

Second Party Opinion

Bank Hapoalim B.M. Green Bond Framework

Oct. 11, 2021

Bank Hapoalim B.M., headquartered in Israel and founded in 1921, provides various banking and financial products and services in Israel, the Americas, and Europe. Bank Hapoalim is one of the largest and leading banks in Israel, based on assets. The bank operates three key divisions: corporate banking, which provides services to business customers and corporate clients; retail banking, which provides services to households, private-banking customers, and small businesses; and financial markets and international banking, which oversees most of the bank's activities in the capital markets, in Israel and overseas.

In our view, Bank Hapoalim's Green Bond Framework, published on Oct. 11, 2021, is aligned with:

✓ Green Bond Principles, ICMA, 2021

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Issuer's Sustainability Objectives

Bank Hapoalim's sustainability strategy is focused on integrating environmental, social, and governance (ESG) principles in its core business, reducing its carbon footprint and financing projects that protect the environment and promote the use of renewable energy. To achieve this, the bank has expanded the services it offers, and now provides its customers advice on responsible investments. It is also developing its ESG Structured Products. Bank Hapoalim has established a Green Bond Framework to fund eligible projects that will contribute to the transition to a low-carbon economy and help the bank meet its green financing objectives.

Bank Hapoalim has set three ESG targets, which it aims to achieve by 2030. These include increasing its financing and investments in projects promoting a green environment to Israeli new shekel (ILS) 20 billion (US\$6.24 billion), reducing its total carbon footprint by 60% (baseline year: 2020) and raising the percentage of bank employees from under-represented population groups to 15% (from a baseline of 11.7% in 2020). Alongside these targets, the bank also aims to increase the representation of women in senior management to 50% by year-end 2025 (from a baseline of 38% in 2020). Bank Hapoalim has been publishing Corporate Responsibility Reports since 2008 that are in line with the GRI Standards: Comprehensive Option, and in 2010 it voluntarily joined the greenhouse gas reporting system promulgated by Israel's Ministry of Environmental Protection.

Second Party Opinion Summary


Use of proceeds

Alignment  Bank Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Score Not aligned **Satisfactory** Strong Advanced

Bank Hapoalim commits to use an amount equivalent to the net proceed of the bonds issued under its Green Bond Framework exclusively to finance/refinance eligible green projects that fit within the identified eligible project categories, including renewable energy, pollution prevention and control, clean transportation, green buildings, and energy efficiency. The bank also identifies the benefits of the eligible projects through their mapping to the United Nations' Sustainable Development Goals (SDGs).


Process for project evaluation and selection

Alignment  Bank Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Score Not aligned **Satisfactory** Strong Advanced


Bank Hapoalim clearly outlines the selection process and criteria to select eligible green projects. The bank has established a dedicated green bond committee of the following representatives or their delegates: the head of corporate banking, head of financial markets and international banking, chief financial officer, and the corporate social responsibility (CSR) and ESG manager. This committee is responsible for ensuring that the proposed allocations are aligned with the categories and eligibility criteria, and for reviewing and approving allocation and impact reports. The committee will also be responsible for approving proposed changes to the register of eligible green projects, if the projects no longer meet the eligibility criteria.

Management of proceeds

Alignment  Bank Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Bank Hapoalim has assigned responsibility of overseeing the allocation of an amount equivalent to the net proceeds raised by green bonds to the bank's CSR and ESG manager. The bank commits to establishing an internal register of eligible projects and tracking allocations to the projects matched to the green bond proceeds. Bank Hapoalim manages unallocated proceeds through cash deposits, or alternatively according to the bank's liquidity guidelines, and in both cases considering the exclusion criteria set out in the Green Bond Framework.

Reporting

Alignment  Bank Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.


Score Not aligned **Satisfactory** Strong Advanced

Bank Hapoalim commits to reporting the allocation of proceeds of any green bond annually, starting within one year of issuance, and until full allocation of proceeds. The bank will make available on its website an external report, comprising an allocation report and an impact report. If impact data is reported, Bank Hapoalim will also disclose details of the methodology applied in compiling the data.

Framework Assessment

Use of proceeds

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

 Bank Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Commitments score

Not aligned

Satisfactory

Strong

Advanced


We consider Bank Hapoalim's overall use of proceeds commitments to be satisfactory.

Bank Hapoalim has committed to allocate an amount equivalent to the net proceeds of any bonds issued under its framework to different environmental projects that address specific environmental issues, such as financing renewable energy projects, waste management projects, clean transportation, green buildings, and improvements on energy efficiency in various sectors—excluding energy-efficiency investments in high-carbon-intensive sectors primarily powered by fossil fuels.

The bank has identified the positive environmental impact of each eligible project category, through mapping to the United Nations' SDGs. However, the issuer does not clearly disclose the environmental objective or benefit intended for each of the eligible projects. We believe all the projects listed in the Green Bond Framework will contribute to environmental objectives and are in line with the eligible categories of the Principles, including climate change mitigation and pollution prevention and control. Bank Hapoalim commits to providing information on the proportion of funds used for financing versus refinancing, which we view as a strength of the framework, specifying a refinancing lookback period of two calendar years. Finally, the eligible projects included in the framework are not related to fossil fuels and do not present additional potential hazards.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, 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 Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Commitments score

Not aligned

Satisfactory

Strong

Advanced

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

Bank Hapoalim's framework clearly outlines the selection process and criteria to select eligible green projects and states that the eligible projects need to be aligned with relevant Bank Hapoalim policies and procedures concerning project development. The bank intends to create a dedicated green bond committee, which will be responsible for ensuring that the eligible projects are aligned with the specified criteria, and approving changes to the register of eligible projects if the project no longer meets the eligibility criteria. The green bond committee is established with the following representatives or their delegates: the bank's head of corporate banking, head of financial markets and international banking, chief financial officer, and CSR & ESG manager. The green bond committee is responsible for assuring the eligibility of projects and reviewing and approving allocation and impact reports, and we view as positive the presence of an ESG subject-matter expert within this decision-making body.

The framework discloses environmental certifications as part of the eligibility criteria for the green building category, which we view as an advanced feature. Moreover, the levels of certification


Second Party Opinion

referenced in the criteria, including LEED Platinum or Gold and BREEAM Outstanding or Excellent, are at the highest level for these standards, which we considered best practice.

Bank Hapoalim has also considered the EU taxonomy on environmentally sustainable economic activities when identifying eligible use of proceeds. However, we note that the bank does not clearly disclose the applicable EU taxonomy thresholds for all the eligible project categories, other than green buildings.

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 Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.


Bank Hapoalim commits to the establishment of an internal register and to tracking the proceeds allocated to eligible green projects until full allocation. The bank will also commission an annual independent review of its green bond issuances until full allocation, to ensure compliance with the eligible criteria. Additionally, Bank Hapoalim's Green Bond Framework states that if certain projects no longer meet the eligibility criteria, these projects will be replaced with an eligible project.

Bank Hapoalim will hold pending allocation proceeds as cash deposits or in accordance with its internal liquidity guidelines for short-term investments. In both cases, it will comply with the exclusions criteria disclosed in the framework, which include activities in the fossil fuel, nuclear, defense, alcohol, tobacco, and gambling industries.

However, Bank Hapoalim expects to allocate an amount equivalent to the net proceeds raised to eligible green projects within a three-year timeframe after issuance, which we view as longer than market practices.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, 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 Hapoalim's Green Bond Framework is aligned with this component of the Green Bond Principles, ICMA, 2021.

Disclosure score

Not aligned

Satisfactory

Strong

Advanced

We consider Bank Hapoalim's overall reporting practices to be satisfactory. Bank Hapoalim has committed to reporting annually on the allocation of proceeds and, when suitable data is available, on the actual positive environmental impact of the eligible green bonds for the full term of any bonds issued under the framework. Allocation reporting be publicly available on Bank Hapoalim's website and will include the amount of proceeds allocated to each eligible project, the proportion of financing versus refinancing of projects and the balance of unallocated proceeds.

Within the framework, the bank commits to commission an annual independent verification of its allocation reporting post-issuance, and to provide details of the methodology applied in compiling the impact data, when such data is reported. These two points are, in our view, stronger characteristics of the framework. Finally, the issuer references the Harmonized Framework for its impact reporting, which we view as positive even though we understand that this will be done on a "best effort basis" only.

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

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

We use the International Capital Market Association (ICMA) 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 Hapoalim's Green Bond Framework intends to contribute to the following SDGs:

Use of proceeds/KPI

SDGs

Renewable Energy



7. Affordable and clean energy

Pollution Prevention and Control



11. Sustainable cities and communities

Clean Transportation



11. Sustainable cities and communities

Green Buildings



11. Sustainable cities and communities

Energy Efficiency



**9. Industry,
innovation and
infrastructure**

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

Second Party Opinion

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