BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

FSR 2021

Climate-related adverse scenario

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Climate risk – Overview

Physical Risks

Data

- Sufficient granularity
- Address gaps
- Harmonised definitions

Transition Risks

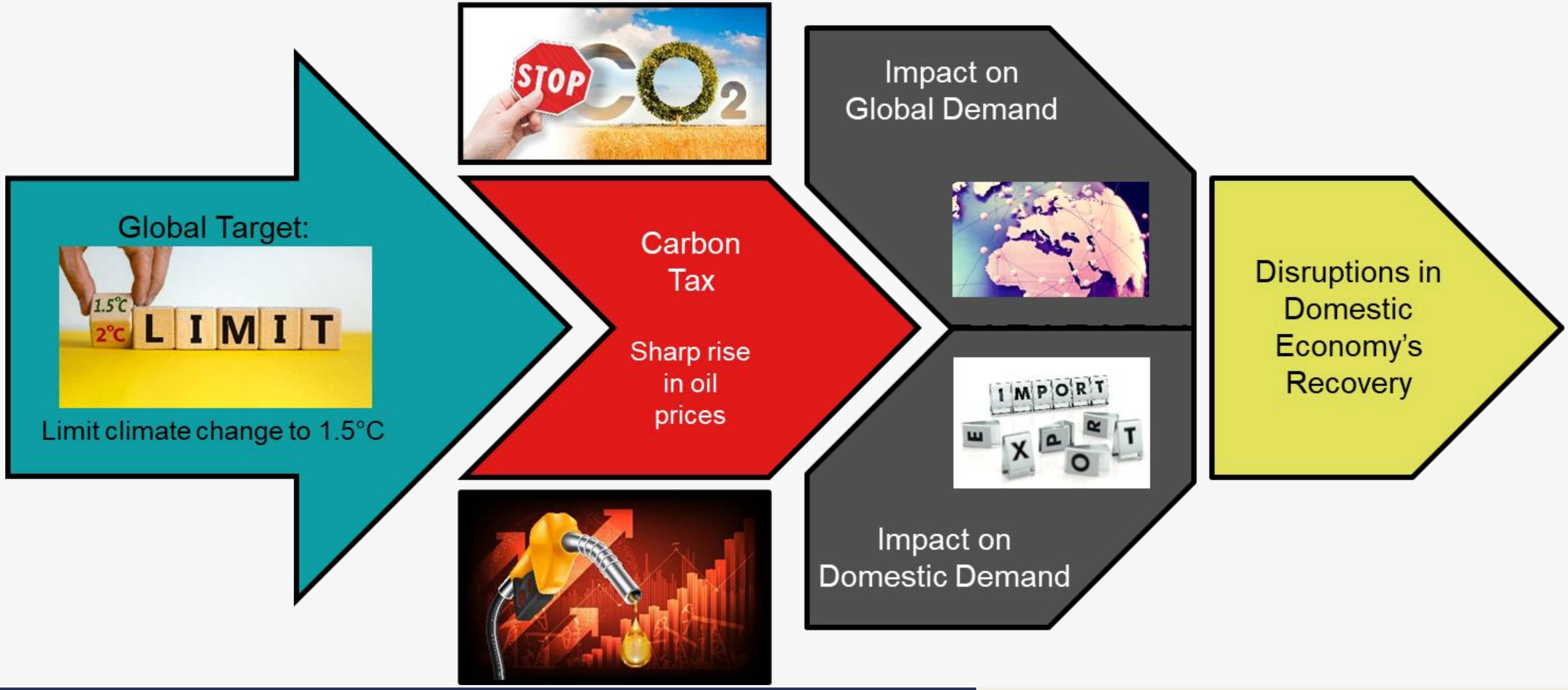
Time horizon

- Long dated horizons
- Complemented by focus on short to medium term

Dedicated frameworks

- Scenario design
- Quantify impact

Scenario design - Narrative



Link to fossil fuels – Channels

Scenario narrative

Main driver of economic impact resulting in higher NPLs

Credit Risk

RWA add-on for high emitting NFCs

Build on interim FSR 2021 to define bank-specific CO_2 factors for loan portfolio

Change in RWAs

Bonds

Proxy by country of origin's *share of fossil fuels in energy production*

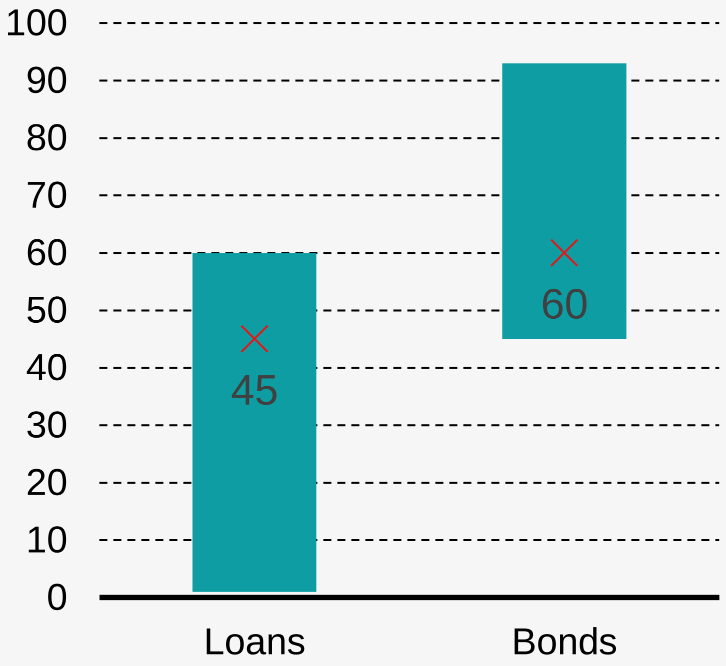
Market Risk

Link to fossil fuels – portfolio exposures

Classification of
NFC sectors
(Interim FSR 2021)

LOW
MID
HIGH

RANGE AND AVERAGE CO_2 FACTORS
(per cent)

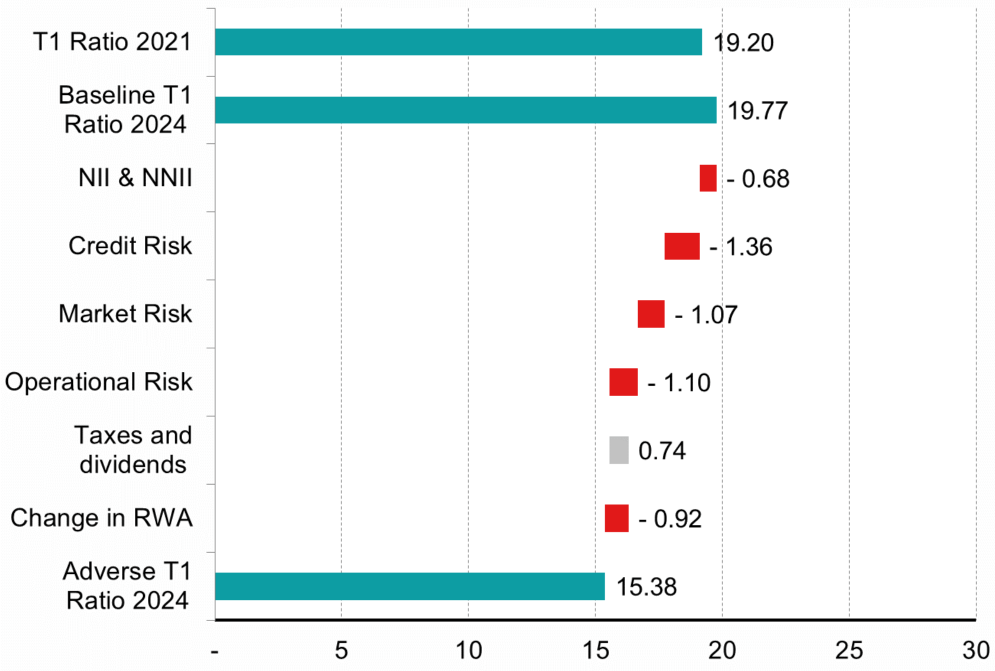


Sources: Central Bank of Malta calculations.

Share of fossil fuels in
energy production of the
country of issuance of
bonds

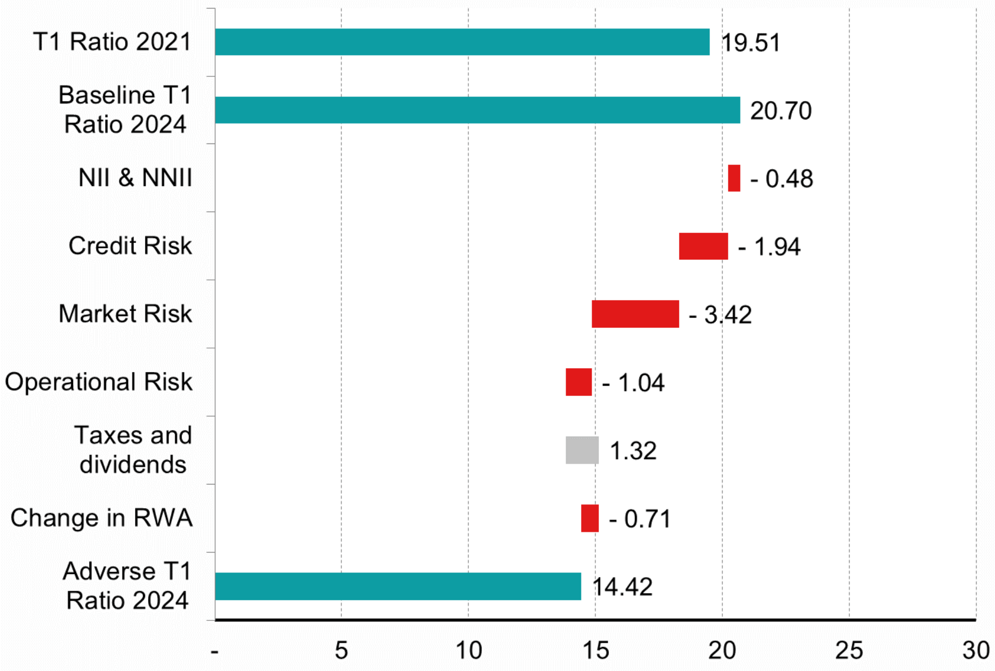
Results – climate impact

STRESS TEST RESULTS – RELATIVE CONTRIBUTION OF ADVERSE SCENARIO ON CORE DOMESTIC BANKS' TIER 1 CAPITAL RATIO
(per cent)



Source: Central Bank of Malta calculations.

STRESS TEST RESULTS – RELATIVE CONTRIBUTION OF ADVERSE SCENARIO ON NON-CORE DOMESTIC BANKS' TIER 1 CAPITAL RATIO
(per cent)



Source: Central Bank of Malta calculations.

Conclusions

Baseline scenario

POSITIVE OUTCOME

Despite initial inflationary pressures

Climate-related adverse

NON-TRIVIAL IMPACT

Raise awareness of banks' exposures to vulnerable sectors

Way-forward

PREPAREDNESS IS KEY

Address data gaps

Classify instruments

Assess risks

Monitor risk

Build up capital in advance

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Thank you