



8. CORPORATE, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Climate change and sustainability

Climate change considerations in the monetary policy implementation framework

During 2022, the Governing Council of the ECB decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. The first steps included an adjustment of corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, an introduction of climate-related disclosure requirements and an enhancement of its risk management practices.

The Eurosystem aims to gradually decarbonise its corporate bond holdings on a path aligned with the goals of the Paris Agreement. Accordingly, the Eurosystem will tilt these holdings towards issuers with a better climate performance¹ through the reinvestment of the sizeable redemptions expected over the coming years.

The Eurosystem will limit the share of assets issued by entities with a high carbon footprint in the collateral pledged by individual borrowing counterparties from the Eurosystem. The new limits regime aims to reduce climate-related financial risks in Eurosystem credit operations. Initially, the Eurosystem will apply such limits only to marketable debt instruments issued by NFCs.

Furthermore, as from 2022, the Eurosystem took into consideration climate change risks when reviewing haircuts applied to corporate bonds used as collateral.

The Eurosystem will only accept marketable assets and credit claims as collateral in Eurosystem credit operations from companies and debtors compliant with the Corporate Sustainability Reporting Directive (CSRD). Given that the implementation of the CSRD is delayed, the new eligibility criteria are expected to apply as of 2026. This requirement will apply to all companies within the scope of the CSRD and will help improve disclosures and generate better data for financial institutions, investors and civil society.

Finally, the Eurosystem will further enhance its risk assessment tools and capabilities to better include climate-related risks. To improve the external assessment of climate-related risks, the Eurosystem will urge rating agencies to be more transparent in the incorporation of climate risks in their ratings and to be more ambitious in the disclosure requirements on climate risks. Additionally, the Eurosystem agreed on a set of common minimum standards for how national central banks' in-house credit assessment systems should include climate-related risks in their ratings. These standards will enter into force by the end of 2024.

Climate change and sustainability considerations in non-monetary policy portfolios

It is widely acknowledged that climate change is one of the biggest existential risks to our economies, financial systems, ecosystems and communities. The Bank recognises climate change as a financial risk and is cognisant of the negative impact that physical and transition risks can have on its financial assets. However, several investment opportunities may also materialise as countries seek to transition to carbon neutral economies. The Eurosystem has adopted a common stance for climate-change related sustainable investments in NMPPs. On 4 February 2021, the ECB also announced that the Eurosystem would start making climate-related financial disclosures for their euro-denominated NMPPs within two years.

¹ A better climate performance will be measured with reference to lower greenhouse gas emissions, more ambitious carbon reduction targets and improved climate-related disclosures. This measure applies from October 2022 and the ECB will start publishing climate-related information on corporate bond holdings regularly as of the first quarter of 2023.

Such work continued unabated throughout 2022. The Central Bank of Malta published its first climate-related financial disclosure report on 27 March 2023 in line with the Eurosystem’s commitment.

Accordingly, the Central Bank of Malta intends to increasingly address climate risks and explore opportunities in its NMPPs whilst leading by example. Climate risks and opportunities have been discussed in the Bank’s relevant governance structures including the Investments Policy Committee, the Risk Committee and the Board of Directors.

Several SRI practices have been adopted to date.

- **Negative Screening**

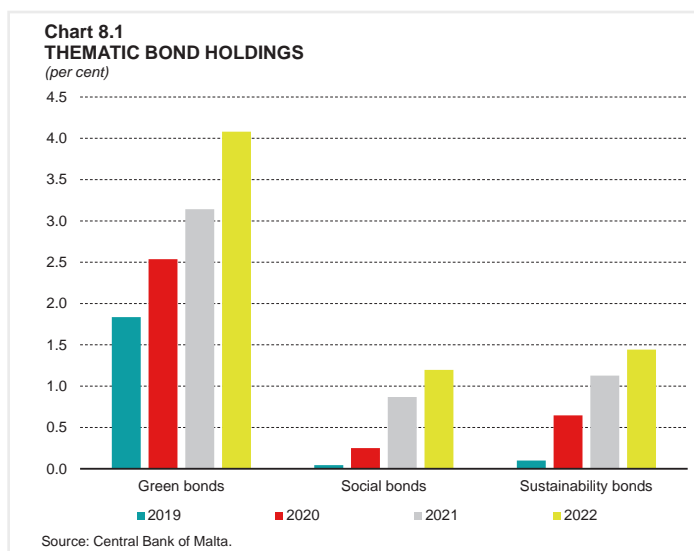
The Bank applies a norm-based negative screening approach for the investments under its direct control. Since 2021, a norm-based negative screening approach has been applied to the externally managed corporate bond portfolio through a change in the mandate, based on the exclusion list of one of the world’s largest pension funds, managed by Norges Bank Investment Management. This has resulted in divestment from companies involved in the tobacco industry and/or linked to the production of nuclear weapons. The Bank does not have any exposure to issuers listed in the Norges Bank negative list in its internally managed fixed income portfolios.

Given that part of the Bank’s assets is held through an externally managed segregated mandate or funds, the Bank ensures that the respective asset managers are United Nations Principles for Responsible Investments (UN PRI) signatories and thus are committed to include ESG factors in all their investment decisions and report accordingly. Moreover, the Bank engages in frequent discussions with the external asset managers with the aim of better understanding how such considerations are being implemented.

- **Impact investing**

The Bank has been progressively increasing the share of green, social and sustainable bonds in its internally managed portfolios (see Chart 8.1).² The issuers of such bonds use the proceeds collected to finance projects which have a positive environmental and/or social impact.

In addition to financing the energy and ecological transition through investments in green and sustainable bonds, during 2022, the Bank started to invest in equity funds that focus on the long-term growth of companies that engage in activities that will assist in the transition to low carbon economies.³ The funds are, therefore, predominantly invested in companies engaged in alternative energy and energy technologies, waste management, or offer solutions with active positive contribution to the improvement of the supply, efficiency or quality of a low-carbon economy.



² The Bank also holds some other thematic bond holdings through the externally managed segregated mandate, as well as through fixed income ETFs and mutual funds. However, given that the Bank does not have direct control over such holdings, these were not included in this calculation.

³ SFDR Article 8 or 9.

- **Positive screening**

The Bank has opted to also have equity exposure through passive exchange-traded funds (ETFs) that are consistent with international norms and climate change-based criteria or have low carbon exposure than the broad market whilst also having a high minimum level of ESG performance. The Bank also invests in an equity mutual fund where at least 90% of the underlying assets are evaluated using an SRI rating, and where the focus is on companies with a strong record of both financial and ESG performance. Moreover, when attempting to diversify further its fixed income exposure geographically, the Bank has opted for funds tracking indices which apply an ESG scoring and screening methodology aimed at tilting towards issuers that rank higher on ESG criteria and green bond issues, and underweighting or removing issuers that rank lower.

The share of assets under management which include ESG considerations has thus increased from 12.3% in 2021 to 17.7% in 2022.

Climate change considerations in financial stability

Climate risk is evolving over time with irreversible aspects acting as permanent shocks to the financial sector. The financial impact of climate change is typically classified as either physical or transition risk. The former relates to the loss in value of financial instruments because of environmental degradation while the latter relates to costs incurred as a result of changing policies to reduce reliance on carbon and impact on the climate. Thus, key features to quantify the impact of climate risk onto the financial sector range across various aspects, such as data, modelling frameworks, and scenario design.

Following the publication of a Special Feature in the *Interim FSR 2021*, the Financial Stability Surveillance Office continued to monitor the exposures of the financial sector to climate-sensitive sectors. This assessment was first presented during the meeting of the Forum of Financial Stability, held in February 2022. This was a first assessment of the Maltese financial sector's direct exposure to economic sectors that were most likely affected by the transition to a less polluting economy. However, further granular analysis is required at company level to better gauge the extent of exposures.

The Bank's Macro Stress Testing Framework was adapted in 2022 to model the impact of transition risk in the form of an internationally implemented carbon tax to disincentivise the reliance on fossil fuels and stop carbon dioxide emissions to reach the target under the Paris Agreement to limit climate change to 1.5 degrees Celsius. The magnitude of the carbon tax is aligned to the increase in oil prices under one of the scenarios published by the NGFS (the Divergent Net Zero) which, paired with shocks to world demand, propagate to affect both global and domestic demand which together led to further pressures and disruptions to the domestic economic recovery. The banking sector's exposure to fossil fuels is further explored by dedicated assessments of the reliance on fossil fuels in both the financing of non-financial corporates as well as bond holdings. Moreover, the climate-related adverse scenario builds upon the inflationary pressures and supply chain disruptions due to Russia's invasion of Ukraine and Asia's COVID restriction measures characterising the baseline.

The scenario raises awareness on the extent of banks' exposures to potentially vulnerable sectors whereby banks in scope would experience a substantial impact. However, such banks were deemed able to satisfy their capital requirements. The methodology and results were also presented in launch event of the FSR to encourage the financial sector to direct its resources towards ESG considerations. This methodology was also discussed with the IMF during its Article IV consultation and was very well received. As part of its effort to contribute in the transition to a greener economy, the Bank participated in a panel discussion on *Greening Malta's Financial Ecosystem* in a seminar organised by the Ministry for the Environment, Energy and Enterprise. Discussions focused on the Central Bank's increased focus in its analytical research capabilities to increase the level of knowledge and research both at the financial sector level and beyond, as well as on the ways how domestic banks could contribute to addressing the challenges of climate change.

Environmental initiatives

ECB

During 2022, the ECB continued to assess the potential environmental impacts of the second series of euro banknotes over the lifecycle. The relevant Eurosystem Committee conducted research and, based on the results achieved, euro area central banks implemented policies to minimise the environmental impact of euro banknotes. These policies included the use of sustainable cotton for banknote paper, the extension of banknotes' life in circulation by adding a coating to the banknotes and the use of more sustainable methods to dispose of unfit banknotes.

Network of Central Banks and Supervisors for Greening the Financial System

The Bank continued its participation in the NGFS.⁴

Central Bank of Malta joins the Eurosystem Climate Change Forum

In July 2022, the ECB's Governing Council approved the establishment of a Eurosystem Climate Change Forum. The mandate of the Forum is to improve cooperation in this field by fostering knowledge-sharing, whilst leveraging on existing knowledge within the Eurosystem with the aim of jointly advancing the ECB's climate agenda. Two senior officials represent the Central Bank of Malta on this Forum.

Central Bank of Malta

The Bank further reduced its own ecological footprint. In 2022, the Bank separated for recycling 12.6 tonnes of paper, 1.6 tonnes of plastic and 2.2 tonnes of glass and metal. The Bank also continued to streamline several processes to achieve further efficiencies. Accordingly, the Bank introduced an online requisition order system which eliminated the use of extensive paper documentation. During the year, the Bank also expanded its hybrid electric car fleet through the leasing of additional vehicles following a call for tenders issued in 2021 and began a transition towards the use of fully electric vehicles. The Central Bank of Malta proceeded with the installation of LED lighting throughout its premises and aerators on water faucets. It also deployed more efficient computers to replace old energy-intensive machines. Further progress was also registered in relation to the planned installation of solar panels and more efficient standby generators. As part of its constant efforts to offset its carbon footprint, the Bank, in conjunction with Parks Malta, planted 250 trees in *Ġnien il-Mediterran* in Paola, including amongst others, almond trees, carob trees, olive trees and pomegranate trees.



Tree planting in *Ġnien il-Mediterran* in Paola

(f.l.t.r.) Mr Ivan Farrugia Director (Parks Malta – Embellishment), Mr Alan Markham (Central Bank of Malta – Operations Division), Mr Daniele Romano (Central Bank of Malta – Chief Operating Officer), Central Bank of Malta Governor, Professor Edward Scicluna, Mr Adrian Attard (Parks Malta – Director General) and Mr Paul Debono (Parks Malta – Operations)

Corporate Social Responsibility

The Central Bank of Malta has embedded CSR in all aspects of its central banking tasks which include a broad spectrum of stakeholders, ranging from its employees to the wider community.

In this regard, the Bank's CSR efforts reflect the ever-increasing emphasis on the Bank's activities, all of which receive the highest levels of support across management and employees.

⁴ It is a group of central banks and supervisors which on a voluntary basis, exchange experiences, share best practices and contribute to the development of environment and climate risk management in the financial sector. It also conducts analytical work on green finance to which the bank participates actively.

Staff

During 2022, the Central Bank of Malta's staff Social Club restarted the organisation of social events for all staff and pensioners after a two-year pause owing to the COVID-19 pandemic.

The Social Club contributed to the better well-being of staff by organising several events, which included a quiz night, a summer party, a karaoke night, a bowling event, the Christmas staff gathering and the children's Christmas Party. Staff members also had the opportunity to try out different sports disciplines such as Archery and Padel. Staff also participated in the Euro Football, Chess, Cross Country Running, Hiking and Badminton sport events.



Archery event

Philanthropy and outreach

The Social Club also organised several campaigns throughout the year where staff helped *Fondazzjoni Sebh*, the Multiple Sclerosis Society of Malta, the Missionaries of Charity (Mother Teresa Nuns) and the Marigold Foundation through the Pink October and the Movember Campaigns.

The Club also organised two dress-down days to collect funds for Hospice Malta and the Inspire Foundation. The Social Club sponsored staff members to participate in the President's Solidarity Fun Run.



As in previous years, the Bank donated profits from the sale of coins to the Malta Community Chest Fund Foundation. The sum was topped up by the Bank's Social Club. The sum was presented during *L-Istrina* telethon.

In addition, the Bank's Social Club also organised two blood drive events in collaboration with the National Blood Transfusion Service with an encouraging number of staff donating blood.

Engaging with the wider public and the professional public

Webinar on the 20 years of euro banknotes and coins

During 2022, the Eurosystem celebrated 20 years of euro banknotes and coins. As a Eurosystem member, the Central Bank of Malta commemorated this important event in the European integration process. As part of its activities the Bank organized a webinar about the 20 years of the Euro Banknotes and Coins.

The webinar was opened by the Governor, Professor Edward Scicluna. The keynote speech was delivered by Mr Gilles Noblet, Principal Adviser Directorate General International and European Relations, ECB.



Direct Debit campaign

The Bank embarked on an educational campaign on the use of direct debits due to their limited take-up in Malta. The campaign took place between June and August 2022. It targeted individuals and merchants, mainly focusing on the rights and obligations of both parties when making use of such a payment instrument.

The campaign was conducted on various platforms such as television interviews on the three main local TV stations, publication of posts and carousels on social media, and the publication of an article in three local newspapers. The TV interviews took place on different dates and time slots while the article in the newspapers was published both in English and Maltese to ensure that the campaign reaches a wider audience. The article was also featured on the Malta Business Weekly.



Brenda Galea, Regulation and Oversight Office, Payments and Banking Department, Central Bank of Malta on Net TV.

Financial Literacy

In its efforts to reach wider audiences, the Bank started publishing on social media, weekly informative posts about euro banknotes and also promoted the Bank's Educational Campaign. A tab was created on the Bank's website, giving the possibility to cash handlers and the public to apply for training on handling euro currency. The Currency Operations Office held 70 information sessions to 237 cash handlers on banknotes and coins at retailers. The Bank also delivered sessions to the elderly at various active ageing centres around Malta.

Moreover, with the collaboration of the Ministry for Education and Sports, the Bank offered information sessions on euro currency to all schools in Malta, including during the summer holidays to students attending the Skola Sajf program. With the end of COVID-19 related restrictions, the Bank started organising tours for students at the Coin Museum. Such tours were then accompanied by an information session on the Bank, the Eurosystem and the Euro currency. During 2022, there were 1,879 children who participated in such sessions.

The Bank also participated in the European Money Week organised by the Malta Bankers' Association, which focused on financial education and raised awareness amongst students about money and personal finances.

Notte Bianca

The Bank opened its doors to the public during *Notte Bianca*, when thousands of guests had the opportunity to visit the Bank's main premises, as well as its gardens. Several informational activities were held to entertain the public.

Visitors also had the opportunity to visit the Bank's Currency Museum and tour its selection of coins and banknotes in circulation in Malta over the years, and to purchase a variety of numismatic and collector coins from the Malta Coin Centre.



Young musicians from the Malta Youth Orchestra

Musicians from the Malta Youth Orchestra entertained the public with their music at the Bank's Castille premises.

Moreover, in collaboration with the Customs Department, the Bank had Žekkin, the black Labrador it had sponsored, demonstrating how banknotes are detected in simulation exercises at the Upper Garden, together with another sniffer dog.

In addition, a bonsai exhibition was also organised in collaboration with the Bonsai Culture Group while live music was provided by the local Pomelia's Band.

Works of art by staff were exhibited at Polverista, the former gun-powder store magazine, whilst a virtual tour of the Bank's library was available. Visitors had the opportunity to virtually visit the vast and prestigious collection of books, journals, and publications in front of Binja Laparelli.

Central Bank of Malta Fund

The Central Bank of Malta Fund's Advisory Board is mandated by the Board of Directors to identify projects of a national stature with lasting visibility worthy of support by the Bank, through funds set aside for non-business-related purposes. The areas pursued by the Fund relate to education, culture, scientific research, preservation of Maltese national heritage and social causes.

The members of the Fund's Advisory Board are Mr Nancy Calamatta, who acts as Chair, Prof. Yosanne Vella, Prof. Marvin Formosa, Marquis Nicholas de Piro and Dr Pauline Lanzon.



(f.l.t.r)

*First row: Mr Alexander Demarco (Deputy Governor Monetary Policy), Mr Nancy Calamatta (Chair), Prof. Edward Scicluna (Governor) and Mr Oliver Bonello (Deputy Governor Financial Stability)
Second row: Prof. Marvin Formosa, Prof. Yosanne Vella, Marquis Nicholas de Piro and Dr Pauline Lanzon (Board Members)
Third row: Mr Raymond Filletti (Chief Officer Financial Control and Risk) and Dr Jeremy Buttigieg (Secretary)*

Mr Calamatta's appointment follows that of Fr Marius Zerafa, Founding Chairperson of the Fund (previously Foundation), who sadly passed away in October 2022.

Amongst the projects pursued during 2022, was the production of a one-hour docudrama on the 1984 robbery of the St Jerome Caravaggio masterpiece from St John's Co-Cathedral in Valletta. Some of the beneficiaries who received financial support were: ALS Malta for purchase of medical equipment at Dar Bjorn; the University of Malta Rowing Club for two C2X boats and oars to host the ANZAC Day Regatta event in April 2023; the St John's Co-Cathedral Foundation in bringing a Reliquary of Saint Pope Pius V from the Vatican to Malta in October 2022; the *Soċjetà Filarmonika* Pinto Banda San Sebastjan towards the production of the Oratorio Sebastianus Christianus at the Metropolitan Cathedral in Mdina in January 2023; and the Senglea Historical Society towards a publication on the history of Senglea.

Other meritorious projects to which the Bank pledged support upon their completion included the purchase of equipment to be placed in a new rehabilitation centre for Inspire Foundation, restoration works on the medieval chapel of Saint Catherine in Zejtun, as pursued by *Wirt iż-Żejtun* and the setting up by *Fondazzjoni Wirt Artna* of a new room at the Lascaris War Rooms in Valletta recreating the signing of the Italian Fleet surrender in Malta on 11 September 1943.