

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;
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1. Notifying national authority				
1.1 Name of the notifying authority	Central Bank of Ireland			
2. Description of the measure				
2.1 Concerned institution or group of institutions	O-SII	Level of consolidation	LEI Code	
	Allied Irish Bank plc (AIB)	Consolidated	3U8WV1YX2VMUHH7Z1Q21	
	Bank of Ireland Group plc (BOI)	Consolidated	635400C8EK6DRI12LJ39	
	Citibank Holdings Ireland Ltd (Citibank)	Consolidated	549300K7L8YW8M215U46	
	Ulster Bank Ireland DAC (UBI)	Individual	635400KQIMALJ4XLAD78	
	UniCredit Bank Ireland plc (UniCredit)	Individual	JLWCUYA7LL5CX6EWZL14	
	DePfa Bank plc (DePfa)	Consolidated	HRRVUBV0XN84YQZT6245	
2.2 Level of the buffer applied	O-SII Buffer Rates Applied			
	O-SII	1 July 2019	1 July 2020	1 July 2021
	AIB	0.5%	1%	1.5%
	BOI	0.5%	1%	1.5%
	Citibank	0.25%	0.5%	1.0%
	UBI	0.25%	0.5%	0.5%
	UniCredit	0.25%	0.25%	0.25%
DePfa	0.0%	0.0%	0.0%	
2.3 Name of the EU ultimate parent institution	O-SII	EU Parent	LEI Code (EU parent)	
	Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	RR3QWICWWIPCS8A4S074	
	UniCredit Bank Ireland plc	UniCredit S.p.A	549300TRUWO2CD2G5692	

2.4 Names of subsidiaries	N/A																																														
3. Timing of the measure																																															
3.1 Timing of the Decision	Decision scheduled for 24 October 2017.																																														
3.2 Timing of the Publication	Publication scheduled for 10 November 2017.																																														
3.3 Disclosure	The identification of O-SIIs and their associated buffers will be disclosed on the website of the Central Bank of Ireland, together with a press release.																																														
3.4 Timing of Application	1 July 2019																																														
3.5 Phasing in	<p style="text-align: center;">O-SII Buffer Rates Applied</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>O-SII institution</th> <th>1 July 2019</th> <th>1 July 2020</th> <th>1 July 2021</th> </tr> </thead> <tbody> <tr> <td>AIB</td> <td>0.5%</td> <td>1%</td> <td>1.5%</td> </tr> <tr> <td>BOI</td> <td>0.5%</td> <td>1%</td> <td>1.5%</td> </tr> <tr> <td>Citibank</td> <td>0.25%</td> <td>0.5%</td> <td>1.0%</td> </tr> <tr> <td>UBI</td> <td>0.25%</td> <td>0.5%</td> <td>0.5%</td> </tr> <tr> <td>UniCredit</td> <td>0.25%</td> <td>0.25%</td> <td>0.25%</td> </tr> <tr> <td>DePfa</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> </tbody> </table>	O-SII institution	1 July 2019	1 July 2020	1 July 2021	AIB	0.5%	1%	1.5%	BOI	0.5%	1%	1.5%	Citibank	0.25%	0.5%	1.0%	UBI	0.25%	0.5%	0.5%	UniCredit	0.25%	0.25%	0.25%	DePfa	0.0%	0.0%	0.0%																		
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3.6 Review of the measure	The list of identified O-SIIs and associated buffer rates are to be reviewed on an annual basis.																																														
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 style="text-align: center;">Results of the mandatory EBA indicator assessment</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">Institution</th> <th rowspan="2">Overall institution score</th> <th colspan="4">Category score</th> </tr> <tr> <th>Size</th> <th>Importance</th> <th>Complexity</th> <th>Interconnectedness</th> </tr> </thead> <tbody> <tr> <td>BOI</td> <td>1936</td> <td>1980</td> <td>2411</td> <td>2164</td> <td>1189</td> </tr> <tr> <td>AIB</td> <td>1406</td> <td>1759</td> <td>2028</td> <td>949</td> <td>887</td> </tr> <tr> <td>Citibank</td> <td>1301</td> <td>859</td> <td>2518</td> <td>1214</td> <td>612</td> </tr> <tr> <td>Depfa</td> <td>664</td> <td>508</td> <td>145</td> <td>968</td> <td>1035</td> </tr> <tr> <td>UBI</td> <td>474</td> <td>565</td> <td>691</td> <td>385</td> <td>257</td> </tr> <tr> <td>UniCredit</td> <td>446</td> <td>368</td> <td>6</td> <td>685</td> <td>728</td> </tr> </tbody> </table>	Institution	Overall institution score	Category score				Size	Importance	Complexity	Interconnectedness	BOI	1936	1980	2411	2164	1189	AIB	1406	1759	2028	949	887	Citibank	1301	859	2518	1214	612	Depfa	664	508	145	968	1035	UBI	474	565	691	385	257	UniCredit	446	368	6	685	728
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4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>The assessment of credit institution O-SIIs was conducted in line with the EBA Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU in relation to the assessment of O-SIIs (EBA/GL/2014/10).</p> <p>A 350 basis points threshold of systemic importance was used to identify the O-SIIs and the overall scores are outlined in the table in section 4.1. Institutions with relative total assets below 0.02 per cent were not excluded from the identification process. All institutions identified by the mandatory scoring process in the EBA guidelines were identified as O-SIIs.</p>																																														

	<p>A separate assessment was carried out for investment firms in scope of S.I. 158 of 2014¹ and which deal on own account or underwrite on a firm commitment basis. The analysis has been completed in accordance with the EBA Guidelines using indicators appropriate for investment firms relating to size, importance and secondary market footprint. This assessment led to no investment firms being identified as O-SIIs for 2018.</p>																		
<p>4.3 Supervisory judgement</p>	<p>All institutions identified by the mandatory scoring process using the standard 350bps threshold in the EBA guidelines were identified as O-SIIs. Supervisory judgement was not employed to identify any additional institutions.</p>																		
<p>4.4 Calibrating the O-SII buffer</p>	<p>The Central Bank of Ireland's approach to calibrating the O-SII buffer takes into account the high level principles of the Basel framework, the requirements of the CRD IV, the ECB's floor methodology as well as the specificities of the Irish economy. The approach can be broken into a number of steps which are as follows; assessing systemic importance; grouping and ranking institutions; and applying buffer rates.</p> <p>Assessing systemic importance</p> <p>The EBA guidelines identify a mix of banks as O-SIIs for Ireland. Given the wide variation in business models operating in Ireland, it is important to also consider the business model of the individual institutions and how this affects the EBA scores. As such each institution's category scores are also examined to provide a clearer picture of the drivers of their EBA score. Measures of importance to the domestic economy are also assessed.</p> <p>Grouping and ranking institutions</p> <p>Arising from the above, institutions are grouped based on both the nature and degree of their systemic importance.</p> <table border="1" data-bbox="480 1128 1380 1330"> <thead> <tr> <th></th> <th>Group description</th> <th>Institutions</th> </tr> </thead> <tbody> <tr> <td>Domestic 1</td> <td>Highly systemically important banks</td> <td>BOI and AIB</td> </tr> <tr> <td>Domestic 2</td> <td>Systemically important banks</td> <td>Ulster</td> </tr> <tr> <td>International 1</td> <td>Large international banks</td> <td>Citigroup</td> </tr> <tr> <td>International 2</td> <td>Smaller international banks</td> <td>UniCredit</td> </tr> <tr> <td>Run-off</td> <td>Banks which are in run-off</td> <td>Depfa</td> </tr> </tbody> </table> <p>A number of quantitative measures are then used to inform the setting of buffer rates, these include a simple scaling approach, a bucketing approach and the more technical expected impact approach. This latter method aims to equalise the expected impact of each O-SII with that of a reference non-O-SII institution, where the expected impact of an institution's failure is calculated using its probability of default, as a decreasing function of capital, and the economic cost of its failure (ECF). As ECF in this context is a relative measure, there is no requirement for calculating the actual cost of failure of each institution and instead a number of relative measures of systemic importance are used (EBA score, total assets and average domestic market share).</p> <p>Overall some of the general points that arise from this analysis are:</p> <ul style="list-style-type: none"> • BOI and AIB are relatively more important than other institutions and receive higher buffers. • When measures of cost of failure with greater focus on the real economy are used, such as share of loans and deposits, implied buffers for domestically-focussed institutions are relatively higher. When these measures are used, international institutions are less systemically important. • Relative to last year's assessment, the degree of systemic importance remains 		Group description	Institutions	Domestic 1	Highly systemically important banks	BOI and AIB	Domestic 2	Systemically important banks	Ulster	International 1	Large international banks	Citigroup	International 2	Smaller international banks	UniCredit	Run-off	Banks which are in run-off	Depfa
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¹ Transposing Directive 2013/36/EU (CRD IV) in Ireland.

broadly similar for most institutions. The exception to this is Citibank, which has increased in systemic importance both relative to last year's assessment and relative to other O-SIIs. Citibank's overall EBA score increased significantly relative to last year's assessment, principally reflecting its importance in domestic payments transactions, although increases in the size and interconnectedness dimensions were also observed. As a result, it is considered appropriate to increase Citibank's O-SII buffer.

Applying buffer rates

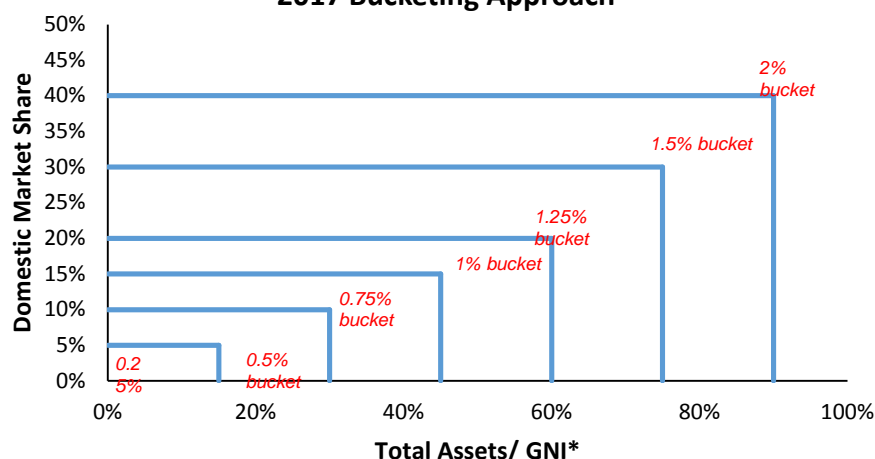
In assigning buffer rates to each institution, it is useful to first consider the range of available rates. An upper limit of 2 per cent on O-SII buffer rates is laid out in CRD IV. The ECB floor methodology provides a lower bound, given an institution's degree of systemic importance (EBA score). Domestically, the following buffer rate buckets have been determined: 0.25%, 0.5%, 0.75%, 1%, 1.25%, 1.5%, 2%. Additionally, the calibration of existing buffer rates did not utilise the 2 per cent bucket so as to provide the Central Bank with the scope to increase an institution's buffer rate if necessary and to possibly act as a disincentive to further expansion by banks which are already highly systemically important. The below table outlines the domestic market share and proportion of total assets to GNI* for each of the aforementioned buffer rate buckets (the graph offers a visual of this information):

Bucketing approach to O-SII buffer rate setting

Buffer Rate	Domestic Market Share	Total Assets / GNI*
0.25	0% - 5%	0% - 15%
0.50	5.1% - 10%	15.1% - 30%
0.75	10.1% - 15%	30.1% - 45%
1.00	15.1% - 20%	45.1% - 60%
1.25	20.1% - 30%	60.1% - 75%
1.50	30.1% - 40%	75.1% - 90%
2.00	40.1% +	90.1% +

Note: Domestic market share reflects the share of an entity in the IE resident non-financial private sector credit and deposit markets. The two categories (domestic market share and size) are mutually exclusive in that an institution can move from one bucket to another based on one or both dimensions (see chart). Bucketing informs buffer rate setting alongside a scaling approach and an expected impact approach.

2017 Bucketing Approach



In addition, buffer rate setting took account of the analysis of the nature and degree of an institution's systemic importance, the range of buffer rates implied by the results of the expected impact analysis and a peer review of buffer rates set by other authorities for similar institutions.

On this basis, the following buffer rates are proposed:

	<table border="1" data-bbox="632 215 1227 418"> <thead> <tr> <th>O-SII</th> <th>Proposed buffer rate</th> <th>ECB floor</th> </tr> </thead> <tbody> <tr> <td>BOI, AIB</td> <td>1.50%</td> <td>0.50%</td> </tr> <tr> <td>Citibank</td> <td>1.00%</td> <td>0.50%</td> </tr> <tr> <td>UBI</td> <td>0.50%</td> <td>0.25%</td> </tr> <tr> <td>Unicredit</td> <td>0.25%</td> <td>0.25%</td> </tr> <tr> <td>Depfa</td> <td>0.00%</td> <td>0.25%</td> </tr> </tbody> </table> <p>The buffer rates proposed are all in excess of the ECB floors, with the exception of Unicredit which is in line with the ECB floor and Depfa, where it is proposed to set a buffer rate below the ECB floor.</p> <p>The zero per cent buffer rate relating to Depfa is a continuation of the existing buffer rate which was agreed during the 2016 O-SII review process. The rate was deemed appropriate given the unique and specific circumstances of this institution (i.e. the institution is in run-down) and was agreed with the ECB at that time. This rationale still applies and therefore the 0 per cent is still deemed appropriate.</p>	O-SII	Proposed buffer rate	ECB floor	BOI, AIB	1.50%	0.50%	Citibank	1.00%	0.50%	UBI	0.50%	0.25%	Unicredit	0.25%	0.25%	Depfa	0.00%	0.25%
O-SII	Proposed buffer rate	ECB floor																	
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<p>4.5 Effectiveness and proportionality of measure</p>	<p>The guiding principle behind the O-SII buffer is to minimise the effect that the failure of a systemically important institution would have on the domestic economy. Ireland has an extremely concentrated banking system, with a small number of banks providing intermediation activities to the Irish private sector. The Irish banking sector is still large relative to the economy. The Central Bank used the following high level principles when setting buffer rates in Ireland (adapted from the Basel Framework for dealing with domestic systemically important banks (BCBS, 2012)):</p> <ul style="list-style-type: none"> • The purpose of a buffer requirement for O-SIIs is to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact an O-SII failure is expected to have on the domestic economy. • The setting of a buffer should be informed by quantitative methodologies (where available) and country-specific factors such as degree of concentration or the size of the banking sector relative to GDP. • The size of the buffer should be commensurate with the degree of systemic importance of an institution. Banks with the same degree of systemic importance should be subject to the same buffer rate. <p>In terms of proportionality, the O-SII buffer was calibrated with reference to the additional capital required so that the expected impact of a systemic institution equals that of a reference non-systemic institution. The principle of proportionality is also present in the proposal to impose a 0 per cent buffer rate on a bank which is formally in run-down, with a clearly defined plan, as well as the proposed increase in the buffer of an institution which has increased its systemic importance in comparison to last year's review.</p> <p>No changes to the current overall phase-in period are proposed. The activation of the O-SII buffer is to be phased-in between 2019 and 2021. This phase-in period was implemented initially for domestically focused institutions, taking account of the trade-off between allowing the banks to continue to recover and to support Irish economic growth and requiring them to build adequate buffers to ensure resilience, regain competitiveness within their international peer group and to provide insurance against future moral hazard in a timely manner. For consistency purposes, the same phase-in period was extended to banks which do not provide credit to the domestic market as result of their identification during the 2016 review. The phase-in period varies by bank depending on the buffer rate set. In the context of the proposed increase in Citibank's buffer rate, it is proposed that this become a third-step to their individual phase-in, which would be effective from 1 July 2021.</p>																		
<p>5. Cross-border and cross-sector impact of the measure</p>																			

5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	<p>The O-SII buffer rates were calibrated with reference to the buffer setting of other EU states and are consistent with the buffer rates in other countries. The application of the aforementioned O-SII buffers is expected to increase the resilience of the Irish financial system, which will have positive spillovers to the EU financial system. The buffers are being phased-in to avoid any negative impact on credit growth in the domestic economy or in the other countries in which the O-SIIs are active.</p>									
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>The scope for leakages or regulatory arbitrage is limited for the O-SII buffer, in line with Chapter 11 of the ESRB handbook on reciprocity.</p>									
6. Combinations and interactions with other measures										
6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	<p>N/A</p>									
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	<p>None of the O-SIIs identified are subject to a systemic risk buffer.</p>									
6.3 O-SII requirement for a subsidiary (Article 131.8)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">O-SII</th> <th style="text-align: center;">EU Parent</th> <th style="text-align: center;">G-SII Buffer Rate (EU Parent)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Ulster Bank Ireland DAC</td> <td style="text-align: center;">The Royal Bank of Scotland Group</td> <td style="text-align: center;">1%</td> </tr> <tr> <td style="text-align: center;">UniCredit Bank Ireland plc</td> <td style="text-align: center;">UniCredit S.p.A</td> <td style="text-align: center;">1%</td> </tr> </tbody> </table>	O-SII	EU Parent	G-SII Buffer Rate (EU Parent)	Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	1%	UniCredit Bank Ireland plc	UniCredit S.p.A	1%
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Ulster Bank Ireland DAC	The Royal Bank of Scotland Group	1%								
UniCredit Bank Ireland plc	UniCredit S.p.A	1%								
6.4 Interaction with other measures	<p>N/A</p>									

7. Miscellaneous			
7.1 Contact person(s) at notifying authority	Name	Telephone	E-mail
	Eoin O'Brien Jean Quin	+ 353 1 224 6817 + 353 1 224 5093	eoin.obrien@centralbank.ie jean.quin@centralbank.ie
7.2 Any other relevant information	<p>N/A</p>		