HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

28 February 2025

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Climate Risk Stress Test 2.0

I am writing to share the results of the second round of sector-wide Climate Risk Stress Test (CRST 2.0), conducted by the Hong Kong Monetary Authority (HKMA) with the strong support from the industry.

Forty-six authorized institutions (AIs) accounting for over 90% of the banking sector's total lending participated in the exercise, and assessed their climate risk exposures under two complementary sets of scenarios: (i) a short-term scenario featuring simultaneous climate-related shocks and an economic downturn, and (ii) three long-term scenarios with different transition pathways[1].

The results of the exercise indicate that the Hong Kong banking sector continues to demonstrate strong resilience against severe climate-related shocks under various scenarios. Specifically, the stressed capital ratios of the participating AIs would remain well above the international minimum requirement of 8% throughout the assessment horizons of all the scenarios. The total capital ratio of the participating AIs is projected to drop by 1.4 to 3.1 percentage points under various scenarios featuring the dual shocks from climate risks and an economic downturn. With total capital ratio of over 20%, the Hong Kong banking sector is well positioned to cope with the shocks. The results also suggest that an orderly transition would be relatively favorable to the banking sector in the long run.

The HKMA acknowledges that many participating AIs have strengthened their stress testing capabilities for evaluating the impact of climate risks. A number of good industry practices have emerged from the exercise, including those on data collection and processing, assessment methodologies, as well as model governance. Some AIs have also

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[1] The three long-term scenarios are adopted from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

made good use of technologies, such as artificial intelligence, in their assessment processes.

Further details of the results and observations from CRST 2.0 can be found in the report attached to this circular. In addition to the quantitative assessment outcomes, the report shares useful insights about the advancements made by the participating AIs in enhancing their climate risk assessment capabilities, as well as the good industry practices observed from the exercise. All AIs are encouraged to review and consider further enhancement in climate-related risk management, making reference to the insights shared in the report.

The HKMA will continue to provide supervisory guidance and feedback to the industry, supporting AIs' efforts in climate-related risk management under the Sustainable Finance Action Agenda. Leveraging the experience of CRST 2.0, a major short-term target of the HKMA is to optimise the integration of climate risks into its supervisor-driven stress testing framework for a more comprehensive assessment of the banking sector's resilience to climate-related shocks.

Should you have any questions, please feel free to contact us at crst@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

Encl.