

HKMA publishes results of pilot climate risk stress test

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) published today (December 30) the results of its pilot climate risk stress test (CRST). The results showed that, under extreme scenarios, climate risks could potentially cause significant adverse impacts on the banking sector and that banks need to take early actions to manage them. However, the overall assessment indicated that the banking sector remained resilient to climate-related shocks given the strong capital buffers built up by the banks over the years.

The CRST, launched in January 2021, aims to assess the climate resilience of the Hong Kong banking sector as a whole and facilitate the capability building of banks for measuring climate risks. Twenty major retails banks and seven branches of international banking groups participated, accounting for 80 per cent of the banking sector's total lending. Participating banks assessed their climate risk exposures under three scenarios: a physical risk scenario involving a worsening climate situation and two scenarios envisaging orderly and disorderly transitions to a low-emission economy.

The CRST results showed that the extreme climate scenarios assumed in the exercise would lead to a material reduction in the participating banks' profitability due to an upsurge in expected credit losses from their exposures directly affected by climate change, such as residential mortgages and lending to high-emitting industries. Climate change could also weaken the banks' capital positions. The capital adequacy ratio of the domestic systemically important authorised institutions, for instance, would drop by three percentage points on average over the five-year horizon under the disorderly transition scenario. Some parts of the banks' operations would be affected by the more intense climate hazards under the physical risk scenario.

The exercise has provided useful insights into the climate risk profile of the banking sector. The participating banks also benefited from a substantial strengthening of their capabilities for measuring and assessing climate risks. A discussion forum organised by the HKMA earlier this year helped facilitate this process by providing a knowledge-sharing platform within the industry.

In light of the CRST results, the participating banks have developed plans to strengthen their climate strategies and risk governance frameworks. Measures taken by the banks include the incorporation of a broader range of climate risk factors into their risk assessment frameworks and strategic allocation of additional resources to climate resilient activities, such as green financing and providing transition finance to support their customers' transition to low-emission business models.

The HKMA will continue to support the industry in capability building and enhance the CRST framework having regard to the lessons learnt from the pilot exercise. It will explore ways to help the industry overcome major gaps revealed by the pilot exercise, particularly those concerning data availability and assessment methodologies. The current intention is to undertake another CRST in two years' time.

A report summarising the results of the pilot CRST can be downloaded from the [HKMA's website](#).