

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

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1. Notifying national authority									
1.1 Name of the notifying authority	Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA)								
2. Description of the measure									
2.1 Concerned institution or group of institutions	<p>The measure applies to the following institutions at the highest level of consolidation in Malta:</p> <ul style="list-style-type: none"> • Bank of Valletta Group LEI Code: 529900RWC8ZYB066JF16 • HSBC Bank Malta Plc LEI Code: 549300X34UUBDEUL1Z91 • MeDirect Group Ltd. LEI Code: 213800TC9PZRBHMJW403 								
2.2 Level of the buffer applied	<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>MeDirect Group Ltd. (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).</p>	Institution	Final rate (from Jan 2019)	Bank of Valletta Group (BOV)	2.0%	HSBC Bank Malta plc (HSBC)	1.5%	MeDirect Group Ltd. (MED)	0.5%
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2.3 Name of the EU ultimate parent institution	<p>HSBC Holdings LEI Code: MLU0ZO3ML4LN2LL2TL39</p> <p>Both Bank of Valletta and MeDirect Group Ltd. are ultimate parent institutions.</p>								
2.4 Names of subsidiaries	<p>MeDirect Group Ltd. is the holding company of:</p> <ol style="list-style-type: none"> 1) Mediterranean Bank Plc LEI code: 529900SYUCFQHI3JZQ05 2) MeDirect Bank SA (BE) LEI code: 529900MATKY89NT0U738 <p>The other O-SIIs do not own banking subsidiaries.</p>								

3. Timing of the measure																																																					
3.1 Timing of the Decision	A final decision has been reached on the 4th of December 2017.																																																				
3.2 Timing of the Publication	The O-SII decision is expected to be published by the end of the year.																																																				
3.3 Disclosure	The same communication strategy followed in the 2016 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.																																																				
3.4 Timing of Application	This is a continuation of the buffers assigned last year to the same O-SIIs, thus activation date essentially is 1 January 2018.																																																				
3.5 Phasing in	<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>MeDirect Group Ltd. (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%	MeDirect Group Ltd. (MED)	0.125%	0.25%	0.375%	0.5%																																
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3.6 Review of the measure	The O-SII buffer will be reviewed annually.																																																				
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)	<p>Following are the scores resulting from the running of the domestic methodology on June 2017 data: BOV and HSBC qualify as O-SIIs in the first step by an overall weighted average score of 3.0 and 1.3 respectively.</p> <table border="1"> <thead> <tr> <th rowspan="2">Jun-17</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> <th></th> </tr> <tr> <th>Bank</th> <th>Size</th> <th>Importance for the domestic economy</th> <th>Cross Border activities</th> <th>Resident interconnectedness</th> <th>Overall (weighted average)</th> <th>Assets to GDP (>25%)</th> <th>Covered Deposits/DCS Funding (>2.5 times)</th> <th></th> </tr> </thead> <tbody> <tr> <td>BOV</td> <td>3.0</td> <td>3.8</td> <td>0.5</td> <td>4.0</td> <td>3.0</td> <td>122%</td> <td>39</td> <td></td> </tr> <tr> <td>HSBC</td> <td>1.1</td> <td>2.7</td> <td>0.1</td> <td>0.1</td> <td>1.3</td> <td>54%</td> <td>23</td> <td></td> </tr> <tr> <td>MED</td> <td>0.2</td> <td>-</td> <td>0.4</td> <td>1.5</td> <td>0.4</td> <td>25%</td> <td>4</td> <td></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. This step reflects a credit institutions' potential to affect adversely the stability of the system through its size relative to domestic GDP and the size of its covered deposits relative to the domestic DCS funding. The two criteria include:</p>	Jun-17	Step 1				Step 2			WEIGHTS	0.2	0.4	0.2	0.2				Bank	Size	Importance for the domestic economy	Cross Border activities	Resident interconnectedness	Overall (weighted average)	Assets to GDP (>25%)	Covered Deposits/DCS Funding (>2.5 times)		BOV	3.0	3.8	0.5	4.0	3.0	122%	39		HSBC	1.1	2.7	0.1	0.1	1.3	54%	23		MED	0.2	-	0.4	1.5	0.4	25%	4	
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	<ol style="list-style-type: none"> 1. Size \geq 25% of GDP; and 2. Covered Deposits \geq 2.5 times the Depositor Compensation Scheme (DCS) <p>MeDirect Group Ltd. meets the two thresholds concurrently with an assets to GDP Ratio of 25% and its Covered Deposits were 4 times the Depositor Compensation Scheme.</p> <p>Comparing the domestic methodology with that of the EBA, the Authorities note that on the basis of June 2017 data and in line with step 1 of the EBA methodology, FIMBank scores 380 basis points. On the basis of September 2017 provisional data, FIMBank is expected to score below the 350 basis points threshold as the bank is currently undertaking a deleveraging exercise. Given that according to the EBA methodology the provisional results are expected to be in line with the results of the domestic methodology and FIMBank is not captured as an O-SII under the domestic methodology, the O-SIIs for 2018 are considered to remain unchanged i.e. BOV, HSBC and MeDirect Group Ltd.</p>
<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</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 Document¹.</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"> • Size • Substitutability • Cross-border activity • Resident Interconnectedness <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. This step is crucial since the relativity incorporated in Step 1 does not fully capture the importance to the domestic economy, that a specific credit institution may have i.e. whilst being small when compared to its peers a credit institution may still be systemically relevant to the domestic economy and its failure may create systemic risk. To operationalise this step, the following two criteria with the respective thresholds were adopted:</p> <ol style="list-style-type: none"> 1. Size \geq 25% of GDP; and 2. Covered Deposits \geq 2.5 times the Depositor Compensation Scheme (DCS) funding.

¹ 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>

4.3 Supervisory judgement	Not Used.								
4.4 Calibrating the O-SII buffer	<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"> 1. The highest bucket remains the maximum legal O-SII buffer rate of 2%, whilst the lowest is set at 1.0%. 2. Buffer rates are allocated into three buckets in steps of 0.5%. 3. The overall score obtained in the identification methodology (Step 1) is used to indicate the bucket in which an institution is allocated. <table border="1" data-bbox="502 936 1374 1263"> <thead> <tr> <th data-bbox="502 936 836 1003">Bucket</th> <th data-bbox="836 936 1374 1003">Criterion for each bucket</th> </tr> </thead> <tbody> <tr> <td data-bbox="502 1003 836 1093">3 (2.0%)</td> <td data-bbox="836 1003 1374 1093">High risk due to most of the criteria and/or Score equal to or above 1.75</td> </tr> <tr> <td data-bbox="502 1093 836 1182">2 (1.5%)</td> <td data-bbox="836 1093 1374 1182">Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75</td> </tr> <tr> <td data-bbox="502 1182 836 1263">1 (1.0%)</td> <td data-bbox="836 1182 1374 1263">Some risk due to some criteria and/or Score equal to or above 1 and below 1.25</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	3 (2.0%)	High risk due to most of the criteria and/or Score equal to or above 1.75	2 (1.5%)	Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75	1 (1.0%)	Some risk due to some criteria and/or Score equal to or above 1 and below 1.25
Bucket	Criterion for each bucket								
3 (2.0%)	High risk due to most of the criteria and/or Score equal to or above 1.75								
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1 (1.0%)	Some risk due to some criteria and/or Score equal to or above 1 and below 1.25								
4.5 Effectiveness and proportionality of measure	<p>The O-SII buffer consists of a capital surcharge which is applied to institutions that due to their systemic importance are more likely to create risks to financial stability. Whilst maximizing private benefits through rational decisions, these institutions may bring negative externalities into the system and contribute to market distortions. This additional capital buffer is applied to domestically significant institutions to increase their resilience by increasing their loss absorbing capacity and thus ensure that these institutions pose minimal risk to the domestic economy in the form of externalities.</p> <p>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 strong link 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.</p> <p>With total assets of €21.9 billion, the size of core domestic banks is equivalent to approximately 220.4% of GDP by end 2016. The three banking groups identified as O-SIIs fall in this category, all of which are identified as significant for SSM purposes.</p>								

	Collectively, the three domestic banking groups classified as O-SIIs account for around 91% of the total assets of the core domestic banks and around 43% of the total banking system assets.
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	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. Furthermore, no changes to the O-SII buffers will be made from 2016, therefore both the potential inward and outward spillover impacts will be neutral. Indeed, as at June 2017, the combined assets of BOV, HSBC and MeDirect Group Ltd. amounted to EUR 19.7 billion.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	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.
6. Combinations and interactions with other measures	
6.1 Combinations between G-SII and OSII buffers (Article 131.14)	N/A
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	N/A
6.3 O-SII requirement for a subsidiary (Article 131.8)	N/A
6.4 Interaction with other measures	No interaction with other measures.
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Contact person(s) for further inquiries (name, phone number and e-mail address) Mr Alan Cassar Deputy Director Regulatory Development Unit Malta Financial Services Authority E-mail: ACassar@mfsa.com.mt Mr Raniero Polidano Senior Expert Policy and Crisis Management

	Financial Stability Department Central Bank of Malta E-mail: polidanor@centralbankmalta.org
7.2 Any other relevant information	N/A