



6. CORPORATE GOVERNANCE

Governance

Board of directors

The Board of Directors of the Central Bank of Malta is responsible for the policy making and the general administration of the Bank, except for functions relating to the Treaty on the Functioning of the ECB, or the protocol of the ESCB, or functions which are conferred exclusively on the Governor in terms of the Central Bank of Malta Act (Cap. 204).

During 2022, the Board of Directors was composed of Professor Edward Scicluna as Governor and Chairman, Mr Alexander Demarco and Mr Oliver Bonello as Deputy Governors responsible for Monetary Policy and Financial Stability respectively, and Professor Peter J. Baldacchino, Professor Frank Bezzina, Dr Romina Cuschieri and Dr Lauren Ellul as non-executive Directors.

Mr Oliver Bonello was reappointed as Deputy Governor responsible for Financial Stability upon the expiry of his term with effect from 1 July 2022. The term of office of Ms Philomena Meli as non-executive Director came to an end on 23 January 2022. The Prime Minister acting on the advice of the Cabinet of Ministers, in accordance with the provisions of the Central Bank of Malta Act (Cap. 204), appointed Dr Lauren Ellul as non-executive Director of the Central Bank of Malta for a period of five years with effect from 2 February 2022. All members of the Board are appointed for a statutory term of five years and are eligible for reappointment.

In terms of the Central Bank of Malta Act (Cap. 204), the Governor and the Deputy Governors are appointed by the President of Malta acting on the advice of the Cabinet of Ministers while the other non-executive Directors of the Board are appointed by the Prime Minister acting on the advice of the Cabinet of Ministers. Mr Francis Bugeja continued to act as Secretary to the Board. During 2022, the Board of Directors convened 11 times.

Management and internal organisation

In March, the Board of Directors of the Central Bank of Malta approved the inclusion of Dr Lauren Ellul in the Audit Committee such that the four non-executive Directors of the Board would be members of the said Committee. The Board further endorsed the appointment of Dr Romina Cuschieri as the new chair of the Compliance Committee in lieu of Ms Philomena Meli. In March, the Board approved the establishment of a policy regulating the Provision for Financial Risk. During the same month, the Board approved a new tripartite agreement between the Bank, the University of Malta and the University of Malta Research, Innovation and Development Trust, whereby the University establishes a Central Bank of Malta Chair in Economics and related studies within one of its faculties. In May, the Central Bank of Malta became signatory to the new ESCB & SSM EDI Charter. In September, the Board approved the setting up of an SRI Desk within its International Asset Management Office. In December, the Board approved the 2023 Corporate Strategic Plan and Projects Report. During the year, the Board approved the setting up of a new department, Financial Crime Compliance Department led by the Money Laundering Reporting Officer.

Governor's activities

During the year 2022, the Governor, Professor Edward Scicluna, attended the regular ECB Governing Council and General Council meetings, as a member of the Governing Council and the General Council of the ECB. He also attended meetings of several international institutions, including the European Commission, the IMF, the World Bank and the EBRD.

In addition, the Governor, welcomed local and overseas distinguished guests, including Ministers, foreign diplomatic representatives and academics. In 2022, the Governor was also invited as a keynote speaker at several high-level conferences. He was also interviewed by various media houses both locally and overseas.

- Address during a conference of the European Savings and Retail Banking Group, online, 27 January.
- Participation in the Eurofi and Informal ECOFIN meetings, Paris, 25 February.
- Address during the launch of the Central Bank of Malta Corporate Strategic Plan, online, 14 March.
- Opening address during a webinar entitled *20 Years of Euro Banknotes and Coins*, online, 17 March.
- Participation in the IMF/WBG Spring Meetings, Washington DC, 20-23 April.
- Speech during the presentation of the Annual Report, Saint Julian's, 27 April.
- Courtesy visit by the Ambassador of the Hellenic Republic, H.E. Thasia Anastasiou, Valletta, 6 May.
- Endorsement of the ESCBs and SSM EDI Charter, Valletta, 6 May.
- Address during the EBRD Plenary, Marrakech, 10-12 May.
- Address during the 120th Information Technology Committee Meeting in Malta, Valletta, 18-20 May.
- Presentation of *La Vallette* Bronze Medal Collector's Edition Set as Central Bank of Malta donation to *Dar tal-Providenza*, Valletta, 24 May.
- Launch of the Central Bank of Malta tree planting initiative, Paola, 25 May.
- MNI Interview, online, 30 May.
- Statement on Businessnow.mt, online, 9 June.
- Speech at the European Economics and Financial Centre of the University of London, online, 15 June.
- Meeting with the IMF Delegation at the Central Bank of Malta during the IMF Article IV preparatory mission meetings, Valletta, 12 July.
- Endorsement of an agreement with the University of Malta and the University Research, Innovation and Development Trust for the re-establishment of a Central Bank of Malta Chair in Economics and related studies within the Faculty of Economics, Management and Accountancy at the University of Malta, Valletta, 25 July.
- Meeting with employees on their 25 years of service, Valletta, 29 July.
- Signature of a Currency Exchange Agreement with the National Bank of Ukraine, Valletta, 1 August.
- Presentation of the 14th Financial Stability Report to the Minister for Finance and Employment, Valletta, 10 August.
- Courtesy visit by the Central Bank of Libya Governor, Mr Saddek Elkaber, Valletta, 31 August.
- Address at a joint Central Bank of Malta and European Investment Bank Conference, Valletta, 5 September.
- Participation in the ECOFIN meetings and EUROFI Financial Forum, Prague, 9 September.

- Interview by journalist Silvia Amaro, CNBC, online, 12 September.
- ‘We had to be firm this time round’ – Central Bank governor Edward Scicluna on ECB interest rate hike, Business.now.mt, online, 12 September.
- *Watch: Poor people should get more financial aid* – Edward Scicluna, Times of Malta, 14 September.
- Speech during the first ever Financial Stability Report launch, Valletta, 29 September.
- Keynote speech at the third edition of the Malta Maritime Summit 2022, online, 6 October.
- Participation in the ECB Governing Council retreat, Cyprus, 7 October.
- Participation in the 2022 Annual IMF and World Bank Meetings, Washington DC, 10-16 October.
- Address at the 5th ECB Macro-Prudential Policy Group Research Workshop, Valletta, 21 October.
- Address at the Annual Conference of Mediterranean Central Banks, Istanbul, 31 October.
- Interview by CNBC, online, 10 November.
- Speech at the Institute for Financial Services Annual Seminar, St Julian’s, 11 November.
- Central Bank’s Annual Research Workshop, online, 18 November.
- Address at the Institute of Financial Services Malta’s Annual Dinner, Attard, 2 December.
- Meeting with Albania Financial Supervision Authority Delegation at the Central Bank of Malta, Valletta, 7 December.



Audit Committee

The Bank’s Audit Committee, which is chaired by Professor Peter J. Baldacchino and includes Professor Frank Bezzina, Dr Lauren Ellul and Dr Romina Cuschieri, convened 12 times during the year. During such meetings, the Chief Officer Internal Audit continued to brief Committee members on matters relating to governance, risk management, and the adequacy and effectiveness of the design and deployment of controls across the Bank. Progress on the completion of the Annual Audit Plan was also provided, which by the year-end was fully completed. Furthermore, Committee members were kept informed, through regular status reports, on progress in addressing outstanding audit findings, whilst regular bank-wide, divisional and individual business area audit opinions were also tendered. During the August meeting, the Chief Officer Internal Audit once again tabled an updated report on the Department’s annual review of its five-year rolling strategic plan which provided a detailed account of the Department’s achievements in working towards full attainment of its strategic focus. The Bank’s external auditors, KPMG, were also invited to attend several Audit Committee meetings.

External auditors

The Bank’s external auditors, KPMG, carried out the statutory audit for the financial year ending 31 December 2022, expressing their opinion on the financial statements and presenting their Management Letter to the Board.

Internal Audit Department

The Internal Audit Department continued to provide assurance through the conduct of risk-based audits in line with the approved 2022 Annual Audit Plan. Seventeen local audit engagements were completed, the

vast majority of which assessed the effectiveness of governance, risk management and control processes implemented across several business areas. In line with methodological developments previously introduced, an opinion on the level of efficiency demonstrated in the use and deployment of resources in the processes reviewed was also provided for each of these audits. The Department also conducted a smaller number of audits focusing specifically on areas inherently deemed more susceptible to fraud. Furthermore, a number of asset spot checks were also conducted throughout the year.

As a member of the ESCB Internal Auditors Committee (IAC) in the Eurosystem, ESCB and SSM compositions, the Internal Audit Department provided the necessary assurances to the ESCB decision-making bodies through the conduct of four IAC audits and on-going participation in IAC meetings. The Department, through its representation on this IAC substructure, also actively engaged in the Audit Task Force on Monetary Policy, Financial Stability and Market Operations.

During the year, the Internal Audit function reconducted an independent assessment of the Bank's SWIFT architecture to assess its level of compliance with the controls listed in SWIFT's Customer Security Control Framework, a requisite that has now become mandatory on an annual basis.

Throughout the year, the internal audit function was involved in the review of several of the Bank's Policies and Procedures. The internal auditors continued to be involved in the work of the Compliance Committee, mostly in the capacity of observers, to preserve their independence and objectivity.

Risk Management

The Risk Committee met eight times during 2022. The Committee members focussed on risks related to the Bank's operations and financial assets on the Bank's balance sheet. The various risks identified together with any arising incidents were thoroughly discussed, mitigation measures agreed upon and their implementation monitored.

The operational risk status of the various business areas was reported on a regular basis to the Risk Committee. The fourth cycle of the Operational Risk Management (ORM) exercise was finalised during the year and presented to the Board of Directors. Work also began on the fifth cycle and should be concluded by mid-2023.

During 2022, business areas updated their existing Business Impact Analysis and developed new ones where necessary. Each business area continued reviewing the Business Continuity Plans (BCPs) of critical and important business processes. Regular resilience testing was also carried out. The results of the third Business Continuity Management (BCM) cycle were presented to the Board of Directors after completion. Work also began on the BCM fourth cycle which is expected to be concluded by mid-2023.

The consolidation exercise carried out in 2021 was repeated to ensure that all policies and processes are covered in the ORM and BCM cycles. The Department provided training to all business areas in terms of risk management.

As part of its information security responsibilities, the ORM office carried out several risk assessments on various Bank initiatives. The Bank adopted a new methodology to carry out such assessments. Work on a new policy in this area was initiated. The latter is expected to be presented for approval by the Board of Directors during 2023.

In relation to its Financial Risk Management (FRM) responsibilities, the Risk Management Department participated in the Monthly Investment Policy meetings, during which various investment decisions were taken. In addition, performance measurement of assets under management was analysed and compared against the tactical benchmark and the strategic benchmark. The office also closely monitored the performance of the investments managed by the Bank's external asset managers. The Board of Directors approved the 2023 Strategic Asset Allocation exercise.

As from March 2023, the Bank will be publishing annual climate related disclosures for its NMPPs. Disclosures will focus on governance, strategy, risk management aspects and the calculation of various metrics and setting of targets. Together with the International Asset Management Office, the FRM Office estimated the various climate-related metrics on all the Bank's individual holdings. These metrics include Weighted Average Carbon Intensity, Total Carbon Emissions, and Carbon Footprint amongst others.

Legal issues

The Legal Department was involved in issuing and amending the following Central Bank of Malta Directives:

1. Central Bank of Malta Directive No. 6 on Harmonised Conditions for Opening and Operating Payments Module (PM) Accounts, T2S Dedicated Cash Accounts in TARGET2-Malta, and TIPS Dedicated Cash Accounts in TARGET2-Malta was amended to be aligned with the rules governing the remuneration of government deposits within the meaning of the ECB Guideline (EU) 2019/671 on domestic asset and liability management operations by the national central banks, as held on PM accounts and TIPS Dedicated Cash Accounts.
2. Central Bank of Malta Directive No. 8 on Monetary Policy Instruments and Procedures was amended following the annual update of the Eurosystem monetary policy framework.
3. Central Bank of Malta Directive No. 10 on Authentication, Fitness Checking and Recirculation of Euro Banknotes and Coins was amended to ensure that the ECB and the Bank can monitor the relative activities of cash handlers and to oversee developments in the cash cycle.

The Bank's Legal Department continued to advise on diverse legal, contractual, and operational matters. Business areas obtained regular assistance. Legislative developments impacting the Bank were also thoroughly assessed.

The Legal Department was also involved in drafting other legislative measures as follows:

1. Central Bank of Malta Act (Appointment of Relevant National Authority on Benchmarks) Regulations, 2022 were issued in November 2022. The scope of the regulations was to appoint the Bank, together with the MFSA, as the relevant national authorities in terms of paragraph 5(a) of article 23(b) of Regulation (EU) 2021/168 of the European Parliament and of the Council of 10 February 2021 amending Regulation (EU) 2016/1011 on the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No. 648/2012 on Over The Counter derivatives, central counterparties and trade repositories.
2. Central Bank of Malta Act (Appointment of Designate Authority to implement Macro-Prudential Instruments) Regulations were amended to appoint the Bank as the designated authority for the purposes of implementing a number of macro-prudential instruments as stipulated in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.
3. Depositor Compensation Scheme Regulations were amended to temporarily reduce the total share of payment commitments by Maltese banks to the Scheme to 1.1% in 2022 and gradually increase them to 1.2% in 2023 and restore them to 1.3% in 2024.

The Legal Department's responsibilities in compliance include the conduct of periodical exercises, such as the annual Bank-wide data protection stocktake exercise, assistance in customer due diligence to counter AML and terrorist financing risks, and the bi-annual prevention of abuse of insider information compliance exercise.

The legal function participated in various Central Bank of Malta committees, ESCB's Legal Committee and its sub-structures.