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TCFD REPORT FOR 2023
DISCOUNT BANK

This report is a translation from the Hebrew and has been prepared for convenience only. In case of any discrepancy the Hebrew will prevail.

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1. Introduction

1.1 About Discount Bank

Israel Discount Bank Ltd. ("the Bank") was incorporated in Israel in 1935 as a public company. The Bank's offices are located on a campus in Rishon LeZion's newly established "Elef" district, to which the Bank's head-office gradually moved over the course of 2023. The building, the "Green Campus", houses the Bank and Mercantile Discount Bank, which is wholly owned by the Bank.

The Bank provides its clients with comprehensive banking services in all areas of financial activity, through a network of 100 branches, alongside direct banking and digital banking services. The bank offers services to various customer sectors, including households, small and micro businesses, private banking clients, large businesses, and medium businesses.

The Bank has a subsidiary bank in Israel – Mercantile Discount Bank Ltd. (hereinafter: "MDB"), which is a commercial bank that serves its clients in all areas of financial activity. In addition, the Bank has a number of other subsidiaries in Israel, including Israel Credit Cards Ltd., which engages in credit, clearing and payment services; PayBox Ltd., which provides digital payment services; Discount Capital Ltd., which engages in real investments and underwriting; and Greenlend Financial Solutions Ltd., which will deal with providing consumer credit and credit to small and medium businesses.

Discount Group's international operations are carried out through IDB Bank, a US bank subsidiary. IDB Bank is the only wholly Israeli-owned bank operating in the United States and currently operates branches in the New York area, Florida and California. This bank has representation in Latin America and Israel. The international activity is characterized as business-commercial activity and private banking.

1.2 About the report

This report reviews Discount Bank's activity in managing climate aspects, and the risks and opportunities in this field, within the framework of its business operations. The report has been written in accordance with the 11 articles of the TCFD reporting framework (Recommendations of the Task Force on Climate-Related Financial Disclosures). This report constitutes supplemental reporting to the Bank's Environmental, Social and Governance Report, and provides in-depth and extensive information regarding the climate issue.

The report refers only to Discount Bank, and not to the subsidiaries, except where it is expressly stated otherwise. The intention is to expand the content gradually.

The preparation of this report, the first of its kind for the Bank, represents a significant milestone for the Bank, and is part of the process of establishing and operating a system for managing climate risks and opportunities that the Bank began several years ago. The report details the Bank's efforts to identify and manage climate risks and opportunities and describes the actions taken to integrate the management of the aforesaid risks and opportunities in the Bank's business activities. At the same time, the report also lists the actions that the Bank is planning to take, in accordance with regulations and practices in the field that are accepted worldwide.

The report includes data regarding the effects of the Bank's business operations and climate performance. These figures reflect the situation as of December 31, 2023. Most of the processes described in the report began in 2022 and continue to develop gradually. Naturally, since the climate field is a developing field in Israel, the way in which data is managed and the scope of its availability are expected to change in the coming years. Accordingly, there may be changes in the way some of the data is presented in future reports, in the calculation methodologies of some of the metrics, and in the results presented due to expanding and improving the accuracy of the Bank's measurement capabilities.

It should be noted that no uniform methodology has been established to measure the effects in this field, and therefore extra caution should be exercised in comparing the effects reported by various banking corporations.

2. Corporate Governance in the climate field

Climate change is already giving warning signals to the global and local economies, and global risk reports are identifying the climate crisis and its consequences as one of the key threats to the economy in the coming years. Along with making considerable efforts to reduce the potential risks through measures to mitigate these changes, financial corporations must act to address the expected consequences of climate change on their business activities.

Similarly to other business fields, the Bank has formulated a corporate governance structure for the climate field, thereby allowing it to shape a strategy for this topic, manage risks, track performance metrics, and set goals effectively. The governance structure that has been formulated is in line with the regulatory directives in Israel, and with generally accepted global practices.

The corporate governance structure is designed to enable effective management of climate risks in the Bank's three lines of defense, optimal exploitation of the Bank's climate opportunities, and a clear allocation of spheres of responsibilities along the length of the managerial echelon, with division of responsibility and authority between the Bank's Management, the relevant business units and the Board of Directors. The corporate governance structure is characterized by cross-divisional cooperation at the Bank, which is supported by the definition of clear spheres of responsibilities and powers, alongside the allocation of administrative resources, in order to enable quality management of the climate field in a manner that is embedded in the ongoing business activity.

The Corporate Governance Structure in the Climate Field:

The Bank's Board of Directors

Oversight and policy making for all ESG-related activities, including climate and climate risk management.

Risk Management Committee	**Audit Committee**
Supervision of risk management frameworks, of the integration of climate risks into the various risk management frameworks, of the effectiveness of risk management processes, and of the various risk exposure measures	Supervision of the internal audit function's activity in climate risk audit contexts

The Bank's Management

Responsibility for the execution of climate-related processes and activities, including climate risk management

Climate Steering Committee (an internal committee of the Bank)

The Committee is in charge of leading, integrating and regulating the climate field at the Bank. The Committee will support the regulation and construction of operations in the field.

The Committee is headed by the Head of the Strategy & Finance Division

Professional lead: ESG Manager, Strategy & Finance Division + Climate Risk Manager, Risk Management Division

Corporate Division, Banking Division and Financial Markets Division	**Risk Management Division**	**Strategy & Finance Division**
First line of defense on the topic of climate risks. Responsibility for risk management within the framework of ongoing activity, alongside maximizing and leveraging opportunities	Second line of defense on the topic of climate risks. Responsibility for inclusion and promotion of first-line risk management processes	Integration of the Bank's pan-organizational efforts in the climate field, with emphasis on promoting the Bank's climate strategy, and responsibility for creating the organizational expertise and the measurement and disclosure processes in this field.

2.1 The Board of Directors' role

The Bank's Board of Directors is the body responsible for shaping the Bank's approach to the climate field and oversees how the field is managed at the Bank. This is similar to other business aspects of the Bank. The Board of Directors' oversight on climate-related issues enables, among other things, the assessment and management of climate effects on the Bank's business strategy and ongoing activities.

The Board of Directors is responsible for approving the policy documents dealing with climate aspects at the Bank, including the climate risks policy. In addition, the Board oversees the implementation of a variety of processes and mechanisms for managing the climate aspects, within the framework of designated discussions by the Board and its committees, both in relation to climate, and also in relation to the framework of discussions on various climate-related issues, including the Bank's risk management, Credit Committee discussions, setting the risk appetite, and supervision of the ICAAP process.

In addition to the oversight by the Board of Directors in full plenum, the Risk Management Committee is the committee of the Board of Directors responsible for supervising the field and is authorized to discuss and make recommendations to the Board of Directors on any matter related to the overall risk strategy, risk management policy and risk exposure of the Bank and the Group. Within this framework, the Committee's role is to control and supervise how Management implements the overall risk strategy, including the risk appetite, as outlined by the Board of Directors, and to discuss the scope of exposure to the various risks and the exposure limits; organizational preparedness and corporate governance for implementing the risk strategy, exposure management and control, and the updating of the Board's procedures in the risk management field[1].

In order to ensure effective oversight and to create a relevant knowledge base within the Board of Directors, the Board periodically receives reports about the Bank's exposure to climate risks and the exploitation of climate opportunities, as part of its regular reporting routines alongside dedicated reports on the topic. The Bank aims to increase and deepen the reports on this topic, as the risk management processes and opportunities develop more fully.

Another climate risk oversight tool at the disposal of the Board of Directors is the Bank's internal audit function. The internal audit function, as a third line of defense, independently verifies that risk management processes of the first and second lines of defense are implemented effectively and appropriately.

2.1.1 The Board of Directors' discussions on the topic of climate of risks

Discussions on climate issues are held at the Board of Directors and/or at the relevant committees of the Board, in particular at the Risk Management Committee, which is charged with fulfilling the Board of Directors' responsibility for oversight over the climate field; climate issues are also discussed at the Credit Committee and Investment Committee, in instances where climate risks constitute a significant consideration in the discussion. Discussions on the topic are held both as separate and dedicated discussions on the subject, and as part of discussions on other tangential topics (such as various risks, credit-granting processes, business development, operations, digitalization, etc.).

In 2023, the Bank's Board of Directors held several discussions on environmental, social and governance issues, in which topics related to climate risks and opportunities were raised. In addition, during the year, the Bank's climate risk management policy was formulated, with this receiving the Board of Directors' final approval at the beginning of 2024.

1 For further information on the Committee's activities, see Chapter 9 of the Bank's Environmental, Social and Governance Report for 2023.

2.2 Management's role in the Bank's climate risk management

The Head of the Strategy & Finance Division is responsible for managing the ESG fields, including the climate field, with the implementation of the strategy and professional guidance and support of the various entities at the Bank being carried out by the Bank's ESG Manager. The senior officer appointed at the Bank in the field of climate risk management, including all aspects related to the implementation of Proper Conduct of Banking Business Directive No. 345[2], is the Chief Risk Officer, who is the Head of the Risk Management Division. The Risk Management Division is in charge of integrating all aspects of the management of climate risks at the Bank, their assimilation into the risk management frameworks, and compliance with the relevant regulatory directives. To this end, a dedicated function has been set up in the Risk Management Subdivision of the Risk Management Division, which will be in charge of climate risk management and the environment as a second line of defense.

At the same time, the Heads of the business divisions are responsible, as the first line of defense, for the actual management of the risk and its integration in the ongoing work processes under their responsibility.

Since 2022, the Bank has begun to significantly regulate its work in the climate field. Accordingly, and in line with the development of this field in the Bank and the Israeli economy, the work processes are still in the implementation stages, and are expected to continue to develop in the future in accordance with the development of the practice in Israel and abroad.

2.2.1 Division of responsibility between the Bank's various organizational units in relation to the management of climate aspects

- **The business units (the Corporate Division, the Banking Division and the Financial Markets Division)** are charged with the formulation and implementation of diverse mechanisms for identifying, assessing and managing climate risks in the first line of defense, according to the level of exposure, the Bank's risk appetite and the leading practices for managing the various risks. In addition, the business units are responsible for reporting to the relevant members of Management all risks and transactions related to climate risks in their operations. The business units are currently leading the identification processes and the realization and management of business opportunities related to climate change in funding and investment activities. Subsequently, all business systems will operate the methodologies for identifying and assessing risks and will update the procedures for managing and hedging climate risks, in accordance with the topic and the need.
- **The Risk Management Subdivision in the Risk Management Division** constitutes a second line of defense for climate risk management and includes the field of climate risk management at the Bank. Among its duties are developing and updating policies, processes and work procedures, directing the building of methodologies to assess and manage first-line risk and monitoring the actual implementation. In addition, the Subdivision is responsible for scenario analysis and stress testing in climate contexts, and for the integration of climate risks within the ICAAP process. The Subdivision coordinates the regular and periodic reports on climate risks for the Bank's corporate governance bodies.
- **The ESG Unit in the Strategy Division** is responsible for the integration and development of the Bank's climate field, and for driving pan-organizational processes to promote the field in the various divisions of the Bank, and promoting its deployment in the various business processes, with emphasis on the strategic

2 Proper Conduct of Banking Business Directive No. 345 deals with the management of climate-related financial risks and was published by the Bank of Israel in June 2023.

aspects relating to the exploitation of opportunities and the promotion of new products, as well as professional guidance and support of the business functions in determining methodologies and procedures in this field. In addition, the Bank's ESG Manager is responsible for integrating the Bank's data measurement and collection processes, and for the Bank's external reporting in the climate field within the framework of the Environmental, Social and Governance Report and the TCFD Report. The Unit leads the processes of building organizational expertise in the field, its management and its dissemination and, later on, in sharing this expertise with the main subsidiaries.

In addition, a Climate Steering Committee was established in 2024 to be responsible for temporarily leading, integrating and regulating the climate field, until such time as regulation for this field has been enacted and implemented in the Bank's operations. Because the climate issue is pan-organizational and requires cross-divisional cooperation and communication for its effective implementation at the Bank, the Committee will facilitate synchronization and create a structured framework for effective pan-organizational cooperation. Among the Committee's roles are the formulation of a climate approach and strategy for this field, which will guide the Bank's approach to sustainable funding, and will ensure that climate-related risks are systematically integrated into the Bank's decision-making processes, the reduction of the Bank's carbon footprint, and more.

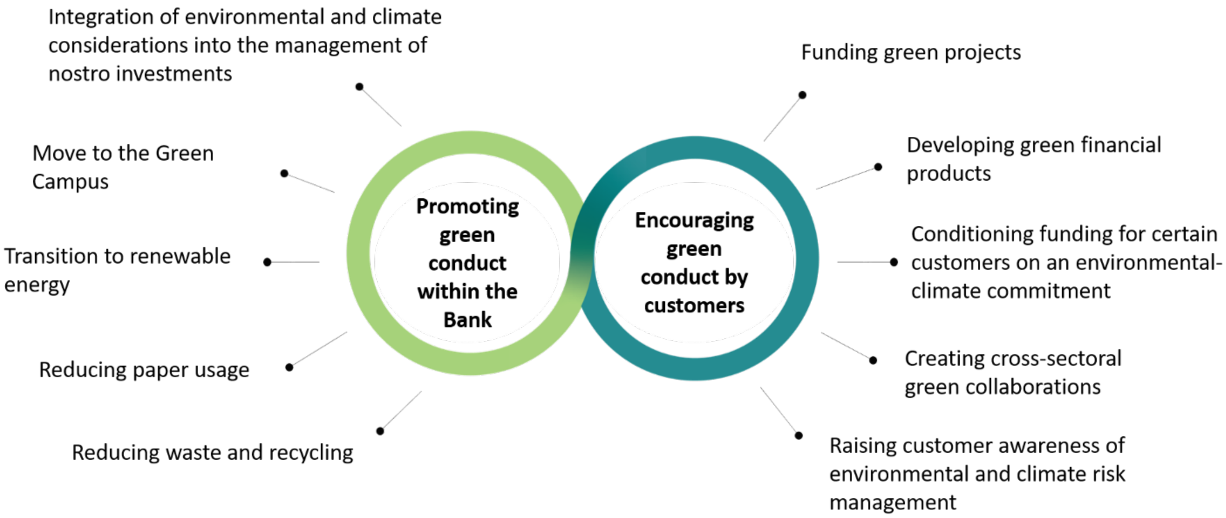
3. Strategy

Climate change is one of the major global challenges facing the global economy and society. Concealed within these changes are opportunities and risks for the Israeli economy, including for the Bank. They are characterized by significant uncertainty in light of the primacy of the phenomena and processes currently taking place, and in light of the difficulty in predicting the pace, scope and intensity of the development of climate phenomena in the various timescales. These risks, which are developing gradually over different timescales (short, medium and long), necessitate the Bank making early preparations for their optimal management.

In 2023, an ESG strategy was formulated for Discount Bank for the first time. As part of this strategy, environmental and climate aspects were integrated at two levels. The first level is the Bank's internal green conduct, and the integration of climate considerations within the Bank's ongoing operational processes. The Bank is working to improve and streamline its operational environmental conduct, in part due to the move to Discount's Green Campus in Rishon LeZion's Elef district. The second level is the promotion of green conduct in the broad business environment in which the Bank operates and which it effects. This aspect includes the integration of the various climate fields, opportunities and risks into the various business and financial processes, in a way that will enable the Bank to create a pan-organizational impact on the Israeli economy and to help promote Israeli awareness and maturity on environmental and climate issues.

This two-dimensional framework enables the Bank to realize the opportunities that the Bank recognizes in the climate field, along with hedging the various risk factors arising from the climate crisis and the global transition to a low-carbon economy. This approach guides the Bank to act simultaneously on two axes – internally and externally.

The Bank's approach in the climate field:



3.1 Implementation of the strategic approach for the climate field[3]

In order to execute the Bank's strategic approach for the climate field, in 2023 the Bank set a series of environmental and climate goals for 2030, with this being in line with the accepted practice for financial institutions around the world. In 2023, the Bank began tracking its progress in attaining the objectives and it intends to report its progress toward this on a periodic basis, and at least once a year in the Bank's Environmental, Social and Governance Report.

3 The feasibility of transitioning to renewable energy is currently being studied.

Main goals for implementation of the climate strategy	**Funding with climate value** – increasing the amount of funding for environmental projects to NIS 12 billion in 2030.	**Reducing the Bank's direct environmental impact** – reducing the Bank's carbon footprint in its operational activity (in Scopes 1, 2 and 3) by 40% by 2030 (compared to 2022).	**Environmental and climate risk management** – imposing climate-risk-related financing limits on the credit portfolio.
Relevant core components in the strategic approach	Encouraging green conduct by customers.	Promoting green conduct within the Bank.	Encouraging green conduct by customers.
Key initiatives for promoting the goals	- Promoting funding of projects and organizations having environmental-climate value; - Examining opportunities to develop innovative green financing products.	- Establishing the Discount Campus and promoting green construction; - Replacing the vehicle fleet with hybrid vehicles and reducing travel; - Allocating approx. NIS 2.3 million for energy efficiency at branches and the head-office; - Examining power consumption options from renewable sources.	- To date, the following limits have been imposed: 1. The Bank will not fund projects and/or companies in the fields of mining and coal production; 2. The funding of oil companies will be possible only for the needs of the Israeli energy sector, and subject to individual examination and approval. - Simultaneously, the Bank is working to build control mechanisms for the establishment and implementation of business plans to streamline and improve the environmental performance of customers

Forward-looking information. The main goals presented above reflects the Bank's plans and its intentions, paying attention to information already in its possession at the time of preparing the report with regard to the development of the banking sector, and to the uncertainty associated with planning for several years ahead. Material changes in the economic and regulatory environment or in the geo-political or defense situations, and technological developments, which are not under the Bank's control, might results in changes in the ability to execute the Bank's plans as they exist at the time of publishing the report. For the definition of the term "forward looking information", see "Appendix No. 4 – Glossary" in the Bank's 2023 Annual Report.

3.2 Promoting opportunities in the climate field

As part of coping with the global climate crisis, there is a broad effort around the world to reduce greenhouse gas emissions resulting from economic activity. This effort to promote a low-carbon economy, including in the fields of energy, transportation, agriculture, and waste, while driving streamlining processes and accelerated technological developments, provides Discount Bank with opportunities to help its customers move to a low-carbon economy, by funding the business and operational processes and projects needed for this purpose, and thereby promote more economic and greener business activity.

The transition to a low-carbon economy requires extensive business adaptations, including: developing and implementing advanced and energy-efficient technologies, promoting the use of renewable energies, and adapting business activity to market demands and changing regulations. At the same time, the various firms are required to make adjustments and preparations to cope with the anticipated physical changes and extreme climate events by investing in R&D, strengthening the robustness of supply chains and renovating properties to make them more durable. These adjustments represent an opportunity for the Bank to support its customers and assist them in financing and adapting their activities to the changing business environment.

At the same time, the Bank also identifies significant business opportunities in the spheres of operational efficiency, as part of the processes being carried out by the Bank for the purpose of improving its environmental performance and reducing its carbon footprint. The Bank works to realize the various opportunities in this sphere, with the aim of creating shared business and environmental value.

3.2.1 Encouraging green conduct by customers

3.2.1.1 Green project financing

Green project financing and green credit constitute not just a value for the Bank but also a significant business opportunity and are an integral part of promoting Discount's commitment to supporting its customers' greener conduct. In this context, the Bank is working to increase the amount of funding for environmental projects to NIS 12 billion by 2030.

In 2023, Discount Bank's environmental credit amounted to approx. NIS 8.8 billion[4]

Clean Transport	Renewable Energy	Water and Effluent Treatment	Waste Recycling and Treatment	Green Construction	Development of sustainable agriculture and agricultural equipment
39%	29%	13%	8%	6%	5%

In order to create transparency and a common language regarding "green" financing, in 2022, the Bank formulated for the first time a methodology for the mapping and classification of credit granted to promote environmental aspects and to reduce the effects of climate change. The methodology was built in accordance with the ICMA Green Bond Principles, in accordance with internationally accepted methodologies[5] and with the assistance of an external consulting firm. The methodology includes an examination of funding projects with environmental value and funding for companies whose main activity is the execution of environmental projects, alongside funding of environmental and climate efficiency projects in other companies. This methodology is anchored in the Bank's credit policy.

4 Balances of credit as of December 31, 2023.

5 For the purpose of defining "green projects", the Bank has used the standard of the Green Bond Principles, which, although created for bond financing, has been adopted by the world's leading banks and global umbrella organizations in the field of credit financing and as a governing standard for lending.

Framework for Discount Bank's green funding

Green Funding Fields at Discount Bank	Field of Activity in the Sector
Clean transport	Companies that engage in building infrastructure for public transportation and operating mass-transit transportation services; funding the purchase of electric vehicles and the establishment of supporting infrastructures.
Renewable energy	Companies that operate in the fields of initiation, establishment, and operation of sites for the production of renewable energies, with an emphasis on companies in the field of solar energy; projects for the establishment of solar sites on private or business properties.
Water and effluent treatment	Companies that engage in the management of the water sector in Israel, including desalination facilities and conveyance infrastructure, as well as companies that operate effluent treatment sites.
Waste recycling and treatment	Companies that engage in the operation of sites and systems for the proper treatment of waste and the prevention of pollution due to failure to treat waste, with an emphasis on activities to reduce waste disposal and investment in alternative solutions, such as recycling.
Green construction	Funding projects for the construction, renovation and operation of buildings that meet leading green construction standards[6].
Development of agriculture and agricultural equipment	Funding the purchase and installation of tools for sustainable, economical and precise agriculture, with an emphasis on activity in developing markets and international development.

The Bank places special emphasis on providing funding in the field of solar energy, due to its view of the field as a significant growth engine for energy, climate and business for the Israeli economy. The Bank has a unique policy for funding solar projects, which defines the terms and conditions for providing credit to various facilities (according to the types of systems, borrowers and owners), and the controls required from the Bank and the borrower. Despite the unique financial risks, the dedicated policy supports funding of these facilities with a variety of tools, such as an increased financing percentage.

The balance of the Bank's credit for environmental infrastructure and renewable energy projects amounted to NIS 2,404 million as of December 31, 2023

3.2.1.2 Integrating ESG and climate considerations into investment consulting

The Bank's investment consulting array integrates ESG considerations, including climate considerations, within the framework of its operations, and as part of its customer consultations. The Bank presents the ESG ratings of mutual funds and ETFs, which are the main products in which the Bank's customers invest. The ratings are presented through investment consultants to customers interested in this, in a way that enables customers to make decisions based also on ESG considerations.

6 For the purpose of classifying funding as green credit in this field, the construction must be certified as being, at least, at the two-star level under the Israeli Green Construction Standard (Israeli Standard 5281) or be certified under the leading international construction LEED standard.

3.2.2 Promoting green conduct within the Bank

As a corporation that provides financial services, the Bank's direct environmental impacts are mainly due to energy consumption – electricity, fuel and travel, and the consumption of office materials. Accordingly, the Bank is focusing its efforts on management, measurement and monitoring, and on achieving savings and efficiencies in these areas.

The Bank aims to reduce the environmental impacts of its direct activity and to promote green conduct within the Bank. Within this framework, the Bank operates on three main levels – promoting responsible environmental conduct in all the Bank's units, reducing greenhouse gas emissions and energy efficiency, and empowering employees to follow more environmentally-correct practices. For further information on these processes, see the "Green Discount" chapter in the Bank's Environmental, Social and Governance Report for 2023.

The Bank's main environmental measures in recent years have included:

- The Bank's move to the Green Campus, which was designed according to stringent environmental standards, and which allows for energy efficiency, through promoting green construction.
- Within the framework of moving to the campus, inter alia, completion of the "Paperless Bank" project.
- Reduction of electricity consumption through a multi-year investment in energy efficiency in a variety of Bank sites and encouraging Bank units to save energy.

Key Environmental Performance of the Bank, 2021-2023:

	2021	2022	2023
Reduction of operational carbon footprint (versus previous year)	-3.2%	-2.5%	726.3%
Reduction of paper consumption (versus previous year)	-12.8%	-6.2%	-14%
Reduction of printer toner purchases (versus previous year)	35%	-21%	-17%
Paper recycling	296 tons (100% of paper waste)	363 tons (100% of paper waste)	346 tons (100% of paper waste)
Electronic waste recycling	86.8 tons (100% of electronic waste)	47.6 tons (100% of electronic waste)	47 tons (100% of electronic waste)

3.2.2.1 Moving to the Green Campus and promoting green construction

In 2016, Discount Group began the initiation of the Discount Campus in Rishon LeZion, the first green banking campus of its kind in Israel. The Campus houses (as from 2023) the Head-offices of Discount Bank and MDB, including the site of their computer facilities. The project has been the Group's main non-banking investment in recent years.

7 The year 2023 was in part a year of construction in the final stages, and in part a year of occupancy of the Group's new Campus in Rishon LeZion. As part of the final construction stages, inspections were carried out and use made of the electricity, water and fuel resources, which are not for the Bank's routine operations (such as load checks), and which cannot be separated during the data monitoring and collection processes. Furthermore, the move to the Campus was gradual, with the Bank's old offices continuing in operation and to be maintained. This led to a rise of approx. 35% in the Bank's electricity consumption and to an overall increase of approx. 26% in its carbon footprint in 2023. However, the decrease in the intensity of the emissions reflects an overall efficiency in relation to the Bank's premises.

Discount Campus has been designed to meet stringent environmental standards, based on green construction principles and certified with a LEED rating, an international rating for the certification of buildings as sustainable and environmental. This is the first building in Israel to be certified under the LEED V4 BD&C-New Construction standard, which extends the requirements for the accumulation of the required points for GOLD certification for new-build structures that covers – in addition to the skeleton frame, the envelope and main systems of the building – also, all the interior areas.

Integrating a system of advanced facades that include designing built-in shading that reduces the need for heating and cooling the structure depending on the season, alongside the installation of air conditioning systems that excel in energy efficiency and planning cost-effective lighting, promote the Bank's energy efficiency, and is expected to contribute significantly to reducing the Bank's carbon footprint.

Along with its move to the new campus, the Bank has also been examining the environmental impacts of existing buildings as a basis for taking decisions in the areas of construction and properties:

- Green criteria are integrated in the selection and planning process of the head-office and branch buildings, both in the engineering design and in the selection of materials;
- Environmental control is carried out, including the measurement and monitoring of radiation in the Bank's buildings.

3.2.2.2 Empowering employees to act in a sustainable manner

The Bank aims to encourage its employees to make informed decisions about the climate effects of their daily and professional conduct. In this context, as part of the planning and construction of the Green Campus, infrastructures have been established to allow the Bank's employees to conduct themselves more efficiently from an environmental perspective. Firstly, as part of the planning of the building, the Bank took into consideration accessibility to a variety of transportation alternatives for Bank employees, thereby encouraging the avoidance of private vehicle usage, including a high level of accessibility to intercity transport infrastructures such as the train, light rail and buses, an urban investment in infrastructure, such as a "Park and Ride" parking lot, pedestrian bridge and bicycle paths. This is in addition to the construction of an underground bicycle parking lot that includes designated bicycle elevators, and showers and lockers adjacent to the campus parking lot. Secondly, concentrating corporate head-offices on a single group campus, together with the integration of technological means for holding meetings and online training, enable employees to save time, travel and energy resources. Finally, the Bank is able to use the Green Campus infrastructure to encourage its employees to use multi-use dishes, make energy savings, and recycle.

In addition, the Bank intends to raise employees' awareness of the issues related to the climate crisis relevant to their professional work, and the role of the financial sector in promoting far-reaching solutions. In accordance with the directives of Israel's Supervisor of Banks, in 2023, the Bank formulated a professional, pan-organizational and multi-year study program dealing with the climate field and its integration into the Bank's financial processes, in all the relevant divisions that are engaged in risk management and opportunities in the climate field. The Bank intends to begin implementing the formulated plan in 2024.

3.3 The Bank's resilience to climate risks

As part of preparing for the publication of this report, mapping and examination of a climate scenario on the Bank's customers was undertaken for the first time at Discount Bank, before the publication of a uniform scenario on behalf of the Bank of Israel. This scenario is part of the NGFS's global Net Zero scenario, which is characterized by significant transition risks.

Within this framework, the scenario chosen was that of the imposition of a carbon tax in Israel, a risk that has reasonable potential of materializing in the near future and is even being examined as a risk to the banking system by the Bank of Israel. The scenario was tested against customers in economic sectors with high-emissions due to significant fuel burning. This is because the carbon tax, the imposition of which is currently being examined in Israel, is expected to be imposed as part of the excise tax (fuel tax).

The Bank is analyzing the scenario's results. However, in order to assess the Bank's robustness and business strategy in an orderly manner, the Bank intends to continue developing its capabilities in this field, and to perform expanded stress testing in 2025, in accordance with regulatory guidelines, and world's accepted practices in the field. The analysis of the scenarios will relate to different climate scenarios, both high-level scenarios in accordance with NGFS recommendations, and specific scenarios that the Bank considers to be relevant attribution threats.

4. Risk Management

In June 2023, the Supervisor of Banks published Proper Conduct of Banking Business (PCBB) Directive No. 345, "Principles for the effective management of climate-related financial risks". These principles, which were drafted to be in accordance with the Basel Committee's principles on climate risk, constitute a significant leap forward in the regulation of climate risk management in Israel's banking system. As part of the Directive, banking corporations are required to implement organizational-operational processes to integrate climate risks into business processes and into frameworks for managing the various traditional risks, in which climate risk is a material risk factor. The principles focus on risk management based on a wide range of data, qualitative and quantitative, collected from different sources, analyzed individually and aggregately, according to methodologies that are generally accepted, and relevant in each risk category.

The Bank is in the process of systematically and methodically building a layout for managing climate risk in accordance with the regulator's expectations and in accordance with the work methodologies generally accepted in the banking world, while adapting them to the Israeli market and the needs of the Bank. This is based on the findings of a comprehensive gaps survey carried out by the Bank on this topic in 2022.

The Bank aims to continue assimilating advanced climate risk management practices and to integrate them into the Bank's existing risk management layout. The Bank is continuing to do so, while dealing with the various challenges that exist in the Israeli market – such as the availability and quality of the existing information in relation to relevant climate data and performance, and the relatively low level of maturity of the Israeli economy in this field – as well as the challenges that all those involved in the field face in common, such as the lack of historical statistical information as is usual in the Bank's other financial risk management processes.

4.1 Material climate risk factors and their impact on the Bank's activity

In recent years, there has been a significant rise in global awareness of the impacts of climate change on society and the environment, including material effects on economic activity in general and on the global financial system in particular. Among these effects are harm to the business continuity of companies, direct damage to the assets of companies and individuals, damage to the social license to operate (SLO) of polluting businesses, and more. In addition, climate phenomena have macroeconomic effects on price stability within the economy, on the employment market and on international trade.

The banking system is also exposed to risks arising from climate change, whether directly at the operational level, or indirectly, due to the exposure of bank customers and of financial and real assets to environmental and climate risks, which could affect their financial stability, the value of their collateral and the value of their investments.

The topic of climate risk management has attracted high business, regulatory, and public focus in recent years, with the understanding that the materialization of climate risks can affect financial institutions and, in extreme cases, can even result in global and systemic impacts. Various banking regulators around the world, including the Banking Supervision Department in Israel, have formulated and published general and specific regulatory guidelines for the banks under their supervision, regarding risk disclosure and management obligations in this field. Discount Bank is in the midst of an orderly and structured process to implement the provisions of PCBB Directive No.345 that deals with the management of climate-related financial risks and is based on the Basel principles on this topic. The Bank began the implementation process even while the PCBB directive was still at the draft stage, and prior to the publication of the final directive in June 2023 (effective from June 2026[8]).

In this context, Discount Bank has included climate risks within the risk management frameworks of credit risk, market risk and reputation risk. The Bank is currently examining the inclusion of climate risks within the risk management frameworks of operational risk and liquidity risk.

Similar to leading organizations throughout the world, both in and outside the financial sector, Discount Bank uses an accepted climate risk taxonomy that divides climate risk factors into physical climate risks (resulting from direct effects of extreme climate events and gradual climate change), and transition risks (resulting from the global transition to a low-carbon economy). Each of the aforesaid risk categories includes a variety of specific risk factors, which have diverse effects on the traditional risks that the Bank manages.

Transition risks – risks deriving from how organizations are expected to be affected by the global transition to a low-carbon economy, within the framework of battling climate change. This transition includes changes in policy and regulation, technological changes and changing consumer preferences. In addition, these changes are expected to lead to significant effects on the demand, supply and price stability of products, commodities and raw materials.

Physical risks – risks deriving from the direct effects of the greater scope, frequency and intensity of extreme natural events (acute risks), alongside gradual shifts in weather patterns and geographic changes due to ongoing climate processes relating to climate change (chronic risks). This category of physical risks includes, inter alia, the gradual rise in temperatures, changes in precipitation patterns, the sparsity of natural water sources, land erosion, rising sea levels, increased drought events, extreme storms, fires, heat and cold waves, floods and inundations, etc. These risk factors could cause direct harm to various tangible assets, such as land, buildings and inventories (due for example to storms, fires or floods). They are also expected to have an effect on companies' business continuity in different ways (from supply chain damage to customers experiencing difficulties in accessing branches), and on the relevance of various products and business models (with an emphasis on areas that depend on the existence of certain physical conditions or areas with seasonal characteristics).

8 The banks were originally given two years to prepare for the PCBB directive's implementation, and the Banking Supervision Department extended this period to three years, due to the challenges that the banks are facing as a result of the "Iron Swords" War. Despite this extension, Discount Bank intends to meet the original timetable for the implementation of the PCBB directive, and to complete its preparations within two years of the Directive's publication.

In order to enable effective and forward-looking management, as is proper for a developing and evolving risk such as climate risk, Discount Bank examines timescales for identifying and managing climate risks. Because climate risk materialization is characterized by longer timescales than traditional financial risks, the timescale is not the same as the timescale definitions that appear in the Bank's risk management reports:

Timescales for the materialization of climate risks	
Short	1-2 years
Medium	3-5 years
Long	6+ years

4.2 Identifying and assessing climate risks at the Bank and their management

Similar to the world's leading banks and in accordance with the Bank of Israel's approach, Discount Bank views the climate crisis with its various consequences as a risk factor that combines and intensifies the traditional risks that the Bank manages (credit risks, liquidity risks, market risks, operational risks, reputation risks, etc.)[9]. Considering this, the process of identifying and assessing material risks associated with climate change included an analysis of the various transmission channels between the effects of the climate crisis and the Bank's economic and operational activities, and their potential effects on any traditional risk that the Bank manages. The analysis findings revealed that the traditional risks most exposed to climate risk are the credit and investment risks, and accordingly, the Bank has chosen to focus on these in its work on this topic.

In accordance with the guidelines of the Bank of Israel and accepted practice among banks from around the world, the Bank is undertaking a comprehensive process to identify and assess climate risks for all its financial activities, with an emphasis on business credit activity. As part of this process, the Bank, in cooperation with external climate risk experts, conducted an in-depth qualitative mapping of the material climate risks for the Bank in the different timescales in different segments of the business credit.

Within this framework, for the purpose of assessing the physical risks, the Bank relies on the analysis of Israel's Ministry of Environmental Protection and the Climate Change Administration, which have identified four major climate trends that are expected to occur in Israel. Since the vast majority of Discount Bank's financial activity is in Israel and is in line with the geographic layout of Israeli economic activity as a whole, analysis of the impact of climate risk factors on the Bank's financial risks has been based on the following forecast:

- Hotter – a trend of significant warming is expected throughout the country, especially in western Israel (the coastal plain), where warming will be at a faster pace. In the eastern part of the country, the effects of warming are expected to be more severe, as this region is already warmer.
- Drier – an overall decline of 10% in the amount of precipitation is expected by the end of the century, along with a change in its distribution over the years. Accordingly, many years of drought are expected, together with fresh water sources becoming more saline and a faster pace of desertification.
- Higher – sea levels are expected to rise significantly, with different estimates relating to increases of between 1 meter and 2.5 meters. Rising sea levels are expected to worsen the effects of storms coming from the sea and accelerate the erosion of the limestone ridge on the Mediterranean coast.

9 For further details regarding the definition of the risks that the Bank manages, see 2023 Annual Report – Disclosure according to the third pillar of Basel and additional information on risks; 2023 Annual Report – Board of Directors and Management Report. Chapter C, Risks review.

- Stronger – more extreme events are expected, particularly heat waves and torrential rain leading to soil erosion, fires, floods and multiple inundations, along with rapid erosion of the limestone ridge.

Credit risk

Risk associated with the climate crisis may have an impact on asset values, costs and revenues, as well as on the business and operational models of the Bank's borrowers. Accordingly, climate risks can undermine customers' financial stability, raise their credit risk and, in certain instances, could impair their solvency and lead to credit defaults.

- Examples of the impact of physical climate risks on credit risk – extreme climate events are having an impact on the Bank's business-commercial portfolio, and may impair the value of borrowers' assets, inventories and collateral. They could also impact business continuity (for example, due to the need to renovate damaged properties, which could lead to a decrease in possible work hours in certain professions, diminish the ability of workers to reach the workplace, or damage to supply chains). In some industries (such as fashion and fertilizers), the physical risks are also expected to affect the operating environment of borrowers' products, thereby compromising their relevance to market needs. At the same time, the materialization of extreme climate events may also affect retail credit, causing damage to household assets, including assets pledged to the Bank as collateral (especially homes and vehicles). The damage to assets could result in a decrease in disposable income on the one hand, and to an increase in demand for credit and liquidity on the other, in order to finance the restoration of the assets or the purchase/rental of alternative assets. This could increase the credit risk of affected households.
- Examples of the impact of transition climate risks on credit risk – transition risks are expected to change the global and local business environment in which the Bank's customers operate, thereby hampering their ability to continue to operate in the manner in which they have always operated – increased regulatory requirements and sanctions, lower availability (and/or higher prices) of raw materials and resources, more stringent standards and climate requirements that they receive from their customers, their partners and their employees as a condition for continued business, and even the need for extensive investments to make technological adjustments to processes, factories, products and business models.

The Bank manages this risk by mapping and identifying specific climate risks in the credit portfolio, with an emphasis, at least initially, on the business credit portfolio. This is based on a substantive analysis of the risk and the credit portfolio, as well as the current methodologies for managing credit risk related to climate change. The Bank is currently undertaking a comprehensive process to construct a methodology for identifying, assessing and managing climate risks in the business credit portfolio at the individual borrower level, and certain aspects thereof have already been assimilated within the Bank's credit policy and have begun to be implemented. The process of assessing the risks, conducted on an individual basis, is carried out in cooperation with the Bank's customers, partly in order to deepen familiarity with and understanding of the material risks among companies in the Israeli economy.

As part of hedging credit risk in the face of climate risks, the Bank has set the primary risk appetite limits on the credit portfolio. Within their framework, it has been decided that the Bank will generally refrain from granting credit to companies in the fields of mining and coal production, in Israel or abroad. The Bank will also refrain from providing credit overseas to crude oil companies, companies engaged in oil refining and oil byproducts and nuclear fuel companies[10]. In addition, within the framework of its credit policy, the Bank has imposed an obligation on itself to conduct an in-depth preliminary examination of the climate risks in material credit applications by companies operating in Israel in the oil and coal value chain – production, refining, and

10 The policy only applies to new credit and will not be retroactively enforced with respect to credit already granted to borrowers from these sectors.

energy generation, and in the case of companies operating abroad in other fields related to fossil energy. The Bank also limits the maximum credit term in these cases. These guidelines are in addition to the emerging methodology, which will address pan-organizationally the Bank's entire business credit operation and will include a variety of measures to manage and mitigate the risk.

The Bank's high awareness of the various risks and its policies, promoting green funding and effective management of climate risks in credit activity, are designed to assist in significantly mitigating the risk.

Market (Investment) risk

Different climate risks also have a material impact on the assets in which the Bank invests and may impair asset values and increase volatility in various markets.

- Examples of the impact of physical climate risks on market risk – the materialization of physical risks have short-term macroeconomic effects that have potential to impact on state asset values and to increase volatility in the capital markets and exchange rates. In addition, these risks may have a material impact on the Bank's investment goals, and are expected to impair the value of assets, inventories and collateral, as well as harming business continuity in different timescales (similar to that described in relation to credit risk).
- Examples of the impact of transition climate risks on market risk – transition risks are expected to change the global and local business environment in which the Bank's investment targets operate, thereby disrupting their business activities (similar to that described in relation to credit risk). In particular, the reputation risk is affected, inter alia, by the ESG rating of the investment targets and securities. This risk has a material impact on the value of securities in which the Bank invests, and in particular on the value of foreign securities in which the Bank has invested, which are traded on markets where investors are aware of the issue and where the importance they attribute to it is much greater than on the Israeli market.

Since 2022, the Bank has been managing market risk exposure for climate risk factors as part of managing the ESG aspects of nostro investment management. The Bank has incorporated these considerations into the investment policy and has prescribed that, in every securities purchase, the ESG rating score will be taken into account, while giving preference to investment in companies that produce green products, that contribute to environmental protection, and/or that have a green production process that protects the environment. The examination is conducted according to ESG ratings published by rating companies, and/or according to another accepted ESG rating. The ESG ratings examined by the Bank also consider the company's exposure to climate risks and thus, through the use of the rating, exposure to climate risks is also monitored.

In addition, the Head of the Financial Markets Division has set limits for monitoring environmental and climate risks in relation to the risk level in the investment. Within the framework of these limits, a prohibition has been placed on investing in high-ESG-risk corporate bonds, and a limit has been set on the scope of corporate bond investments, with a medium-high ESG risk level, out of the Bank's overall corporate bonds portfolio.

Additional climate risks managed by the Bank:

Risk	Details
Reputation risk	As part of the growing global awareness of the climate crisis and its consequences, public opinion may be a significant factor having an effect on the business activities of the Bank's stakeholders (including customers, employees, investors, etc.) and, in turn, on the Bank itself. The Bank has established in the reputation risk management policy that it should follow ESG principles, manage climate and environmental risks, and refrain from activities contrary to these principles that could lead to the Bank's reputation being harmed. In addition, the policy prescribes that funding activities should also be examined while looking at climate considerations from the perspective of reputation.
Liquidity risk	Under different scenarios, climate risk factors can affect liquidity risk in several ways: firstly, through their impact on customer demand for liquidity (both by increasing demand for credit and also by realizing deposits and savings); secondly, through their impact on the Bank's reputation risk; and, in addition, through their impact on the Bank's financing costs and its ability to realize liquid assets. In its liquidity risk policy, the Bank has referred to climate risk as a potential risk factor for continued surveillance. It should be noted that, due to liquidity risk being a risk that is managed mainly in the short term, the impact of climate risk as an evolving and long-term risk is expected to be secondary at this stage.
Operational and business continuity risks	Extreme climate events can affect the Bank's business continuity in a variety of ways and can impact its operational efficiency. Among the main risk factors in these contexts: physical damage to the Bank's sites, energy continuity in Israel, and geopolitical risks associated with the waves of migration that are expected in the Middle East due to the effects of climate change.

4.3 Integrating climate risk management in the Bank's overall risk management layout

As part of the implementation of the Israeli regulator's directives and leading practices, Discount Bank has formulated a holistic work plan for deploying PCBB Directive No. 345. The work plan is planned to be implemented by 2025, through a paradigm of integrating climate risks into the Bank's ongoing risk management. This work plan will enable the climate risk management layout to be strengthened and to be integrated as an integral part of the Bank's overall risk management layout.

This integration process began in the past year, focusing on the following key areas:

4.3.1 Credit risk management policy and processes

Last year, Discount Bank continued to update and develop its climate and environmental risk management policy as part of the Bank's credit policy. In this context, for the first time, the Bank has deepened and expanded the policy to highlight climate risks, being a change in track from the focus on environmental risks that the Bank has been managing for years. This is part of the prevailing approach in the banking sector, according to which credit risk is the most material layer in relation to the Bank's exposure to climate risks.

The policy prescribes that the Bank will act to identify, measure, assess and mitigate material credit risks related to climate and environment through the Bank's three existing lines of defense:

- First line of defense – the business units responsible for assessing the risk within the framework of credit applications, for ongoing monitoring of the exposure to borrowers and for communicating with customers. The activity of the first line is subject to the credit policy and risk appetite as defined in the relevant methodologies and procedures.
- Second line of defense – the risk management functions responsible for policy making, for monitoring the scope of exposures in the portfolio and for the independent assessment of the risk in transactions according to materiality limits and other parameters.

- Third line of defense – the internal audit function responsible for ensuring the quality and effectiveness of the processes, procedures and control systems of the first and second lines of defense and of the corporate governance framework for managing risk, in accordance with the deployment and implementation of the Bank's processes.

The policy determines how processes will be carried out to identify, measure, and assess credit risk related to climate risks at the borrower level, and how these assessments will be summarized at the portfolio level. The policy anchors the methodology formulated for the Bank, pursuant to which a root climate risk rating is determined for every business borrower, in accordance with the risk profile of the sector in which the borrower operates, and that – through a designated questionnaire that will be sent to the borrower – the residual risk will be evaluated according to the borrower's level of risk management and the company's specific characteristics. In addition, in accordance with the Bank's methodology for managing the risk, the assessed risk level affects the borrower's credit rating with the Bank.

4.3.2 Data collection and analysis

Discount Bank is working diligently to develop capabilities to perform qualitative and quantitative assessments of the Bank and its customers' exposure to climate risks. These capabilities are expected to include, among other things, analysis of climate scenarios and stress testing, in accordance with the guidelines of Israel's Supervisor of Banks and through collaborating with external experts in the field of climate risk management in the financial sector.

Discount Bank is working on developing climate data collection capabilities[11] both from the Bank's customers and from trusted external data sources that will assist the Bank in taking data-based strategic decisions regarding climate risk management.

4.3.3 Additional measures

As part of the investment risk management, guidelines and limits have been defined for the Bank's nostro portfolio of ESG rating-related investments, which are detailed above.

As part of its reputation risk management, the Bank has prescribed that – in order to avoid harm to the Bank's reputation – it must follow ESG principles, and refrain from activities contrary to these principles, as well as working to manage climate and environmental risks in its business operations. As part of the capital adequacy assessment process (ICAAP), the Bank has incorporated a reference to the expected effects of climate risk. This process was carried out on the basis of qualitative assessments. In the future, and in accordance with the development of appropriate methodology, the Bank aims to address the expected effects of climate risks as part of its ICAAP, using quantitative assessments.

11 Information about the organization's preparedness for disruptions as a result of climate change; the proportion of revenues that are based on high-emission products/services; the existence of an insurance policy to cover risks due to natural causes, and the like.

5. Metrics and Targets

5.1 Metrics used by the Bank to monitor and track risks and opportunities associated with climate change

In order to enable effective tracking and management of climate opportunities and risks, the Bank has defined four key metrics that it periodically measures and examines. These metrics are core indicators for the examination of exposure to climate risks and are intended to help the Bank identify and prepare for risks and opportunities in the climate field. These metrics are integrated into the Bank's ongoing risk management processes and close tracking of these will enable the Bank to adapt its business activities to the relevant risks and opportunities:

1. Green funding amounts – the amounts of credit granted to customers that is intended to promote activities of environmental and climate value, broken down by activity sectors.
2. The level of exposure to credit risk attributable to activities with material climate impacts (directly or in the value chain), and that, accordingly, are exposed to extreme transition risks.
3. The level of climate risk exposure in the Bank's business credit portfolio – the scopes of the credit portfolio exposure, broken down by branches of activity and risk types and levels. At this stage, the Bank is assessing the exposure according to the customer's root exposure, and as it progresses in implementing the methodology for assessing the residual risk, the Bank will strive to make an accurate analysis according to the estimated residual risk.
4. Operational carbon footprint – total emissions in operational Scopes 1, 2, and 3 (in CO_2eq tons).

Depending on the need and development in the field, the use of additional metrics will be examined regularly or in a specific manner.

5.1.1 Green funding at the Bank

Sector	Balance of Credit in 2022	Balance of Credit in 2023
Renewable energy	2,748,425	2,541,252
Water and effluents	1,289,224	1,131,128
Clean transport	1,864,352	3,462,011
Waste treatment and recycling	447,048	716,274
Green construction	11,304	577,223
Sustainable agriculture	302,004	421,366
Total	6,671,500	8,849,254

5.1.2 The Bank's exposure to sectors with heightened transition risk

The Bank has measured its exposure to sectors that are considered to have high greenhouse gas emissions, directly or in the value chain, viz. sectors that are expected to be extremely exposed to transition risks according to some climate scenarios. The sectors included in this category were selected both according to the guidelines of the world's leading frameworks that define which are high-emission sectors, and according to the Bank's own risk mapping.

Presented below is Discount Bank's credit risk rate attributed to high-emission sectors, which have been identified as having a heightened transition risk:

Sector	Exposure Rate in the Business Credit Portfolio as of December 31, 2022[12]	Exposure Rate in the Business Credit Portfolio as of December 31, 2023[13]
Fossil fuels and mining and quarrying[14]	1.29%	1.54%
Electricity generation	1.22%	1.00%
Transport and freight[15]	1.68%	1.89%
Chemical, rubber and plastic, concrete, and metal industries16	0.97%	0.93%
Total	5.16%	5.36%

5.1.3 The Bank's credit portfolio exposure to climate risks, broken down by activity sectors and types of climate risks[17] [18]:

Sector	% Rate of Credit Exposure	Level of Exposure to Physical Risks	Level of Exposure to Transition Risks
Food and beverages manufacturing and trade	3.2%	High	High
Agriculture	0.7%	High	Medium
Environmental services	0.6%	High	Medium
Construction projects and their support	39.4%	Medium	Low
Income-producing real estate	9.7%	Low	Medium
Renewable energy	1.1%	Medium	Low
Fossil fuels energy	4.4%	Medium	High
Machinery industry	3.8%	Medium	High
Raw materials industry	2.3%	High	High
Vehicle sales, repairs and rentals	5.1%	Low	High
Freight and transport	3.3%	Medium	High
Commerce	4%	Low	Low
Insurance	0.6%	High	Low
Other sectors	21.7%	Low	Low

12 Out of the total risk assets as of December 31, 2022. In 2023, an examination was conducted to identify climate risks in the Bank's business credit. Resulting from the examination's findings, the calculation methodology and the 2022 data have been updated accordingly.

13 Out of the total risk assets as of December 31, 2023.

14 Includes economic sectors in the fields of crude oil and natural gas production, exploration and refining, the mining and quarrying sectors, and the sale of petroleum and petroleum products.

15 Economic sectors engaged in dealing with haulage, maritime and air freight, public transport, and transportation companies.

16 The plastic and rubber products sector, the chemicals, fertilizers and pesticides industry, the non-metallic construction products industry, and the metals and metal products industry.

17 The data relate to the total risk assets attributable to the sector, in the overall credit portfolio of the Bank, except for household credit (for home loans and other purposes).

18 The mapping of exposure levels to physical/transition risks is determined according to the likelihood of that sector's risks materializing, while assuming a reasonable BAU scenario within a timeframe of up to a decade from the measurement date.

5.2 The Bank's carbon footprint

The Bank is committed to the goal of reducing greenhouse gas emissions and is acting accordingly to gradually reduce its operational carbon footprint, by making its branches and head-office more energy efficient. The Operations & Assets Division monitors progress in this sphere every year by summarizing performance data in various fields and drawing up a comprehensive report. In addition, each year the Bank voluntarily reports emissions to the Ministry of Environmental Protection's reporting and emissions registration array.

Discount Bank's carbon footprint, the data for which are presented below, consists of three Scopes:

- Scope 1 – total direct emissions emitted from consumption of fuels and refrigerant gases.
- Scope 2 – total indirect emissions derived from electricity consumption.
- Scope 3 – total indirect emissions affected, but not caused, by operations. This Scope includes business flights, consumption of paper and its recycling, water consumption, and electronic waste.

The Bank's carbon footprint is calculated in accordance with the global GHG protocol standard and with the assistance of the emission factors of Israel's Ministry of Environmental Protection (for Scopes 1 and 2), and of DEFRA (for Scope 3).

It should be clarified that the calculation of emissions under Scope 3 relates only to the operational aspects and does not include an estimate of emissions attributable to the Bank's financial activity. This estimate was first performed by the Bank in 2022 in accordance with the International PCAF standard and is being published for the first time in this report. As is customary, the calculation appears in the report separately from the calculation of the Bank's operational emissions.

In 2023, Discount Bank's carbon footprint increased by approx. 26%[19] compared to 2022, after several years during which the Bank's carbon footprint showed a downward trend. In 2023, due to preparations for the opening of the new campus and moving to it in stages (which resulted in double use of the head-office buildings), the Bank's total electricity consumption, and the Bank's total premises area, increased relative to the previous year. After moving to the new campus and vacating the old head-office buildings, electricity consumption is expected to decrease significantly. It should be noted that again in 2023, the intensity of the Bank Group's greenhouse gas emissions per square meter continued its overall downward trend of the past few years, thereby proving that the source of the increase in the overall carbon footprint is indeed the increase in the Bank's total operating premises area and the duplication of the head-offices.

For more information about additional measures to promote green conduct in the Bank's activity, see the "Green Discount" chapter in the Bank's Environmental, Social and Governance Report for 2023.

The Bank's carbon footprint, broken down by Scopes – 2021-2023:

	2021	2022	2023
Scope 1	2,187	2,232	1,422
Scope 2	16,559	15,960	21,569
Scope 3 (operational)	453	525	654
Total emissions	19,199	18,717	23,645

19 2023 was in part a year of final stages of construction, and in part a year of housing the Group's new Campus in Rishon LeZion. As part of the final construction stages, inspections (such as load checks) were carried out and use made of the electricity, water and fuel resources, which are not for the Bank's routine operations, and which cannot be separated during the data monitoring and collection processes. Furthermore, the move to the Campus was gradual, with the Bank's old offices continuing in operation and to be maintained. This led to a rise of approx. 35% in the Bank's electricity consumption in 2023, and to an overall increase in its carbon footprint. However, the decrease in the intensity of the emissions reflects an overall efficiency in relation to the Bank's premises.

Intensity of the Bank's greenhouse gas emissions in CO_2e/sq.m. – 2021-2023:

	2021	2022	2023
Intensity of emissions	0.14	0.13	0.12

5.2.1 The carbon footprint of the Bank's financial activity

The Bank's carbon footprint is composed of both the Bank's direct and indirect emissions related to its operational activity, and the emissions associated with its financial activity – funding and investment operations (Category 15 of emissions Scope 3, as defined in the GHG protocol standard for calculating carbon footprint). The emissions associated with financial activity are considered to be the main component of financial institutions' carbon footprint.

In order to fully reflect the total emissions related to the Bank's operations and to improve the Bank's climate risk management capabilities, in 2022, Discount Bank began a process to calculate greenhouse gas emissions in its financial activity, based on the PCAF (Partnership for Carbon Accounting Financials) standard. This is the standard that is accepted worldwide for measuring the carbon footprint of financial institutions that is associated with their funding and investment operations. The Bank has measured several aspects of its financial activity according to the availability in the standard (which does not include calculation methodologies in relation to all the Bank's existing financial products), and in accordance with the materiality of financial products and various business activities to the Bank.

In 2023, the Bank took several measures intended to improve the quality of the calculation of the carbon footprint according to the requirements of the PCAF standard and expanded the scope of the financial and environmental data available for the calculation. At the same time, the Bank enhanced the accuracy of the calculation methodology, in line with the expansion of available data in the Israeli economy in general, which led to an improvement in the quality of the calculation. In general, the maturity level of the Israeli market in relation to the availability of companies' greenhouse gas emissions data is not high compared to other countries; the Bank assesses that the availability of data relating to the Bank's customers and the Israeli economy in general is expected to increase over time, and the Bank will also work to collect more emissions data directly from its customers. Accordingly, and assuming that global methodologies on this topic will continue to become more sophisticated and more encompassing over the years, the Bank expects that in the coming years it will be possible to continue improving the measurement accuracy and the quality of the monitoring of the carbon footprint attributable to the Bank's financial activity.

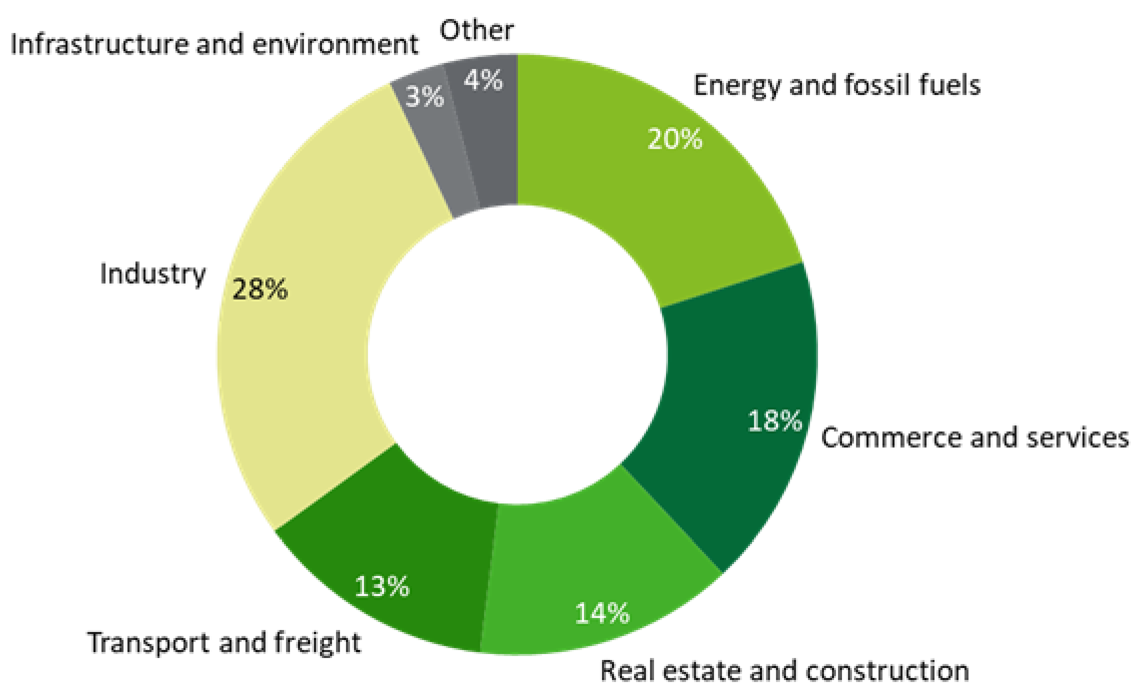
The data published in this report are the results of the calculation with respect to balance-sheet credit granted by the Bank's Corporate Division to business entities, in accordance with the PCAF methodology for business loans to private and public companies. The total debt included in this calculation amounts to NIS 87.4 billion.

The scope of the financed emissions in the credit activity of the Corporate Division for 2023 is presented below:

Sector	Total Financed Emissions (in MTCO2e)	Percentage of the total debt	Intensity of Emissions (per NIS Million)	Data Score
Energy and fossil fuels	1.65	4.62%	408.9	2.0
Commerce and services	1.44	39.03%	42.2	4.9
Real estate and construction	1.16	36.95%	35.9	4.0
Transport and freight	1.08	3.85%	321.4	3.9
Industry	2.24	6.16%	416.4	4.1
Infrastructure and environment	0.22	1.94%	131.4	4.0
Other	0.32	7.45%	49.1	4.9
Total Amount	8.12	100%	92.9	4.3

1. The total financed emissions are the relative portion associated with the Bank out of the total emissions resulting from the activity of its customers. Financed emissions are only reported for the Bank's share of the financed emissions and does not reflect the total emissions of the financing institutions.
2. Emissions intensity is the total financed emissions as a proportion of total balance-sheet debt included in the calculation, and constitutes the total emissions generated for each NIS million of credit.
3. The quality of information is an integral part of the PCAF standard. The quality of the data is measured on a scale of 1-5, with 1 being the highest score. The overall quality of the Bank's data is in line with what is customary in the Israeli market. The main factor affecting data quality is a lack of real environmental data from customers.

Emissions attributable to business credit, broken down according to financed sector



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