



III. FINANCIAL STATEMENTS

Directors' report

The Directors present their report and the audited financial statements of the Central Bank of Malta (the Bank) for the year ended 31 December 2022.

Presentation of the financial statements

These financial statements have been prepared so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2022, and of its profit and loss account for the year then ended. The financial statements have been prepared in accordance with the provisions established by the Governing Council of the European Central Bank under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank and in accordance with the requirements of the Central Bank of Malta Act (Cap. 204). The provisions established by the Governing Council of the European Central Bank are outlined in the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34) as amended by the Guideline of 28 November 2019 (ECB/2019/34) and Guideline of 11 November 2021 (ECB/2021/51).

Financial results

The Bank's financial statements for the year ended 31 December 2022 are set out on pages A-4 to A-38. During the year under review, the Bank registered a zero financial result, this consequent to a transfer of €20.91 million from the provision for financial risks to the profit and loss account. For the year ended 31 December 2021, the Bank had registered a profit for the year of €22.17 million which was payable to the Government of Malta.

Board of Directors

The members of the Board of Directors during the year ended 31 December 2022 and up to the date of authorisation for issue of the financial statements were:

Professor Edward Scicluna – Governor
Mr Alexander Demarco – Deputy Governor Monetary Policy
Mr Oliver Bonello – Deputy Governor Financial Stability
Professor Peter J. Baldacchino
Dr Romina Cuschieri
Professor Frank Bezzina
Dr Lauren Ellul (appointed on 2 February 2022)
Ms Philomena Meli (up to 22 January 2022)

During the financial year, Mr Francis Bugeja was secretary to the Board.

Statement of Directors' responsibilities in respect of the financial statements

The Board of Directors is responsible for ensuring that the financial statements are drawn up in accordance with the requirements of the Central Bank of Malta Act (Cap. 204). The Bank is required to prepare financial statements in accordance with the requirements of the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34) as amended by the Guideline of 28 November 2019 (ECB/2019/34) and Guideline of 11 November 2021 (ECB/2021/51).

The Board of Directors is responsible for ensuring that these financial statements give a true and fair view of the state of affairs of the Bank as at 31 December 2022 and of the profit and loss account for the year then ended.

In preparing the financial statements, the Directors are responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

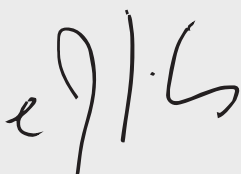
The Directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the requirements set out above. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Central Bank of Malta for the year ended 31 December 2022 are included in the Annual Report 2022, which is published in printed form and is made available on the Bank's website*. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

KPMG were appointed as the auditors of the Bank with effect from the financial year ended 31 December 2019 until this financial year. The Bank will appoint new auditors for the financial year ending 31 December 2023.

By order of the Board.



Professor Edward Scicluna
Governor



Mr Alexander Demarco
Deputy Governor



Mr Oliver Bonello
Deputy Governor

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

20 March 2023

* www.centralbankmalta.org/annual-reports

Balance Sheet as at 31 December 2022

	2022	2021
Assets	€'000	€'000
A 1 Gold and gold receivables	3,412	4,668
A 2 Claims on non-euro area residents denominated in foreign currency	1,149,501	1,009,609
A 2.1 Receivables from the IMF	368,789	357,395
A 2.2 Balances with banks and security investments, external loans and other external assets	780,712	652,214
A 3 Claims on euro area residents denominated in foreign currency	226,005	204,992
A 4 Claims on non-euro area residents denominated in euro	683,118	607,378
A 4.1 Balances with banks, security investments and loans	683,118	607,378
A 4.2 Claims arising from the credit facility under ERM II	-	-
A 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	130,000	712,900
A 5.1 Main refinancing operations	-	14,000
A 5.2 Longer-term refinancing operations	130,000	698,900
A 5.3 Fine-tuning reverse operations	-	-
A 5.4 Structural reverse operations	-	-
A 5.5 Marginal lending facility	-	-
A 5.6 Credits related to margin calls	-	-
A 6 Other claims on euro area credit institutions denominated in euro	5,121	774
A 7 Securities of euro area residents denominated in euro	2,339,793	2,148,853
A 7.1 Securities held for monetary policy purposes	1,577,180	1,476,129
A 7.2 Other securities	762,613	672,724
A 8 General government debt denominated in euro	-	-
A 9 Intra-Eurosystem claims	5,520,588	7,386,303
A 9.1 Participating interest in ECB	22,234	21,594
A 9.2 Claims equivalent to the transfer of foreign reserves	42,314	42,314
A 9.3 Claims related to the issuance of ECB debt certificates*	-	-
A 9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	-	-
A 9.5 Other claims within the Eurosystem (net)	5,456,040	7,322,395
A 10 Items in course of settlement	6,303	8,009
A 11 Other assets	406,010	316,569
A 11.1 Coins of euro area	10	54
A 11.2 Tangible and intangible fixed assets	42,069	40,363
A 11.3 Other financial assets	227,503	237,222
A 11.4 Off-balance sheet instruments revaluation differences	4,630	642
A 11.5 Accruals and prepaid expenses	33,936	19,385
A 11.6 Sundry	97,862	18,903
Total Assets	10,469,851	12,400,055

* Only an ECB balance sheet item

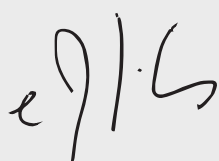
	2022	2021
Liabilities	€'000	€'000
L 1 Banknotes in circulation	1,517,012	1,490,332
L 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5,844,345	7,707,110
L 2.1 Current accounts (covering the minimum reserve system)	867,727	7,707,110
L 2.2 Deposit facility	4,976,618	-
L 2.3 Fixed-term deposits	-	-
L 2.4 Fine-tuning reverse operations	-	-
L 2.5 Deposits related to margin calls	-	-
L 3 Other liabilities to euro area credit institutions denominated in euro	6,795	77,506
L 4 Debt certificates issued*	-	-
L 5 Liabilities to other euro area residents denominated in euro	1,100,478	1,240,693
L 5.1 General government	573,062	807,140
L 5.2 Other liabilities	527,416	433,553
L 6 Liabilities to non-euro area residents denominated in euro	67,616	31,079
L 7 Liabilities to euro area residents denominated in foreign currency	310,609	310,996
L 8 Liabilities to non-euro area residents denominated in foreign currency	-	-
L 8.1 Deposits, balances and other liabilities	-	-
L 8.2 Liabilities arising from the credit facility under ERM II	-	-
L 9 Counterpart of special drawing rights allocated by the IMF	321,324	317,268
L 10 Intra-Eurosystem liabilities	784,634	641,133
L 10.1 Liabilities equivalent to the transfer of foreign reserves*	-	-
L 10.2 Liabilities related to the issuance of ECB debt certificates	-	-
L 10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	784,634	641,133
L 10.4 Other liabilities within the Eurosystem (net)	-	-
L 11 Items in course of settlement	-	-
L 12 Other liabilities	26,376	44,619
L 12.1 Off-balance sheet instruments revaluation differences	715	1,213
L 12.2 Accruals and income collected in advance	12,458	7,325
L 12.3 Sundry	13,203	36,081
L 13 Provisions	107,901	128,809
L 14 Revaluation accounts	665	11,554
L 15 Capital and reserves	382,096	376,783
L 15.1 Capital	20,000	20,000
L 15.2 Reserves	362,096	356,783
L 16 Profit for the year	-	22,173
Total Liabilities	10,469,851	12,400,055

* Only an ECB balance sheet item

Profit and Loss account for the year ended 31 December 2022

	2022	2021
	€'000	€'000
1.1 Interest income	98,099	59,635
1.2 Interest expense	(33,180)	1,950
1 Net interest income	64,919	61,585
2.1 Realised gains/losses arising from financial operations	4,499	14,779
2.2 Write-downs on financial assets and positions	(37,388)	(7,753)
2.3 Transfer to/from provisions for financial risks	20,908	(3,913)
2 Net result of financial operations, write-downs and risk provisions	(11,981)	3,113
3.1 Fees and commissions income	686	818
3.2 Fees and commissions expense	(1,661)	(1,580)
3 Net income/expense from fees and commissions	(975)	(762)
4 Income from equity shares and participating interests	44	559
5 Net result of pooling of monetary income	(26,806)	(17,382)
6 Other income	3,088	1,638
Total net income	28,289	48,751
7 Staff costs	(14,933)	(14,598)
8 Administrative expenses	(10,582)	(9,497)
9 Depreciation of tangible and intangible fixed assets	(2,394)	(2,112)
10 Banknote production services	(376)	(367)
11 Other expenses	(4)	(4)
Profit for the year	-	22,173
Transfer to reserves for risks and contingencies	-	-
Payable to the Government of Malta in terms of article 22(2) of the Central Bank of Malta Act (Cap. 204)	-	22,173

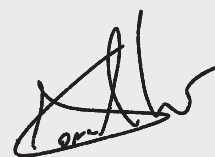
The financial statements on pages A-4 to A-38 were approved for issue by the Board of Directors on 20 March 2023 and are signed on its behalf by:



Professor Edward Scicluna
Governor



Mr Alexander Demarco
Deputy Governor



Mr Oliver Bonello
Deputy Governor



Mr Raymond Filletti
Chief Officer
Financial Control and Risk



Ms Maryanne Attard
Head
Financial Control

Notes to the financial statements for the year ended 31 December 2022

General notes to the financial statements

1 The Eurosystem

The Central Bank of Malta (the Bank) is a participating member of the Eurosystem and has joint responsibility for monetary policy and for exercising the common strategic goals of the European System of Central Banks (ESCB).¹

2 Basis of preparation

As established by the Central Bank of Malta Act (Chapter 204, Laws of Malta) (the Act), the Bank is required to prepare its financial statements in accordance with the guideline on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) ECB/2016/34 issued on 3 November 2016 as amended by subsequent ECB guidelines² (the Guideline).

In line with the requirements of the Guideline, in cases where the latter does not provide specific direction, the requirements of generally accepted accounting principles are applied. In the case of the Bank, reference is made to International Financial Reporting Standards (IFRS) as adopted by the EU.

These financial statements have been drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2022 and of its profit and loss account for the year then ended. The accounts have been prepared on a historical cost basis, modified to include the revaluation of gold, foreign currency instruments, securities (other than securities classified as held-to-maturity and securities held for monetary policy purposes that are accounted for at amortised cost), as well as other financial instruments, both on-balance sheet and off-balance sheet, at mid-market rates and prices.

3 Accounting policies

Basic accounting principles

The basic accounting principles applied by the Bank in the preparation of these financial statements are:

- economic reality and transparency;
- prudence;
- materiality;
- consistency and comparability;
- going concern;
- accruals principle;
- post-balance sheet events.

Recognition of assets and liabilities

An asset or liability is only recognised in the balance sheet when it is probable that any associated future economic benefit will flow to or from the Bank, substantially all of the associated risks and rewards have been transferred to or from the Bank, and the cost or value of the asset or liability can be measured reliably.

¹ The European Central Bank (ECB), together with national central banks (NCBs), shall constitute the ESCB. The ECB together with the NCBs of the Member States whose currency is the euro, constitute the Eurosystem and shall conduct the monetary policy of the Union, as per Article 282.1 of the Treaty of the Functioning of the European Union. The Eurosystem and the ESCB will co-exist as long as there are European Union (EU) Member States outside the euro area.

² Guideline ECB/2019/34 entered into force on 31 December 2019 and Guideline ECB/2021/51 entered into force on 31 December 2021.

Foreign currency transactions

Foreign exchange transactions, comprising spot and forward deals in gold and foreign currencies, are recorded as off-balance sheet commitments on trade date at the prevailing spot exchange rate of the forward transaction. All security transactions in foreign currencies are recorded on-balance sheet on settlement date at the applicable exchange rate. All other transactions are recorded in the balance sheet at market exchange rates prevailing on the day of the transaction.

The average cost method is used on a daily basis for calculating the acquisition cost of assets and liabilities that are subject to price and/or exchange rate movements.

Financial assets and liabilities denominated in foreign currency, including off-balance sheet positions, are revalued at the prevailing mid-market exchange rates at the balance sheet date. Gold balances are revalued at market prices prevailing at the year end. No distinction is made between price and currency revaluation differences for gold, but a single gold revaluation difference is accounted for on the basis of the euro price per defined unit of weight of gold derived from the euro/US dollar exchange rate at the balance sheet date.

Foreign currency positions (including off-balance sheet transactions) are revalued on a currency-by-currency basis. In the case of securities, revaluation is carried out on a code-by-code basis (same ISIN number/type) and is treated separately from exchange rate revaluation.

In the case of foreign currency or gold positions, inflows and outflows are compared against each other to determine any realised gains or losses. Where a long position exists, net inflows of currencies and gold made during the day shall be added, at the average rate or the average price of gold, to the previous day's holding, to produce a new weighted average cost. In the case of net outflows, the calculation of a second realised gain or loss shall be based on the average cost of the respective currency or gold holding for the preceding day so that the average cost remains unchanged. For short positions, the reverse accounting treatment is applied.

Securities and marketable investment funds

All securities are initially recorded at transaction price. The average cost method is used on a daily basis for the purpose of calculating the acquisition cost of a security that is sold.

Debt securities held for monetary policy purposes and marketable debt securities classified as held-to-maturity are measured at amortised cost and subject to impairment.

Held-to-maturity securities have fixed or determinable payments and a fixed maturity date, which the Bank intends to hold until maturity. Securities classified as held-to-maturity may be sold before their maturity in any of the following instances:³

- if the quantity sold is considered not significant in comparison with the total amount of the held-to-maturity securities portfolio;
- if the securities are sold during the month of the maturity date;
- under exceptional circumstances, such as a significant deterioration of the issuer's creditworthiness.

Marketable securities (other than those held-to-maturity) are valued at the mid-market prices at the balance sheet date, on a security-by-security basis.

Marketable investment fund units held for investment purposes without the Bank intervening in the decisions on the purchase or sale of the underlying assets, are valued at market prices on a net fund basis at year

³ Refer to article 9(6) of the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34), OJ L 347, 20.12.2016, p. 37.

end. Gains and losses arising on measurement of these investment funds are accounted for in accordance with the Guideline (see 'Recognition of income and expenses' in 3 'Accounting policies' in the general notes to the financial statements).

Malta Government Stocks (MGS) and Treasury bills purchased on the secondary market in the Bank's role as a market maker, are designated as part of an earmarked portfolio. Financial instruments forming part of this earmarked portfolio are measured at mid-market prices prevailing at the balance sheet date. Unrealised gains are reflected on-balance sheet under L 12.3 'Sundry', while unrealised losses are recognised under A 11.6 'Sundry'.

Off-balance sheet instruments

Spot and forward foreign exchange contracts and daily changes in the variation margins of future contracts are included in the net foreign currency position for the purpose of calculating the average cost of currencies and determining realised foreign exchange gains and losses. Futures are accounted for and revalued on an item-by-item basis. Daily changes in the variation margins of open futures contracts, representing realised gains and losses, are recognised in the profit and loss account.

Gains and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments. Realised and unrealised gains and losses are measured and accounted as outlined in 'Recognition of income and expenses' in 3 'Accounting policies' in the general notes to the financial statements.

Unrealised valuation gains or losses on spot and forward foreign exchange contracts are recorded from the trade date to the settlement date under A 11.4 'Off-balance sheet instruments revaluation differences' and L 12.1 'Off-balance sheet instruments revaluation differences' as applicable.

Sale and repurchase agreements and lending of securities

Securities sold subject to repurchase agreements (repos) are retained in the financial statements in the appropriate classification on the assets side of the balance sheet while the counterparty liability is included as a collateralised inward deposit on the liabilities side of the balance sheet, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as a collateralised outward loan on the assets side of the balance sheet, as appropriate. The difference between the sale and repurchase price is treated as interest and is accrued in the profit and loss account over the term of the agreement on a straight-line basis. Securities lent to counterparties are also retained in the financial statements.

Recognition of income and expenses

Income and expenses are recognised in the period in which they are earned or incurred.

Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest-bearing assets and liabilities.

Interest income and interest expense arising from monetary policy operations are reported on a net basis on a balance sheet sub-item level, under either 'Interest income' or 'Interest expense' depending on whether the net amount generated or incurred is positive or negative.

Premiums or discounts arising from the difference between the average acquisition cost and the redemption price of all securities are presented as part of interest income and are amortised over the remaining term of the security on a discounted basis.

Interest accruals on foreign currency assets and liabilities are converted at the mid-market rate on each business day and are included in the respective foreign currency position to determine the average book value, as applicable. Accordingly, interest income includes coupons earned and amortised premiums or discounts on securities and other instruments. In respect of forward exchange contracts, the difference between the deemed spot exchange rate of the forward contract and the deal rate is considered as interest income or expense and is amortised on a straight-line basis from the trade date to settlement date.

Gains and losses arising from foreign exchange, gold and securities

Realised gains and realised losses can only arise in the case of transactions leading to a reduction in foreign currency positions or on the sale of securities.

In the case of securities, realised gains or losses are derived by comparing the transaction value with the average cost of the respective security. All realised gains and losses are taken to the profit and loss account.

Unrealised revaluation gains and losses arise as a result of the revaluation of assets and liabilities by comparing the market value with the average book value. Unrealised gains are not recognised as income but are transferred directly to a revaluation account. Unrealised losses, with the exception of those relating to the MGS and Treasury bills earmarked portfolio, are taken to the profit and loss account when they exceed previous unrealised gains registered in the corresponding revaluation account. Unrealised losses recorded in the profit and loss account in previous years are not reversed against unrealised gains in subsequent years. Unrealised losses in any one security or in any foreign currency, including gold, are not netted against unrealised gains in other securities or other foreign currencies.

Claims on the International Monetary Fund (IMF)

The IMF reserve tranche position, SDR and other claims on the IMF are translated into euro at the year end ECB euro to SDR exchange rate.

The IMF reserve tranche position is presented on a net basis representing the difference between the national quota and the holdings in euro at the disposal of the IMF. The IMF euro holdings are revalued against the SDR at the prevailing representative rate for the euro as quoted by the IMF on its last working day of the year. The euro account for administrative expenses is included under L 6 'Liabilities to non-euro area residents denominated in euro'.

Euro coins

Subsequent to the agency agreement between the Bank and the Government of Malta, euro coins issued by the Bank give rise to a reserve in the form of a capital contribution by the Government. Deposits of euro coins with the Bank constitute a reversal of the capital contribution.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less depreciation and amortisation respectively, with the exception of land and works of art which are stated at historical cost and not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the carrying amount of the asset or are recognised as a separate asset, as appropriate, only when they are a present economic resource controlled by the Bank as a result of past events. All repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Freehold buildings	2%
Leasehold property	over the remaining term of the lease
Computer hardware and software, equipment and other fixed assets	10% to 25%

Tangible and intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down to its recoverable amount if that carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses arising on derecognition are determined by comparing sale proceeds with the carrying amount. These are included in the profit and loss account in the year when the asset is derecognised.

Leases

For lease agreements, the related right-of-use asset and lease liability are recognised in the balance sheet at the lease commencement date under A 11.2 'Tangible and intangible fixed assets' and L 12.3 'Sundry' respectively.

The right-of-use asset is valued at cost less depreciation and impairment (see 'Tangible and intangible fixed assets' in 3 'Accounting policies' in the general notes to the financial statements). Depreciation is calculated on a straight-line basis from the commencement date to either the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier.

The lease liability is initially measured at the present value of the future lease payments, discounted at the Bank's incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost using the effective interest method.

Short-term leases with duration of twelve months or less and leases of low-value assets are recorded in the profit and loss account under 8 'Administrative expenses'.

Provisions

Provisions are recognised by the Bank in accordance with the Guideline. The general risk provision covers all financial risks, defined as market, liquidity and credit risks. Taking into due consideration the nature of its activities, the Bank has established a provision for all financial risks within its balance sheet. The Bank decides on the size and use of the provision on the basis of a reasoned estimate of its risk exposure.

4 Investments

During 2022, the Bank decided to transfer euro and US dollar debt securities from the marketable debt securities other than held to maturity portfolio to the held to maturity portfolio. Under the held to maturity portfolio, debt securities are accounted for at amortised cost subject to impairment in line with the requirements of the Guideline. Depending on the currency and country of issue of the securities, these are reported under asset items A 2.2 'Balances with banks and security investments, external loans and other external assets', A 3 'Claims on euro area residents denominated in foreign currency', A 4.1 'Balances with banks, security investments and loans' and A 7.2 'Other securities'.

5 Post-balance sheet events

The values of assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the relevant bodies if they affect the condition of assets or liabilities at the balance sheet date. No adjustment shall be made for assets and liabilities, but disclosure shall be made of those events occurring after the balance sheet date if they do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

Pursuant to Council Decision 2022/1211/EU of 12 July 2022, taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Croatia adopted the single currency on January 1, 2023. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 30 December 2022,⁴ Hrvatska Narodna Banka paid up the remainder of its capital subscription to the ECB. In accordance with Article 48.1, in conjunction with Article 30.1 of the Statute of the ESCB, Hrvatska Narodna Banka transferred foreign reserve assets to the ECB in an amount corresponding to its subscribed capital share.

6 Capital key

The capital key determines the allocation of the ECB's share capital to the NCBs on the basis of population and gross domestic product in equal share. It is adjusted every five years and whenever there is a change in the composition of the EU in accordance with the requirements of the Statute. The capital key of the Bank as at 31 December 2021 and 2022 was 0.0853%. Following Hrvatska Narodna Banka's entry in to the Euro-system, the Bank's capital key remained unchanged from that prevailing until the end of year 2022.

The Eurosystem capital key, which is the respective NCB's share of the total share capital held by euro area NCBs, is used as the basis for the allocation of monetary income and the financial results of the ECB among the Eurosystem NCBs. The Bank's Eurosystem capital key as at 31 December 2021 and 2022 stood at 0.1049%. Consequent to the entry of Hrvatska Narodna Banka into the Eurosystem, the Bank's Eurosystem capital key declined to 0.1040%.

7 Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key. The ECB has been allocated an 8% share of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs according to their weightings in the capital key of the ECB.⁵ The share of banknotes allocated to each NCB is disclosed in the balance sheet under L 1 'Banknotes in circulation'.

During the financial years ended 31 December 2021 and 2022, the Bank's share in euro banknotes remained unchanged at 0.0965%. Following the entry of Hrvatska Narodna Banka into the Eurosystem, the Bank's share in euro banknotes decreased to 0.0960% as from 1 January 2023.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation, as reduced by banknotes withdrawn from circulation, gives rise to intra-Eurosystem balances remunerated⁶ on a daily

⁴ Decision ECB/2022/51 of 30 December 2022 on the paying-up of capital, transfer of foreign reserve assets and contributions by Hrvatska Narodna Banka to the European Central Bank's reserves and provisions, OJ L 17, 19 January 2023 p. 94.

⁵ ECB decision of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26 as amended by ECB Decision of 22 January 2020 (ECB/2020/7), OJ L 271, 1.2.2020, p. 21 as amended by ECB Decision of 16 December 2022 (ECB/2022/46), OJ L 328, 22.12.2022, p. 136.

⁶ ECB Decision of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26 as amended by ECB Decision of 12 November 2020 (ECB/2020/55), OJ L 390, 20.11.2020, p. 60.

basis at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (MROs). If the value of the euro banknotes actually issued is greater than the value according to the banknote allocation key, the excess is recognised as a liability in the balance sheet under L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'. If the value of the euro banknotes actually issued is less than the value according to the banknote allocation key, the shortfall is recognised as an asset in the balance sheet under A 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

In the cash changeover year⁷ and in the subsequent five years, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the NCB's relative income positions as compared to previous years. The adjustments are affected by taking into account the differences between the average value of the banknotes which the NCB had in circulation in the reference period,⁸ and the average value of banknotes which would have been allocated to it during that period in accordance with its capital key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year, when income on banknotes are allocated fully in proportion to the NCB's paid-up shares in the ECB's capital. In the year under review, the adjustments that resulted from the accession of Hrvatska Narodna Banka will commence in 2023 and will terminate at the end of 2028.

Any interest income or expense on these balances is cleared through the accounts of the ECB and is recognised in the profit and loss account under 1 'Net interest income'.

8 ECB profit distribution

The Governing Council of the European Central Bank (the Governing Council) has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as income arising from the securities held under the securities markets programme (SMP), the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.⁹ Any such decision shall be taken where, on the basis of a reasoned estimate prepared by the Executive Board, the Governing Council expects that the ECB will have an overall annual loss or will make an annual net profit that is less than this income. The Governing Council may also decide to transfer all or part of this income to a provision for financial risks. Furthermore, the Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

The amount distributed to the Bank is recognised in the profit and loss account under 4 'Income from equity shares and participating interests'.

9 Intra-Eurosystem balances/Intra-ESCB balances

Intra-Eurosystem balances result mostly from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the Bank vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim ECB profit distributions to NCBs and monetary income results), are presented on the balance

⁷ Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender in the respective Member State.

⁸ The reference period refers to a 24-month period commencing 30 months prior to the day on which euro banknotes become legal tender in the respective Member State.

⁹ ECB Decision of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24 as amended by ECB Decision of 2 July 2015 (ECB/2015/25), OJ L 193, 21.7.2015, p. 133, ECB decision of 28 November 2019 (ECB/2019/36) OJ L 332, 23.12.2019, p. 183 and ECB decision of 12 November 2020 (ECB/2020/56) OJ L 390, 20.11.2020, p. 63.

sheet of the Bank as a single net asset or liability position under A 9.5 'Other claims within the Eurosystem (net)' or L 10.4 'Other liabilities within the Eurosystem (net)'. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed either under A 4 'Claims on non-euro area residents denominated in euro' or L 6 'Liabilities to non-euro area residents denominated in euro'.

Intra-Eurosystem claims arising from the Bank's participating interest in the ECB are reported under A 9.1 'Participating interest in ECB'. In particular, this balance sheet item includes: (i) the NCBs' paid-up share in the ECB's subscribed capital, (ii) any net amount paid by the NCBs due to the increase in their shares in the ECB's equity value¹⁰ resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB with respect to central banks of Member States whose derogations have been abrogated.

Intra-Eurosystem claims arising from the transfer of foreign reserve assets by the Bank to the ECB are denominated in euro and reported under A 9.2 'Claims equivalent to the transfer of foreign reserves'.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are reported as a single net asset or liability under A 9.5 'Other claims within the Eurosystem (net)' or L 10.4 'Other liabilities within the Eurosystem (net)' as appropriate (see 7 'Banknotes in circulation' in the general notes to the financial statements).

¹⁰ Equity value consists of the total ECB's reserves, revaluation accounts and provisions equivalent to reserves, less any losses carried forward from previous periods. In the event of capital key changes the equity value also includes the ECB's accumulated net profit or net loss until the date of the adjustment.

Notes to the balance sheet

Assets

A 1 Gold and gold receivables

The Bank's gold balances consist of correspondent accounts with foreign banks and holdings with counterparties. On 31 December 2022, gold was revalued at €1,706.075 (2021: €1,609.483) per fine troy ounce and realised valuation losses as at that date amounted to €81,800. As at 31 December 2021, unrealised gains amounted to €332,752 with a corresponding amount disclosed under L 14 'Revaluation accounts'.

	€'000	Fine troy ounces
Balance as at 31 December 2021	4,668	2,900
Net effect of transactions during the year	(841)	(900)
Valuation movements during the year	(415)	-
Balance as at 31 December 2022	3,412	2,000

A 2 Claims on non-euro area residents denominated in foreign currency

These claims consist of receivables from the IMF and other claims on counterparties resident outside the euro area denominated in foreign currency as follows:

	2022 €'000	2021 €'000	Change €'000
Special drawing rights	368,802	357,395	11,407
US dollar	332,772	286,795	45,977
Canadian dollar	124,482	119,605	4,877
Australian dollar	105,797	50,333	55,464
Swedish krona	52,409	58,065	(5,656)
Great Britain pound	52,016	68,359	(16,343)
Swiss Frank	44,345	14,074	30,271
Norwegian krone	35,627	34,651	976
New Zealand dollar	33,159	20,216	12,943
Others	92	116	(24)
Total	1,149,501	1,009,609	139,892

A 2.1 Receivables from the IMF

	2022 €'000	2021 €'000	Change €'000
Reserve tranche position (net)	55,894	50,245	5,649
SDR holdings	312,895	307,150	5,745
Total	368,789	357,395	11,394

Malta's quota as a membership subscription to the IMF as at 31 December 2021 and 2022 was SDR168,300,000. Up to 25% of the quota is paid in SDR (IMF's unit of account) or foreign currencies acceptable to the IMF, while the remainder of the membership subscription is paid in the member's own currency. The former portion constitutes the reserve tranche as a claim on the IMF, while the residual represents balances in euro at the disposal of the Fund. Hence, the net reserve tranche position represents the difference between the quota of SDR168,300,000 and the balance in euro at the disposal of the IMF. As at 31 December 2022, the net reserve tranche position amounted to SDR44,654,776 (2021: SDR40,654,776) equivalent to €55,894,459.

A member's SDR holdings initially amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of various transactions. As at 31 December 2021 and 2022, the SDR allocated to Malta amounted to SDR256,709,738. This is reported under L 9 'Counterpart of special drawing rights allocated by the IMF'. SDR allocated to Malta cannot be withdrawn unless such advice is received from the IMF.

During 2022, the Bank entered into arrangements with the IMF to purchase a total of SDR1,234,375. As at 31 December 2022, Malta's SDR holdings, including interest received thereon, amounted to SDR249,976,029 (2021: SDR248,523,215) equivalent to €312,895,183 (2021: €307,149,823). The net reserve tranche position, SDR holdings and the SDR allocation are subject to SDR interest rates quoted by the IMF on a weekly basis.

During 2022, the Central Bank of Malta pledged to contribute towards the Fund's new Resilience and Sustainability Trust.

In 2021, the Bank entered into a bilateral SDR-denominated loan agreement with the Fund for €112,000,000. No drawings were affected under this agreement during 2021 and 2022.

A 2.2 Balances with banks and security investments, external loans and other external assets

These assets principally consist of security investments issued by non-euro area residents and balances with banks (see 4 'Investments' in the general notes to the financial statements).

	2022	2021	Change
	€'000	€'000	€'000
Marketable debt securities other than those held-to-maturity	50,422	179,208	(128,786)
Held-to-maturity debt securities	674,599	455,150	219,449
Current accounts and overnight deposits with banks	55,691	17,856	37,835
Total	780,712	652,214	128,498

A 3 Claims on euro area residents denominated in foreign currency

These foreign currency assets mainly comprise investments in marketable debt securities issued by euro area residents, claims arising from reverse operations with euro area counterparties and balances with banks.

	2022	2021	Change
	€'000	€'000	€'000
Marketable debt securities other than those held-to-maturity	4,595	30,064	(25,469)
Held-to-maturity debt securities	74,936	28,886	46,050
US dollar liquidity-providing operations	142,696	145,241	(2,545)
Current accounts and overnight deposits with banks	3,778	801	2,977
Total	226,005	204,992	21,013

During 2022, credit institutions established in Malta participated for a total amount of US\$8,027,600,000 (2021: US\$5,872,900,000) in US dollar liquidity-providing operations. The outstanding amount as at 31 December 2022 stood at US\$152,200,000 (2021: US\$164,500,000). Under this programme, the US dollar was provided by the Federal Reserve Bank of New York to the ECB by means of a swap line with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with euro area NCBs, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties in the form of reverse and swap transactions.

Claims on euro area residents were denominated in foreign currency as follows:

	2022	2021	Change
	€'000	€'000	€'000
US dollar	192,859	177,728	15,131
Australian dollar	10,256	4,558	5,698
Swiss franc	9,174	3,892	5,282
Great Britain pound	7,850	12,701	(4,851)
Canadian dollar	3,628	3,707	(79)
Others	2,238	2,406	(168)
Total	226,005	204,992	21,013

A 4 Claims on non-euro area residents denominated in euro

These claims consist of marketable debt securities issued by non-euro area residents, a fixed income investment fund managed by external asset managers and balances with banks outside the euro area (see 4 'Investments' in the general notes to the financial statements).

	2022	2021	Change
	€'000	€'000	€'000
Marketable debt securities other than those held-to-maturity	32,630	154,692	(122,062)
Held-to-maturity debt securities	605,374	374,791	230,583
Fixed income investment fund	45,106	77,887	(32,781)
Current accounts and overnight deposits with banks	8	8	-
Total	683,118	607,378	75,740

A 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item reflects operations carried out by the Bank within the framework of the single monetary policy of the Eurosystem.

On 31 December 2022, the total Eurosystem holding of monetary policy assets amounted to €1,324 billion (2021: €2,202 billion) of which the Bank held €130,000,000 (2021: €712,900,000). In accordance with Article 32.4 of the Statute, losses from monetary policy operations, if they were to materialise, may be shared, by decision of the Governing Council, in full by the Eurosystem NCBs in proportion to the prevailing ECB capital key shares.

Losses can only materialise if the counterparty fails and the funds recovered from the resolution of the collateral provided by the counterparty are not sufficient. In relation to specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council.

A 5.1 Main refinancing operations

MROs are executed through regular liquidity-providing reverse transactions carried out by the Eurosystem NCBs with a weekly frequency and a maturity of normally one week, on the basis of standard tenders. Since October 2008, these operations were conducted as fixed rate tender procedures. MROs play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

During 2022, MROs carried out with the Bank amounted to €185,000,000 with no amount outstanding as at the end of the year. As at 31 December 2021, an amount of €14,000,000 was outstanding on these operations.

Throughout the financial year ended 31 December 2021, the interest rate used by the Eurosystem in its tenders for MROs remained unchanged at the level of 0.00%. The following table highlights the changes in this interest rate during 2022 as decided by the Governing Council.

With effect from:	Changes in basis points (bps)	Effective rate (%)
	2022	
1 January	-	0.00
27 July	+50 bps	0.50
14 September	+75 bps	1.25
2 November	+75 bps	2.00
21 December	+50 bps	2.50

A 5.2 Longer-term refinancing operations

Longer-term refinancing operations (LTROs) are regular liquidity-providing reverse transactions aimed at providing counterparties with additional longer-term refinancing liquidity. Participation in LTROs requires the availability of eligible collateral.

During 2022, credit institutions established in Malta participated in three-month LTROs with an aggregate amount of €159,000,000. These operations were conducted through fixed rate tender procedures with full allotment, at the average rate of the MROs prevailing over the life of the respective operation. As at 31 December 2022, outstanding LTROs stood at €50,000,000, while there were no outstanding amounts as at 31 December 2021.

In 2019, the Governing Council introduced a series of seven quarterly targeted longer-term refinancing operations (TLTRO III). Additionally, on 10 December 2020, the Governing Council added three further operations to this series, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTRO III, from September 2021, starting 12 months after the settlement of each TLTRO III, participants have the option on a quarterly basis of terminating or reducing the amount of the TLTRO III concerned before maturity. For the eighth or subsequent TLTRO III, participants have this option on a quarterly basis as from June 2022. According to the initial decisions taken by the Governing Council, the final interest rate applicable to each TLTRO III can be as low as the average interest rate on the deposit facility prevailing over the life of the operation.

In response to COVID-19, in 2020, the Governing Council decided to reduce the interest rate on the outstanding TLTRO III for the period between 24 June 2020 and 23 June 2021, and the period between 24 June 2021 and 23 June 2022, referred to as the special interest rate period and the additional special interest rate period respectively. The applicable interest rate can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case, may not become less negative than -1%.

Additionally, on 27 October 2022 the Governing Council decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate will be indexed to the average applicable key ECB interest rates over this period. On the same date, the Governing Council decided that three additional voluntary early repayment dates are introduced to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity.

The actual interest rates will only be known at the maturity or early repayment of each operation, and until that time, a reliable estimate is only possible for the interest rates relating to the special and additional special interest rate periods that have already been communicated to counterparties. For the financial year ended 31 December 2022, interest accruals on TLTRO III were calculated using the following approach: (i) until 23 June 2022, covering the additional special interest rate period, the interest rate related data applied, was that as communicated to the counterparties on 10 June 2022, (ii) for the period from 24 June 2022 until 22 November 2022, the interest rate was linked to the average applicable key ECB interest rate from the settlement date till 22 November 2022, and (iii) for the period 23 November 2022 until 31 December 2022, the interest rate was indexed to the average applicable key ECB interest rate over this period. Furthermore, the impact of policy rate changes in 2022 on interest of the pre-special interest rate period is also considered in 2022.

No new participations in TLTRO III were carried out with the Bank during the financial year ended 31 December 2022, and the outstanding amount of these operations as at year end amounted to €70,000,000 (2021: €623,500,000). During 2022, TLTRO III operations amounting to €513,500,000 were early repaid by credit institutions established in Malta and €40,000,000 matured.

Furthermore, of the four additional pandemic emergency longer-term refinancing operations (PELTROs) allotted in 2021 on a quarterly basis, each with a tenor of approximately one year, three matured in the course of 2022. These operations provided a liquidity backstop to the euro area banking system and contribute to preserving the smooth functioning of the money market during the extended pandemic period. The PELTROs were conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points below the average rate applied on the Eurosystem's MROs over the life of the respective PELTRO. During 2022, there were no new participations in PELTROs carried out with the Bank. The outstanding PELTROs as at 31 December 2022 amounted to €10,000,000 (2021: €75,400,000).

A 5.3 Fine-tuning reverse operations

Fine-tuning reverse operations aim to regulate the market liquidity situation and steer interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, they are executed on an ad hoc basis. No fine-tuning reverse operations were conducted by the ECB during the years ended 31 December 2021 and 2022.

A 5.4 Structural reverse operations

These are reverse open-market transactions through standard tenders to enable the Eurosystem to adjust its structural liquidity position vis-à-vis the financial sector. No structural operations were conducted by the ECB during the years ended 31 December 2021 and 2022.

A 5.5 Marginal lending facility

Marginal lending facilities may be used by counterparties to obtain overnight liquidity from Eurosystem NCBs at a pre-specified interest rate against eligible assets. During 2022, there was no participation in the marginal lending facility by credit institutions established in Malta. There were no outstanding transactions as at 31 December 2021 and 2022.

Throughout the financial year ended 31 December 2021, the marginal lending facility rate remained unchanged at the level of 0.25%. The following table highlights the changes in this interest rate during 2022 as decided by the Governing Council.

With effect from:	Changes in basis points (bps) 2022	Effective rate (%)
1 January	-	0.25
27 July	+50 bps	0.75
14 September	+75 bps	1.50
2 November	+75 bps	2.25
21 December	+50 bps	2.75

A 5.6 Credits related to margin calls

This sub-item refers to cash paid to counterparties in those instances where the market value of the collateral exceeds an established trigger point implying an excess of collateral with respect to outstanding monetary policy operations.

Since the Bank operates a general pooling system, no payments to counterparties are affected.

A 6 Other claims on euro area credit institutions denominated in euro

This item consists of claims on credit institutions within the euro area not relating to monetary policy operations, mainly current accounts and overnight deposits with banks.

A 7 Securities of euro area residents denominated in euro

This item consists of securities held for monetary policy purposes as well as other securities.

A 7.1 Securities held for monetary policy purposes

As at 31 December 2022, this sub-item consisted of securities acquired by the Bank within the scope of the SMP,¹¹ the PSPP¹² and the PEPP.¹³ The Bank's PSPP and PEPP related purchases comprised MGS from

¹¹ ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

¹² ECB Decision of 3 February 2020 on a secondary markets public sector asset purchase programme (ECB/2020/9), OJ L 39, 12.2.2020, p. 12. Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.

¹³ ECB Decision of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.03.2020, p. 1 as amended by ECB Decision of 28 July 2020 (ECB/2020/36), OJ L 248, 31.7.2020, p. 24 and ECB Decision of 10 February 2021 (ECB/2021/6), OJ L 50, 15.2.2021, p. 29.

the secondary market. The amortised cost of the securities under these programmes as well as their market values,¹⁴ are as follows:

	2022		2021		Change	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
	€'000	€'000	€'000	€'000	€'000	€'000
Securities markets programme	9,753	10,314	9,551	11,214	202	(900)
Public sector purchase programme	1,053,843	877,736	1,012,161	1,066,052	41,682	(188,316)
Pandemic emergency purchase programme	513,584	402,308	454,417	446,973	59,167	(44,665)
Total	1,577,180	1,290,358	1,476,129	1,524,239	101,051	(233,881)

The Governing Council decided to cease further SMP purchases on 6 September 2012.

During the first quarter of 2022, the Eurosystem continued with its net purchases of securities under the asset purchase programme (APP)¹⁵ at an average of €20 billion per month. In March 2022, the Governing Council¹⁶ decided to revise the net purchase amounts to €40 billion in April, €30 billion in May, and €20 billion in June. In June 2022 the Governing Council¹⁷ decided to end net asset purchases under the APP as of 1 July 2022. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions.

Following the decision of the Governing Council in December 2021,¹⁸ during the first quarter of 2022 the Eurosystem continued with its net asset purchases under the PEPP, however, at a lower pace than in the previous quarter. Based on the same decision, the net PEPP purchases were discontinued at the end of March 2022. The Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. The Governing Council will continue applying flexibility in the reinvestments, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic. The future roll-off of the PEPP will be managed to avoid interference with the appropriate monetary policy stance.

The Governing Council assesses on a regular basis the financial risks associated with the securities held for monetary policy purposes. Impairment tests are conducted on an annual basis, using data as at the end of the year and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. The total Eurosystem NCBs' holding of such securities amounts to €4,480 billion (2021: €4,268 billion).

¹⁴ Market values are indicative and derived on the basis of market quotes. When market quotes are not available, market prices are estimated using internal Eurosystem models.

¹⁵ The APP consists of the CBPP3, the ABSPP, the PSPP and the corporate sector purchase programme (CSPP).

¹⁶ See the press release of 10 March 2022 of the Governing Council's decisions.

¹⁷ See the press release of 9 June 2022 of the Governing Council's decisions.

¹⁸ See the press release of 16 December 2021 of the Governing Council's decisions.

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, losses from holdings of SMP, CBPP3,¹⁹ ABSPP,²⁰ PSPP supranational securities, PEPP securities other than public sector securities and CSPP,²¹ if they were to materialise, are to be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. As a result of the impairment tests carried out as at 31 December 2022 on securities purchased under all the programmes, the Governing Council decided that all future cash flows on these securities are expected to be received.

A 7.2 Other securities

This sub-item comprises all the Bank's investments in non-monetary policy debt securities and marketable investment funds with euro area residents (see 4 'Investments' in the general notes to the financial statements).

	2022	2021	Change
	€'000	€'000	€'000
Marketable debt securities other than those held-to-maturity	11,263	109,410	(98,147)
Held-to-maturity debt securities	372,701	262,192	110,509
Marketable investment funds	378,649	301,122	77,527
Total	762,613	672,724	89,889

A 9 Intra-Eurosystem claims

This item consists of claims arising from the Bank's participating interest in ECB, claims equivalent to the transfer of foreign reserves to the ECB and other net claims within the Eurosystem.

A 9.1 Participating interest in ECB

Pursuant to Article 28 of the Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are determined in accordance with Article 29 of the Statute and are subject to adjustment every five years or whenever there is a change in the composition of the ESCB NCBs.

The subscribed capital of the ECB is €10,825 million. The ECB kept its subscribed capital unchanged after the Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, was reallocated among the euro area NCBs and the remaining non-euro area NCBs.

In 2020, the ECB's paid-up capital also remained unchanged at €7,659 million, as the remaining NCBs were required to cover the withdrawn Bank of England's paid-up capital of €58 million. In addition, euro area NCBs were required to pay up in full their increased subscriptions to the ECB capital in two equal annual instalments in 2021 and 2022. As a result, the Bank has paid up two instalments of €639,880 each in 2021 and 2022, thus increasing its share in the paid-up capital of the ECB to €9,233,731 (2021: €8,593,851).

This sub-item also includes the participating interest in the rest of the ECB equity. As at 31 December 2022, this amounted to €13,000,376, with no change from the previous year.

¹⁹ ECB Decision of 3 February 2020 on the implementation of the third covered bond purchase programme (recast) (ECB/2020/8), OJ L 39, 12.2.2020, p. 6, as amended by ECB Decision of 25 September 2020 (ECB/2020/48), OJ L 379, 13.11.2020, p. 58.

²⁰ ECB Decision of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45), OJ L 1, 6.1.2015, p. 4, as amended by ECB Decision of 10 September 2015 (ECB/2015/31), OJ L 249, 25.9.2015, p. 28, ECB Decision of 11 January 2017 (ECB/2017/3), OJ L 16, 20.1.2017, p. 55 and ECB Decision of 18 May 2017 (ECB/2017/15), OJ L 190, 21.7.2017, p. 24.

²¹ ECB Decision of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16), OJ L 157, 15.6.2016, p. 28 as amended by ECB Decision of 11 January 2017 (ECB/2017/4), OJ L 16, 20.1.2017, p. 57, ECB Decision of 18 May 2017 (ECB/2017/13), OJ L 190, 21.7.2017, p. 20 and ECB Decision of 24 March 2020 (ECB/2020/18), OJ L 91, 25.3.2020, p. 5 as amended by ECB Decision of 9 September 2022 (ECB/2022/29), OJ L 241, 19.9.2022, p.13. Under this programme, the NCBs may purchase investment grade euro denominated bonds issued by non-bank corporations established in the euro area.

A 9.2 Claims equivalent to the transfer of foreign reserves

This asset represents the Bank's claims arising from the transfer of foreign reserve assets to the ECB when the Bank joined the Eurosystem. As at 31 December 2021 and 2022 these claims amounted to €42,313,997. The remuneration of these claims is calculated daily at the latest available interest rate used by the Eurosystem in its tenders for MROs, adjusted to reflect a zero return on the gold component.

A 9.4 Net claims related to the allocation of euro banknotes within the Eurosystem

This sub-item reflects claims which would arise from application of the banknote allocation key (see 7 'Banknotes in circulation' in the general notes to the financial statements). As at the end of 2021 and 2022, the Bank had no claims in this respect but had a liability which is presented in L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

A 9.5 Other claims within the Eurosystem (net)

As at 31 December 2022, the balance of €5,456,040,418 (2021: €7,322,395,015) included three main components, namely; (i) the claim of the Bank vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB NCBs, including the ECB, plus the balances held with the Eurosystem NCBs through correspondent accounts, (ii) balances resulting from the pooling and allocation of monetary income within the Eurosystem pending settlement (see 5 'Net result of pooling of monetary income' in the notes to the profit and loss account), and (iii) balances with the ECB in respect of any amounts receivable or refundable.

In 2021 this item also included the amount due to the Bank in respect of the ECB's interim profit distribution. With respect to 2022, the Governing Council, in view of the ECB's overall financial result for the year, decided to retain the full amount of income derived from banknotes in circulation, as well as income earned on securities purchased under the SMP, APP and PEPP (see 8 'ECB profit distribution' in the general notes to the financial statements). Therefore, no related amounts were due at the end of 2022.

The remuneration of the debit balance in respect of TARGET2 is calculated daily at the latest available interest rate used by the Eurosystem in its tenders for MROs.

	2022	2021	Change
	€'000	€'000	€'000
TARGET2 balance	5,482,321	7,339,298	(1,856,977)
Net result from pooling of monetary income	(26,806)	(17,382)	(9,424)
ECB profit distribution	-	157	(157)
Other claims within the Eurosystem	525	322	203
Total	5,456,040	7,322,395	(1,866,355)

A 10 Items in course of settlement

These assets comprise transactions which were not yet settled as at the end of the financial year.

A 11 Other assets

A 11.1 Coins of euro area

This sub-item represents the Bank's holdings of euro coins issued by euro area countries.

A 11.2 Tangible and intangible fixed assets

Tangible and intangible fixed assets principally comprise the Bank's premises, computer hardware and software, equipment and other assets.

	Land and buildings	Other assets	Total
	€'000	€'000	€'000
Cost			
As at 31 December 2021	35,760	15,386	51,146
Additions	115	3,858	3,973
Derecognition of assets	-	(40)	(40)
Disposal of assets	-	(15)	(15)
As at 31 December 2022	35,875	19,189	55,064
Accumulated depreciation			
As at 31 December 2021	5,066	6,336	11,402
Charge for the year	510	1,790	2,300
Derecognition of assets	-	(28)	(28)
Disposal of assets	-	(15)	(15)
As at 31 December 2022	5,576	8,083	13,659
Net book value			
As at 31 December 2021	30,694	9,050	39,744
As at 31 December 2022	30,299	11,106	41,405
Right-of-use assets			
As at 31 December 2021	424	195	619
Additions	3	136	139
Depreciation charge for the year	(10)	(84)	(94)
As at 31 December 2022	417	247	664
Total net book value			
As at 31 December 2021	31,118	9,245	40,363
As at 31 December 2022	30,716	11,353	42,069

As at 31 December 2022, the net book value included an amount of €1,412,505 (2021: €1,984,266) which related to assets not yet available for use and not depreciated.

A 11.3 Other financial assets

The Bank holds an earmarked portfolio comprising MGS and Treasury bills purchased on the secondary market by the Bank in its role as market maker amounting to €227,502,533 (2021: €237,221,846) (see 'Securities and marketable investment funds' in 3 'Accounting policies' in the general notes to the financial statements).

A 11.4 Off-balance sheet instruments revaluation differences

This sub-item reflects revaluation gains arising on off-balance sheet positions, mainly foreign exchange forward transactions outstanding as at the balance sheet date.

A 11.5 Accruals and prepaid expenses

As at 31 December 2022, this sub-item consists of accrued interest income of €33,935,641 of which, €11,464,234 relates to interest attributable to intra-Eurosystem claims. As at 31 December 2021, this item mainly included accrued interest income of €19,223,236.

A 11.6 Sundry

Sundry assets mainly consisted of loans amounting to €13,444,455 (2021: €12,455,924) and unrealised losses attributable to the earmarked portfolio amounting to €47,374,819 (2021: €2,558,314). At 31 December 2022, these assets also included realised gains attributable to off-balance sheet positions, principally foreign exchange forward transactions outstanding at the year end, amounting to €32,827,352 (see L 12.3 'Sundry' in the notes to the balance sheet for position held as at 31 December 2021).

Liabilities

L 1 Banknotes in circulation

This item consists of the Bank's share of the total euro banknotes in circulation (see 7 'Banknotes in circulation' in the general notes to the financial statements).

During 2022, the total value of banknotes in circulation within the Eurosystem increased by 1.8% from €1,544 billion at 31 December 2021 to €1,572 billion at 31 December 2022. According to the banknote allocation key, the Bank had an amount of euro banknotes in circulation of €1,517,011,845 at the end of the year (2021: €1,490,332,490).

The value of the euro banknotes issued by the Bank in 2022 increased by 8.0% from €2,131,465,485 to €2,301,645,630 at year end. As this is more than the allocated amount, the difference of €784,633,785 (2021: €641,132,995) is shown under L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

L 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

These interest-bearing liabilities arise from the monetary policy operations conducted by the Bank on behalf of the Eurosystem.

L 2.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances of credit institutions that are required to hold minimum reserves, excluding funds of credit institutions that are not freely disposable and accounts of credit institutions exempt from minimum reserve requirements, which are disclosed separately under L3 "Other liabilities to euro area credit institutions denominated in euro".

The minimum reserve requirements must be met on average over the reserve maintenance period in accordance with the schedule published by the ECB. Until 20 December 2022, these minimum reserve balances were remunerated at the latest available interest rate used by the Eurosystem in its tenders for MROs. As from 21 December 2022, consequent to the Governing Council decision of 27 October 2022, these balances are to be remunerated at the Eurosystem's deposit facility rate.

Throughout the financial year ended 31 December 2021, the deposit facility rate remained unchanged at the level of -0.5%. The following table shows the changes in this interest rate during 2022 as decided by the Governing Council.

With effect from:	Changes in basis points (bps)	Effective rate (%)
	2022	
1 January	-	-0.50
27 July	+50bps	0.00
14 September	+75bps	0.75
2 November	+75bps	1.50
21 December	+50bps	2.00

As for the reserve holdings exceeding the required minimum reserves, since June 2014, these have been remunerated at zero per cent or the deposit facility rate, whichever is lower. As from 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration consisting of exempt and non-exempt tiers. The exempt tier, which was determined as a multiple of six²² on an institution's minimum reserve requirements, was remunerated at zero per cent. The non-exempt tier of excess liquidity holdings continued to be remunerated at zero per cent or the deposit facility rate, whichever was lower. Following the Governing Council's decision of 14 September to increase the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves was deemed to no longer be necessary and was thus suspended by setting the multiplier equal to zero.

Current accounts amounting to €867,726,908 remained outstanding as at 31 December 2022 (2021: €7,707,110,197).

L 2.2 Deposit facility

This facility is available to eligible counterparties to make overnight deposits with Eurosystem NCBs at pre-specified rates. During 2022, the aggregate volume of such deposits with the Bank amounted to €438,149,403,249 (2021: €4,640,000,000). As at 31 December 2022, outstanding deposits amounted to €4,976,618,544 (2021: NIL).

L 2.3 Fixed-term deposits

These liabilities relate to liquidity absorbing fine-tuning operations for a fixed-term at variable rate tenders. No liquidity absorbing fine-tuning operations were conducted by the ECB during the years ended 31 December 2021 and 2022. Accordingly, there were no outstanding liquidity absorbing fine-tuning operations as at 31 December 2021 and 2022.

L 2.4 Fine-tuning reverse operations

Fine-tuning liquidity absorbing reverse operations are executed on an ad hoc basis through bilateral procedures with the purpose of managing the liquidity situation in the market and setting interest rates. Their frequency and maturity are not standardised. No fine-tuning absorption reverse operations were conducted during the years ended 31 December 2021 and 2022, and accordingly there were no outstanding operations as at 31 December 2021 and 2022.

L 2.5 Deposits related to margin calls

This sub-item refers to cash received from counterparties in those instances where the market value of the collateral pledged has fallen below an established trigger point, implying a shortfall of collateral to cover the outstanding monetary policy operations. During 2022, the aggregate volume of deposits related to margin calls with the Bank amounted to €32,691,508. There were no outstanding deposits related to margin calls as at 31 December 2021 and 2022.

L 3 Other liabilities to euro area credit institutions denominated in euro

As at 31 December 2022, this item consisted of funds of credit institutions that were not freely disposable amounting to €6,794,925 (2021: €77,505,968).²³

²² The multiplier may be adjusted by the Governing Council over time in line with changing levels of excess liquidity holdings.

²³ ECB Decision of 11 November 2021 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2021/51), OJ L 419, 24.11.2021, p. 14.

L 5 Liabilities to other euro area residents denominated in euro

L 5.1 General government

This liability includes current and sinking fund accounts denominated in euro held by the Government of Malta. These balances are repayable on demand and remunerated in accordance with the provisions established by the Governing Council.²⁴

	2022	2021	Change
	€'000	€'000	€'000
Current accounts	454,817	626,224	(171,407)
Sinking fund accounts	118,245	180,916	(62,671)
Total	573,062	807,140	(234,078)

L 5.2 Other liabilities

This sub-item included current accounts in euro which are repayable on demand amounting to €192,416,450 (2021: €173,553,167),²⁵ of which €42,932,360 (2021: €42,218,247) related to balances of former credit institutions. These balances are remunerated in accordance with the provisions established by the Governing Council.²⁶

Collateralised inward deposits, which as at 31 December 2022 amounted to €335,000,000 (2021: €260,000,000), are also included in this sub-item. These liabilities are attributable to securities sold subject to repurchase agreements entered into by the Bank (see 'Sale and repurchase agreements and lending of securities' in 3 'Accounting policies' in the general notes to the financial statements).

L 6 Liabilities to non-euro area residents denominated in euro

This item consists of balances denominated in euro held by international and supranational organisations and by non-Eurosystem central banks, including the IMF No. 2 current account for administrative expenses (see 'Claims on the International Monetary Fund' in 3 'Accounting policies' in the general notes to the financial statements). As at 31 December 2022, balances with such organisations amounted to €67,616,138 (2021: €31,078,794). Whereas the IMF account is non-interest bearing, the other balances are remunerated in accordance with the provisions established by the Governing Council.²⁷

L 7 Liabilities to euro area residents denominated in foreign currency

Balances held by the Government of Malta which are repayable on demand and other customer deposits are included in this item. Deposits by banks are subject to fixed interest rates. All other balances are remunerated in accordance with the provisions established by the Governing Council.²⁸ Other current accounts

²⁴ ECB Decision of 20 February 2014 on the prohibition of monetary financing and the remuneration of government deposits by national central banks (ECB/2014/8), OJ L 159, 28.5.2014, p. 54 as amended by ECB Decision of 4 September 2015 (ECB/2015/29), OJ L 245, 22.9.2015, p. 12 and ECB Decision of 9 April 2019 (ECB/2019/8), OJ L 113, 29.04.2019, p. 9; the Guideline of 9 April 2019 on domestic assets and liability management operations by the national central banks (recast) (ECB/2019/7), OJ L 113, 29.4.2019, p. 11; and ECB Decision of 15 October 2019 on the remuneration of holdings of excess reserves and of certain deposits (recast) (ECB/2019/31), OJ L 267, 21.10.2019, p. 12 as amended by ECB Decision of 8 September 2020 (ECB/2020/38), OJ L 297, 11.9.2020, p. 5, ECB Decision of 26 May 2021 (ECB/2021/25), OJ L 191, 31.5.2021, p.43 and ECB Decision of 16 December 2022 (ECB/2022/47), OJ L 3 5.1.2023, p. 16.

²⁵ See L 3 'Other liabilities to euro area credit institutions denominated in euro' in the notes to the balance sheet.

²⁶ See footnote 24.

²⁷ See footnote 24.

²⁸ See footnote 24.

and fixed-term deposits included balances of former credit institutions amounting to €71,035,200 (2021: €72,934,269).

	2022	2021	Change
	€'000	€'000	€'000
Government of Malta current accounts	100,316	42,388	57,928
Government of Malta sinking fund accounts	25	41	(16)
Liabilities to banks	128,246	179,925	(51,679)
Other current accounts and fixed-term deposits	82,022	88,642	(6,620)
Total	310,609	310,996	(387)

L 8 Liabilities to non-euro area residents denominated in foreign currency

L 8.1 Deposits, balances and other liabilities

This sub-item consists of balances denominated in foreign currency.

L 9 Counterpart of special drawing rights allocated by the IMF

This item represents the counterpart of SDR allocated by the IMF to Malta (see A 2.1 'Receivables from the IMF' in the notes to the balance sheet).

L 10 Intra-Eurosystem liabilities

This item represents the Bank's liabilities to the ECB and to the other Eurosystem NCBs.

L 10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This sub-item consists of the liability of the Bank vis-à-vis the Eurosystem relating to the excess of euro banknotes issued by the Bank over and above the amount allocated to the Bank by the ECB in accordance with the banknote allocation key (see L 1 'Banknotes in circulation' in the notes to the balance sheet). The increase in the excess euro banknotes in 2022 reflects the relatively higher increase (8.0%) in the banknotes issued by the Bank as compared to the increase in banknotes put into circulation by the Eurosystem as a whole (1.8%).

L 10.4 Other liabilities within the Eurosystem (net)

As at 31 December 2021 and 2022, the Bank had a net claim within the Eurosystem as reported under A 9.5 'Other claims within the Eurosystem (net)'.

L 12 Other liabilities

L 12.1 Off-balance sheet instruments revaluation differences

This sub-item reflects revaluation losses arising on off-balance sheet positions, mainly foreign exchange forward transactions outstanding as at the balance sheet date.

L 12.2 Accruals and income collected in advance

This sub-item includes accrued interest expense on interest-bearing liabilities, and other accrued expenses.

	2022	2021	Change
	€'000	€'000	€'000
Accrued interest payable	12,180	6,741	5,439
Others	278	584	(306)
Total	12,458	7,325	5,133

L 12.3 Sundry

This sub-item mainly includes accrued operating expenses and sundry liabilities, of which €663,646 (2021: €618,650) relates to the lease liability (see 'Leases' in 3 'Accounting policies' in the general notes to the financial statements).

As at 31 December 2021, these liabilities included realised losses attributable to off-balance sheet positions outstanding as at that date amounting to €15,785,360. As at end of year 2021, this sub-item also included unrealised revaluation gains attributable to MGS and Treasury bills held as part of an earmarked portfolio amounting to €5,955,636. For the corresponding positions as at 31 December 2022, see A 11.6 'Sundry' in the notes to the balance sheet.

L 13 Provisions

Provision for financial risks

This item comprises a provision for financial risks, which is used to the extent as deemed necessary by the Board of Directors. The size and continuing requirement for this provision is reviewed annually, based on the Bank's assessment of its exposure to financial risks. The Bank's financial risks are fully covered with the provision and the capital and reserves.

As at end of 2022, an amount of €20,908,106 was released from this provision due to the materialisation of financial risks. Consequently, the Bank's financial result for the year amounted to zero. Following the release from provision to the profit and loss account, as at 31 December 2022, the provision amounted to €107,900,554 (2021: €128,808,660).

Provision for credit risks in monetary policy operations

During 2022, there were no impairment losses on monetary policy operations which resulted in provision for credit risks (see A 7.1 'Securities held for monetary policy purposes' in the notes to the balance sheet).

L 14 Revaluation accounts

The revaluation accounts include the unrealised revaluation gains arising from the valuation of foreign currency on and off-balance sheet positions, gold, marketable securities and investment funds at year end.

	2022	2021	Change
	€'000	€'000	€'000
Gold	-	333	(333)
Foreign currency positions	7	4	3
Marketable instruments	658	11,217	(10,559)
Total	665	11,554	(10,889)

L 15 Capital and reserves

The following table analyses the movement in capital and reserves of the Bank:

	Capital €'000	General reserve fund €'000	Reserve for risks and contingencies €'000	Capital contribution €'000	Total €'000
Balance as at 31 December 2021	20,000	75,505	187,776	93,502	376,783
Net issuance of euro coins	-	-	-	5,313	5,313
Balance as at 31 December 2022	20,000	75,505	187,776	98,815	382,096

L 15.1 Capital

In terms of article 19(1) of the Act, the Bank shall have an authorised capital of €20,000,000. This is fully paid-up and is held exclusively by the Government of Malta.

L 15.2 Reserves

General reserve fund

In terms of article 19(2) of the Act, the Bank shall also maintain a general reserve fund which shall be of not less than €20,000,000 and which shall be available for any purpose as may be determined by the Board of Directors. Whenever amounts are drawn from the general reserve fund, these shall be replaced as may be decided by the Board.

Reserve for risks and contingencies

The reserve for risks and contingencies is maintained in terms of article 22(1) of the Act to cover the broad range of risks to which the Bank is exposed. The major risks in this regard arise from potential movements in market values of the Bank's holdings of domestic and foreign securities and other investments, losses which could arise from support of the financial system in the Bank's role as a lender of last resort and other non-insured losses.

Capital contribution

This reserve represents the capital contribution made by the Government of Malta to the Bank in respect of the agency agreement between the Bank and the Government relating to the issuance of euro coins. The Bank shall act as agent of the Government and shall retain full responsibility for procurement, storage and issuance of euro coins. This reserve represents seigniorage revenue arising from the issue of euro coins. In terms of the agency agreement, the Government has agreed not to withdraw such revenue and retain these amounts in a reserve account held at the Bank. Allocation of revenue to the reserve account shall be deemed as a capital contribution to the Bank by the Government.

Notes to the profit and loss account

1 Net interest income

This item represents the net result of interest income and interest expense. During 2022, the Governing Council increased the key ECB interest rates to positive territory (see A5.1 'Main Refinancing Operations' and L2.1 'Current accounts (covering the minimum reserve system)' in the notes to the balance sheet). The negative interest rates which prevailed until 26 July 2022, gave rise to interest expense on certain financial assets, and interest income on certain financial liabilities. Interest income or expense on monetary policy operations are netted on a balance sheet sub-item level (see 'Recognition of income and expenses' in 3 'Accounting policies' in the general notes to the financial statements).

1.1 Interest income

Interest income includes income on foreign reserve assets and euro-denominated portfolios, as well as interest income on monetary policy instruments.

	2022 €'000	2021 €'000	Change €'000
Marketable debt securities			
- In euro	10,247	8,398	1,849
- In foreign currency	15,925	10,849	5,076
Current accounts and overnight deposits			
- In euro	(4)	(11)	7
- In foreign currency	109	(7)	116
IMF	457	1,113	(656)
Monetary policy operations			
- Main refinancing operations	60	-	60
- Minimum reserves	14,231	22,721	(8,490)
- Overnight deposits	-	94	(94)
- Deposits related to margin calls	1	1	-
- Securities acquired under the SMP	672	672	-
- Securities acquired under the PSPP	14,260	11,994	2,266
- Securities acquired under the PEPP	3,165	1,071	2,094
Intra-Eurosystem claims			
- Target 2 Balances	35,613	-	35,613
- Claims arising from the transfer of foreign reserves	211	-	211
Forward foreign exchange contracts	(5,435)	(2,592)	(2,843)
Marketable investment funds	8,521	5,308	3,213
Other interest income	66	24	42
Total	98,099	59,635	38,464

1.2 Interest expense

Interest expense mainly arises from Government of Malta and other customer accounts and net liabilities to euro area credit institutions related to monetary policy operations.

	2022	2021	Change
	€'000	€'000	€'000
Government accounts			
- In euro	(463)	(4,422)	3,959
- In foreign currency	1,156	(30)	1,186
Other customer accounts			
- In euro	(141)	(1,347)	1,206
- In foreign currency	4,457	547	3,910
Monetary policy operations			
- Longer-term refinancing operations	3,239	4,753	(1,514)
- Overnight deposits	20,662	-	20,662
Intra-Eurosystem liabilities			
- Net liabilities related to the allocation of banknotes within the Eurosystem	4,331	-	4,331
Other interest expense	(61)	(1,451)	1,390
Total	33,180	(1,950)	35,130

2 Net result of financial operations, write-downs and risk provisions

2.1 Realised gains/losses arising from financial operations

This sub-item includes realised gains arising from the disposal of financial instruments, mainly debt securities, and reductions in foreign currency positions.

	2022	2021	Change
	€'000	€'000	€'000
Net gains on disposal of financial instruments	4,184	14,112	(9,928)
Net gains on foreign currency positions	315	667	(352)
Total	4,499	14,779	(10,280)

2.2 Write-downs on financial assets and positions

This sub-item comprises unrealised revaluation losses arising from the price revaluation of marketable debt securities and investment funds and the exchange rate revaluation of foreign currency assets and liabilities, including off-balance sheet positions, by comparing the market value at balance sheet date with the average book value.

	2022	2021	Change
	€'000	€'000	€'000
Write-downs on marketable instruments	37,273	7,752	29,521
Write-downs on foreign currency positions	115	1	114
Total	37,388	7,753	29,635

2.3 Transfer to/from provision for financial risks

This sub-item consists of movements in provisions (see L 13 'Provisions' in the notes to the balance sheet).

3 Net income/expense from fees and commissions

Fees and commissions receivable mainly arise from banking services provided by the Bank. Fees and commissions payable include correspondent account charges, handling fees on cheques drawn on the Bank and TARGET2 connection and participation fees.

4 Income from equity shares and participating interests

During 2022, the Bank received an amount of €43,750 (2021: €401,771) representing its relative share of the ECB's distributable remaining profits for 2021, in proportion to the Bank's subscribed capital key (see 6 'Capital key' in the general notes to the financial statements).

As at 31 December 2021, this caption also included an amount of €157,325 due to the Bank with respect to the ECB's 2021 interim profit distribution (see 8 'ECB profit distribution' in the general notes to the financial statements). As outlined in note A9.5 'Other claims within the Eurosystem (net)' in the notes to the balance sheet, there were no related amounts for 2022.

5 Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2022 amounting to an expense of €26,815,518 (2021: €17,205,760). In 2022, a net income of €9,650 was received in relation to adjustments for previous years as against a net expense of €176,554 paid in 2021.

There was no provision against losses in monetary policy portfolios in 2021 and 2022.

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that is derived from the earmarkable assets held against the liability base. The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem, accrued interest recorded at quarter-end by each NCB on monetary policy liabilities with a maturity of one year or longer; liabilities vis-à-vis the ECB backing the claim in relation to swap agreements that earn net income for the Eurosystem; and deposit liabilities to defaulted Eurosystem counterparties which have been reclassified from L 2.1 'Current accounts (covering the minimum reserve system)'. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; claims on euro area counterparties related to swap agreements between the ECB and non-Eurosystem central banks that earn net income for the Eurosystem; accrued interest recorded at quarter-end by each NCB on monetary policy assets with a maturity of one year or longer; and a limited amount of each NCB's gold holdings in proportion to each NCB's capital key share.

The amount of each NCB's monetary income shall be determined by measuring the actual income that is derived from the earmarkable assets recorded in its books. As an exception to this, gold is considered to generate no income and the following are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for MROs: securities held under CBPP,²⁹ CBPP2³⁰ and

²⁹ ECB decision of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L175, 4.7.2009, p. 18.

³⁰ ECB decision of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L297, 16.11.2011, p. 70.

debt instruments issued by central, regional and local governments and recognised agencies and substitute debt instruments issued by public non-financial corporations under the PSPP and PEPP.

The net income derived from the earmarkable assets held and the liability base shall be offset by applying the latest applicable marginal rate for the Eurosystem MROs to the difference between the value of the NCB's earmarkable assets and the value of the liability base.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the ECB capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and the liability base deviates from its share in the subscribed capital of the ECB. The net result arising from the calculation of monetary income for 2021 and 2022 was a payment by the Bank. This net result is the difference between the net monetary income pooled by the Bank amounting to €34,300,039 (2021: €18,433,059) and the redistributed amount of €7,484,520 (2021: €1,227,299).

6 Other income

This item mainly includes the income from the issuance of numismatic coins.

7 Staff costs

Staff costs consist of salaries and other ancillary costs.

	2022	2021	Change
	€'000	€'000	€'000
Staff salaries	12,752	12,429	323
Other staff costs	1,161	1,248	(87)
Training, welfare and other related expenditure	1,020	921	99
Total	14,933	14,598	335

The full-time equivalent average number of staff employed by the Bank during the year was as follows:

	2022	2021	Change
	Number	Number	Number
Governors	3	3	-
Chief Officers	8	7	1
Heads and executives	192	182	10
Officers II and I	113	126	(13)
Non-clerical staff	30	29	1
Total	346	347	(1)

8 Administrative expenses

This item consists of operating expenditure incurred by the Bank.

Administrative expenses of €10,581,822 (2021: €9,497,041) comprised maintenance expenditure, professional fees, travelling costs and other expense items which were incurred in the course of the Bank's operations. Auditors' remuneration, inclusive of VAT, for the year ended 31 December 2022 amounted to €162,660 (2021: €126,100).

Compensation to the members of the Board of Directors for the financial year ended 31 December 2022 amounted to €407,625 (2021: €408,256). The Governor, Deputy Governors and the other members of the Board of Directors are entitled to benefits and refund of certain other expenses.

9 Depreciation of tangible and intangible fixed assets

Depreciation of buildings, computer hardware and software, equipment and other assets was charged to the Bank's profit and loss account according to the depreciation rates disclosed in 'Tangible and intangible fixed assets' and 'Leases' in 3 'Accounting policies' in the general notes to the financial statements.

10 Banknote production services

This item consists of expenditure relating to the procurement and transportation of euro banknotes and other ancillary costs.

Other notes

Off-balance sheet instruments

As at 31 December 2022, the Bank had outstanding net foreign exchange forward and swap contracts of €778,181,024 (2021: €548,196,775) against other currencies (mainly the US dollar). There were no unsettled net spot transactions as at 31 December 2022 (2021: €26,460,000).

At the balance sheet date, the Bank had outstanding interest rate futures contracts linked to German government securities (net short position with a notional amount of €5,100,000) and US treasury notes (net short position with a notional amount of US\$900,000).

Contingent liabilities and commitments

As at the end of the year, the Bank had commitments in respect of tangible and intangible fixed assets which extended beyond the balance sheet date. Capital commitments, which amount to €5,480,500 (2021: €8,540,800), are expected to be incurred during the forthcoming financial year and relate mainly to capital expenditure attributable to buildings and investment in IT.

Transactions with Government

In the course of its operations, the Bank conducts banking transactions with, and provides several banking services to, the Government of Malta, government departments, public sector corporations and other entities owned by the Government. The Bank holds the principal accounts of the Government and maintains accounts for the other entities. Balances held with the Bank by the Government and the other entities as at the balance sheet date, together with the terms of such instruments, are disclosed in L 5 'Liabilities to other euro area residents denominated in euro' and L 7 'Liabilities to euro area residents denominated in foreign currency' in the notes to the balance sheet. The net interest on deposits arising from these banking transactions is recognised in 1.2 'Interest expense' in the Bank's profit and loss account. The Bank provides these entities with foreign exchange and related services, which do not have a significant impact on the Bank's profit and loss account.

Market maker in Malta Government securities

The Bank acts as market maker in MGS and Treasury bills and ensures their liquidity in the secondary market by being ready to trade in such securities on the initiative of the market (see A 11.3 'Other financial assets' in the notes to the balance sheet). Income earned by the Bank from these assets, amounting to €3,054,949 (2021: €2,745,402), is included in 1.1 'Interest income' in the notes to the profit and loss account and presented within income from euro marketable debt securities.

Investment securities pledged as collateral

As at 31 December 2022, investment securities were pledged as collateral against the provision of credit lines by a counterparty up to an amount of US\$65,000,000 or approximately €60,941,000 (2021: US\$65,000,000 or approximately €57,391,000). No amounts were borrowed under these facilities at the balance sheet dates.

Assets held in custody

As at 31 December 2022, assets held in custody by the Bank in terms of the Insurance Business Act (Cap. 403) amounted to the equivalent of €13,612,896 (2021: €19,146,336).

Management of funds belonging to the Investor and Depositor Compensation Schemes

The Bank is an investment manager in respect of funds belonging to the Investor and Depositor Compensation Schemes. These funds are managed on a discretionary basis in accordance with the investment parameters set by the Management Committees of the respective Schemes. As at 31 December 2022, the Investor and Depositor Compensation Schemes had deposits of €547,645 (2021: €208,081) and €12,167,168 (2021: €8,089,302) respectively, with the Bank.

Statement of the Bank's investments as at 31 December 2022

	EUR €'000	USD €'000	Others €'000	Total €'000
Cash and balances with banks				66,423
Gold balances				3,412
Securities by issuer category:				
Government	2,078,888	53,928	140,177	2,272,993
Monetary financial institutions	524,451	234,005	193,356	951,812
Other financial institutions	170,494	52,552	51,941	274,987
Non-financial institutions	14,903	7,971	-	22,874
Supranational	37,917	23,716	46,904	108,537
	2,826,653	372,172	432,378	3,631,203
Claims on the IMF				368,789
Participating interest in the ECB				22,234
Transfer of foreign reserves to the ECB				42,314
Marketable investment funds				423,755
Total investments				4,558,130



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Independent Auditors' Report

To the Directors of the Central Bank of Malta

Opinion

We have audited the financial statements of the Central Bank of Malta (the "Bank") which comprise the balance sheet as at 31 December 2022, the profit and loss account for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance for the year then ended in accordance with the basis of accounting described in the guideline on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) ECB/2016/34 issued on 3 November 2016 as amended by subsequent European Central Bank guidelines (the "Guideline"), as established by the Central Bank of Malta Act (Chapter 204, Laws of Malta).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Directors of the Central Bank of Malta

Other information

The directors are responsible for the other information. The other information comprises

- (i) the 'Directors' Report', which we obtained prior to the date of this auditor's report; and
- (ii) the 'Governor's Statement', the 'Financial and Economic Developments'; and the 'Bank Policies, Operations and Activities', which are expected to be made available to us after that date.

The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received identified in this section of our report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors. In the event that a material misstatement in the other information not yet received is not corrected by the directors, we are required to determine the appropriate course of action in accordance with the requirements of ISAs.

Responsibilities of the directors for the financial statements

As those charged with governance of the Bank, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the basis of accounting described in the Guideline, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Independent Auditors' Report (continued)

To the Directors of the Central Bank of Malta

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors are required to use the going concern basis of accounting as pronounced in the Guide-line, provided there are no factual or legal impediments to do so.

The directors are also responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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Independent Auditors' Report (continued)

To the Directors of the Central Bank of Malta

Auditors' responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Claude Ellul.

KPMG
Registered Auditors

20 March 2023

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