

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

Please send this template to

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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	Level of consolidation	LEI Code
	AIB Group plc (AIB)	Consolidated	635400AKJBGNS5WNQL34
	Bank of Ireland Group plc (BOI)	Consolidated	635400C8EK6DRI12LJ39
	Citibank Holdings Ireland Ltd (Citibank)	Consolidated	549300K7L8YW8M215U46
	Ulster Bank Ireland DAC (UBI)	Individual	635400KQIMALJ4XLAD78
	UniCredit Bank Ireland plc (UniCredit)	Individual	JLWCUYA7LL5CX6EWZL14
	DePfa Bank plc (DePfa)	Consolidated	HRRVUBV0XN84YQZT6245
-	-	-	-
2.2 Level of the buffer applied	O-SII	Level of consolidation	O-SII Buffer
	AIB Group plc (AIB)	Consolidated	1.5%
	Bank of Ireland Group plc (BOI)	Consolidated	1.5%
	Citibank Holdings Ireland Limited (Citibank)	Consolidated	1.0%
	Ulster Bank Ireland Designated Activity Company (UBI DAC)	Individual	0.5%
	UniCredit Bank Ireland plc (UniCredit)	Individual	0.25%
	DePfa Bank plc (DePfa)	Consolidated	0.0%

<b>2.3 Name of the EU ultimate parent institution</b>	<b>O-SII</b>	<b>EU Parent</b>	<b>LEI Code (EU parent)</b>			
	<b>Ulster Bank Ireland DAC</b>	The Royal Bank of Scotland Group	2138005O9XJIJN4JPN90			
	<b>UniCredit Bank Ireland plc</b>	UniCredit S.p.A	549300TRUWO2CD2G5692			
<b>2.4 Names of subsidiaries</b>	NA					
<b>3. Timing of the measure</b>						
<b>3.1 Timing of the Decision</b>	Decision scheduled for October 26 2018.					
<b>3.2 Timing of the Publication</b>	Publication scheduled for November 12 2018.					
<b>3.3 Disclosure</b>	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.					
<b>3.4 Timing of Application</b>	1 July 2019					
<b>3.5 Phasing in</b>	<b>O-SII Buffer Rates Applied</b>					
	<b>O-SII institution</b>	<b>1 July 2019</b>	<b>1 July 2020</b>	<b>1 July 2021</b>		
	<b>AIB</b>	0.5%	1%	1.5%		
	<b>BOI</b>	0.5%	1%	1.5%		
	<b>Citibank</b>	0.25%	0.5%	1.0%		
	<b>UBI</b>	0.25%	0.5%	0.5%		
	<b>UniCredit</b>	0.25%	0.25%	0.25%		
<b>DePfa</b>	0.0%	0.0%	0.0%			
<b>3.6 Review of the measure</b>	The list of identified O-SIIs and associated buffer rates are to be reviewed on an annual basis.					
<b>4. Reason for O-SII identification and activation of the O-SII buffer</b>						
<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>	<b>Results of the mandatory EBA indicator assessment</b>					
	<b>Institution</b>	<b>Overall institution score</b>	<b>Category score</b>			
			<b>Size</b>	<b>Importance</b>	<b>Complexity</b>	<b>Interconnectedness</b>
	<b>BOI</b>	1932	2056	2393	2235	1043
	<b>AIB</b>	1284	1742	2049	739	607
	<b>Citibank</b>	1267	800	2612	1167	490
	<b>UBI</b>	450	585	692	327	198
	<b>Depfa</b>	437	359	34	759	596
<b>UniCredit</b>	414	349	4	593	711	

<p><b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b></p>	<p>The assessment of credit institution 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 point threshold of systemic importance was used to identify the O-SIIs and the overall scores are outlined 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.</p> <p>A separate assessment was carried out for investment firms which were in scope of S.I. No.158 of 2014 European Union (Capital Requirements) Regulations 2014<sup>1</sup> and which were authorised to deal on own account or underwrite on a firm commitment basis.</p> <p>This incorporated an assessment of quantitative indicators more applicable to the sector (total assets, AuM, client money, secondary market footprint) and a more general assessment in the context of European Commission’s proposals regarding the prudential requirements for investment firms.</p> <p>The assessment led to no investment firms being identified as O-SIIs for 2019.</p>																		
<p><b>4.3 Supervisory judgement</b></p>	<p>All credit 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><b>4.4 Calibrating the O-SII buffer</b></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, the ECB’s floor methodology as well as 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><b>Assessing systemic importance</b></p> <p>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. As such each institution’s category scores are also examined to provide a clearer picture of the drivers of their EBA score. Measures of importance to the domestic economy are also assessed.</p> <p><b>Grouping and ranking institutions</b></p> <p>Arising from the above, institutions are grouped based on both the nature and degree of their systemic importance.</p> <table border="1" data-bbox="518 1496 1418 1697"> <thead> <tr> <th></th> <th><b>Group description</b></th> <th><b>Institutions</b></th> </tr> </thead> <tbody> <tr> <td><b>Domestic 1</b></td> <td>Highly systemically important banks</td> <td>BOI and AIB</td> </tr> <tr> <td><b>Domestic 2</b></td> <td>Systemically important banks</td> <td>Ulster</td> </tr> <tr> <td><b>International 1</b></td> <td>Large international banks</td> <td>Citigroup</td> </tr> <tr> <td><b>International 2</b></td> <td>Smaller international banks</td> <td>UniCredit</td> </tr> <tr> <td><b>Run-off</b></td> <td>Banks which are in run-off</td> <td>Depfa</td> </tr> </tbody> </table> <p>A number of quantitative measures are then used to inform the setting of buffer rates, these include a simple scaling approach (which examines the relative systemic importance of institutions based on (i) EBA score, (ii) total assets and (iii) average domestic market share), a bucketing approach which takes account of both an institutions size and domestic market presence (see chart) as well as drawing on results from applying an expected impact approach. This latter method aims to equalise the expected impact of each O-SII with that of a reference non-O-SII institution, where the expected impact of an</p>		<b>Group description</b>	<b>Institutions</b>	<b>Domestic 1</b>	Highly systemically important banks	BOI and AIB	<b>Domestic 2</b>	Systemically important banks	Ulster	<b>International 1</b>	Large international banks	Citigroup	<b>International 2</b>	Smaller international banks	UniCredit	<b>Run-off</b>	Banks which are in run-off	Depfa
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<sup>1</sup> Transposing Directive 2013/36/EU (CRD IV) in Ireland.

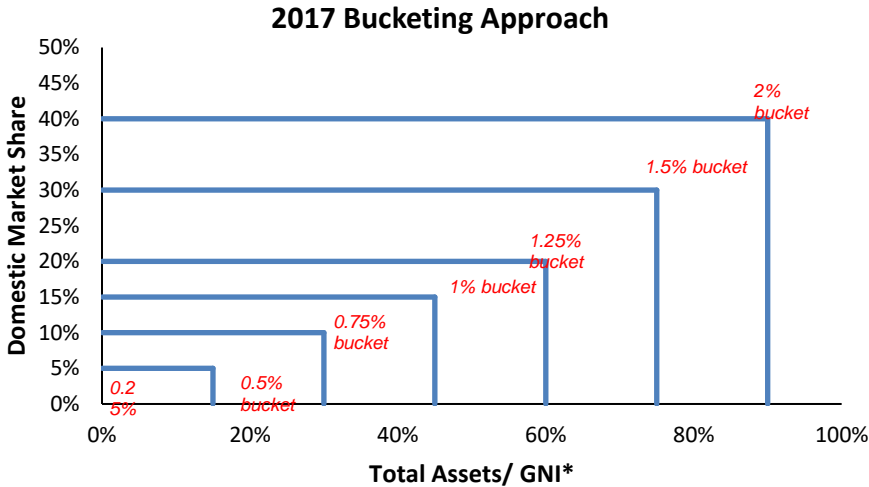
institution’s failure is calculated using its probability of default, as a decreasing function of capital, and the economic cost of its failure (ECF). As ECF in this context is a relative measure, there is no requirement for calculating the actual cost of failure of each institution and instead a number of relative measures of systemic importance are used (EBA score, total assets and average domestic market share).

Overall some of the general points that arise from this analysis are:

- BOI and AIB are consistently seen to be highly systemically important.
- UniCredit is consistently at the other end of the spectrum.
- Depfa has seen a decline in its systemic footprint relative to last year which is consistent with the institution being in wind-down.
- While Citibank has limited interaction with the domestic real economy, its size, complexity and role in payments transactions gives it a relatively high level of systemic importance.
- UBI DAC’s systemic importance largely comes through its role in credit and deposit markets, albeit at a lower level than that of AIB and BOI.

**Applying buffer rates**

In assigning buffer rates to each institution, it is useful to first consider the range of available rates. An upper limit of 2 per cent on O-SII buffer rates is laid out in CRD IV. The ECB floor methodology provides a lower bound, given an institution’s degree of systemic importance (EBA score). Further, it has been determined that discrete buffer rates should apply. Buffer rates considered applicable are: 0.25%, 0.5%, 0.75%, 1%, 1.25%, 1.5%, 2%. Additionally, the calibration of existing buffer rates has not utilised the 2 per cent bucket so as to provide the Central Bank with the scope to increase an institution’s buffer rate if necessary and to possibly act as a disincentive to further expansion by banks which are already highly systemically important.



Buffer rate setting then takes account of the analysis of the nature and degree of an institution’s systemic importance, the range of buffer rates implied by the results of the quantitative analysis and a peer review of buffer rates set by other authorities for similar institutions.

On this basis, the following buffer rates are proposed:

O-SII	Proposed buffer rate	ECB floor
<b>BOI, AIB</b>	1.50%	0.50%
<b>Citibank</b>	1.00%	0.50%
<b>UBI</b>	0.50%	0.25%
<b>Unicredit</b>	0.25%	0.25%
<b>Depfa</b>	0.00%	0.25%

	<p>The zero per cent buffer rate relating to Depfa is a continuation of the existing buffer rate which was agreed during the 2016 O-SII review process. The rate was deemed appropriate given the unique and specific circumstances of this institution (i.e. the institution is in run-down) and was agreed with the ECB at that time. This rationale still applies and therefore the 0 per cent is still deemed appropriate.</p>
<p><b>4.5 Effectiveness and proportionality of measure</b></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"> <li>• 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.</li> <li>• The setting of a buffer should be informed by quantitative methodologies (where available) and country-specific factors.</li> <li>• 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.</li> </ul> <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.</p> <p>No changes to the current overall phase-in period are proposed. The activation of the O-SII buffer is to be phased-in between 2019 and 2021. This phase-in period was implemented initially for domestically focused institutions, taking account of the 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 consistency purposes, the same phase-in period was extended to banks which do not provide credit to the domestic market as result of their identification during the 2016 review. The phase-in period varies by bank depending on the buffer rate set.</p>
<p><b>5. Cross-border and cross-sector impact of the measure</b></p>	
<p><b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</b></p>	<p>The O-SII buffer rates were calibrated with reference to the buffer setting of other EU states and are not out of line with 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><b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b></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>

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

7. Miscellaneous			
	<b>Name</b>	<b>Telephone</b>	<b>E-mail</b>
<b>7.1 Contact person(s) at notifying authority</b>	Eoin O'Brien	+ 353 1 224 6817	<a href="mailto:eoin.obrien@centralbank.ie">eoin.obrien@centralbank.ie</a>
<b>7.2 Any other relevant information</b>	NA		