Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Central Bank of Malta
1.2 Country of the notifying authority	Malta
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☒ Activate a new SyRB ☐ Change the level of an existing SyRB ☐ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☐ Reset an existing SyRB (review)

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[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure

2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

☒ All institutions authorised in the Member State

☐ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

Name of institution	LEI code	Consolidation level

☒ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

Name of subsidiary	Name of the parent	LEI code of the subsidiary
HSBC Bank Malta p.l.c.	HSBC Continental Europe	549300X34UUBDEUL1Z91

If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.

2.2 Exposures covered by the SyRB

(Article 133(5) CRD)

Please indicate the exposures to which the SyRB applies:

☐ (a) all exposures located in the Member State that is setting the buffer;

☒ (b) the following sectoral exposures located in the Member State that is setting the buffer:

- (i) ☒ all retail exposures to natural persons that are secured by residential property;
- (ii) ☐ all exposures to legal persons that are secured by mortgages on commercial immovable property;
- (iii) ☐ all exposures to legal persons excluding those specified in point (ii);
- (iv) ☐ all exposures to natural persons excluding those specified in point (i);

☐ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;

☐ (d) all exposures located in other Member States;

☐ (e) exposures located in third countries.

For clarification purposes the intended sectoral SyRB buffer applies to domestic RRE mortgages to natural persons secured by domestic RRE and

<table>
<tr>
<td></td>
<td><i>excludes other forms of exposures which are secured by RRE but are not RRE mortgages.</i></td>
</tr>
<tr>
<td>2.3 Subsets of sectoral exposures</td>
<td>
Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:
- The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB:
<table>
<tr><th>Dimensions/subdimensions</th><th>Elements</th></tr>
<tr><td>1. Type of debtor or counterparty sector</td><td></td></tr>
<tr><td><i>1.a Economic activity</i></td><td></td></tr>
<tr><td>2. Type of exposure</td><td></td></tr>
<tr><td><i>2.a Risk profile</i></td><td></td></tr>
<tr><td>3. Type of collateral</td><td></td></tr>
<tr><td><i>3.a Geographical area</i></td><td></td></tr>
</table>
- Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account:
(i) size
(ii) riskiness
(iii) interconnectedness.
- Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?
- <i>Not applicable, as the SyRB is set at the level of a sector in Malta as indicated in point 2.2 (b)(i).</i>
</td>
</tr>
<tr>
<td>2.4 Exposures located in other Member States and in third countries</td>
<td>
If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries
<i>Not applicable, as the SyRB is set at the level of a sector as indicated in point 2.2 (b)(i) and does not apply to exposures located in other Member States or third countries</i>.
</td>
</tr>
<tr>
<td>2.5 Buffer rate
(Article 133(9)(e) CRD)</td>
<td>
Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.
Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.
<table>
<tr><th rowspan="2">Exposures</th><th colspan="2">New SyRB rate</th><th colspan="2">Previous SyRB rate</th></tr>
<tr><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th></tr>
<tr><td>(a) All exposures located in the Member State that is setting the buffer</td><td>%</td><td>% - %</td><td></td><td></td></tr>
<tr><td colspan="3">(b) <i>The following sectoral exposures located in the Member State that is setting the buffer:</i></td><td></td><td></td></tr>
</table>
</td>
</tr>
</table>

(i) All retail exposures to natural persons that are secured by residential property	*1.5%*	% - %		
(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property	%	% - %		
(iii) All exposures to legal persons excluding those specified in point (ii)	%	% - %		
(iv) All exposures to natural persons excluding those specified in point (i)	%	% - %		
(c) All exposures located in other Member States	%	% - %		
(e) Exposures located in third countries	%	% - %		
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) Please specify the subset [Dimension/subdimensions]	%	% - %		

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

Not applicable, as the same sectoral SyRB rate applies to all credit institutions subject to the sectoral SyRB.

Set of institutions				
Exposures	**Name of institution**	**LEI code**	**New SyRB rate**	**Previous SyRB rate**
			%	
			%	
			%	

3. Timing for the measure

3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. *27/02/2023*
3.2 Timing for publication	What is the proposed date of publication of the notified measure? *28/03/2023*
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system? *The decision will be published on the Central Bank of Malta's website where a statement of decision will be issued outlining the systemic risk buffer rate; the scope of the measure; justification for implementation and date of application.* *The Market participants were informed about the intended measure through a letter notifying them of the intended measure. An information session is also*

	being planned in February to explain further this measure to the banks and answer any related questions. In addition, forward guidance was given in past fora with banks, such as during the FSR launch on 29th September 2022., wherein specific reference to the possibility of introducing a sSyRB was mentioned. *Information on the capital buffer will also be published in the Financial Stability Review of 2022.*
3.4 Timing for application	What is the intended date of application of the measure? *28/03/2023*
3.5 Phasing in	*A 1% rate will be applicable from 30th September 2023 which will increase to 1.5% as from 31st March 2024. Phase-in is subject to market developments.*
3.6 Review/deactivation of the measure	Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD. *The review of the measure will take place at least every two years as per the provisions of CRDV and as transposed in CBM Directive No.11. In addition, regular review of the underlying risks being addressed by the sectoral SyRB will continue to take place which in turn will assess the adequacy or otherwise of the buffer. As a result, if deemed necessary, the sectoral SyRB might be reviewed before the stipulated period of two years.*
4. Reasons for the notified SyRB	
4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	Where applicable, please classify the risks targeted by the notified SyRB under the following categories: (i) risks stemming from the structural characteristics of the banking sector - Size and concentration of banks - Ownership structure - Other structural risks (ii) risks stemming from the propagation and amplification of shocks within the financial system - Exposure concentration/asset commonality *The aim of a sSyRB on domestic mortgages is to address prevailing and emerging risks stemming from the increased concentration of the banking sector's exposure to RRE mortgage loans.* - Commonality in bank business models - Financial interconnections and contagion (iii) risks to the banking system stemming from either the real economy or specific sectors - Economic openness - Sectoral risks from the private non-financial sector, households and the public sector

	The systemic risk to be addressed emanates from the household sector, namely the banking sector's exposure to the RRE sector risk via mortgage loans to natural persons. (iv) Other risks Please specify: - Whether these risks are widespread across the whole financial sector? - Or whether they are concentrated only in one or more subsets of the sector? *The intended measure aims to address macroprudential risk stemming from the household sector, particularly the exposure of the domestic banking system to the RRE sector risk via mortgage loans to households; this is in the light of continued rapid growth of housing loan portfolio, growth in house prices, as well as the risk due to the concentration of the banking sector's exposures to mortgage loans as the share of mortgage loans in banks' loan portfolios has increased significantly.* *Since 2005, resident annual mortgage lending has remained strong, with the lowest level of growth just above 6% reported in end 2013. Since then, this has ranged between 6 to 11%, and has reported double digit growth rates since mid-2021, after a slight deceleration caused by the pandemic. Such strong lending dynamics have affected the structure of the banks' resident loan portfolio, with the share of mortgages soaring from around a quarter in 2004, to around 53% in November 2022. The strong mortgage growth has also contributed to increased household debt, which recently has exceeded the growth in disposable income and their financial assets.*
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate. *In view of the persistently high growth rates in mortgage lending, banks' mortgage lending is moving away from its fundamentals, further increasing the vulnerability of households via higher exposure to the market. Adding this to the collateral portfolio of banks which is predominantly property-related, any deterioration in mortgage quality as well as in households' debt servicing capacity could lead to potentially very significant losses incurred by banks and thus threaten the stability of the financial system.* *In this regard, implementation of a sSyRB in Malta is deemed to be a good complement to the MT BBMs comprising of LTV, DSTI and maturity limits, which have been in place since July 2019. Complementing the BBMs with a 'stock' measure such as a sectoral SyRB would help to address concentration issues since banks with a greater share of sectoral exposures are impacted more as these would need to hold more capital compared to their peers, offsetting the lower risk weights applied on these loans.* *Furthermore, regarding the justification of the proposed sectoral systemic buffer rate for RRE loans, the rate was calibrated on the basis of banks' loss absorption capacity against losses that would occur under different magnitudes of an adverse shock to house prices; including a 7.5%, 15% and 30% fall in residential real estate prices. These shocks are equivalent to 1 to 4 standard deviations in the Official house price index. Impacts on capital arising from decline in collateral value and a related increase in loan loss provisions were assessed against the loss absorption based on different considerations for sSyRB rates. As per the CBM analysis, a sSyRB of 1.5% would increase the loss absorption of the banks active in the domestic mortgage market to withstand a shock*

	equivalent to around 2 standard deviations (equivalent to a 15% drop in house prices), with some banks also being able to withstand 4 standard deviation shock (equivalent to an extreme 30% drop in house prices). These house price shocks are deemed to be rather significant given that these are applied on reported collateral values, RRE related, already heavily discounted by banks.
4.3 Indicators used for activation of the measure	Provide the indicators triggering activation of the measured. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file). *The main indicators triggering the activation of the measure include the below:* • *Annual growth in resident mortgage lending* • *Share of resident mortgage lending on overall resident loans* • *Household debt-to-financial assets* • *Household debt-to-GDP* • *Household debt-to-disposable income* • *Annual growth in property prices* • *Advertised property price-to-per capita income ratio* • *House price misalignment index*
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms? *Implementation of a sectoral SyRB on mortgages is aimed to enhance the loss absorption capacity of those banks involved in the financing of residential real estate, thus equipping banks to better address the risks outlined in sections 4.1 and 4.2. Furthermore, this capital-based measure will complement the BBMs in place in MT comprising of LTV-O, stressed DSTI-O and maturity limits which help to contain further systemic risks arising from new RRE loans.* *As also outlined in section 4.2, the calibration of the buffer was based on the losses that would occur in an adverse stress scenario, based on adverse shocks to house prices. Indeed, a 1.5% sSyrb would increase the loss absorption of banks to withstand a shock of 2 standards deviation (or 15% drop in house prices) for all individual banks, with some banks also being able to withstand a 4 standard deviation shock (or 30% drop in house prices). The shocks are applied on already heavily discounted collateral values. Furthermore, the measure will induce changes to the relative price of mortgages compared to other lending segments thereby reducing concentration risk.* *In view of the above, the envisaged measure is considered to be effective and proportionate in reducing the prevailing risks in Malta. Finally, the measure will be regularly assessed by the CBM, also in line with CRD provisions, and if changes in the risk assessment are observed, the policy response will be adjusted accordingly.*
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD. *This is not applicable given that the systemic risk buffer is applicable on RRE mortgages exposures only. It is also a measure to address the banks' exposure and hence their vulnerability to a specific sector as opposed to the OSII which is*

	designed to internalize the costs that a systemically important institutions would propagate to the system if it fails.
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. *The proposed measure is deemed to be sufficient in addressing the prevailing risks emanating from the domestic mortgage sector. The measure will complement other existing domestic tools, including the national borrower-based measures enacted on July 2019 as well as the stringent residential real estate risk weight tools stemming from article 124 of CRR where a 35% risk weight is applied to 70% of the property LTV (rather than 80% as stipulated in CRR).* *The proposed sectoral SyRB is targeted to the mortgage sector and will thus aim to act as a price signaling effect, thereby reducing concentration risk to the sector. Given its targeted nature, there are no foreseen negative impacts on other sectors. Furthermore, as also explained in section 4.4 above, the intended calibration rate of 1.5% of the buffer will enable the banks to withstand a shock of around 2 standard deviations (or 15% drop in house prices), with some banks also being able to withstand a 4 standard deviation shock (or 30% drop in house prices) applied on already discounted collateral values. In view of this, the Central Bank of Malta deems that the buffer proposal is fully sufficient to address the relevant stability risks with regard to the stock of residential real estate loans.* *Finally, a phased-in approach will be implemented whereby banks will be required to start holding a 1% of the buffer as from end September-23 and 1.5% as from end March-24. In the Central Bank of Malta's view this will provide enough time to the banks to update their capital plans and comply with the measure accordingly.*
5.2 Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1[3] and must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. *The Central bank of Malta deems that the application of a sectoral SyRB on mortgages would address two main intermediate objectives as recommended*

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[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

	by the ESRB in the Recommendation ESRB/2013/1, i.e., of mitigating and preventing excessive credit growth and leverage, and limiting direct and indirect exposure concentration. *Furthermore, the proposed measure is deemed to be the most suitable measure in addressing the prevailing risks in Malta which are of a targeted nature and stem mainly from the mortgage sector.* *The Central Bank of Malta will regularly assess whether the relevant stability risk prevails and whether the policy package is still appropriate and if deemed necessary, amend the policy response accordingly.*
5.3 Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. *The proposed measure would act as a complement to the domestically implemented borrower-based measures incorporating LTV-O, stressed DSTI-O and maturity limits. The enacted borrower-based measures are applicable to flows (rather than stock) and aim to strengthen the resilience of lenders and borrowers against the potential build-up of vulnerabilities which could result in financial losses both to lenders and borrowers stemming from potential unfavourable economic developments. As also outlined in section 5.1 above, domestically there is also in place the stringent risk weight measure on RRE exposures where a 35% risk weight is applied to 70% of the property LTV (rather than 80% as stipulated in CRR) which help to address the structural element of RRE risk. However, this may need to be revisited in the near future in view of the envisaged changes to Article 124 emanating from CRR3.* *On the other hand, the sectoral SyRB is effective on both the stock and flow and operates with immediate effect through different channels. In this regard, observed cyclical risks comprising of the materialisation of signs of house price overvaluation together with increased exposure concentration to mortgage loans by the financial sector promotes the use of the sectoral SyRB as an adequate measure that increase the resilience of credit institutions should the above-mentioned cyclical risks materialise and the quality of existing mortgage portfolios deteriorate.* *The buffer will thus be aimed at locking away a part of the management buffer to act as a loss absorber in the eventuality of materialization of RRE related risks.*
6. Cross-border and cross-sector impact of the measure	

6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[4])**	*The sectoral SyRB will be applicable on domestic RRE mortgages. The volume of cross-border mortgage lending is very limited. Thus, at this juncture, no cross-border effects are expected.*
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	*The sectoral systemic risk buffer will be applied to all banks in Malta. Given that credit institutions issue most of the mortgage loans to households in Malta the risk of leakages to other institutions and regulatory arbitrage is very minimal.*
6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD? *No* *The Central Bank of Malta is not requesting reciprocity given that the share of RRE mortgage loans coming from countries outside MT is currently negligible. In this regard, we deem that the potential cross-border effects are non-material at least over a two-year horizon from the introduction of the measure. The bank reserves the right to review its stance in the event that MT exposures outside MT starts increasing.*
6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	*N/A.*
7. Combination of the SyRB with other buffers	
7.1 Combination with G-SII and/or O-SII buffers **(Article 131(15) CRD)**	Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%? *The sum of the SyRB rate and the O-SII buffer rate for any institution does not exceed 5%.*

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[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).

The information on the O-SII buffer rates outlined below consists of the fully-loaded O-SII buffers which are currently applicable to MT O-SII institutions as per CBM 2023 Statement of Decision.

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
Bank of Valletta plc	2%	Highest consolidation level	3.5%
HSBC Bank Malta p.l.c.	1.25%	Highest consolidation level	2.75%
MDB Group Limited	1%	Highest consolidation level	2.5%
APS Bank plc	0.50%	Highest consolidation level	2.0%
	%		%
	%		%
	%		%

7.2 Combination with other systemic risk buffers

(Article 133(11) and (12) CRD)

Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below:

- above 3% and up to 5%
- above 5%

Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%.

N/A.

8. Miscellaneous

8.1 Contact person(s)/mailbox at notifying authority

Mr Stephen Attard

+35625504000

attards@centralbankmalta.org

Ms Christine Balzan

+35625504015
balzanc@centralbankmalta.org

8.2 Any other relevant information

N/A.

8.3 Date of the notification

Please provide the date on which this notification was uploaded/sent.

28/02/2023