

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) Regulation¹);
- 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 measure².

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.

| 1. Notifying national authority | | | |
|---|---|----------------------|-----------------------------|
| 1.1 Name of the notifying authority | Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA). | | |
| 1.2 Country of the notifying authority | Malta | | |
| 2. Description of the measure | | | |
| 2.1a Institution or group of institutions concerned | Name of institution | LEI | Consolidation level |
| | Bank of Valletta plc | 529900RWC8ZYB066JF16 | Highest Consolidation Level |
| | HSBC Bank Malta p.l.c. | 549300X34UUBDEUL1Z91 | Highest Consolidation Level |
| | MDB Group Limited | 213800TC9PZRBHMJW403 | Highest Consolidation Level |
| | APS Bank plc | 213800A1O379I6DMCU10 | Highest Consolidation Level |
| 2.1b Changes to the list of institutions concerned | The same credit institutions identified as O-SIIs during the 2020 O-SII notification round are being re-confirmed during this year's iteration. | | |

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.

| 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) | 0.25% | 0.25% | | | | | | |
| 2.3 Name of the ultimate EU parent institution | <table border="1"> <thead> <tr> <th>Name of identified O-SII</th> <th>Ultimate EU parent institution</th> <th>LEI of ultimate parent institution</th> </tr> </thead> <tbody> <tr> <td>HSBC Bank Malta p.l.c. (HSBC)</td> <td>HSBC Europe B.V.</td> <td>2138000XZV4PDEQTSJ76</td> </tr> </tbody> </table> | | | Name of identified O-SII | Ultimate EU parent institution | LEI of ultimate parent institution | HSBC Bank Malta p.l.c. (HSBC) | HSBC Europe B.V. | 2138000XZV4PDEQTSJ76 |
| | Name of identified O-SII | Ultimate EU parent institution | LEI of ultimate parent institution | | | | | | |
| HSBC Bank Malta p.l.c. (HSBC) | HSBC Europe B.V. | 2138000XZV4PDEQTSJ76 | | | | | | | |
| Bank of Valletta plc, MDB Group Limited and APS Bank plc are ultimate EU parent institutions. | | | | | | | | | |
| 2.4 Names of subsidiaries | <p>MDB Group Limited is the holding company of:</p> <ol style="list-style-type: none"> 1) MeDirect Bank (Malta) 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 for the measure | | | | | | | | |
| 3.1 Timing for the decision | 16/12/2021 | | | | | | | | |
| 3.2 Timing for publication | 17/01/2022 | | | | | | | | |
| 3.3 Disclosure | The same communication strategy followed in the 2020 identification process will be followed during 2021 i.e. informing the concerned banks of their O-SII status and applicable buffer rate through a dedicated private letter and informing the public through the respective Authorities' websites. | | | | | | | | |
| 3.4 Timing for application | 01/01/2022 | | | | | | | | |
| 3.5 Phasing in | <p>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 becoming fully phased-in on 1 January 2019. Therefore, BOV and HSBC will continue maintaining their fully-loaded O-SII capital buffer rates (i.e. 2.00% and 1.50% respectively) during 2022.</p> <p>In view of the repercussions that had surrounded the COVID-19 pandemic, for the 2020 O-SII exercise the Authorities', had decided to postpone by one year any phasing-in arrangements related to (i) newly designated O-SIIs (APS Bank plc) or (ii) credit institutions registering an increase in their buffer rate (MDB Group Limited).</p> <p>Consequently, as from 1 January 2022, MDB Group Limited and APS Bank plc will be resuming their phasing-in arrangements as communicated in the Authorities' 2021 statement of decision until reaching their fully-loaded O-SII buffer rates as per table below:</p> | | | | | | | | |

| | Name of institution | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|-------------------------|---------|--------|---------|--------|-------|
| | MDB Group Limited (MED) | 0.50% | 0.625% | 0.75% | 0.875% | 1.00% |
| | APS Bank plc (APS) | 0.0625% | 0.125% | 0.1875% | 0.25% | 0.25% |

| | |
|----------------------------------|--|
| 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---------------------|------------|--------------------|---------------|--------------------|---------------|----------------------------|-----|------|-----|-----|-------------|-------------------------------|-----|-----|-----|-----|-------------|-------------------------|-----|-----|-----|-----|-------------|--------------------|-----|-----|-----|-----|------------|
| <p>4.1 Scores of institutions or group of institutions concerned, as per EBA guidelines on the assessment of O-SIIs (Article 131.3 CRD)</p> | <p>In line with the Authorities' current O-SII methodology³, 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 the Authorities have set as a cut-off point (the Authorities applied the + 75 bps leeway to the 350bps threshold as established in the EBA Guidelines EBA/GL/2014/10). The resulting scores are highlighted in the table below:</p> <table border="1"> <thead> <tr> <th>Name of institution</th> <th>Size</th> <th>Importance</th> <th>Complexity</th> <th>Interconnectedness</th> <th>Overall Score</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta plc (BOV)</td> <td>615</td> <td>1118</td> <td>503</td> <td>558</td> <td>2794</td> </tr> <tr> <td>HSBC Bank Malta p.l.c. (HSBC)</td> <td>328</td> <td>597</td> <td>269</td> <td>299</td> <td>1493</td> </tr> <tr> <td>MDB Group Limited (MED)</td> <td>259</td> <td>471</td> <td>212</td> <td>236</td> <td>1178</td> </tr> <tr> <td>APS Bank plc (APS)</td> <td>128</td> <td>234</td> <td>105</td> <td>117</td> <td>584</td> </tr> </tbody> </table> | Name of institution | Size | Importance | Complexity | Interconnectedness | Overall Score | Bank of Valletta plc (BOV) | 615 | 1118 | 503 | 558 | 2794 | HSBC Bank Malta p.l.c. (HSBC) | 328 | 597 | 269 | 299 | 1493 | MDB Group Limited (MED) | 259 | 471 | 212 | 236 | 1178 | APS Bank plc (APS) | 128 | 234 | 105 | 117 | 584 |
| Name of institution | Size | Importance | Complexity | Interconnectedness | Overall Score | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bank of Valletta plc (BOV) | 615 | 1118 | 503 | 558 | 2794 | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| APS Bank plc (APS) | 128 | 234 | 105 | 117 | 584 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p> | <p>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.</p> <p>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.</p> <p>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. 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.</p> <p>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'</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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



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

On the basis of the application of the default EBA methodology, no institution listed in section 2.1a has been identified as an O-SII by means of supervisory judgement.

4.4 Calibrating the O-SII buffer

A bucketing methodology is being employed 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 (refer to section 4.2) is used to guide on the resulting capital buffer rate as per table below:

| 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 |



| | |
|--|---|
| | <p>During the 2021 O-SII exercise, with a score of 584bps, APS Bank plc marginally exceeded the threshold for bucket 2 by 4 bps. Upon further investigation, for 2021, the Authorities have decided to retain APS Bank plc under bucket 1, with a 0.25% O-SII buffer rate to be fully phased in by 2024.</p> |
| <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 policy,⁴ and is a macro-prudential tool legally embedded in the CRD/CRR framework which, in turn, is domestically transposed in CBM Directive No. 11⁵ and MFSA Banking Rule No. 15.⁶</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. 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 €28.5 billion, the size of core domestic banks was equivalent to approximately 211% of GDP by June 2021. All 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 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 2021, make around 112% 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 60% of the total banking system assets.</p> |

⁴ Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

⁵ Directive No. 11 – Macro-prudential Policy.

⁶ BR/15/2015 Capital Buffers of Credit Institutions Authorised under the Banking Act 1994.

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 over 93% 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.

When comparing the MT O-SII buffers floors with the ECB minimum O-SII floors, the resultant applicable O-SII buffers under the MT O-SII methodology result in either the same buffer rate (APS), or significantly higher applicable O-SII buffer rates (BOV, HSBC and MED) with the two of the latter banks being the main market players within the MT financial system.

| Identified O-SIIs | Applicable O-SII buffer | |
|-------------------|-------------------------|----------------|
| | ECB minimum floors | MT methodology |
| APS | 0.25% | 0.25% |
| BOV | 0.75% | 2.00% |
| HSBC | 0.25% | 1.50% |
| MED | 0.50% | 1.00% |

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' - TBTF). In this respect, the O-SII buffer is the policy instrument in MT to address the TBTF 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. No other policy instruments to address the same source of systemic risk (i.e. TBTF risk) are in place in MT.

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

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.

| | |
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| (Recommendation ESRB/2015/2⁷) | |
| 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). |
| 7.3 O-SII requirement for a subsidiary (Article 131.8 CRD) | Not applicable since O-SII buffers are applied at the highest level of consolidation in MT. |
| 8. Miscellaneous | |
| 8.1 Contact 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 | 17/12/2021 |

⁷ 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).