

Press release

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ECB Banking Supervision launches 2022 climate risk stress test

- Stress test to be learning exercise to assess banks' climate-risk preparedness
- Aggregate results to be published in July 2022
- No direct capital impact on banks from exercise

The European Central Bank (ECB) today launched a supervisory climate risk stress test to assess how prepared banks are for dealing with financial and economic shocks stemming from climate risk. The exercise will be conducted in the first half of 2022 after which the ECB will publish aggregate results.

This test is a learning exercise for banks and supervisors alike. It aims to identify vulnerabilities, best practices and challenges banks face when managing climate-related risk. Importantly, this is not a pass or fail exercise, nor does it have direct implications for banks' capital levels.

[The exercise](#) consists of three distinct modules: (i) a questionnaire on banks' climate stress test capabilities, (ii) a peer benchmark analysis to assess the sustainability of banks' business models and their exposure to emission-intensive companies, and (iii) a bottom-up stress test. To ensure the proportionality of the exercise, smaller banks will not be asked to provide their own stress test projections.

The stress test targets specific asset classes exposed to climate risk rather than banks' overall balance sheets. It focuses on exposures and income sources that are most vulnerable to climate-related risk, combining traditional loss projections with new qualitative data collections.

This test will use [macro-financial scenarios](#) based on scenarios prepared by the [Network of Central Banks and Supervisors for Greening the Financial System](#). These reflect possible future climate policies and assess both physical risks, such as heat and droughts and floods, and short and long-term risks stemming from the transition to a greener economy.

European Central Bank

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From March 2022, banks will submit their [climate risk stress test templates](#) to the ECB for assessment. The supervisor will subsequently engage with the banks, provide feedback and ensure fair and consistent outcomes.

The results will feed into the Supervisory Review and Evaluation Process (SREP) from a qualitative point of view. This means that this stress test could indirectly impact Pillar 2 requirements through the Supervisory Risk and Evaluation Process (SREP) scores, but will not directly impact capital through Pillar 2 guidance.

The 2022 ECB climate risk stress test will complement other ECB Banking Supervision and central banking climate-related deliverables. These include (i) the [economy-wide climate change stress test](#), published in September 2021, (ii) the [assessment](#), released in November 2021, of how banks are adjusting their practices to manage climate-related and environmental risks, and (iii) the 2022 thematic review on the incorporation of climate-related and environmental risks into banks' risk strategies, governance and risk management frameworks and processes.

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Notes

- The ECB conducts supervisory stress tests on an annual basis in line with Article 100 of the Capital Requirements Directive. Consequently, in those years where there is no European Banking Authority EU-wide stress test, the ECB conducts a targeted stress test exercise which focuses on a specific topic of interest, such as the sensitivity analysis of interest rate risk in the banking book in 2017 and the sensitivity analysis of liquidity risk in 2019.

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