



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CATEGORISATION OF BANKS ACCORDING TO SYSTEMIC RELEVANCE

BOX 3: CATEGORISATION OF BANKS ACCORDING TO SYSTEMIC RELEVANCE

In the 2011 edition of the Financial Stability Report (FSR), the Central Bank of Malta published the methodology used to categorise banks in terms of systemic relevance.¹ The methodology is based on five broad criteria reflecting size, substitutability and connectivity; weights were then assigned to each criterion as follows:

- (i) credit to residents [30% weight]: credit to residents by a bank as a percentage of total resident loans;
- (ii) resident deposits [30% weight]: resident deposits of a bank as a percentage of total resident deposits;
- (iii) holdings of domestic bonds [13.3% weight]: domestic bonds held by a bank as a percentage of total outstanding domestic bonds;
- (iv) resident contingent liabilities [13.3% weight]: resident contingent liabilities of a bank as a percentage of total resident contingent liabilities of the banking sector;
- (v) market capitalisation [13.3% weight]: market value of equities or bonds issued by a bank as a percentage of total market capitalisation of banks in Malta.

On the basis of this methodology, three categories were identified, each with a different level of systemic relevance, namely, core domestic banks, non-core domestic banks and international banks.

The Central Bank of Malta decided that this exercise shall be conducted every two years to ensure that each bank's standing in its relevant category shall remain valid. If deemed necessary, the exercise may be conducted earlier to ascertain that any developments in the banking sector's landscape and ancillary related systemic implications are captured in a timely manner. The exercise was undertaken for the 2013 edition of the FSR, in which FCM Bank Limited was reclassified from international bank to non-core domestic bank.

In January 2015 the Central Bank of Malta carried out the exercise once more, using end-2014 data. Results reaffirmed that the current five core domestic banks remain the most systemically-relevant credit institutions in Malta. Furthermore, this indicator-based methodology revealed that Mediterranean Bank plc has further increased its domestic relevance, mainly through targeting resident deposits, higher holdings of domestic securities, and through the takeover of Volksbank Malta Limited, re-branded as Mediterranean Corporate Bank Limited, in 2014. As a result of this development, this group has further raised its presence locally through higher lending to residents.² In this regard, the Central Bank of Malta's Financial Stability Committee agreed that this banking group, at sub-consolidated level, will be considered as a core domestic bank as from the next *Financial Stability Report Update 2015*, which will cover developments in the financial system during the first half of 2015.

Furthermore, the exercise also showed that Credit Europe Bank N.V., which was previously classified as a non-core domestic bank, will now be reclassified as an international bank. This change in categorisation was driven by a declining trend in its resident deposits over recent years, resulting in negligible links with the domestic economy.

These decisions were subsequently endorsed by the Joint Financial Stability Board on 27 February 2015. As a result of these reclassifications, the banks currently operating in Malta will be classified as shown in Table 1 as from 2015.

¹ For a detailed explanation of the methodology adopted refer to the Special Feature in the 2011 FSR, p. 47.

² For the benefit of this exercise, the word "group" refers to the banking group at sub-consolidated level, which includes Mediterranean Bank plc and Mediterranean Corporate Bank Limited.

Table 1
SIZE AND LIST OF BANKS UNDER EACH CATEGORY

Core domestic banks	Non-core domestic banks	International Banks
APS Bank Limited	BAWAG Malta Bank Limited	AgriBank plc
Banif Bank (Malta) plc	FCM Bank Limited	Akbank T.A.S
Bank of Valletta plc	FIMBank plc	CommBank Europe Limited
HSBC Bank Malta plc	IIG Bank (Malta) Limited	Credit Europe Bank NV
Lombard Bank Malta plc	Izola Bank plc	Deutsche Bank (Malta) Limited
Mediterranean Bank plc	Sparkasse Bank Malta plc	ECCM Bank plc
Mediterranean Corporate Bank Limited*		Ferratum Bank plc
		NBG Bank Malta Limited
		Nemea Bank Limited
		Novum Bank Limited
		Pilatus Bank Limited
		Turkiye Garanti Bankasi A S
Total assets (EUR millions) [December 2014]		
19,962.4	2,208.9	30,341.4
Total assets (as % of GDP) [December 2014]		
250.7	27.7	381.1

* as a subsidiary of Mediterranean Bank plc

Table 2 shows the main financial soundness indicators of the banks prior and post-reclassification as at December 2014. As indicated, these are not expected to change significantly with the introduction of the Mediterranean Banking Group as a core domestic bank. With regard to the non-core domestic and international banks, given the size of Mediterranean Bank plc and to some extent Credit Europe Bank N.V., one could note significant changes in some indicators as a result of the reclassification.

Table 2
MAIN FINANCIAL STABILITY INDICATORS

December 2014 (%)	Core domestic banks		Non-core domestic banks		International banks	
	Prior to reclassification	Post reclassification	Prior to reclassification	Post reclassification	Prior to reclassification	Post reclassification
Capital adequacy ratio	14.1	14.7	18.6	18.5	70.0	70.0
Tier 1 capital ratio	10.5	10.9	15.5	17.7	70.0	70.0
Liquid assets to short-term liabilities	49.0	50.4	82.1	77.9	85.1	85.1
Customer loan-to-deposit ratio	61.7	64.0	135.0	75.7	77.1	93.0
NPL ratio	9.3	9.0	5.1	7.4	1.4	1.4
Coverage ratio	44.1	43.3	52.1	78.6	53.3	45.4
Return on equity	15.4	14.9	-0.2	-3.2	2.9	2.5
Return on assets	1.1	1.1	-0.3	-1.3	1.0	0.9

Source: Central Bank of Malta.