



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

MFSA MALTA
FINANCIAL
SERVICES
AUTHORITY

2023 STATEMENT OF DECISION ON THE IDENTIFICATION OF OTHER
SYSTEMICALLY IMPORTANT INSTITUTIONS AND THE RELATED
CAPITAL BUFFER CALIBRATION

Background

The Other Systemically Important Institutions (“O-SIIs”) capital buffer is a macro-prudential tool legally embedded in the CRD/CRR framework which, in turn, has been domestically transposed in the Central Bank of Malta Directive No. 11¹ and Malta Financial Services Authority Banking Rule 15². 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. This capital buffer is applied to domestic systemically important institutions to enhance their resilience by increasing their loss absorbing capacity, thereby ensuring that these institutions pose reduced risk to the domestic economy. The O-SII buffer is reviewed by the Bank jointly with the Malta Financial Services Authority on an annual basis.

Pursuant to LN 29 of 2014 (S.L.204.06) and considering the EBA Guidelines for the assessment of O-SIIs, the Central Bank of Malta and the Malta Financial Services Authority (hereinafter collectively referred to as ‘the Authorities’) developed a methodology for the identification of O-SIIs and the related capital buffer calibration.³ The MT O-SII Methodology is therefore designed to reflect the characteristics of the domestic financial sector by capturing the main transmission channels of systemic risk in Malta.⁴

1. Identified O-SIIs and Effective O-SII Buffer Rates

Based on the results of the 2022 (latest) O-SII identification exercise, the same four credit institutions identified as O-SIIs during the 2021 exercise, have been re-confirmed as O-SIIs. The table below lists these institutions together with their O-SII scores and effective O-SII capital buffer rates. These credit institutions have been contacted separately and were provided with more details on the results of the methodology and the respective effective capital buffer rates.

Table 1: Designated O-SIIs and effective capital buffer rates

Credit Institution	O-SII score (bps)	O-SII capital buffer rate
Bank of Valletta plc (BOV)	2,771	2.00%
HSBC Bank Malta p.l.c. (HSBCMT)	1,478	1.25%*
MDB Group Limited (MDB)	1,267	1.00%**
APS Bank plc (APS)	643	0.50%

*HSBCMT qualifies for the provisions of Article 131(8) of CRD, which results in the capping of HSBCMT’s O-SII buffer to 1.25% (refer to section 1.3 for more details).

** Refer to section 1.2 for considerations in relation to MDB Group’s O-SII buffer rate.

¹ Directive No. 11 – Macro-prudential Policy

² MFSA Banking Rule 15 available at: <https://www.mfsa.mt/wp-content/uploads/2019/02/Banking-Rule-15.pdf>

³ Criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs), available at: [https://eba.europa.eu/sites/default/documents/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20\(Guidelines%20on%20O-SIIs%20Assessment\).pdf](https://eba.europa.eu/sites/default/documents/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20(Guidelines%20on%20O-SIIs%20Assessment).pdf).

⁴ CBM-MFSA Policy Document on the revised methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration: <https://www.centralbankmalta.org/systemically-important-institutions>; <https://www.mfsa.mt/wp-content/uploads/2020/01/O-SII-revised-methodology-2020-Policy-Document.pdf>

1.1 Considerations on APS Bank plc

In view of the increasing O-SII score, as of January 2023, APS Bank plc (APS) now falls within bucket 2 of the MT O-SII buffer calibration methodology.⁵ Consequently, APS will now be required to hold a 0.50% O-SII buffer, to be fully phased-in by 2026, in line with the provisions outlined in Table 2 below.

1.2 Considerations on MDB Group Limited

The increase in MDB Group Ltd.'s O-SII score was driven by higher scores in 'complexity' and 'interconnectedness' indicators. The increases in these indicators were the result of operations and growth of the Group's Belgian subsidiary.

Notwithstanding these increases, the degree of systemic risk to Malta posed by the group remains adequately covered by a 1.00% O-SII buffer rate for MDB Group Ltd. In view of this, Authorities have decided to retain MDB Group Ltd. with a 1.00% O-SII buffer rate, to be fully phased-in by 2025 in line with table 3 below.

1.3 Considerations on HSBC Bank Malta p.l.c.

HSBC Bank Malta p.l.c. (HSBCMT) is the second largest O-SII in Malta, whose O-SII score derived from the MT O-SII methodology warrants a 1.50% O-SII buffer. The Authorities are of the view that this 1.50% O-SII buffer remains the most appropriate level of O-SII capital buffer for HSBC to address the level of systemic risks the bank poses to Malta.

Nevertheless, the Authorities' O-SII buffer must also respect legal provisions embedded in Article 131(8) of Directive 2013/36/EU of the European Parliament and of the Council, as amended by Directive (EU) 2019/878 of the European Parliament and of the Council (CRD V).

On 30 November 2022, HSBC Bank Malta p.l.c. (HSBCMT) [communicated](#) the completion of HSBC Group's corporate restructuring on the basis of which HSBC Continental Europe (HBCE) is now being designated as the Group's single EU Intermediate Parent Undertaking (IPU), in line with Article 21b CRD. In view of the fact that HBCE has been designated as an O-SII by the French Authorities, the HSBCMT qualifies for the provisions of Article 131(8) of CRD, capping the banks' O-SII buffer to a lower level of 1.25%.⁶

⁵ For details on the MT O-SII buffer calibration methodology, please refer to section 4.0 of the [revised policy document on the MT O-SII identification and buffer calibration methodology](#).

⁶ Article 131(8) of CRD requires that should an O-SII be a subsidiary of another O-SII, the O-SII buffer rate of the subsidiary is capped at 1% plus the parent's O-SII buffer rate. HBCE's O-SII buffer rate is set at 0.25%, thus leading to a maximum O-SII buffer rate of 1.25% applicable to the bank.

2. O-SII Buffer Transitory Provisions

APS Bank plc, which has been designated as an O-SII for the first time in 2019 and is currently subject to phasing-in provisions of the initial 0.25%, is now being requested to phase-in the additional 0.25% O-SII buffer rate over a four-year phase-in period until reaching a fully-loaded O-SII buffer rate of 0.50% in 1 January 2026 as per table 2 below.

Table 2: Transitory provisions for the build-up of O-SII buffer for APS Bank plc

Year	2022	2023	2024	2025	2026
Applicable Buffer Rate	0.125%	0.25%	0.375%	0.4375%	0.50%

MDB Group Limited, which registered an increase in its O-SII buffer rate during the 2020 O-SII exercise from 0.50% to 1.00%, is now being requested to continue phasing-in the additional 0.50% increase in its O-SII buffer rate over a four-year phasing-in period until reaching its fully-loaded O-SII buffer rate of 1.00%, on 1 January 2025 as per table 3 below.

Table 3: Transitory provisions for the build-up of O-SII buffer for MDB Group Limited

Year	2022	2023	2024	2025
Applicable Buffer Rate	0.625%	0.75%	0.875%	1.00%

Finally, a credit institution which already holds a fully-loaded O-SII buffer rate and which has not registered any changes to their buffer rate as a result of this year's O-SII iteration (i.e. Bank of Valletta plc), is being requested to continue maintaining its fully-loaded O-SII buffer rate during 2023.

The decision on the applicable capital buffer rates for designated O-SIIs to be held during 2023, is to come into force with immediate effect.

16 January 2023