the metropolitan area. These HOV lanes would allow private vehicles to park and ride for free, using a custom electric shuttle system based on high-occupancy vehicles. The project would allow private vehicles to use the lanes for a fee, to be dynamically adjusted based on available road capacity, so as to maintain a minimum travel speed.

The project includes construction, operation and maintenance of integrated traffic complexes, which include car parks, docks for shuttles, and public transportation, installation of technological systems for the toll lanes along the Ayalon route and procurement of 170 electric buses. These high-occupancy vehicles would transport road users from the car parks to major employment hubs. Initially, this new project would provide 10,000 car parking spaces at two Park & Ride car parks (in Rishon LeZion and in Shfayim) and would provide a free shuttle service consisting of ten routes to major employment hubs in the metropolitan area. The Bank is proud to take place in this important project, allowing Israel to move forward towards a green, sustainable future.

1. On- and off-balance sheet credit.

Benchmarks for exposure to climate risk

Bank Mizrahi-Tefahot, as part of its commitment to management of climate-related aspects, reviews its aggregate exposure to climate risk in its business credit portfolio, based on the internal risk assessment model created. Measuring Bank exposure to various risk levels is a significant first step in managing climate risk. At this stage, the Bank conducts initial analysis of root exposure to climate risk in the Bank's business credit portfolio, which does not take into account the extent of risk management by customers and each customer's specific exposure. Such aspects will be gradually applied using the risk assessment tools created.

Operating sector	Intensity of exposure to physical risks	Intensity of exposure to transition risks	Percentage of total commercial credit risk ¹
Fossil fuel based energy	4	5	4.68%
Metals (manufacturing and trading)	3	5	5.17%
Chemicals-based industries	4	5	2.6%
Electronic, optical and mechanical industries	3	4	1.69%
Infrastructure and environmental protection	4	3	1.41%
Construction (closed projects)	4	2	37.1%
Use of land (including renewable energy)	4	3	10.42%
Trading of energy-intensive products and services, including transportation and shipping services	4	5	6.67%
Food product manufacturing and trading	4	4	4.6%
Trading – other	3	3	3.38%
Agriculture	5	2	0.85%
Other sectors	2	3	21.43%

● High intensity ● High-medium intensity ● Medium intensity ● Low intensity

Exposure to economic sectors subject to increased transition risk

Another benchmark considered by the Group, in conformity with regulatory directives, is credit risk at the Group attributable to sectors subject to increased risk due to the transition to a low-carbon economy, primarily due to being emission-intensive sectors. The Group has classified the sectors as carrying increased transition risk, in conformity with leading global work frames in this area. Total credit risk to the public in economic sectors subject to increased risk due to being emission-intensive is 5.86% of total credit risk to the public for the Group as of December 31, 2022.

Economic sectors subject to increased transition risk	Percentage of total credit risk to public – Group
Fossil fuels ¹	1.08%
Agriculture – animal husbandry	0.05%
Fossil fuel based power generation	0.74%
Manufacturers of cement, metal products, wood and paper products	1.14%
Rental real estate	2.37%
Transportation, vehicle shipping and manufacturing	0.48%
Total	5.86%

1. Calculation of exposure by economic sector, commercial credit data as of December 31, 2022, bank data excluding derivatives, nostro, subsidiaries and overseas affiliates.

1. This sector includes the entire fossil fuel value chain (including exploration, mining, production, refining, marketing and sale of products based on fossil fuels, including coal, oil and gas).

Appendices

Appendix A – List of members of administrations and custom teams

	ESG steering committee	TCFD Administration	Climate in Credit Team	Passive Opportunities Realization Team	Scenario Analysis Team
Manager, Human Capital and Resources Division	Chair	Chair			
Manager, Marketing, Advertising and Business Development Division	X				
Manager, Business Banking Division	X				
Chief Legal Counsel	X				
Manager, Risks Control Division	X				Chair
Manager, Financial Division	X				
Deputy Manager, Business Banking Division	X	X	Chair		
Deputy Manager, Retail Division – Commercial	X	X			
Deputy Manager, Risks Control Division	X	X			X
Manager, Logistics Department	X				
Manager, Financial Institution and Investor Relations Sector	X	X			

	ESG steering committee	TCFD Administration	Climate in Credit Team	Passive Opportunities Realization Team	Scenario Analysis Team
Manager, Organizational Development and Sustainability	X	X	X	X	X
Manager, Business Division Headquarters	X	X			
Manager, Customer Assets and Advisory Sector	X	X		Chair	
Manager, Business Planning Department	X	X	X		
Deputy Manager, Mortgages Arm		X	X		
Manager, Mizrahi Tefahot INVEST		X			
Manager, Risks Control Department		X	X		X
Manager, Corporate Applications and Business Continuity Department					X
Process Reviewer (Banking Operations Array representative)		X			
Manager, Financial Management Sector		X		X	
Chief Market Economist		X		X	

In addition to the foregoing, team members include representatives from various business units and other invited attendees from the Bank as required.

Appendix B – TCFD Index

TCFD recommendations		
Section no. in standard	Disclosure recommendation	Location in the report
Governance		
G(a)	Board supervision over climate-related matters	10-12
G(b)	Management of climate-related matters by senior management	10-15
Strategy		
S(a)	Climate risks and climate opportunities over the short, medium and long term	16-25
S(b)	Effect of climate risks and climate opportunities	18-25
S(c)	Company robustness in addressing climate change	24-25
Risks management		
R(a)	Climate risk identification and assessment process	26-30
R(b)	Climate risk management process	26-30
R(c)	Integration of climate risks and overall risk management	26-29
Targets and benchmarks		
M(a)	Benchmarks for review of risks and opportunities	31-41
M(b)	Emission scopes and related risks	32-36
M(c)	Targets and performance	8-9, 31-41