

February 3, 2021
REG19.013.04

To: The banking corporations
Attn: CEO
Chief Risk Officer

Re: Environmental and Climate Risks Management

Introduction

1. This contact is further to the letter sent to you by the Supervisor of Banks in December 2020, and that included, among other things, reference to international publications that reflect the main trends being formulated on the issue of Environmental and Climate Risks Management (**hereinafter, “Environmental risks”**). Within the framework of this contact, we’d like to learn your views and experiences with this developing issue, among other things in view of the study and monitoring you were asked to carry out after the recommendations and guidelines of the leading international entities. In particular, we would like to learn your professional views regarding the regulatory trends worldwide and the extent to which they are adjusted to the Israeli market, the generally accepted practices in your institution in this regard today and the challenges with which you deal. This is as part of the process being carried out at the Banking Supervision Department of formulating and characterizing the environmental risk management framework in the Israeli banking system, with the goal of optimally adjusting the regulation and the international expectations for the domestic environment.
2. As noted in the Supervisor’s letter, we request to collect the information via a designated questionnaire, which appears below. In this questionnaire, the questions are divided into various sectors that the banking corporation is to focus on in managing its environmental risks. They reflect some of the practices, standards, and recommendations of international entities and regulators in various countries.
3. When filling out the questionnaire, the banking corporations are to refer to all the potential impacts of environmental risks (direct and indirect), including the potential effect on credit, market, or liquidity risks, legal risk, reputation risk, business continuity risk, etc.
4. The use of environmental and climate risk terms in the questionnaire are as detailed below and are in line with the definitions of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).
Climate risks—physical risks and transition risks related to climate changes, to which the banking corporations and/or the financial sector are exposed. Thus, for example, exposure to risks of floods or to a decline in the value of assets in carbon-rich industries.
Environmental risks—risks that derive from the exposure of the financial corporations and/or the financial sector to activity that has the potential to cause environmental harm or

by which they will be affected, such as air and water pollution, ground pollution, decreasing biodiversity and clearing of forests.

Physical risks—risks that arise from the possible exposure to climate and weather events, such as: famine, floods, rising ocean levels, storms, and global warming. These events are liable to have direct and indirect effects, such as a negative impact on assets and property, a decline in output, and an adverse impact on the global supply chain.

Transition risks—Financial risks deriving from the transition to a green economy, including policy changes being promoted by countries in order to reduce carbon, technological changes and/or changes in market preferences.

5. The questionnaire serves as a self-assessment of the banking corporations and its results will serve as the basis for discussions with the Banking Supervision Department that will take place during May 2021.
6. **In your response, please refer as well to your general practices currently existing and the challenges you have faced regarding each of the questions detailed below.**

Application

The requirement to fill out the survey applies to the banking corporations, excluding foreign banks, acquirers, and joint services companies.

Questions

Corporate governance

What is your view regarding the appropriate framework and the appropriate principles of corporate governance in terms of managing environmental risks, referring to the following issues?

1. Establishing policy and procedures for managing environmental risks
2. Defining risk appetite for environmental risks
3. Defining the board of directors and senior management as those who are supposed to supervise environmental risk management.
4. Defining an environmental risk management framework in accordance with the three lines of defense model
5. Defining who is responsible for handling environmental risks and their areas of responsibility
6. Presenting a survey to the board of directors and management on environmental risks and the opportunities they present.

Strategy

What are your views regarding how to relate to the material environmental risks when formulating the corporation's business strategy? In addition, please note which environmental risks are liable to materially impact the corporation's business activity in the short, medium, and long term.

Risk management

What are your views regarding the appropriate principles for managing environmental risks, with reference to the following issues?

1. Integrating the environmental risks within the existing risk management framework.
2. Identification and measurement of the environmental risks to which the corporation is exposed, at the customer, investment portfolio, population group, and geographical region levels.
3. Monitoring and mitigating risks in population groups with particularly high environmental risk.
4. Scenario analysis and carrying out stress tests related to material environmental risks.
5. Taking environmental risks into account in the process of extending credit, and in managing liquidity, operational, and business continuity risks, among others.

Disclosure

What is your view regarding the required disclosure regarding the approach of the corporation to environmental risk management and the potential impact of such risks, including quantitative indices.

Other

Is there any additional information that you would like to share with the Banking Supervision Department and that is related to the corporation's outlook or its activity regarding environmental risk management.

The responses to the questionnaire are to be sent to the Banking Supervision Department by March 31, 2021, including attaching relevant supporting documentation where possible.

The responses are to be sent to the Banking Supervision Department via the secure vault used for transferring documents to the Regulation Unit to: from-bank0XX to the Root\PKXX_hasdara partition (XX – the bank number).

For questions or clarifications, please contact Ms. Naama Ozery or Ms. Zohar Kritchman, in our Tel Aviv office, at phone numbers 03-564-0528 or 03-564-0450.

Sincerely,

Ricky Elias

Deputy Supervisor of Banks