

Bank of Israel

Banking Supervision Department



Jerusalem, June 11, 2009

REG09046H

To:

The banks—attn. Chief Executive Officer

Re: Environmental risks to banks

1. Global awareness of the potential financial exposure occasioned by environmental quality regulations has been growing in recent years. In Israel, too, exposure to environmental risks has been rising in the past few years, due *inter alia* to growing regulation in this field. Consequently, it is necessary to relate specifically to environmental risks to banks in this circular.
2. An environmental risk to a bank is the risk of a loss due to the existence and enforcement of environmental quality regulations. Banks may be exposed to environmental risks in various aspects of their activity, and these risks may be numbered among the other risks that banks face (e.g., credit risk, market risk, operating risk, legal risk, and liquidity risk). Examples of environmental risks to a bank are the impairment of collateral realized or the worsening of another party's financial situation due to environmental costs originating in environmental quality regulations. Risk to reputation due to the possibility that a bank will be associated with a party that creates an environmental hazard is also possible.
3. A bank must be aware that the identification and evaluation of an environment risk are parts of an appropriate risk evaluation process at the bank and must act to assimilate management of the exposure to environmental risk into the totality of risks that the banking group faces, including procedures for the identification of material risk when credit is issued and including the integration of risk assessment into the periodic assessment of the quality of credit issued.
4. The board of directors of the bank shall approve, by June 30, 2010, criteria and schedules for the implementation of the contents of this letter.
5. In applying the contents of this letter, the bank shall be mindful of customary practices in developed countries and recommendations for guidelines and standards that banking supervision authorities in developed countries have published concerning the management of environmental risk, all of which in accordance with the requisites of the legal conditions and systems that exist in the State of Israel.

Respectfully,

Rony Hizkiyahu
Supervisor of Banks