



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

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB;
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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									
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	O-SII identification and buffer setting as per Article 131 of the CRDIV.								
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 • MeDirect Group Ltd. LEI Code: 213800TC9PZRBHMJW403 								
2.3 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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2.4 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>								

2.5 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	<p>The authorities, as represented in the Joint Financial Stability Board, will reach their final decision after duly noting the opinion of the ECB.</p>																																																				
3.2 Timing of the Publication	<p>The O-SII decision is expected to be published early next year.</p>																																																				
3.3 Disclosure	<p>The same communication strategy followed in the 2017 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.</p>																																																				
3.4 Timing of Application	<p>This is a continuation of the buffers assigned last year to the same O-SIIs, thus the activation date is 1 January 2019.</p>																																																				
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3.6 Review of the measure	<p>The O-SII buffer will be reviewed annually.</p>																																																				
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 methodology as at June 2018 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" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">Bank</th> <th colspan="2">Jun-18</th> <th colspan="2">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>Overall (weighted average)</th> <th>Assets to GDP (>25%)</th> <th>Covered Deposits/DCS Funding (>2.5 times)</th> </tr> </thead> <tbody> <tr> <td>BOV</td> <td></td> <td>3.2</td> <td>3.6</td> <td>0.5</td> <td>4.2</td> <td>3.0</td> <td>102%</td> <td>39</td> </tr> <tr> <td>HSBC</td> <td></td> <td>1.1</td> <td>2.7</td> <td>0.1</td> <td>0.0</td> <td>1.3</td> <td>47%</td> <td>20</td> </tr> <tr> <td>MED</td> <td></td> <td>0.2</td> <td>0.0</td> <td>0.4</td> <td>0.3</td> <td>0.2</td> <td>22%</td> <td>3.7</td> </tr> <tr> <td>FIM</td> <td></td> <td>0.0</td> <td>0.0</td> <td>0.1</td> <td>0.1</td> <td>0.1</td> <td>14.5%</td> <td>4.2</td> </tr> </tbody> </table>	Bank	Jun-18		Step 1		Step 2			WEIGHTS	0.2	0.4	0.2	0.2	Overall (weighted average)	Assets to GDP (>25%)	Covered Deposits/DCS Funding (>2.5 times)	BOV		3.2	3.6	0.5	4.2	3.0	102%	39	HSBC		1.1	2.7	0.1	0.0	1.3	47%	20	MED		0.2	0.0	0.4	0.3	0.2	22%	3.7	FIM		0.0	0.0	0.1	0.1	0.1	14.5%	4.2
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	<p>In Step 2, an institution that has not been identified as an O-SII in Step 1 but meets an additional two criteria concurrently, 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> <ol style="list-style-type: none"> 1. Size \geq 25% of domestic GDP; and 2. Covered Deposits \geq 2.5 times the Depositor Compensation Scheme (DCS) <p>With regards to Step 2, MeDirect Group Ltd. does not surpass the threshold of Size, with an assets to GDP Ratio of 22% but exceeds the second criteria as Covered Deposits stood approximately 4 times the DCS. However, as per CBM MFSA policy document on the methodology for the identification of other systemically important institutions and the related capital buffer calibration, '<i>an institution shall cease to qualify as an O-SII if for two consecutive years, it does not meet the established thresholds in either step 1 or 2, unless otherwise determined by the authorities</i>'¹. Therefore, MeDirect Group Ltd may still be classified as an O-SII for 2019.</p> <p>In line with the EBA methodology Step 1, apart from the three O-SIIs identified by the domestic methodology (BOV, HSBC and MeDirect Group Ltd.), FIMBank also exceeded the threshold of 350 basis points (as shown hereunder), thereby classifying as an O-SII under the EBA Methodology. However, as exhibited previously, FIMBank plc does not qualify as an O-SII under the domestic methodology.</p> <table border="1" data-bbox="651 1189 1321 1420"> <thead> <tr> <th>Institution</th> <th>EBA Scores</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta Group (BOV)</td> <td>2,392</td> </tr> <tr> <td>HSBC Bank Malta plc (HSBC)</td> <td>997</td> </tr> <tr> <td>MeDirect Group Ltd. (MED)</td> <td>638</td> </tr> <tr> <td></td> <td>445</td> </tr> <tr> <td>FIMBank Plc (FIM)</td> <td></td> </tr> </tbody> </table> <p>The CBM intends to reassess its methodology for its O-SII identification process as from next year given that the phasing-in period ends this year, leading to a fully-loaded buffer rate as from 2019. This allows sufficient time for any consideration to shift from the current to a new methodology and to be able to better evaluate the impact of any change in methodology including the assessment of indicators which adequately capture systemic risk on a domestic level.</p>	Institution	EBA Scores	Bank of Valletta Group (BOV)	2,392	HSBC Bank Malta plc (HSBC)	997	MeDirect Group Ltd. (MED)	638		445	FIMBank Plc (FIM)	
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<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p>	<p>The Central Bank of Malta and Malta Financial Services Authority (MFSA) developed an O-SII Identification methodology and capital calibration methodology as per published Policy Document.</p> <p>Domestic O-SIIs are identified according to this 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>												

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-institution>

	<ul style="list-style-type: none"> • Size • Substitutability • Cross-border activity • Resident Interconnectedness² <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 the 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.
<p>4.3 Supervisory judgement</p>	<p>According to the Policy Document on the methodology for the identification of other systemically important institutions and the related capital buffer calibration, 'an institution shall cease to qualify as an O-SII if for two consecutive years, it does not meet the established thresholds in either step 1 or 2, unless otherwise determined by the authorities'³. Therefore, MeDirect Group Ltd may still be classified as an O-SII for 2019.</p>

² A description of the criteria and respective indicators used to form part of the O-SII domestic methodology is available on pg. 5 of the MFSA CBM O-SII policy document as per following link: <https://www.centralbankmalta.org/systemically-important-institution>

³ 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-institution>

<p>4.4 Calibrating the O-SII buffer</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"> 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="568 528 1326 887"> <thead> <tr> <th>Bucket</th> <th>Criterion for each bucket</th> </tr> </thead> <tbody> <tr> <td>4 (2.0%)</td> <td>High risk due to most of the criteria and/or Score equal to or above 1.75</td> </tr> <tr> <td>3 (1.5%)</td> <td>Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75</td> </tr> <tr> <td>2 (1.0%)</td> <td>Some risk due to some criteria and/or Score equal to or above 1 and below 1.25</td> </tr> <tr> <td>1 (0.5%)</td> <td>Additional indicators</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	4 (2.0%)	High risk due to most of the criteria and/or Score equal to or above 1.75	3 (1.5%)	Risk due to most of the criteria and/or Score equal to or above 1.25 and below 1.75	2 (1.0%)	Some risk due to some criteria and/or Score equal to or above 1 and below 1.25	1 (0.5%)	Additional indicators
Bucket	Criterion for each bucket										
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1 (0.5%)	Additional indicators										
<p>4.5 Effectiveness and proportionality of measure</p>	<p>The O-SII capital buffer is a macroprudential tool legally embedded in the CRDIV/CRR framework which, in turn, has been domestically transposed in Central Bank of Malta Directive No. 11 and MFSA Banking Rule 15. 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 arising from misaligned incentives and moral hazard. 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. The non-core domestic banks play a restricted role in the economy, as the volume of operations and the banking services they offer to residents are somewhat limited. As such, the linkages with the domestic economy are limited, usually restricted to deposit-taking. In turn, the 14 internationally-oriented banks are mainly subsidiaries and branches of large international institutions and therefore have virtually no links with the domestic economy. Together the non-core and international banks make around 200% of domestic GDP.</p> <p>With total assets of €23 billion, the size of core domestic banks is equivalent to approximately 200% of GDP by June 2018. The three banking groups identified as O-SIIs fall in this category, all of which are identified as significant for SSM</p>										

	<p>purposes.</p> <p>Collectively, the three domestic banking groups classified as O-SIIs account for around 86% of the total assets of the core domestic banks and around 43% of the total banking system assets.</p>
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)	<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.</p> <p>Furthermore, no changes to the O-SII buffers will be made from 2017, therefore both the potential inward and outward spillover impacts will be neutral. Indeed, as at June 2018, the combined assets of BOV, HSBC and MeDirect Group Ltd. amounted to EUR 19.8 billion.</p>
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	<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> <p>The identified institutions are not expected to reduce their business in order not to qualify as O-SIIs. This would entail a larger effort by these entities which would greatly impinge on their profitability. Given the domestic market and given their size, it is not envisaged that other financial sector entities will step in to compete for the banks' business of maturity transformation.</p>
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>Michael Xuereb Head, Regulatory Development Malta Financial Services Authority E-mail: mxuereb@mfsa.com.mt</p>

	<p>Stephen Attard Head Policy and Crisis Management Financial Stability Department Central Bank of Malta E-mail: attards@centralbankmalta.org</p>
7.2 Any other relevant information	N/A