



Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

Please send this template to

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Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority				
1.1 Name of the notifying authority	Central Bank of Ireland			
2. Description of the measure				
2.1 Concerned institution or group of institutions	O-SII institution	Level of consolidation	LEI Code	
	Allied Irish Bank plc (AIB)	Consolidated	3U8WV1YX2VMUHH7Z1Q21	
	The Governor and Company of the Bank of Ireland (BOI)	Consolidated	Q2GQA2KF6XJ24W42G291	
	permanent tsb Group Holdings plc (ptsb)	Consolidated	635400DTNHVYGZODKQ93	
	Ulster Bank Ireland DAC (Ulster)	Individual	635400KQIMALJ4XLAD78	
	Citibank Holdings Ireland Ltd (Citi)	Consolidated	549300K7L8YW8M215U46	
	UniCredit Bank Ireland plc (UniCredit)	Individual	JLWCUYA7LL5CX6EWZL14	
	DePfa Bank plc (DePfa)	Consolidated	HRRVUBV0XN84YQZT6245	
2.2 Level of the buffer applied	O-SII Buffer Rates Applied			
	O-SII institution	1 July 2019	1 July 2020	1 July 2021
	AIB	0.5%	1%	1.5%
	BOI	0.5%	1%	1.5%
	ptsb	0.25%	0.5%	0.5%
	Ulster	0.25%	0.5%	0.5%
	Citi	0.25%	0.5%	0.5%
	UniCredit	0.25%	0.25%	0.25%
	DePfa	0.0%	0.0%	0.0%
2.3 Name of the EU ultimate parent institution	O-SII institution	EU Parent	LEI Code (EU parent)	
	Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	JLWCUYA7LL5CX6EWZL14	

	UniCredit Bank Ireland plc	UniCredit S.p.A	549300TRUWO2CD2G5692																																				
2.4 Names of subsidiaries	N/A																																						
3. Timing of the measure																																							
3.1 Timing of the Decision	Q4 2016																																						
3.2 Timing of the Publication	Publication currently scheduled for 14 November 2016.																																						
3.3 Disclosure	The identification of O-SIIs and their associated buffers will be disclosed on the website of the Central Bank of Ireland together with a press release.																																						
3.4 Timing of Application	1 July 2019																																						
3.5 Phasing in	<table border="1"> <thead> <tr> <th colspan="4">O-SII Buffer Rates Applied</th> </tr> <tr> <th>O-SII institution</th> <th>1 July 2019</th> <th>1 July 2020</th> <th>1 July 2021</th> </tr> </thead> <tbody> <tr> <td>AIB</td> <td>0.5%</td> <td>1%</td> <td>1.5%</td> </tr> <tr> <td>BOI</td> <td>0.5%</td> <td>1%</td> <td>1.5%</td> </tr> <tr> <td>ptsb</td> <td>0.25%</td> <td>0.5%</td> <td>0.5%</td> </tr> <tr> <td>Ulster</td> <td>0.25%</td> <td>0.5%</td> <td>0.5%</td> </tr> <tr> <td>Citi</td> <td>0.25%</td> <td>0.5%</td> <td>0.5%</td> </tr> <tr> <td>UniCredit</td> <td>0.25%</td> <td>0.25%</td> <td>0.25%</td> </tr> <tr> <td>DePfa</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> </tbody> </table>			O-SII Buffer Rates Applied				O-SII institution	1 July 2019	1 July 2020	1 July 2021	AIB	0.5%	1%	1.5%	BOI	0.5%	1%	1.5%	ptsb	0.25%	0.5%	0.5%	Ulster	0.25%	0.5%	0.5%	Citi	0.25%	0.5%	0.5%	UniCredit	0.25%	0.25%	0.25%	DePfa	0.0%	0.0%	0.0%
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3.6 Review of the measure	The list of identified O-SIIs and associated buffer rates are to be reviewed on an annual basis.																																						
4. Reason for O-SII identification and activation of the O-SII buffer																																							
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	<table border="1"> <thead> <tr> <th>O-SII institution</th> <th>Overall Score</th> </tr> </thead> <tbody> <tr> <td>AIB</td> <td>1630</td> </tr> <tr> <td>BOI</td> <td>2213</td> </tr> <tr> <td>ptsb</td> <td>385</td> </tr> <tr> <td>Ulster</td> <td>539</td> </tr> <tr> <td>Citi</td> <td>414</td> </tr> <tr> <td>UniCredit</td> <td>510</td> </tr> <tr> <td>DePfa</td> <td>920</td> </tr> </tbody> </table> <p>*Y/E 2015 figures are used in the above table. When notifying the ECB or EBA, please provide relevant information (methodology, calculations and formulas, data sources, information set used for denominators) in a separate Excel file</p>			O-SII institution	Overall Score	AIB	1630	BOI	2213	ptsb	385	Ulster	539	Citi	414	UniCredit	510	DePfa	920																				
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<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p>	<p>The assessment of O-SIIs was conducted in line with the EBA Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU in relation to the assessment of O-SIIs (EBA/GL/2014/10). A 350 basis points threshold of systemic importance was used to identify the O-SIIs and the overall scores are outlined in the table in section 4.1. Institutions with relative total assets below 0.02 per cent were not excluded from the identification process. All institutions identified by the mandatory scoring process in the EBA guidelines were identified as O-SIIs, and no additional institutions were identified.</p> <p>A separate assessment was carried out for investment firms in scope of S.I. 158 of 2014¹ and which deal on own account or underwrite on a firm commitment basis. The analysis has been completed in accordance with the EBA Guidelines using indicators appropriate for investment firms. This assessment led to no investment firms being identified as O-SIIs for 2017.</p> <p>a. names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1)</p>
<p>4.3 Supervisory judgement</p>	<p>All institutions identified by the mandatory scoring process using the standard 350bps threshold in the EBA guidelines were identified as O-SIIs. Supervisory judgement was not employed to identify any additional institutions.</p>
<p>4.4 Calibrating the O-SII buffer</p>	<p>The Central Bank of Ireland's approach to calibrating the O-SII buffer takes into account the high level principles of the Basel framework, the requirements of the CRD IV and the specificities of the Irish economy. The approach can be broken into a number of steps which are as follows; assessing systemic importance; grouping and ranking institutions; and applying buffer rates.</p> <p>Assessing systemic importance:</p> <p>When assessing the systemic risk of supervised institutions in Ireland, the mandatory requirements laid out in Article 131 CRD IV are used. The EBA guidelines identify a mix of banks as O-SIIs for Ireland. Given the wide variation in business models operating in Ireland, it is important to also consider the business model of the individual institutions and how this affects the EBA scores. Each institution's subscore is examined to provide a clearer picture of the drivers of their high systemic risk score.</p> <p>Grouping and ranking institutions:</p> <p>Extensive analysis is then carried out using the Expected Impact framework. This method aims to equalise the expected impact of each O-SII with that of a reference non-O-SII. There are two main variables to be calculated: the probability of default (PD) as a function of capital and the relative economic cost of failure (ECF).² Historical bank losses are used to calculate the PD of an Irish institution as a function of capital and a number of approaches are taken to measuring ECF of an institution including; total EBA score; EBA importance sub score and average market share in Irish loans and deposits.</p> <p>While subject to a number of caveats, this analysis still provides a number of useful takeaways:</p> <ul style="list-style-type: none"> • Under all assumptions, BOI and AIB receive significantly higher buffers than other institutions. • When measures of cost of failure with greater focus on the real economy are

¹ Transposing Directive 2013/36/EU (CRD IV) in Ireland.

² For more information see "Calibrating the GSIB Surcharge" Federal Reserve Board (2015) or "The FPC's framework for the systemic risk buffer" Bank of England (2016)

used, such as share of domestic loans and deposits, implied buffers for domestically-focussed institutions increase.

- When measures of cost of failure with greater focus on the Irish economy are used, the international institutions are less systemically important.

By combining these takeaways and the assessment of systemic importance, institutions are placed into one of the below groups

	Group description	Institutions
Group 1	Highly systemically important domestic banks	BOI and AIB
Group 2	Systemically important domestic banks	Ulster and ptsb
Group 3	Large international banks	Citigroup
Group 4	Smaller international banks	UniCredit
Group 5	Banks which are in run-off	Depfa

The 5 groups are ranked in terms of systemic importance as follows:

Group 1 > Group 2 / Group 3 > Group 4 > Group 5

Applying buffer rates:

Buffer rates are then assigned to each group. The following buffer rate buckets apply: 0.25%, 0.5%, 0.75%, 1%, 1.5%, 2%. The 2 per cent rate is left free as a disincentive for banks to grow larger as this would attract a higher buffer rate. A buffer rate is then applied to each group. This buffer rate is set taking into account the analysis of the nature and degree of an institution’s systemic importance, the range of buffer rates implied by the results of the expected impact analysis, a peer review of buffer rates set by other authorities for similar institutions and both the Basel and European frameworks.

Banks	Proposed buffer rate
BOI, AIB	1.50%
UBIL, PTSB	0.50%
Citibank	0.50%
Unicredit	0.25%
Depfa	0.00%

It is proposed to set a zero per cent buffer for Depfa due to the very specific circumstances of this institution:

- The institution is currently in run-down and has not written new business since September 2008.
- Pursuant to a decision of the European Commission, specific restrictions are placed on Depfa’s business activities. The on-going strategy is to wind down its portfolios (through a process of asset maturity and the transfer of a portion of longer termed assets to its parent) in a manner that maintains shareholder value. Depfa’s balance sheet has decreased from €223bn in September 2008 to its current level of €36.7bn at end 2015.
- The majority of Depfa’s liabilities and related assets pertain to its covered bonds business and are ring-fenced under the relevant legislation in the event of insolvency. It has been determined by the Central Bank that the residual bank does not provide critical functions either in Ireland or another Member State.

<p>4.5 Effectiveness and proportionality of measure</p>	<p>The guiding principle behind the O-SII buffer is to minimise the effect that the failure of a systemically important institution would have on the domestic economy. Ireland has an extremely concentrated banking system, with a small number of banks providing intermediation activities to the Irish private sector. The Irish banking sector is still large relative to the economy. The Central Bank used the following high level principles when setting buffer rates in Ireland (adapted from the Basel Framework for dealing with domestic systemically important banks (BCBS, 2012)):</p> <ul style="list-style-type: none"> • The purpose of a buffer requirement for O-SIIs is to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact an O-SII failure is expected to have on the domestic economy. • The setting of a buffer should be informed by quantitative methodologies (where available) and country-specific factors such as degree of concentration or the size of the banking sector relative to GDP • The size of the buffer should be commensurate with the degree of systemic importance of an institution. Banks with the same degree of systemic importance should be subject to the same buffer rate. <p>In terms of proportionality, the O-SII buffer was calibrated with reference to the additional capital required so that the expected impact of a systemic institution equals that of a reference non-systemic institution. The principle of proportionality is also present in the proposal to impose a 0% buffer rate on a bank which is formally in run-down with a clearly defined plan. Although the EBA Guidelines identify this bank as systemically important, the specific circumstances of this institution means that the risks facing it are primarily micro-prudential and not of a systemic nature.</p> <p>In determining the optimal time to deploy the O-SII buffer requirement for these institutions, there is a trade-off between allowing the banks to continue to recover and to support Irish economic growth and requiring them to build adequate buffers to ensure resilience, regain competitiveness within their international peer group and to provide insurance against future moral hazard in a timely manner. For this reason, the O-SII buffer requirement is being phased in between 2019 and 2021, depending on the buffer rate set. For banks which do not provide credit to the domestic market, it has been decided to introduce the buffers at the same time, 1 July 2019, for consistency purposes. The phase-in period for these banks varies, depending on the buffer rate set.</p>
<p>5. Cross-border and cross-sector impact of the measure</p>	
<p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</p>	<p>The O-SII buffer rates were calibrated with reference to the buffer setting of other EU states and are consistent with the buffer rates in other countries. The application of the aforementioned O-SII buffers is expected to increase the resilience of the Irish financial system, which will have positive spillovers to the EU financial system. The buffers are being phased-in to avoid any negative impact on credit growth in the domestic economy or in the other countries in which the O-SIIs are active.</p>
<p>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p>	<p>The scope for leakages or regulatory arbitrage is limited for the O-SII buffer, in line with Chapter 11 of the ESRB handbook on reciprocity.</p>
<p>6. Combinations and interactions with other measures</p>	

6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	N/A									
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	None of the O-SIIs identified are subject to a systemic risk buffer.									
6.3 O-SII requirement for a subsidiary (Article 131.8)	<table border="1"> <thead> <tr> <th>O-SII institution</th> <th>EU Parent</th> <th>G-SII Buffer Rate (EU Parent)</th> </tr> </thead> <tbody> <tr> <td>Ulster Bank Ireland DAC</td> <td>The Royal Bank of Scotland Group</td> <td>1%</td> </tr> <tr> <td>UniCredit Bank Ireland plc</td> <td>UniCredit S.p.A</td> <td>1%</td> </tr> </tbody> </table>	O-SII institution	EU Parent	G-SII Buffer Rate (EU Parent)	Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	1%	UniCredit Bank Ireland plc	UniCredit S.p.A	1%
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	Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	1%							
UniCredit Bank Ireland plc	UniCredit S.p.A	1%								
6.4 Interaction with other measures	N/A									

7. Miscellaneous			
7.1 Contact person(s) at notifying authority	Name	Telephone	E-mail
	Niamh Hallissey	+ 353 1 224 6823	niamh.hallissey@centralbank.ie
	Jean Quin	+ 353 1 224 5093	jean.quin@centralbank.ie
7.2 Any other relevant information	N/A		