



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 Categorisation of measures	Other systemically important institutions (O-SII) identification and buffer setting as per Article 131 of the CRD IV.										
2.2 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 • MDB Group Ltd. LEI Code: 213800TC9PZRBHMJW403 • APS Bank plc. LEI Code: 213800A1O379I6DMCU10 										
2.3 Level of the buffer applied	<table border="1"> <thead> <tr> <th>Institution</th> <th>Buffer rate</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta Group (BOV)</td> <td>2.00%</td> </tr> <tr> <td>HSBC Bank Malta plc (HSBC)</td> <td>1.50%</td> </tr> <tr> <td>MDB Group Ltd. (MED)</td> <td>0.50%</td> </tr> <tr> <td>APS Bank plc. (APS)</td> <td>0.25%</td> </tr> </tbody> </table> <p>The additional capital requirement is calculated on the basis of the institutions' total risk exposure amount and must be covered by Core Equity Tier 1 capital (CET1 capital).</p> <p>Since 1 Jan 2019, previously designated MT O-SIIs (i.e. BOV, HSBC and MED) have been holding O-SII buffer rates on a fully-loaded basis.</p>	Institution	Buffer rate	Bank of Valletta Group (BOV)	2.00%	HSBC Bank Malta plc (HSBC)	1.50%	MDB Group Ltd. (MED)	0.50%	APS Bank plc. (APS)	0.25%
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2.4 Name of the EU ultimate parent institution	HSBC Bank Malta plc: HSBC Holdings, LEI Code: MLU0ZO3ML4LN2LL2TL39 MDB Group Ltd: AnaCap Financial Partners LLP, LEI code: 254900TAGFZB4HS1LG48 Bank of Valletta Group and APS Bank plc are ultimate parent institutions.
2.5 Names of subsidiaries	MDB Group Ltd. is the holding company of: 1) MeDirect Bank (Malta) plc LEI code: 529900SYUCFQHI3JZQ05 2) MeDirect Bank SA (BE) LEI code: 529900MATKY89NT0U738 The other O-SIIs do not own banking subsidiaries.
3. Timing of the measure	
3.1 Timing of the Decision	The CBM and the MFSA - the Authorities – as represented in the Joint Financial Stability Board (JFSB), and expect to reach their final decision on 20 December 2019, after duly noting the opinion of the ECB.
3.2 Timing of the Publication	The O-SII decision is expected to be published early 2020.
3.3 Disclosure	The same communication strategy followed in the 2018 identification process will be followed during 2019 i.e. informing the respective 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	The activation date of the buffers is 1 January 2020.
3.5 Phasing in	The O-SII buffer in Malta has been implemented through a four-year phase-in period, i.e. until 1 January 2019. Accordingly, as at 1 Jan 2019, the O-SII buffer has been fully-phased in. For newly identified O-SIIs (i.e. APS Bank plc.), the Authorities are granting a transitory period until 1 January 2023 for the build-up of the O-SII buffer.
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)

In line with the Authorities' revised O-SII methodology, four credit institutions (i.e. Bank of Valletta Group, HSBC Bank Malta Plc, MeDirect Group Ltd and APS Bank plc) were identified as O-SIIs having surpassed the 425 bps threshold, which the Authorities have set as a cut-off point (the Authorities applied +/- 75 bps leeway to the 350bps threshold as established in the EBA guidelines). The resulting scores are highlighted in the table below:

Institution	Scores (in bps)
Bank of Valletta Group (BOV)	2,739
HSBC Bank Malta plc (HSBC)	1,362
MDB Group Ltd. (MED)	662
APS Bank plc. (APS)	472

4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)

As highlighted in MT's 2018 O-SII notification template, the CBM and the MFSA reassessed their methodology for the O-SII identification process. To this end, the Authorities revised their O-SII methodology to bring it more in line with the criteria established in the EBA Guidelines for identifying O-SIIs.

In line with the revised 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 proposed categories and indicators are based on those put forward in the EBA Guidelines; however, additional indicators have been included to account for specificities of the domestic financial sector. These additional indicators, whose main aim is to take into account particular characteristics of the Maltese financial sector and the strong orientation of banks towards domestic deposits and loans, have been incorporated in the 'importance' category.

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 the sector. These 'systemically relevant' banks operate under a 'traditional' retail banking business model. In view of this characteristic, the methodology outlined in the EBA Guidelines has been modified to reflect this peculiarity and 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 Malta. In line with this, given the rather traditional business models of domestic banks, the 'complexity' and 'interconnectedness' categories have been assigned a lower weight of 18% and 20% respectively.

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<p>4.3 Supervisory judgement</p>	<p>In addition to refinements in the methodology with regards to the applicable weights and the addition of other indicators, the Authorities decided to set the cut-off threshold point at 425 bps (in line with the leeway established in the EBA guidelines) to reflect the relatively small Maltese financial sector and high concentration levels due to the small number of market participants.</p>																																				
<p>4.4 Calibrating the O-SII buffer</p>	<p>A bucketing methodology was employed as part of the calibration stage based on the scores achieved in the O-SII identification stage in section 4.2:</p> <ol style="list-style-type: none"> 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 (refer to section 4.2) is used to indicate the resulting capital buffer rate as per table below: <table border="1"> <thead> <tr> <th>Buckets</th> <th>Capital Buffer Rate</th> <th>Score range for each bucket (bps)</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>2.00%</td> <td>1700 ≤ Score</td> </tr> <tr> <td>4</td> <td>1.50%</td> <td>1200 ≤ Score < 1700</td> </tr> <tr> <td>3</td> <td>1.00%</td> <td>830 ≤ Score < 1200</td> </tr> <tr> <td>2</td> <td>0.50%</td> <td>580 ≤ Score < 830</td> </tr> <tr> <td>1</td> <td>0.25%</td> <td>425 ≤ Score < 580</td> </tr> </tbody> </table>	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																		
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<p>4.5 Effectiveness and proportionality of measure</p>	<p>The O-SII buffer is an essential element of the ESRB Recommendation on the intermediate objectives and instruments of macro-prudential policy¹, and is a macro-prudential tool legally embedded in the CRD/CRR framework which, in turn, is domestically transposed in CBM Directive No. 11² and MFSA Banking Rule No. 15.³</p> <p>The O-SII buffer consists of a capital surcharge applied to institutions that may, in the event of failure, have considerable impact on the financial system and the real economy. This additional capital buffer is applied to domestic systemically important institutions to enhance their resilience by increasing their loss absorbing capacity and thereby ensuring that they pose minimal risk to the domestic economy in the form of externalities. Market failures targeted by the O-SII buffer mainly relate to excessive risk-taking due to expectations of a bailout (moral hazard) given the perceived systemic relevance by individual institutions ('too big to fail'). In this respect, the O-SII buffer is a macro-prudential instrument that contributes to financial stability by mitigating the structural element of systemic risk stemming from moral hazard, thereby promoting market discipline.</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.</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 relevant. These banks operate a widespread branch network, provide a full spectrum of banking services and are core providers of credit and deposit takers in Malta. With total assets of €24.5 billion, the size of core domestic banks was equivalent to approximately 192% of GDP by June 2019. The four banking groups identified as O-SIIs fall in this category, three of which are identified as significant for SSM purposes.</p> <p>The non-core domestic banks, while still having links with the domestic economy, 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 June 2019, make around 142% of domestic GDP.</p> <p>Collectively, the four domestic banking groups classified as O-SIIs account for around 93% of the total assets of the core domestic banks and around 53% of the total banking system assets.</p>
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¹ Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

² Directive No. 11 – Macro-prudential Policy.

³ BR/15/2015 Capital Buffers of Credit Institutions Authorised under the Banking Act 1994.

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 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.
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	<p>Contact person(s) for further inquiries (name, phone number and e-mail address):</p> <p>Mr. Stephen Attard Head Financial Stability Policy, Crisis Management and Stress Testing Department Central Bank of Malta E-mail: attards@centralbankmalta.org</p> <p>Mr Mirko Mallia Deputy Head Financial Stability Malta Financial Services Authority E-mail: MMallia@mfsa.com.mt</p>

7.2 Any other relevant information	N/A
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