



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CBM Stress Testing Results

Financial Stability Report 2024

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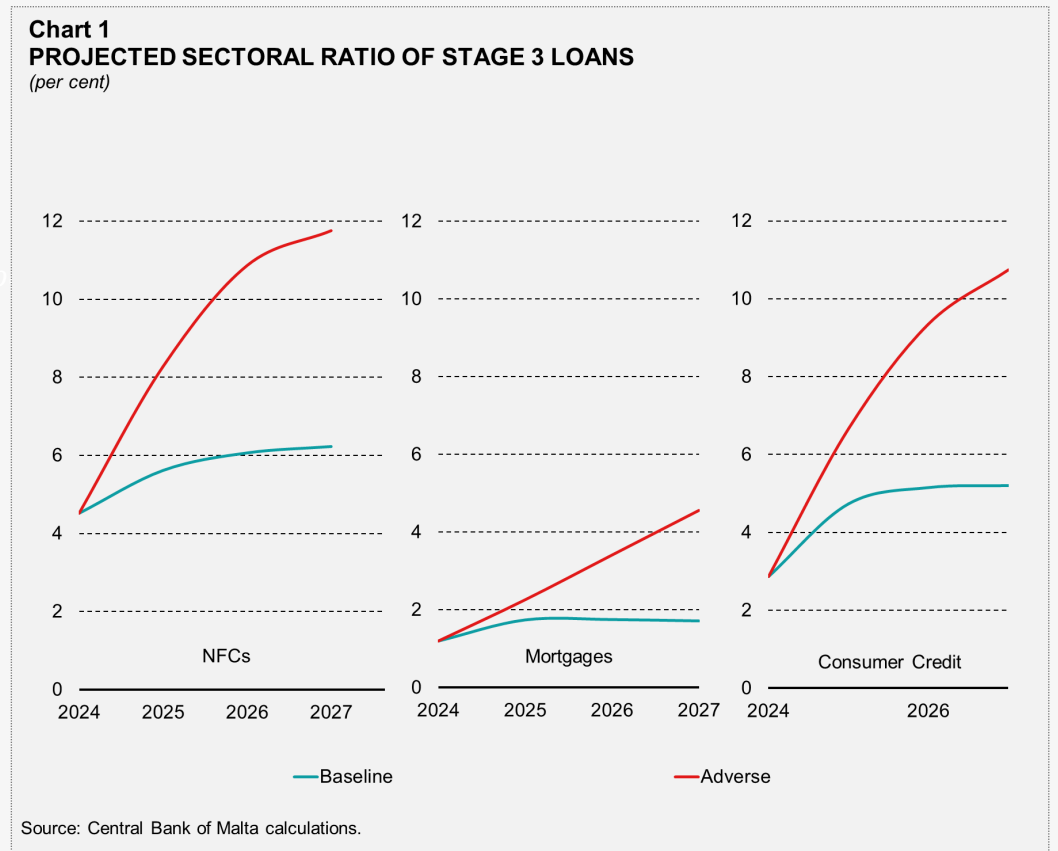
- Overview of the stress testing objectives
 - Description of the solvency and liquidity frameworks
 - Key assumptions and scenarios applied
 - Main results and findings
-

Solvency Test - Macro Stress Testing Framework (1)

- **2024 macroeconomic scenario** contemplated the **materialization of geopolitical risks.**

Adverse scenario based on the **EBA-provided scenario**, while the **baseline scenario** was derived from **CBM macroeconomic projections.**

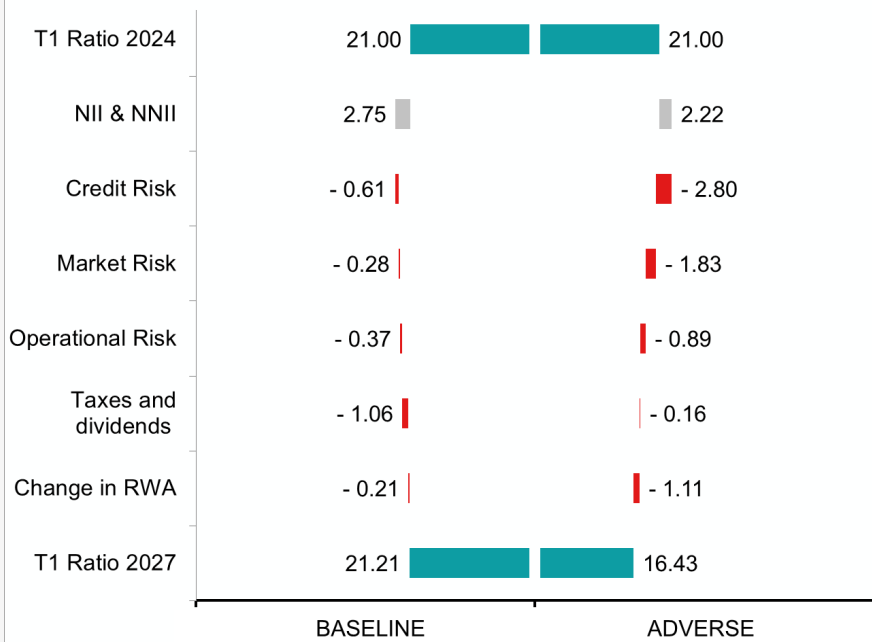
- The **credit risk module** was **further improved** in the 2024 exercise with **NPL projections estimated** for each loan segment:
 - **Non-financial corporations (NFCs)**
 - **Household mortgages**
 - **Consumer credit**
- This improvement **enhanced the identification of key risk drivers** and strengthened the assessment of **sectoral vulnerabilities.**



Solvency Test - Macro Stress Testing Framework (2)

Strong voluntary buffers in excess of capital requirements allow for absorption of losses

STRESS TEST RESULTS – RELATIVE CONTRIBUTION OF THE IMPACT ON CORE DOMESTIC BANK'S TIER 1 CAPITAL RATIO
(per cent)



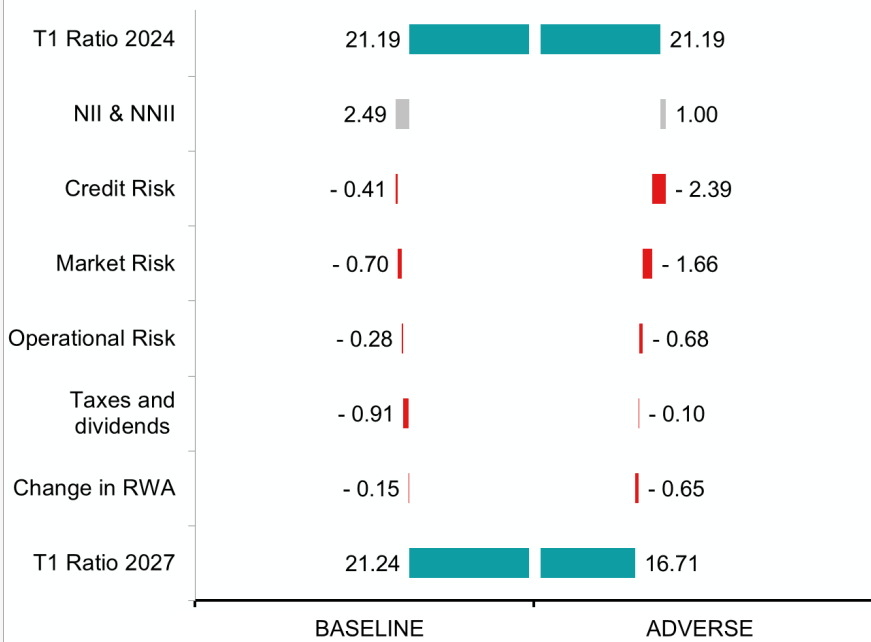
Source: Central Bank of Malta calculations.

Impact of NII&NNII is positive

Credit Risk remains the main source of losses

Market risk mainly from shock to equities

STRESS TEST RESULTS – RELATIVE CONTRIBUTION OF THE IMPACT ON NON-CORE DOMESTIC BANK'S TIER 1 CAPITAL RATIO
(per cent)



Source: Central Bank of Malta calculations.

Interest Rate Risk in the Banking Book (IRRBB)

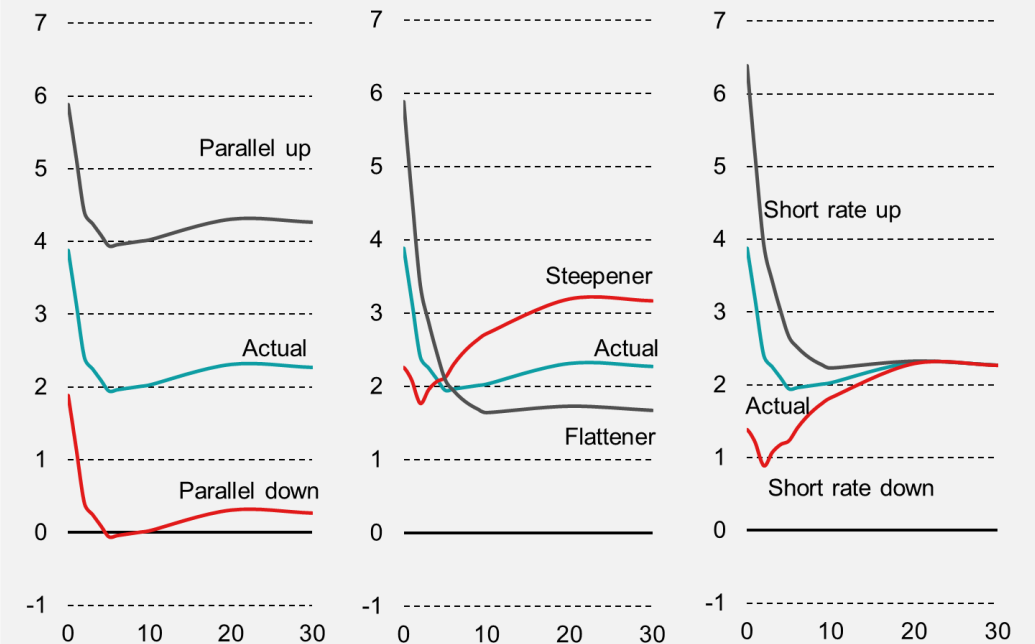
- The framework assesses the **impact of changes in interest rates on profitability** via NII and the revaluation of bonds held by banks at Fair Value (FV).
- BCBS scenarios on changes to interest rates:
 - a. Parallel Up/Down
 - b. Steepener and Flattener
 - c. Short Up/Down

Similar changes in the EUR, GBP and USD term structure of interest rates under the six BCBS scenarios

No shortfall in capital requirements

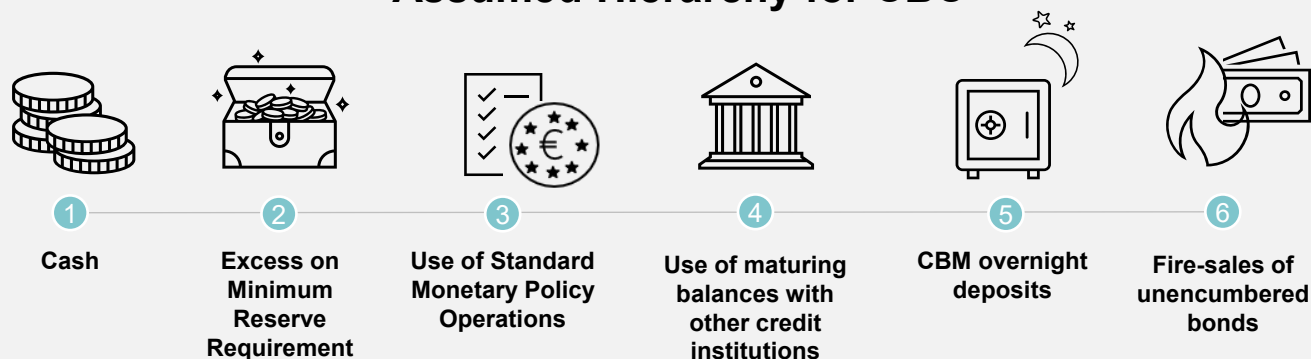
Most positive/negative impact mainly in Short rate Up/Down

Chart 3.10
STRESS TEST SCENARIOS - CHANGE IN THE EUR TERM STRUCTURE OF INTEREST RATES UNDER THE 6 BCBS SCENARIOS
(per cent)



Liquidity Test - Persistent Withdrawals Scenario

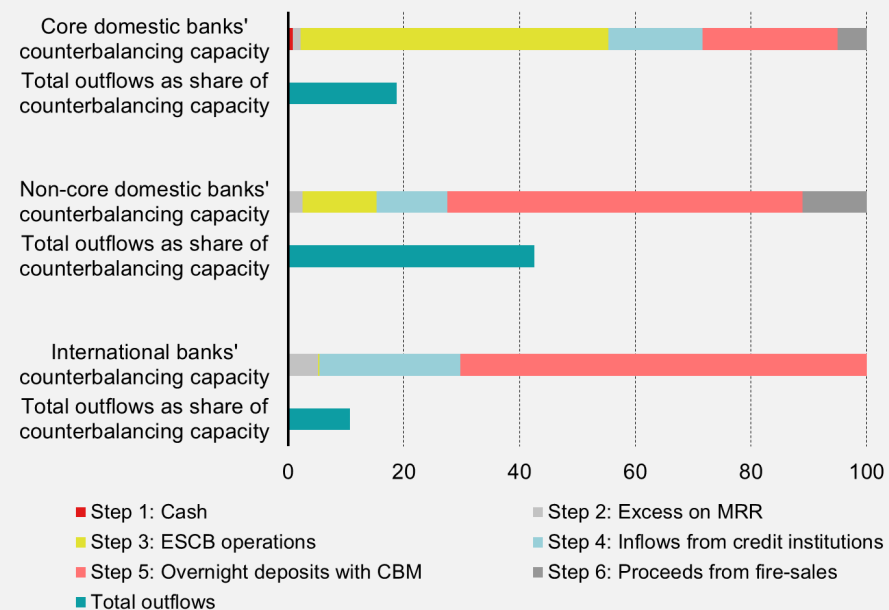
Assumed Hierarchy for CBC



The combined outflows of the bank-run scenario for December 2024 amount to 19%, 43% and 11% for core, non-core and international banks, respectively.

Most banks would retain an excess of CBC of at least 13%, allowing them to withstand further withdrawals beyond the four-week horizon considered.

Chart 3.5
COMPOSITION OF COUNTERBALANCING CAPACITY AND TOTAL OUTFLOWS AS SHARE OF COUNTERBALANCING CAPACITY
(per cent)



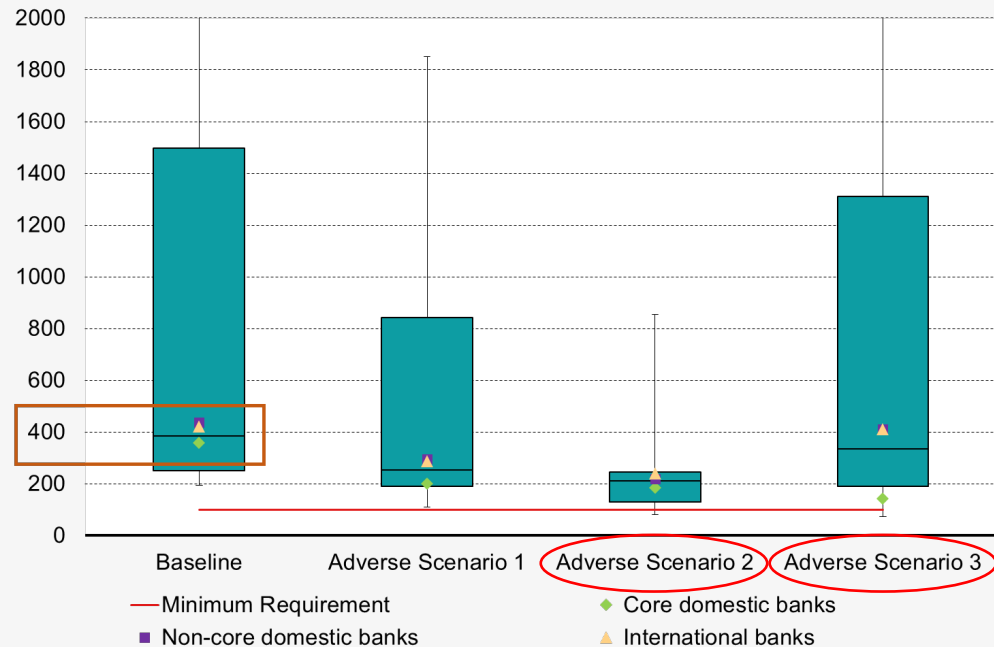
Source: Central Bank of Malta calculations.

Liquidity Tests - LCR & NSFR

Several scenarios with high severity of assumptions to assess systemic risk

LCR FRAMEWORK – BOX PLOT OF BANK CATEGORIES AND INDIVIDUAL BANK RESULTS

(per cent)



Source: Central Bank of Malta calculations.

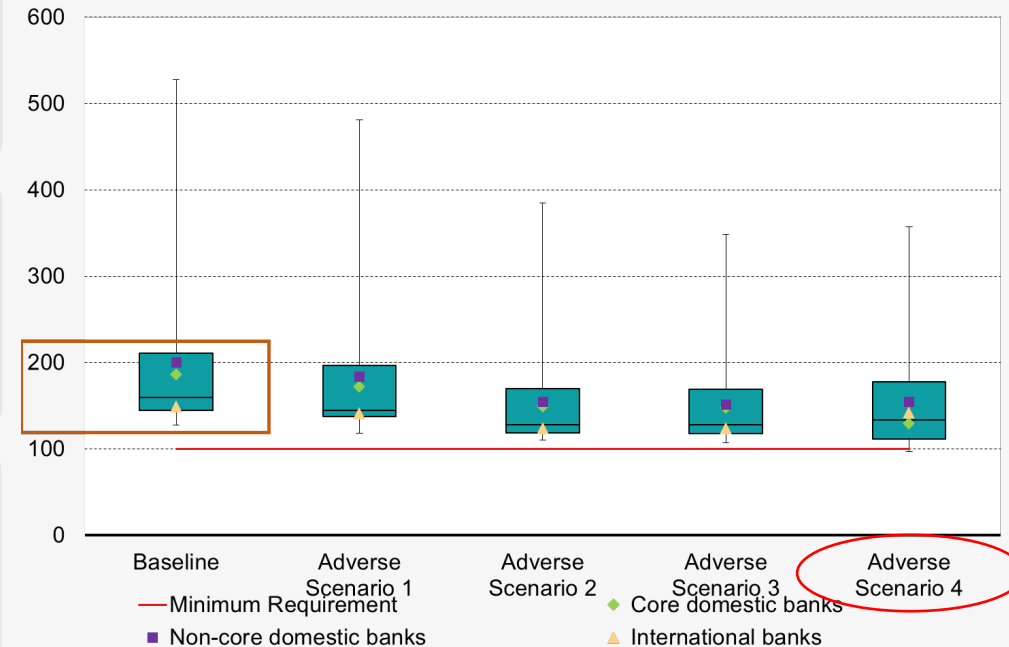
100% minimum requirement on both measures

Strong LCR at 360%, 437% and 423%, respectively

Strong NSFR at 186%, 200% and 149%

NSFR FRAMEWORK – BOX PLOT OF BANK CATEGORIES AND INDIVIDUAL BANK RESULTS

(per cent)



Source: Central Bank of Malta calculations.

Banks' liquidity position.....

Severe assumptions to test for systemic liquidity events – vulnerabilities remain restricted to few banks

Framework	Persistent Deposit Withdrawals	Liquidity Coverage Ratio	Net Stable Funding Ratio
Description	4-week long bank run scenario	Short-term <30 days	Longer-term >1 year
Results	All banks, except one, would retain an excess of CBC of at least 13%, allowing them to withstand further withdrawals beyond the 4-week horizon considered.	LCR remained robust, significantly above the minimum threshold for the three bank categories. However, under extreme scenarios few banks would be affected, through full withdrawal of committed facilities.	All banks are operating with excess liquidity above the 100% in all adverse scenarios, except for two banks affected by full withdrawal of commitments.

Conclusions

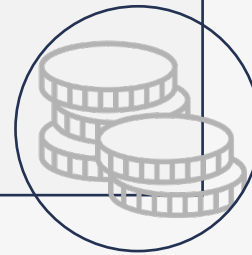
- The banking sector has robust capital and liquidity buffers with additional loss absorption capacity from improving profits.
- Scenarios are very severe by design to detect systemic risks; vulnerabilities remain isolated to few banks.

Macro stress test



- No shortcomings on capital, limited impact from repricing of fair valued bonds.
- Core, non-core and international banks continue to hold low shares of bonds priced at Fair Value at 20%, 31% and 0%, respectively.

IRRBB



- All credit institutions managed to surpass the 100% minimum requirements, although a few banks shown some weaknesses, these remain isolated to a very limited number of banks under extreme conditions.

Liquidity



Thank you for your attention
