The template on the O-SII and G-SII buffer[1]

1. Notifying national authority (If several designated authorities, please mention all of them)	
1.1 Name of the notifying authority	Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA)
1.2 Date when the decision referred to in Article 5 of the SSMR shall be taken.	7 December 2015
2. Buffer levels and the institution to which they apply	
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	The institutions identified are the following: Bank of Valletta Group HSBC Bank Malta plc Medifin Holding Limited, which includes Mediterranean Bank plc which in turn owns Mediterranean Corporate Bank Limited (MT) and MeDirect Bank SA (BE)
2.3 Level of the buffer applied	Capital buffers are phased in over 4 years as follows: (see table below) 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). This requirement must be fulfilled as from 1st January 2016 in line with the above phase-in.
2.4 Firm level at which the buffer is applied	Identified O-SIIs will be required to hold an O-SII buffer at the highest level of consolidation in Malta.

Institutions	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Bank of Valletta Group (BOV)	0.5%	1.0%	1.5%	2.0%
HSBC Bank Malta plc (HSBC)	0.375%	0.75%	1.125%	1.5%
Medifin Holdings (MED)	0.125%	0.25%	0.375%	0.5%

[1] To be filled in and submitted for each O-SII/G-SII.

<table>
<tr><td>2.5 Information on other buffers already in application</td><td>No other macro-prudential buffers are in application.</td></tr>
<tr><td>2.6 Annual review of the G-SII or O-SII
(Articles 131.6 and 131.12)</td><td>N/A</td></tr>
<tr><td colspan="2">3. Rational for activation of the G-SII and O-SII buffer</td></tr>
<tr><td>3.1 Description of the G-SII
(Article 131.2)</td><td>N/A</td></tr>
<tr><td></td><td></td></tr>
<tr><td>3.2 Indicators used for designation of the G-SII
(Article 131.2 and 131.9)</td><td>N/A</td></tr>
<tr><td>3.3 Description of the O-SII
(Article 131.3)</td><td>
Domestic O-SIIs are identified according to a domestic 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:

Size
Substitutability
Cross-border activity
Resident Interconnectedness

<table>
<tr><th>Criterion</th><th>Indicators</th><th colspan="2">Weight</th></tr>
<tr><td>Size</td><td>Total assets</td><td>20.00%</td><td>20%</td></tr>
<tr><td rowspan="3">Substitutability</td><td>Resident customer loans</td><td>13.33%</td><td rowspan="3">40%</td></tr>
<tr><td>Resident customer deposits</td><td>13.33%</td></tr>
<tr><td>Holdings of Government debt</td><td>13.33%</td></tr>
<tr><td rowspan="2">Cross-border activity</td><td>Cross-border assets</td><td>10.00%</td><td rowspan="2">20%</td></tr>
<tr><td>Cross-border liabilities</td><td>10.00%</td></tr>
<tr><td rowspan="2">Resident Interconnectedness</td><td>Resident Interbank assets</td><td>10.00%</td><td rowspan="2">20%</td></tr>
<tr><td>Resident Interbank liabilities</td><td>10.00%</td></tr>
</table>
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.
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	In a second step, authorities assess whether further institutions should be designated as O-SIIs based on additional absolute indicators. This step is important since the relativity incorporated in Step 1 does not fully capture the importance to the economy, that an institution may have i.e. whilst being small when compared to its peers an institution may still be systemically relevant to the economy and its failure may create systemic risk. In this regard, the following two criteria with the respective thresholds were adopted: 1. Size ≥ 25% of GDP; and 2. Covered Deposits ≥ 2.5 times the Depositor Compensation Scheme (DCS) funding. An institution that satisfies both criteria listed in point 1 and 2 above would qualify as an O-SII. This step reflects an institution's potential to adversely affect the stability of the system through its size relative to GDP and the size of its covered deposits relative to the domestic DCS funding.
3.4 Indicators used for designation of the O-SII **(Article 131.3)**	The choice of indicators selected for step 1 follows this rationale: • **Size** An indicator of total assets is used to measure the size of the credit institution within the sector. • **Substitutability** This criterion measures the importance of each institution vis-à-vis the others. Three indicators are considered appropriate for measuring substitutability: (i) resident customer loans, excluding interbank; (ii) resident customer deposits, also excluding interbank; and (iii) holdings of domestic Government debt. The rationale is to obtain a measure of the potential impact that the failure of an institution could have on the financial sector when compared to its peers. The larger and more unsubstitutable an institution is, the larger the moral hazard and the impact in an adverse scenario. The assessment of sovereign exposures is considered important given that problems arising in an institution that is highly exposed to the domestic sovereign may have negative implications for domestic government funding. • **Cross-Border Activity** A significant external element on an institution balance sheet would act as a contagion channel of cross-border systemic risk. In this respect, an institution may not be large by asset size but significant through its element of external activities. In order to quantify this criterion, two indicators are selected: (i) cross-border assets; and (ii) cross-border liabilities. These incorporate all operations on the institutions' balance sheets that are not conducted with residents. • **Resident Interconnectedness** Furthermore, it is considered appropriate to also incorporate a measure of domestic interbank exposure in order to gauge the extent of potential contagion not only cross-border but also between institutions operating domestically. Two indicators are included: (i) resident interbank assets; and (ii) resident interbank liabilities. In view of the short-term nature of these indicators and the inherent volatility, a 24-month average was used as opposed to one data point.

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<td>For the second step, the following two indicators with the respective thresholds were adopted to assess whether an institution is systemically important by virtue of its relative size to that of the domestic economy:
1. Total Assets over GDP ≥ 25%; and
2. Covered Deposits over Depositor Compensation Scheme (DCS) funding ≥ 2.5 times</td>
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<td>3.5 Calibrating the O-SII buffer</td>
<td>Identified O-SIIs would be subject to an O-SII capital buffer. The proposed bucketing methodology for the domestic financial system is based on the scores achieved in the O-SII identification stage, as follows:

1. the highest bucket remains the maximum legal O-SII buffer rate of 2%, whilst the lowest is set at 0.5%,
2. buffer rates are allocated into four buckets in steps of 0.5, and
3. the overall score obtained in the identification methodology is used to indicate the bucket in which an institution is allocated, starting from bucket 2.
4. institutions that qualify as O-SIIs via Step 2, attract a capital buffer rate of 0.5%

All decisions reached are subject to expert judgement.

<table>
<tr><th>Bucket</th><th>Criterion for each bucket</th></tr>
<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>
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<td>3.6 In case of O-SII: Suitability, effectiveness and proportionality of measure

(Article 131.7)</td>
<td>Please provide:
a) the justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk;
The Other Systemically Important Institution (O-SII) capital buffer is aimed at mitigating the vulnerability of the domestic financial system and the real economy to the failure of systemically important institutions. This additional capital buffer aims to increase the resilience of O-SIIs by increasing their loss absorbing capacity and thus ensure that they pose minimal risk to the domestic economy in the form of externalities. Market failures targeted by the O-SII capital buffer mainly relate to the excessive risk-taking due to expectations of a bailout as a result of the perceived systemic relevance of an individual institution (moral hazard and 'too big to fail'). The domestic banking system is composed of diverse banks which, are categorised as core, non-core and international. 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. In turn, international banks have virtually no links with the domestic economy. Together the non-core and international banks make around 350% of domestic GDP.</td>
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	The core domestic banks' category, on the other hand, consists of a set of banks that exhibit strong links with the domestic economy, and are thus more systemically relevant. 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. These reach a size of around 255% of domestic GDP. The three banking groups identified as O-SIIs fall in this category, two of which are identified as significant for SSM purposes. Furthermore, Medifin Holding Limited, is currently undertaking an AQR and Stress Test exercise, and will be categorised as significant for SSM purposes starting from 2016. Collectively, the three domestic banking groups account for around 88% of the total assets of the core domestic banks and around 37% of the total banking system assets. Furthermore, these institutions hold market shares in resident customer loans and resident customer deposits of around 84% and 85% respectively. The domestic banking group of Medifin Holding Limited has total assets to GDP of around 33%. Furthermore, this institution also scores high in its covered deposits as a proportion of DCS funding, (step 2 in the methodology). This clearly highlights the domestic systemic relevance of these institutions. *b) an assessment of the likely positive or negative impact of the O-SII buffer on the internal market, based on information which is available to the Member State.* The O-SII buffer will enhance the loss absorbency capacity of the identified institutions given their too big to fail characteristics thus positively affecting financial stability and the real economy. The O-SII buffer will also contribute in improving competition between O-SIIs and much smaller institutions in Malta.
3.7 In Case of O-SII, assessment of spillovers and likely impact on the internal market **(Article 131.6)**	From the internal market perspective, given the relative very 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. Indeed, as at June 2015, the combined assets of these institutions amounted to EUR 18.5 billion. Based on internal analysis, these entities will also be able to meet the O-SII buffers over a four year phase in period, starting from next year.
3.8 Assessment of leakages	In Malta, the buffers will be set at the highest level of consolidation. This avoids the possibility that institutions shift their business activities within the group, whether domestically or elsewhere. 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.
3.9 Other relevant information	N/A

4. Combinations and timing of the G-SII or O-SII notified	
4.1 combinations between G-SII and OSII buffers (Article 131.14)	N/A
4.2 Combinations with SRB buffers **(Article 131.14 + Article 133.5)**	N/A
4.3 Combined buffer requirement **(Article 131.16 and Article 131.17)**	N/A
4.4 O-SII requirement for a subsidiary (Article 131.8)	N/A
4.5 Timing of the measure	The intended date of activation is 1 January 2016 with a four year phase-in period.
4.6 Review of the measure	The O-SII buffer will be reviewed annually.
5. Miscellaneous	
5.1 Disclosure	Intended date of publication of the measure and information about the communication strategy of the notified measure to the market. 31 December 2015 or 1 January 2016
5.2 Contact person(s) at notifying authority	Contact person(s) for further inquiries (name, phone number and e-mail address) Mr Alan Cassar Deputy Director Regulatory Development Unit Malta Financial Services Authority E-mail: acassar@mfsa.com.mt Ms Graziella Gatt Manager Policy and Crisis Management Financial Stability Department Central Bank of Malta E-mail: gattg@centralbankmalta.org
5.3 Any other relevant information	