



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

Please send this template to

- [notifications@esrb.europa.eu](mailto:notifications@esrb.europa.eu) when notifying the ESRB;
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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									
<b>1.1 Name of the notifying authority</b>	Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA)								
2. Description of the measure									
<b>2.1 Concerned institution or group of institutions</b>	The measure applies to the following institutions at the highest level of consolidation in Malta: Bank of Valletta Group LEI Code: 529900RWC8ZYB066JF16 HSBC Bank Malta plc LEI Code: 549300X34UUBDEUL1Z91 Medifin Holding Limited LEI Code: 213800TC9PZRBHMJW403								
<b>2.2 Level of the buffer applied</b>	<table border="1"> <thead> <tr> <th>Institution</th> <th>Final rate (from Jan 2019)</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta Group (BOV)</td> <td>2.0%</td> </tr> <tr> <td>HSBC Bank Malta plc (HSBC)</td> <td>1.5%</td> </tr> <tr> <td>Medifin Holding Limited (MED)</td> <td>0.5%</td> </tr> </tbody> </table> <p>The additional capital requirement is calculated on the basis of the institutions' total risk exposures and must be covered by Core Equity Tier 1 capital (CET1 capital). To note that as indicated in section 4.1 HSBC scored lower than the lower limit in bucket 2 by 0.02 percentage points (section 4.4). However, the authorities deem that a buffer of 1.5% remains appropriate, based on the reasons provided in section 4.3.</p>	Institution	Final rate (from Jan 2019)	Bank of Valletta Group (BOV)	2.0%	HSBC Bank Malta plc (HSBC)	1.5%	Medifin Holding Limited (MED)	0.5%
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<b>2.3 Name of the EU ultimate parent institution</b>	HSBC Holdings LEI Code: MLU0ZO3ML4LN2LL2TL39 Both Bank of Valletta and Medifin Holding Limited are ultimate parent institutions								
<b>2.4 Names of subsidiaries</b>	Medifin Holding Limited is the holding company of: 1) Mediterranean Bank plc LEI code: 529900SYUCFQHI3JZQ05 2) Mediterranean Corporate Bank Limited (MT) LEI code: 2138006A51TIRXZ64P62 3) MeDirect Bank SA (BE) LEI code: 529900MATKY89NT0U738  The other O-SIIs do not own banking subsidiaries.								

3. Timing of the measure																																																								
<b>3.1 Timing of the Decision</b>	The authorities, as represented in the Joint Financial Stability Board, will reach their final decision after duly noting the opinion of the ECB.																																																							
<b>3.2 Timing of the Publication</b>	The O-SII decision is expected to be published by the end of the year.																																																							
<b>3.3 Disclosure</b>	The same communication strategy followed in the 2015 identification process will be followed this year i.e. informing the banks of their O-SII status and applicable buffer rate through a private letter and informing the public through the CBM and MFSA's website.																																																							
<b>3.4 Timing of Application</b>	This is a continuation of the buffers assigned last year to the same O-SIIs, thus activation date essentially is 1 January 2016.																																																							
<b>3.5 Phasing in</b>	<table border="1"> <thead> <tr> <th>Institution</th> <th>1 Jan 2016</th> <th>1 Jan 2017</th> <th>1 Jan 2018</th> <th>1 Jan 2019</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta Group (BOV)</td> <td>0.5%</td> <td>1.0%</td> <td>1.5%</td> <td>2.0%</td> </tr> <tr> <td>HSBC Bank Malta plc (HSBC)</td> <td>0.375%</td> <td>0.75%</td> <td>1.125%</td> <td>1.5%</td> </tr> <tr> <td>Medifin Holding (MED)</td> <td>0.125%</td> <td>0.25%</td> <td>0.375%</td> <td>0.5%</td> </tr> </tbody> </table>	Institution	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019	Bank of Valletta Group (BOV)	0.5%	1.0%	1.5%	2.0%	HSBC Bank Malta plc (HSBC)	0.375%	0.75%	1.125%	1.5%	Medifin Holding (MED)	0.125%	0.25%	0.375%	0.5%																																			
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<b>3.6 Review of the measure</b>	The O-SII buffer will be reviewed annually.																																																							
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<b>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</b>	<p><i>Following are the scores resulting from the running of the domestic methodology on June 2016 data:</i></p> <p>BOV and HSBC qualify as O-SIIs in the first step by an overall score of 2.45 and 1.23 respectively.</p> <table border="1"> <thead> <tr> <th rowspan="2">Jun-16</th> <th colspan="4">Step 1</th> <th colspan="3">Step 2</th> </tr> <tr> <th>WEIGHTS</th> <th>0.2</th> <th>0.4</th> <th>0.2</th> <th>0.2</th> <th></th> <th></th> </tr> <tr> <th>Bank</th> <th>Size</th> <th>Importance for the domestic economy</th> <th>Cross Border activities</th> <th>Resident interconnectiveness</th> <th>Overall (weighted average)</th> <th>Assets to GDP (&gt;25%)</th> <th>Covered Deposits/DCS Funding (&gt;2.5 times)</th> </tr> </thead> <tbody> <tr> <td>BOV</td> <td>2.8</td> <td>3.1</td> <td>0.9</td> <td>2.5</td> <td><b>2.45</b></td> <td><b>122.0%</b></td> <td><b>40.1</b></td> </tr> <tr> <td>HSBC</td> <td>1.2</td> <td>2.2</td> <td>0.1</td> <td>0.4</td> <td><b>1.23</b></td> <td><b>64.9%</b></td> <td><b>24.0</b></td> </tr> <tr> <td>MED</td> <td>0.1</td> <td>-</td> <td>0.1</td> <td>2.0</td> <td>0.44</td> <td><b>26.6%</b></td> <td><b>4.8</b></td> </tr> </tbody> </table> <p>In Step 2 of the domestic methodology, an institution that has not been identified as O-SII in Step 1 but meets an additional two criteria, qualifies as an O-SII. The two criteria include:</p> <ol style="list-style-type: none"> <li>Size <math>\geq</math> 25% of GDP; and</li> <li>Covered Deposits <math>\geq</math> 2.5 times the Depositor Compensation Scheme (DCS)</li> </ol> <p>Medifin Holding Limited meets the two thresholds concurrently.</p> <p><i>In line with the EBA methodology Step 1 the same three O-SIIs are reconfirmed by the following scores:</i></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>EBA Scores</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta Group (BOV)</td> <td>2,411</td> </tr> <tr> <td>HSBC Bank Malta plc (HSBC)</td> <td>877</td> </tr> <tr> <td>Medifin Holding Limited (MED)</td> <td>448</td> </tr> </tbody> </table>	Jun-16	Step 1				Step 2			WEIGHTS	0.2	0.4	0.2	0.2			Bank	Size	Importance for the domestic economy	Cross Border activities	Resident interconnectiveness	Overall (weighted average)	Assets to GDP (>25%)	Covered Deposits/DCS Funding (>2.5 times)	BOV	2.8	3.1	0.9	2.5	<b>2.45</b>	<b>122.0%</b>	<b>40.1</b>	HSBC	1.2	2.2	0.1	0.4	<b>1.23</b>	<b>64.9%</b>	<b>24.0</b>	MED	0.1	-	0.1	2.0	0.44	<b>26.6%</b>	<b>4.8</b>	Institution	EBA Scores	Bank of Valletta Group (BOV)	2,411	HSBC Bank Malta plc (HSBC)	877	Medifin Holding Limited (MED)	448
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	<p>To note that both the domestic and the EBA methodology have for two consecutive years provided similar results.</p>
<p><b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b></p>	<p>Domestically, the Central Bank of Malta and Malta Financial Services Authority (MFSA) developed a domestic O-SII Identification methodology and capital calibration methodology as per Policy Document.<sup>1</sup></p> <p>Domestic O-SIIs are identified according to a domestic methodology. As a first step, systemically important institutions are assessed for their relative importance to the industry on the basis of the following criteria identified in CRDIV Article 131:</p> <ul style="list-style-type: none"> <li>• Size</li> <li>• Substitutability</li> <li>• Cross-border activity</li> <li>• Resident Interconnectedness</li> </ul> <p>A peer comparison is carried out for each indicator, criteria and overall. This is achieved through a z-score model in order to limit subjectivity in the interpretation of results and to normalise the values across institutions. The overall result is obtained by applying a weighted average of the four criteria, with the highest weight assigned to substitutability. Institutions with an overall standard deviation above 1 are considered O-SIIs.</p> <p>In a second step, authorities assess whether further institutions should be designated as O-SIIs based on two additional, but not relative, indicators. An institution, whilst being small when compared to its peers, may still be systemically relevant to the economy and its failure may create systemic risk. In this regard, the following two criteria with the respective thresholds were adopted:</p> <ol style="list-style-type: none"> <li>1. Size <math>\geq</math> 25% of GDP; and</li> <li>2. Covered Deposits <math>\geq</math> 2.5 times the Depositor Compensation Scheme (DCS) funding.</li> </ol>
<p><b>4.3 Supervisory judgement</b></p>	<p>Based on the domestic methodology, HSBC scores 0.02 lower than the minimum limit established in bucket 2 (Section 4.4 and footnote 1). This means that, purely on quantitative measures, HSBC Bank Malta plc would attract a buffer rate of 1.0% instead of 1.5%, as of next year. To note, however, that a bank can also be allocated in bucket 2, if it has risk due to most of the criteria. Thus, in order for HSBC to qualify for a 1.5% buffer, either the overall score is higher than 1.25, or sufficient reasons are present to justify the higher buffer rate. As indicated below, the authorities are of the view that HSBC still remains a domestically systemically important institution of the same relevance and for this reason would continue to phase-in the same buffer of 1.5%.</p> <p>Amongst the arguments in favour of holding the 1.5% buffer is the fact that HSBC does not meet the quantitative criteria of 1.25 by 0.02, which is deemed too low to reduce a buffer rate by 0.5 percentage points. Furthermore, data show that in</p>

<sup>1</sup> CBM and MFSA (Dec 15): Policy Document On the methodology for the identification of other systemically important institutions and the related capital buffer calibration <https://www.centralbankmalta.org/systemically-important-institutions>

	<p>absolute terms the position of HSBC with regards to “Domestic Importance” (which carries the highest weight in the identification criteria) increased, indicating that HSBC’s domestic relevance did not deteriorate. The drop in total assets indeed resulted from lower cross border activity. However, to note that the size criteria still remains significant compared to both the threshold and to the scores registered by other banks. Furthermore, given that the methodology is based on relative terms, the higher figures reported by BOV led to a lower overall score for HSBC. HSBC’s importance is also indicated in Step 2, whereby it registers higher assets to GDP and covered deposits; (1) 65% in the size indicator (Size <math>\geq</math> 25% of domestic GDP;) and (2) 24 times in the Covered deposits to DCS indicator (Covered Deposits <math>\geq</math> 2.5 times the domestic Depositor Compensation Scheme (DCS) funding).</p>								
<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>The bucketing methodology is based on the scores achieved in the O-SII identification stage in Step 1, as follows:</p> <ol style="list-style-type: none"> <li>1. the highest bucket remains the maximum legal O-SII buffer rate of 2%, whilst the lowest is set at 1.0%</li> <li>2. buffer rates are allocated into three buckets in steps of 0.5%</li> <li>3. the overall score obtained in the identification methodology (Step 1) is used to indicate the bucket in which an institution is allocated, starting from bucket 1</li> </ol> <table border="1" data-bbox="512 797 1383 1131"> <thead> <tr> <th data-bbox="512 797 847 862">Bucket</th> <th data-bbox="847 797 1383 862">Criterion for each bucket</th> </tr> </thead> <tbody> <tr> <td data-bbox="512 862 847 954"> <p><b>3</b> <b>(2.0%)</b></p> </td> <td data-bbox="847 862 1383 954"> <p>High risk due to most of the criteria and/or Score equal to or above 1.75</p> </td> </tr> <tr> <td data-bbox="512 954 847 1043"> <p><b>2</b> <b>(1.5%)</b></p> </td> <td data-bbox="847 954 1383 1043"> <p>Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75</p> </td> </tr> <tr> <td data-bbox="512 1043 847 1131"> <p><b>1</b> <b>(1.0%)</b></p> </td> <td data-bbox="847 1043 1383 1131"> <p>Some risk due to some criteria and/or Score equal to or above 1 and below 1.25</p> </td> </tr> </tbody> </table> <p>For institutions that qualify as O-SIIs via Step 2, a capital buffer rate of 0.5% shall apply.</p>	Bucket	Criterion for each bucket	<p><b>3</b> <b>(2.0%)</b></p>	<p>High risk due to most of the criteria and/or Score equal to or above 1.75</p>	<p><b>2</b> <b>(1.5%)</b></p>	<p>Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75</p>	<p><b>1</b> <b>(1.0%)</b></p>	<p>Some risk due to some criteria and/or Score equal to or above 1 and below 1.25</p>
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<p><b>4.5 Effectiveness and proportionality of measure</b></p>	<p>The O-SII capital buffer is aimed at mitigating the vulnerability of the domestic financial system and the real economy to the failure of systemically important institutions. This additional capital buffer aims to increase the resilience of O-SIIs by increasing their loss absorbing capacity and thus ensuring that they pose minimal risk to the domestic economy in the form of externalities. Market failures targeted by the O-SII capital buffer mainly relate to the excessive risk-taking due to expectations of a bailout as a result of the perceived systemic relevance of an individual institution (moral hazard and 'too big to fail'). The domestic banking system is composed of diverse banks which are categorised as core, non-core and international.</p> <p>The core domestic banks’ category, consists of a set of banks that exhibit strong links with the domestic economy, and are thus systemically important. These banks operate a widespread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in Malta. These reach a size of around 238% of domestic GDP. The three banking groups identified as O-SIIs fall in this category, all of which are identified as significant for SSM purposes. Collectively, the three domestic banking groups account for around 88% of the total assets of the core domestic banks and around 39% of the total banking system assets. Furthermore, these institutions hold market shares in resident customer loans and resident customer deposits of 83% and 85% respectively.</p>								
<p><b>5. Cross-border and cross-sector impact of the measure</b></p>									

<b>5.1 Assessment of cross-border effects and the likely impact on the internal market</b> <b>(Recommendation ESRB/2015/2)</b>	<p>From the internal market perspective, given the relative small size of the domestic financial sector vis-à-vis its European counterparts, no impact is expected to materialise as a result of the domestic O-SII buffer. Indeed, as at June 2016, the combined assets of these institutions amounted to EUR 18.8 billion.</p>
<b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	<p>The buffers are set at the highest level of consolidation in Malta. This avoids the possibility that institutions shift their business activities within the group, whether domestically or elsewhere.</p>
<b>6. Combinations and interactions with other measures</b>	
<b>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>	<p>N/A</p>
<b>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</b>	<p>N/A</p>
<b>6.3 O-SII requirement for a subsidiary (Article 131.8)</b>	<p>N/A</p>
<b>6.4 Interaction with other measures</b>	<p>No interaction with other measures.</p>

<b>7. Miscellaneous</b>	
<b>7.1 Contact person(s) at notifying authority</b>	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p>Mr Alan Cassar  Deputy Director Regulatory Development Unit  Malta Financial Services Authority  E-mail: <a href="mailto:acassar@mfsa.com.mt">acassar@mfsa.com.mt</a></p> <p>Ms Graziella Gatt  Manager Policy and Crisis Management  Financial Stability Department  Central Bank of Malta  E-mail: <a href="mailto:gattg@centralbankmalta.org">gattg@centralbankmalta.org</a></p>
<b>7.2 Any other relevant information</b>	

