ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for Article 131 of the Capital Requirements Directive (CRD) – Other Systemically Important Institutions (O-SIIs)

Template for notifying the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) of the setting or resetting of an O-SII buffer under Article 131(7) CRD and of the identity of O-SIIs under Article 131(12) 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]);
- notifications@esrb.europa.eu when notifying the ESRB.

The ESRB will forward this notification to the European Commission, to the European Banking Authority (EBA) and to the competent and designated authorities of the Member States concerned without delay and will publicly disclose the names of the O-SIIs on its website. 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.

<table>
<tr><th colspan="2">1. Notifying national authority</th></tr>
<tr><td>1.1 Name of the notifying authority</td><td>Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA)</td></tr>
<tr><td>1.2 Country of the notifying authority</td><td>Malta</td></tr>
<tr><th colspan="2">2. Description of the measure</th></tr>
<tr><td>2.1a Institution or group of institutions concerned</td><td>
<table>
<tr><th>Name of institution</th><th>LEI</th><th>Consolidation level</th></tr>
<tr><td>Bank of Valletta plc</td><td>529900RWC8ZYB066JF16</td><td>Highest Consolidation Level</td></tr>
<tr><td>HSBC Bank Malta p.l.c.</td><td>549300X34UUBDEUL1Z91</td><td>Highest Consolidation Level</td></tr>
<tr><td>MDB Group Limited</td><td>213800TC9PZRBHMJW403</td><td>Highest Consolidation Level</td></tr>
<tr><td>APS Bank plc</td><td>213800A1O379I6DMCU10</td><td>Highest Consolidation Level</td></tr>
</table>
</td></tr>
<tr><td>2.1b Changes to the list of institutions concerned</td><td>The same credit institutions identified as O-SIIs during the 2023 O-SII notification round are being re-confirmed as O-SIIs during this year's iteration.</td></tr>
</table>

[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.

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2.2 Level of the buffer applied

Name of institution	New O-SII buffer	Previous O-SII buffer
Bank of Valletta plc (BOV)	2.00%	2.00%
HSBC Bank Malta p.l.c. (HSBC)	1.50%*	1.50%*
MDB Group Limited (MED)	1.00%	1.00%
APS Bank plc (APS)	0.50%	0.50%

*Pursuant to a company announcement released on 30 November 2022, , HSBC Continental Europe ('HBCE') has been designated by HSBC Group as its single EU IPU. As a result, HSBCMT, is now owned by the HSBC Group through HBCE as the EU IPU. Being a French O-SII itself, HSBC MT qualifies for the provisions of Article 131(8) of CRD, thereby capping HSBC MT's O-SII buffer to 1.25%.

2.3 Name of the ultimate EU parent institution

Name of identified O-SII	Ultimate EU parent institution	LEI of ultimate parent institution
HSBC Bank Malta p.l.c. (HSBC)	HSBC Continental Europe	F0HUI1NY1AZMJMD8LP67

Bank of Valletta plc, MDB Group Limited and APS Bank plc are ultimate parent institutions.

2.4 Names of subsidiaries

MDB Group Limited is the holding company of:

1) MeDirect Bank (Malta) plc LEI code: 529900SYUCFQHI3JZQ05
2) MeDirect Bank SA (BE) LEI code: 529900MATKY89NT0U738

The other identified O-SIIs do not own any banking subsidiaries.

3. Timing for the measure

3.1 Timing for the decision	08/07/2024
3.2 Timing for publication	08/08/2024
3.3 Disclosure	The communication strategy for 2024 will follow the same process as 2023 i.e. informing the concerned banks of their O-SII status and applicable buffer rate through a dedicated private letter, bilateral discussions as necessary, and informing the public via the respective Authorities' websites.
3.4 Timing for application	01/01/2025
3.5 Phasing in	The O-SII buffer in MT has been implemented for the first time in 2016 through a four-year phase-in period, starting from 1 January 2016 and becoming fully phased-in on 1 January 2019. Given that BOV has been identified as an OSII since this first exercise, and no changes to its buffer rate were registered, it will continue to maintain its fully loaded O-SII capital buffer rate (i.e. 2.00%) during2025.. HSBC Bank Malta p.l.c.'s fully loaded O-SII buffer of 1.50% will remain capped at 1.25% to respect the provisions outlined under CRD Article 131(8).

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MDB Group Ltd will continue its phasing-in of the 0.50% increase to 1.00% as communicated in the 2023 O-SII statement of decision, reaching a fully loaded buffer rate of 1.00% by 2025.

APS Bank plc has been designated as an O-SII for the first time during 2019 and is now fully phased in as from 1st January 2024. Starting from 1st January 2023, the bank was also requested to phase-in an additional 0.25% O-SII buffer rate over a four-year phase-in period to reach a fully-loaded O-SII buffer rate of 0.50% on 1 January 2026.

Name of institution	2022	2023	2024	2025	2026
MDB Group Limited (MED)	0.625%	0.75%	0.875%	1.00%	1.00%
APS Bank plc (APS)	0.125%	0.25%	0.375%	0.438%	0.50%

3.6 Review of the measure

The O-SII buffer is reviewed annually.

4. Reason for O-SII identification and activation of the O-SII buffer

4.1 Scores of institutions or group of institutions concerned, as per EBA guidelines on the assessment of O-SIIs

(Article 131.3 CRD)

In line with the CBM-MFSA current O-SII methodology, four credit institutions (i.e. Bank of Valletta plc, HSBC Bank Malta p.l.c., MDB Group Limited and APS Bank plc) were identified as O-SIIs having surpassed the 425 bps threshold, which has been set as a cut-off point (a + 75 bps leeway to the 350bps threshold has been applied, as established in the EBA Guidelines EBA/GL/2014/10).[3] The official scores under the current MT O-SII methodology are highlighted in the table below:

Name of institution	Size	Importance	Complexity	Interconnectedness	Overall Score
Bank of Valletta plc (BOV)	694	1676	189	361	**2921**
HSBC Bank Malta p.l.c. (HSBC)	334	939	84	141	**1498**
MDB Group Limited (MED)	239	205	576	354	**1374**
APS Bank plc (APS)	175	480	27	66	**748**

4.2 Methodology and indicators used for designation of the O-SII

(Article 131.3)

During 2019, the Authorities decided to revise their methodology for the O-SII identification process with a view of reflecting the developments in the domestic financial sector and also to bring it more in line with the criteria established in the EBA Guidelines.

Under the current O-SII methodology, domestic systemically important institutions are identified as such, based on their relative importance within the sector as per a set of specific criteria. The categories and indicators are based on those put forward in the EBA Guidelines. However, two additional indicators, i.e. 'private sector deposits from Maltese residents' and 'private sector loans to Maltese residents' were included in the 'importance' criterion in order to capture particular characteristics of the Maltese financial sector, especially the strong orientation of banks towards domestic deposits and loans.

The Maltese banking sector is characterised by a small number of market participants, dominated by a few 'systemically relevant' institutions which are more integrated with, and interlinked to the domestic economy when compared to the rest of the banks within

[3] CBM-MFSA Policy Document on the methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration.

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the sector. Most of these 'systemically relevant' banks operate under a 'traditional' retail banking business model. In view of this characteristic, the current methodology has been designed in such a way as to identify as O-SIIs the aforementioned 'systemically relevant' institutions.

The homogenous weight of 25% for all categories stipulated in EBA methodology does not reflect adequately the domestic financial system's characteristics. Consequently, as highlighted in the table below, a relatively higher weight is attributed to the 'importance' and the 'size' categories, with a total weight of 40% and 22% respectively. The Authorities deem these categories as being the most reflective of the specificities of the domestic banking sector's business model, thereby representing the potential channels of systemic risk for the institutions domiciled in MT. In line with this, given the rather traditional business models of domestic banks, the 'complexity' and 'interconnectedness' categories are assigned a lower weight of 18% and 20% respectively.

Category	Indicators	Indicator weight	Category weights
Size	Total Assets	22.00%	22.00%
Importance	Value of domestic payment transactions	8.00%	40.00%
	Private sector deposits from depositors in the EU*	5.50%	
	Private sector loans to recipients in the EU**	5.50%	
	Private sector deposits from Maltese residents	10.50%	
	Private sector loans to Maltese residents	10.50%	
Complexity	Value of OTC derivatives (notional)	4.00%	18.00%
	Cross-jurisdictional liabilities	7.00%	
	Cross-jurisdictional claims	7.00%	
Interconnectedness	Intra-financial system liabilities	9.00%	20.00%
	Intra-financial system assets	9.00%	
	Debt securities outstanding	2.00%	

* MT deposits are incorporated in 'private sector deposits from depositors in the EU' indicator.
** MT loans are incorporated in 'private sector loans to recipients in the EU' indicator.

4.3 Supervisory judgement

No supervisory judgement has been used.

4.4 Calibrating the O-SII buffer

A bucketing methodology is being followed as part of the calibration stage based on the scores achieved in the O-SII identification stage in section 4.2:

1. An O-SII can be classified into one of any of the five buckets presented in the table below, depending on the O-SII score obtained with the identification methodology. Bucket 1 contains the lowest capital rate (0.25%) and bucket 5 entails the highest capital buffer rate (2.0%).

2. Intermediate buffer rates of 0.5%, 1.0% and 1.5% are also applicable, thus reinforcing a proportionate and commensurate application of an O-SII surcharge; the higher the potential systemic risk posed by the respective O-SII, the higher the capital buffer rate applied.

3. The overall score obtained in the identification methodology is used to guide on the resulting capital buffer rate as per table below:

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Buckets	Capital Buffer Rate	Score range for each bucket (bps)
5	2.00%	1700 ≤ Score
4	1.50%	1200 ≤ Score < 1700
3	1.00%	830 ≤ Score < 1200
2	0.50%	580 ≤ Score < 830
1	0.25%	425 ≤ Score < 580

During the 2024 O-SII exercise, with a score of 1372bps, MDB Group Ltd. classified into bucket 4, corresponding to a 1.50% O-SII buffer rate on a consolidated basis.

In their assessments, the Authorities also investigate the systemic relevance of credit institutions on a solo basis. To note that there are typically minor differences in operations and business models between the individual and consolidated operations of MT banks. In this regard, MDB Group Ltd is an exception, where diverging trends between the parent and its subsidiary are more evident.

The Belgian subsidiary's operations are much larger than those of the MT parent, which are the main driver of the high 'complexity' and 'interconnectedness' O-SII scores and are resulting in MDB Group Ltd.'s methodologically indicated placement in bucket 4. Upon further investigation, the Belgian subsidiary is not systemically important in Belgium, while on a solo basis, the MT parent's systemic relevance is significantly being overstated when looking at the consolidated level. Nevertheless, the degree of complexity posed by the Belgian subsidiary to the operations of the Group should not be overlooked.

Based on these considerations, the Authorities have decided to retain MDB Group Ltd. with a 1.00% O-SII buffer rate, to be fully phased-in by 2025.

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4.5 Effectiveness and proportionality of measure	The O-SII buffer is an essential element of the ESRB Recommendation on the intermediate objectives and instruments of macro-prudential policy and is a macroprudential tool legally embedded in the CRD/CRR framework which, in turn, is domestically transposed in CBM Directive No. 11 and MFSA Banking Rule No. 15. The domestic banking system is composed of a number of banks which are classified into three categories i.e. (a) core domestic banks; (b) non-core domestic banks and (c) international banks. The core domestic banks' category consists of a set of banks that exhibit relatively stronger links with the domestic economy and are therefore more likely to be classified as systemically important. These banks operate a widespread branch network, provide a full spectrum of banking services and are important providers of credit and deposit takers in MT. With total assets of €32.6 billion, the size of core domestic banks was equivalent to approximately 168.22% of GDP by December 2023. All four banking groups identified as O-SIIs fall in this category, three of which are identified as significant for SSM purposes. The non-core domestic banks play a more restricted role in the economy, as the volume of operations and banking services they offer to residents are somewhat limited. As such, the linkages with the domestic economy are limited, restricted to deposit-taking and domestic credit intermediation to a much smaller extent. In turn, internationally oriented banks are mainly subsidiaries and branches of international institutions and therefore have virtually no links with the domestic economy. Together the non-core and international banks, by December 2023, make around 69.5% of domestic GDP. Collectively, the four domestic banking groups classified as O-SIIs account for around 92.4% of the total assets of the core domestic banks and around 65.4% of the total banking system assets.

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5. Sufficiency, consistency and non-overlap of the policy response

5.1 Sufficiency of the policy response

The MT O-SII identification framework puts greater weight on those indicators which are considered to reflect the main sources of systemic risk in Malta. Given that the four identified MT O-SIIs cover approx. 92.4% of the total assets of the core domestic banks, being the bank category that has the more direct link to the domestic economy, the policy is considered as sufficient in terms of coverage. In terms of the applied buffers, the 5-bucket calibration approach is also considered as sufficient as it allows for a commensurate application of the O-SII buffer while being more conservative than the ECB minimum OSII floors. An O-SII buffer starting from 0.25% increasing to 2%, proportionally reflects the degree of systemic risk in Malta.

As highlighted in the table below, when comparing the MT O-SII buffers floors with the ECB minimum O-SII floors, the applicable O-SII buffers under the MT O-SII methodology fully respect the ECB floor methodology by resulting in either similar or higher applicable O-SII buffer rates for all designated O-SIIs.

Identified O-SIIs	Applicable O-SII buffer	
	ECB minimum floors	MT methodology
APS	0.25%	0.50%
BOV	1.00%	2.00%
HSBC	0.50%	1.50%*
MED	1.00%	1.00%

* Refer to section 2.2 for provisions applicable to HSBC's O-SII buffer

5.2 Consistency of application of the policy response

As outlined in the CBM-MFSA policy document, the O-SII buffer in MT is designed to contribute towards meeting the intermediate objective of limiting the systemic impact of misaligned incentives also with a view to reducing moral hazard, as specified under paragraph 2(d) of sub-recommendation A of ESRB Recommendation on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

The O-SII buffer is the main instrument used to meet the above specified intermediate objective, and has been consistently in place since 2016, following the transposition of Article 131 of Directive 2013/36/EU, as amended by Directive (EU) 2019/2034 in CBM Directive no. 11 and MFSA Banking Rule no. 15.

5.3 Non-overlap of the policy response

The O-SII buffer aims to mitigate the excessive risk-taking which domestic systemically important institutions might take owing to their belief that they will be bailed-out as a result of their systemic relevance (moral hazard and 'too big to fail'). In this respect, the O-SII buffer is the main policy in MT to address the 'too big to fail' risk. In view of the fact that 'systemically relevant' MT banks operate under a 'traditional' retail banking business model, a greater weight on the 'importance' (40%) and 'size' (22%) categories is being placed. In this manner, the MT O-SII methodology is calibrated so as to target the main transmission channels of systemic risk in MT.

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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 **(Recommendation ESRB/2015/2[4])**	From the internal market perspective, given the relatively 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.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The buffers are set at the highest level of consolidation in MT. This avoids the possibility that institutions shift their business activities within the group, whether domestically or elsewhere.
7. Combinations and interactions with other measures	
7.1 Combinations between G-SII and O-SII buffers **(Article 131.14)**	Not applicable since there are no G-SIIs in MT.
7.2 Combinations with systemic risk buffers (SyRBs) **(Article 131.15 CRD)**	Not applicable since no MT institution is currently subject to a systemic risk buffer (SyRB) designed to address the risks covered by the O-SII buffer.
7.3 O-SII requirement for a subsidiary (Article 131.8 CRD)	In view of the completion of the corporate restructuring process for HSBC Group to comply with Article 21b CRD, HSBC Continental Europe is the EU parent of HSBC Bank Malta p.l.c. HSBC Continental Europe is also subject to a 0.25% O-SII buffer in France and given the provisions outlined in Art 131 (8) of the CRD, the maximum O-SII buffer rate applicable to HSBC Bank Malta p.l.c. is capped at 1.25% (see section 2.2).

[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).

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8. Miscellaneous	
8.1Contact person(s)/mailbox at notifying authority	Contact person(s) for further inquiries (name, phone number and e-mail address): Mr. Stephen Attard Head Financial Stability Policy, Crisis Management and Stress Testing Department Central Bank of Malta E-mail: attards@centralbankmalta.org Mr Joseph Agius Head Financial Stability Malta Financial Services Authority E-mail: joseph.agius@mfsa.mt
8.2 Any other relevant information	N/A
8.3 Date of the notification	24/06/2024

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