

## 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](mailto:macropru.notifications@ecb.europa.eu) when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation<sup>1</sup>);
- [notifications@esrb.europa.eu](mailto: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 measure<sup>2</sup>.

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			
<b>1.1 Name of the notifying authority</b>	Central Bank of Malta (CBM) and Malta Financial Services Authority (MFSA)		
<b>1.2 Country of the notifying authority</b>	Malta		
2. Description of the measure			
<b>2.1a Institution or group of institutions concerned</b>	<b>Name of institution</b>	<b>LEI</b>	<b>Consolidation level</b>
	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
<b>2.1b Changes to the list of institutions concerned</b>	The same credit institutions identified as O-SIIs during the 2021 O-SII notification round are being re-confirmed as O-SIIs during this year's iteration.		

<sup>1</sup> 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*).

<sup>2</sup> 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.

<b>2.2 Level of the buffer applied</b>	<table border="1"> <thead> <tr> <th>Name of institution</th> <th>New O-SII buffer</th> <th>Previous O-SII buffer</th> </tr> </thead> <tbody> <tr> <td>Bank of Valletta plc (BOV)</td> <td>2.00%</td> <td>2.00%</td> </tr> <tr> <td>HSBC Bank Malta p.l.c. (HSBC)</td> <td>1.50%*</td> <td>1.50%</td> </tr> <tr> <td>MDB Group Limited (MED)</td> <td>1.00%**</td> <td>1.00%</td> </tr> <tr> <td>APS Bank plc (APS)</td> <td>0.50%</td> <td>0.25%</td> </tr> </tbody> </table>	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)	0.50%	0.25%
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<p><i>*On 10 December 2021, HSBC Bank Malta p.l.c. ('HSBCMT') <a href="#">communicated</a> a proposed transaction in the context of a corporate restructuring by HSBC Group. Pursuant to the completion of the proposed transaction, HSBC Continental Europe ('HBCE') has been designated by HSBC Group as its single EU IPU. As a result, HSBCMT, is now owned by the HSBC Group through HBCE as the EU IPU. In view of the fact that ACPR designated HBCE as an OSII in France, HSBC MT thus qualifies for the provisions of Article 131(8) of CRD, which results in the capping of HSBCMT's O-SII buffer to 1.25% (this is in view of HBCE's O-SII buffer rate of 0.25%).</i></p> <p><i>** Refer to section 4.4 for considerations in relation to MDB Group Limited (MED) O-SII buffer rate</i></p>																
<b>2.3 Name of the ultimate EU parent institution</b>	<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 Continental Europe</td> <td>F0HU11NY1AZMJMD8LP67</td> </tr> </tbody> </table> <p>Bank of Valletta plc, MDB Group Limited and APS Bank plc are ultimate parent institutions.</p>	Name of identified O-SII	Ultimate EU parent institution	LEI of ultimate parent institution	HSBC Bank Malta p.l.c. (HSBC)	HSBC Continental Europe	F0HU11NY1AZMJMD8LP67									
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<b>2.4 Names of subsidiaries</b>	<p>MDB Group Limited is the holding company of:</p> <ol style="list-style-type: none"> <li>MeDirect Bank (Malta) plc LEI code: 529900SYUCFQHI3JZQ05</li> <li>MeDirect Bank SA (BE) LEI code: 529900MATKY89NT0U738</li> </ol> <p>The other identified O-SIIs do not own any banking subsidiaries.</p>															
<b>3. Timing for the measure</b>																
<b>3.1 Timing for the decision</b>	12/12/2022															
<b>3.2 Timing for publication</b>	16/01/2023															
<b>3.3 Disclosure</b>	The same communication strategy followed in the 2021 identification process will be followed during 2022 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.															
<b>3.4 Timing for application</b>	01/01/2023															
<b>3.5 Phasing in</b>	<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 and becoming fully phased-in on 1 January 2019. Therefore, BOV will continue maintaining its fully loaded O-SII capital buffer rate (i.e. 2.00%) during 2023.</p> <p>In view of the completion of the proposed restructuring, HSBC Bank Malta p.l.c.'s O-SII buffer of 1.50% will be capped to 1.25% with immediate effect (see section 2.2).</p> <p>MDB Group Ltd will continue its phasing-in of the 1.00% buffer rate. Its rate had increased from 0.50% as communicated in the 2020 O-SII statement of decision.</p>															



	<p>In view of the increase in the O-SII buffer rates for APS Bank plc from 0.25% to 0.50%, the bank will now be subject to revised phasing-in requirements, spread over the coming four years with a view of reaching a fully loaded O-SII buffer rate of 0.50% by 2026.</p> <table border="1" data-bbox="600 409 1485 524"> <thead> <tr> <th>Name of institution</th> <th>2022</th> <th>2023</th> <th>2024</th> <th>2025</th> <th>2026</th> </tr> </thead> <tbody> <tr> <td>MDB Group Limited (MED)</td> <td>0.625%</td> <td>0.75%</td> <td>0.875%</td> <td>1.00%</td> <td>1.00%</td> </tr> <tr> <td>APS Bank plc (APS)</td> <td>0.125%</td> <td>0.25%</td> <td>0.375%</td> <td>0.4375%</td> <td>0.50%</td> </tr> </tbody> </table>	Name of institution	2022	2023	2024	2025	2026	MDB Group Limited (MED)	0.625%	0.75%	0.875%	1.00%	1.00%	APS Bank plc (APS)	0.125%	0.25%	0.375%	0.4375%	0.50%												
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<p><b>3.6 Review of the measure</b></p>	<p>The O-SII buffer is reviewed annually.</p>																														
<p><b>4. Reason for O-SII identification and activation of the O-SII buffer</b></p>																															
<p><b>4.1 Scores of institutions or group of institutions concerned, as per EBA guidelines on the assessment of O-SIIs (Article 131.3 CRD)</b></p>	<p>In line with the Authorities' current O-SII methodology, 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).<sup>3</sup> The official scores under the current MT O-SII methodology are highlighted in the table below: <sup>4</sup></p> <table border="1" data-bbox="604 916 1477 1247"> <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>692</td> <td>1727</td> <td>144</td> <td>207</td> <td><b>2771</b></td> </tr> <tr> <td>HSBC Bank Malta p.l.c. (HSBC)</td> <td>322</td> <td>968</td> <td>66</td> <td>121</td> <td><b>1478</b></td> </tr> <tr> <td>MDB Group Limited (MED)</td> <td>212</td> <td>203</td> <td>429</td> <td>423</td> <td><b>1267</b></td> </tr> <tr> <td>APS Bank plc (APS)</td> <td>147</td> <td>417</td> <td>27</td> <td>53</td> <td><b>643</b></td> </tr> </tbody> </table>	Name of institution	Size	Importance	Complexity	Interconnectedness	Overall Score	Bank of Valletta plc (BOV)	692	1727	144	207	<b>2771</b>	HSBC Bank Malta p.l.c. (HSBC)	322	968	66	121	<b>1478</b>	MDB Group Limited (MED)	212	203	429	423	<b>1267</b>	APS Bank plc (APS)	147	417	27	53	<b>643</b>
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<p><b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b></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</p>																														

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

<sup>4</sup> A dedicated correspondence has been circulated with the ECB to highlight O-SII scores under the default EBA O-SII identification methodology

	<p>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' 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.</p> <table border="1" data-bbox="582 660 1500 1276"> <thead> <tr> <th>Category</th> <th>Indicators</th> <th>Indicator weight</th> <th>Category weights</th> </tr> </thead> <tbody> <tr> <td><b>Size</b></td> <td>Total Assets</td> <td>22.00%</td> <td>22.00%</td> </tr> <tr> <td rowspan="5"><b>Importance</b></td> <td>Value of domestic payment transactions</td> <td>8.00%</td> <td rowspan="5">40.00%</td> </tr> <tr> <td>Private sector deposits from depositors in the EU*</td> <td>5.50%</td> </tr> <tr> <td>Private sector loans to recipients in the EU**</td> <td>5.50%</td> </tr> <tr> <td>Private sector deposits from Maltese residents</td> <td>10.50%</td> </tr> <tr> <td>Private sector loans to Maltese residents</td> <td>10.50%</td> </tr> <tr> <td rowspan="3"><b>Complexity</b></td> <td>Value of OTC derivatives (notional)</td> <td>4.00%</td> <td rowspan="3">18.00%</td> </tr> <tr> <td>Cross-jurisdictional liabilities</td> <td>7.00%</td> </tr> <tr> <td>Cross-jurisdictional claims</td> <td>7.00%</td> </tr> <tr> <td rowspan="3"><b>Interconnectedness</b></td> <td>Intra-financial system liabilities</td> <td>9.00%</td> <td rowspan="3">20.00%</td> </tr> <tr> <td>Intra-financial system assets</td> <td>9.00%</td> </tr> <tr> <td>Debt securities outstanding</td> <td>2.00%</td> </tr> </tbody> </table> <p>* 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.</p>	Category	Indicators	Indicator weight	Category weights	<b>Size</b>	Total Assets	22.00%	22.00%	<b>Importance</b>	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%	<b>Complexity</b>	Value of OTC derivatives (notional)	4.00%	18.00%	Cross-jurisdictional liabilities	7.00%	Cross-jurisdictional claims	7.00%	<b>Interconnectedness</b>	Intra-financial system liabilities	9.00%	20.00%	Intra-financial system assets	9.00%	Debt securities outstanding	2.00%
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<p><b>4.3 Supervisory judgement</b></p>	<p>Based on the default EBA O-SII identification methodology, and with a score of 429bps, FIMBank plc marginally exceeded the O-SII identification threshold for bucket 1 by just 4bps, when using the default EBA O-SII methodology. Based on the official MT O-SII Identification Methodology, FIMBank obtains an O-SII score of 372bps, well below the 425bps identification threshold. Further qualitative investigation on the systemic relevance of the bank also confirms the limited linkages to the Maltese economy indicated by the MT O-SII methodology.</p> <p>Consequently, the Authorities have decided to not classify FIMBank plc as an O-SII.</p>																																				
<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>A bucketing methodology is being followed as part of the calibration stage based on the scores achieved in the O-SII identification stage in section 4.2:</p> <ol style="list-style-type: none"> <li>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%).</li> <li>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</li> </ol>																																				



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

During the 2022 O-SII exercise, with a score of 1267bps, MDB Group Ltd. classified into bucket 4, corresponding with a 1.50% O-SII buffer rate, considered on a consolidated basis.

In their assessments, the Authorities also investigate the systemic relevance of credit institutions on a solo basis. Of note is that while there is little difference in operations and business model between the individual and consolidated operations of the MT banks designated as OSII, this is quite the exception of MDB Group Ltd, where the divergent trends between the parent and its subsidiary became more evident in the latest iteration.

When assessing the systemic importance for MDB Group Ltd on a solo basis, during 2022, the MT parent accounts for only 33.6% of the consolidated total assets. This anomaly, where the Belgian subsidiary's operations are much larger than those of the parent, is the main driver of the high complexity and interconnectedness O-SII scores, which is resulting in MDB Group Ltd.'s move to a higher OSII calibration bucket. Upon further investigation, the Belgian subsidiary is not systemically important in Belgium. Nevertheless, the degree of complexity posed by the Belgian subsidiary should not be overlooked.

Based on these considerations, the Authorities have decided to retain MDB Group Ltd. with a 1.00% O-SII buffer rate, to be fully phased-in by 2025.



**4.5 Effectiveness and proportionality of measure**

The O-SII buffer is an essential element of the ESRB Recommendation on the intermediate objectives and instruments of macro-prudential policy and is a macroprudential tool legally embedded in the CRD/CRR framework which, in turn, is domestically transposed in CBM Directive No. 11 and MFSA Banking Rule No. 15.

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.

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 €30.8 billion, the size of core domestic banks was equivalent to approximately 197% of GDP by June 2022. All four banking groups identified as O-SIIs fall in this category, three of which are identified as significant for SSM purposes.

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 2022, make around 95.7% of domestic GDP.

Collectively, the four domestic banking groups classified as O-SIIs account for around 92.7% of the total assets of the core domestic banks and around 62.43% of the total banking system assets.



**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 approx. 92.7% of the total assets of the core domestic banks, being the bank category that has the more direct links 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.

As highlighted in the table below, 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 higher applicable O-SII buffer rates for all designated O-SIIs.

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

\* Refer to section 2.2 for provisions applicable to HSBC's O-SII buffer

\*\* Refer to section 4.4 for considerations in relation to MDB Group Limited (MED) O-SII buffer rate

**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'). In this respect, the O-SII buffer is the main policy in MT to address the 'too big to fail' 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

**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 (Recommendation ESRB/2015/2<sup>5</sup>)**

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.

<sup>5</sup> 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).

<b>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	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.
<b>7. Combinations and interactions with other measures</b>	
<b>7.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>	Not applicable since there are no G-SIIs in MT.
<b>7.2 Combinations with systemic risk buffers (SyRBs) (Article 131.15 CRD)</b>	Not applicable since no MT institution is currently subject to a systemic risk buffer (SyRB) designed to address the risks covered by the O-SII buffer.
<b>7.3 O-SII requirement for a subsidiary (Article 131.8 CRD)</b>	In view of the corporate restructuring process for HSBC Group to comply with Article 21b CRD, HSBC Continental Europe is now the EU parent of HSBC Bank Malta p.l.c. HSBC Continental Europe, being an OSII itself, is subject to a 0.25% O-SII buffer in France and, given the provisions outlined in Art 131 (8) of the CRD, the maximum O-SII buffer rate applicable to HSBC Bank Malta p.l.c. is capped at 1.25% with immediate effect upon finalisation and official announcement of the corporate restructuring process.
<b>8. Miscellaneous</b>	
<b>8.1 Contact person(s)/mailbox at notifying authority</b>	<p>Contact person(s) for further inquiries (name, phone number and e-mail address):</p> <p>Mr. Stephen Attard Head Financial Stability Policy, Crisis Management and Stress Testing Department Central Bank of Malta E-mail: <a href="mailto:attards@centralbankmalta.org">attards@centralbankmalta.org</a></p> <p>Mr Joseph Agius Head Financial Stability Malta Financial Services Authority E-mail: <a href="mailto:joseph.agius@mfsa.mt">joseph.agius@mfsa.mt</a></p>
<b>8.2 Any other relevant information</b>	N/A
<b>8.3 Date of the notification</b>	15/12/2022