



6. CORPORATE GOVERNANCE

Governance

Board of directors

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

During 2023, the Board of Directors was composed of Professor Edward Scicluna as Governor and Chairman, Mr Alexander Demarco and Mr Oliver Bonello as Deputy Governors responsible for Monetary Policy and Financial Stability, respectively and Professor Peter J. Baldacchino, Professor Frank Bezzina, Dr Romina Borg and Dr Lauren Ellul as non-executive Directors. There were no changes to the Board composition during 2023. The terms of office of Deputy Governor Alexander Demarco ended on 31 December 2023. The President of Malta, acting on the advice of the Cabinet of Ministers reappointed Mr Alexander Demarco for a period of five years with effect from 1 January 2024. The terms of office of Professor Bezzina, Professor Baldacchino and Dr Borg as non-executive Directors ended on 31 December 2022, 13 April 2023 and 16 December 2023, respectively. The Prime Minister, acting on the advice of the Cabinet of Ministers, in accordance with the provisions of the Central Bank of Malta Act (Cap. 204), reappointed Professor Bezzina, Professor Baldacchino and Dr Borg as non-executive Directors of the Central Bank of Malta for a period of five years with effect from 1 January 2023, 14 April 2023 and 17 December 2023, respectively. All members of the Board are appointed for a statutory term of five years and are eligible for reappointment. Mr Francis Bugeja continued to act as Secretary to the Board. The Board of Directors met 12 times in 2023.

Management and internal organisation

In January, the Board of Directors of the Central Bank of Malta agreed to upgrade the post of Manager Security Control to the grade of Senior Executive and in this regard, approved the issue of a call for applications, both internally and externally.

In March, the Board approved the issue of three vacancies related to the restructuring of the Monetary Operations & Government Securities Office. During the same month, the Board approved that structurally, International Asset Management Office would be composed of three different sections namely: Multi Assets and Repos; Multi Asset and Sustainable & Responsible Investment Desk; and Foreign Exchange & Money Market, Local Service Desk and Projects. Each section would be managed by a Manager in the Senior Executive grade. In June, the Board revised the interest rates applicable to staff house loans. In July, the Board approved the Bank's Equality, Diversity and Inclusion Strategy. In October, the Board approved further restructuring within the Financial Markets Division by shifting Market Analysis Office from the Financial Asset Management Department to the Monetary Operations & Government Securities Department. In October, the Board also approved the setting up of a database of the Bank's decisions relating to procurement.

In December, the Board of Directors approved the 2024 Corporate Strategic Plan and Projects Report of the Bank. The annual budget of the Bank for a three-year period was concurrently approved.

In October 2022, the Central Bank of Malta had established a Financial Crimes Compliance Department with a view to overseeing all financial crime compliance issues and concerns for the Bank. Accordingly, the

Bank ensures that due diligence is performed on all new accounts opened at the Bank and also caters for any due diligence requests being received from correspondents and counterparties. The Bank takes steps to ensure that any international sanctions imposed by the United Nations Security Council and the Council of the European Union are adhered to. This is mainly performed by screening the Bank's client base against the respective sanctions lists daily. SWIFT and other payments are also screened against the sanctions lists. In addition, the Bank prepared an internal *Anti-Money Laundering/Counter Financing of Terrorism* training session, launched in the first quarter of 2024.

Audit Committee

The Bank's Audit Committee, chaired by Professor Peter J. Baldacchino and including Professor Frank Bezzina, Dr Lauren Ellul and Dr Romina Borg, convened ten times during the year. During such meetings, the Chief Officer Internal Audit continued to brief Committee members on matters relating to governance, risk management, and the adequacy and effectiveness of the design and deployment of controls across the Bank. Updates on the completion of the Annual Audit Plan, comprising both local and ESCB audits, were also provided. The Bank completed the Annual Audit Plan by the end of 2023. Furthermore, the Chief Officer Internal Audit regularly informed Committee members on progress in addressing outstanding audit findings, whilst tendering regular bank-wide, divisional and individual business area audit opinions. During the October meeting, the Chief Officer Internal Audit once again reported on the Department's annual review of its five-year rolling strategic plan. The report provided a detailed account of the Department's progress towards full attainment of its strategic goals.

The Audit Committee was also briefed on operational and business continuity aspects.

External auditors

The Bank's external auditors, Deloitte Audit Limited, carried out the statutory audit for the financial year ending 31 December 2023, expressing their opinion on the financial statements and presenting their Management Letter to the Board.

Internal Audit Department

The Internal Audit Department continued to provide assurance through the conduct of risk-based audits in line with the approved 2023 Annual Audit Plan. The Department completed 20 local audit engagements, the vast majority of which assessed the effectiveness of governance, risk management and control processes implemented across several business areas. In line with methodological developments previously introduced, the Department provided for each of these audits an opinion on the level of efficiency demonstrated in the use and deployment of resources. Staff conducted a smaller number of audits focusing specifically on areas inherently deemed more susceptible to fraud. Furthermore, several asset spot checks were also performed throughout the year.

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

During the year, the Internal Audit function also underwent an External Quality Assessment by Ernst and Young which confirmed that the function "generally conforms" to all Institute of Internal Auditors Standards and Code of Ethics. The Assessment attested that all requirements established by the ESCB/SSM and the Bank's Internal Audit Charters and the IAC's and Bank's Internal Audit Manuals were fully met. The outcome of this assessment was presented to the Board of Directors prior to submission to the IAC.

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

Risk Management

The Risk Committee met six times during 2023. The Committee members focussed on risks related to the Bank's operations and financial assets on the bank's balance sheet. The Committee discussed various risks together with any arising incidents, agreed on appropriate mitigation measures and monitored the implementation thereof.

The operational risk status of the various business areas was reported on a regular basis to the Risk Committee. The Bank finalised the fifth cycle of the annual Operational Risk Management (ORM) exercise which was presented to the Risk Committee and Audit Committee. The report will also be tendered to the Board of Directors in the first quarter of 2024.

During 2023, business areas updated their existing Business Impact Analysis and created new ones where necessary. Each business area reviewed the business continuity plans of its critical operations and regular resilience testing was carried out. The Risk Committee and the Audit Committee were informed about the results of the Business Continuity Management (BCM) fourth cycle. The latter report will also be presented to the Board of Directors in the first quarter of 2024.

In 2023, the Bank reconducted a consolidation exercise with all business areas to ensure that the existing policies and processes are covered in the ORM and BCM cycles. Managers and Operational Risk Coordinators of all business areas were given training on the ORM and BCM frameworks, incident reporting, and roles and responsibilities.

The Bank updated several Policies and Frameworks relating to operational risk and business continuity which were presented to the Risk Committee. The Audit Committee and the Board of Directors will also be updated on the matter in the first quarter of 2024.

As part of its information security responsibilities, several risk assessments were carried out by the ORM office on various Bank initiatives. The section responsible for information security is in the final stages of developing a new policy in this area and updating the associated framework and standards.

Staff participated in the monthly IPC meetings. In addition, the Bank analysed the performance of assets under management and compared it to the tactical and strategic benchmarks. The Bank also closely monitored the performance of the investments managed by the Bank's external asset managers. Moreover, the Board of Directors approved the Strategic Asset Allocation exercise for 2024-2026.

In March 2023, the Bank published its first annual climate related disclosures for its euro denominated NMPPs. Disclosures focussed on governance, strategy, risk management aspects and the calculation of various metrics and setting of targets. The various climate-related metrics of the Bank's individual holdings were estimated. This included the weighted average carbon intensity, total carbon emissions and carbon footprint amongst others.

Legal issues

In 2023, the Bank issued and amended the following Central Bank of Malta Directives:

1. Directive No. 1 on the Provision and Use of Payment Services was amended to stipulate that any complaints were to be submitted directly to the Bank as the competent authority in the event of infringements or suspected infringements of the provisions of this Directive.
2. Directive No. 6 on Harmonised Conditions for Opening and Operating Payments Module Accounts, T2S Dedicated Cash Accounts in T2-Malta, and TIPS Dedicated Cash Accounts on T2-Malta and Directive No. 7 on the Provision of Intraday Credit and Auto-Collateralisation were repealed in their entirety by means of Guideline ECB/2022/8 on a new-generation TARGET system.

Subsequent to the above, the Bank implemented Guideline ECB/2022/8 in a newly published Directive No. 6 on New Generation TARGET, divided into three sections, namely:

- a) Harmonised Conditions for Participation in TARGET (Annex I),
- b) TARGET Governance Arrangements (Annex II) and
- c) Definitions (Annex III).

The effective date of this new Directive was 20 March 2023 and participants to TARGET-Malta were to adhere to its provisions as from such date.

3. Directive No. 8 on Monetary Policy Instruments and Procedures was amended following the annual update of the Eurosystem monetary policy framework.
4. Directive No. 20 on Cross-Border Payments was amended to specify that the Bank shall remain the competent authority for the purposes of Regulation (EU) 2021/1230 on cross-border payments in the European Union.

The Bank's in-house legal team continued to advise on diverse legal, contractual and operational matters. Business areas were assisted in revising several of the Bank's policies and procedures and in vetting contracts, agreements and memoranda of understanding entered into by the Bank. Legislative developments impacting the Bank were also thoroughly assessed.

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

1. Malta is a member of the IMF in terms of the Malta Membership of the IMF Act (Cap. 209 of the Laws of Malta, referred to as the 'principal Act'). The Articles of Agreement of the IMF (being the Articles of Agreement adopted at the United Nations Monetary and Financial Conference on the 22 July 1944) are set out in the Schedule to the principal Act. Changes in the Articles of Agreement were agreed upon by the IMF's members and were affected by the IMF itself. By means of Act No. VII of 2023, published on 14 March 2023, the Schedule to the principal Act was amended to reflect the changes affected to the Articles of Agreement and to also correct drafting errors in the principal Act.
2. Legal Notice 211 of 2023 titled *Malta Membership of the International Monetary Fund (2023 Contribution Agreement) Order, 2023* was published on 7 September 2023. This Legal Notice concerns the agreement entered into by the Bank and the IMF in relation to the Resilience and Sustainability Facility of the Trust with a view to lend to the IMF a Special Drawing Right denominated amount.
3. Legal Notice 265 of 2023 titled *Malta Membership of the European Bank for Reconstruction and Development Act (Amendment of Schedule) Regulations, 2023* was published on 14 November 2023. This Legal Notice aligns the text of the provisions of the Agreement of the European Bank for Reconstruction and Development (EBRD) with the updated version of the Agreement, more specifically, by implementing the changes within Article 1 and sub-article 1 of Article 12 of the Agreement as approved to by the Board of Governors of the EBRD.

The Bank's responsibilities in the area of compliance include the conduct of periodic exercises, such as the annual Bank-wide data protection stocktake exercise and the bi-annual prevention of abuse of insider information compliance exercise. The Bank amended its Code of Conduct and Policy on the Prevention of Abuse of Insider Information in order to align them with the ECB Guideline 2021/2253 laying down the principles of the Eurosystem Ethics framework, which had to be implemented by 1 June 2023.

Staff participated in various internal committees and continued to participate in the ESCB's Legal Committee and its sub-structures.



Governor's activities (local and international)

As a member of the Governing Council and the General Council of the ECB, the Governor of the Central Bank of Malta, Professor Edward Scicluna, attended, in 2023, the regular ECB Governing Council and General Council meetings. He also took part in board meetings of several international institutions, of which he is a Board Member, Governor or Alternate Governor. These include the International Monetary Fund, the World Bank Group, the Asian Infrastructure Investment Bank and the European Bank for Reconstruction and Development. The Governor of the Central Bank of Malta, as a member of the ESRB, also attended its meetings in 2023.

During 2023 the Governor served as Deputy Chairman of the Board of Governors of the MFSA and Member of the National Coordinating Committee on Combating Money Laundering and the Funding of Terrorism. He also attended the meetings of the Malta Council for Economic and Social Development (MCESD) and the Research, Innovation and Development Trust (RIDT) of the University of Malta, of which he is a trustee.

In addition, the Governor, welcomed local and overseas distinguished guests, including Ministers, Ambassadors and foreign diplomatic representatives and academics. In 2023, the Governor was a keynote speaker at high level conferences and seminars. Several local and foreign media houses interviewed Professor Scicluna in 2023.

- Launch of the Governor's video Blog, 9 January.
- Meeting with Chairperson of the MCESD, Malta, 17 January.
- Meeting with Malta Association of Small Shareholders Chairperson, Malta, 18 January.
- Speech to a group of Malta College of Arts, Science and Technology (MCAST) visiting lecturers at the Central Bank of Malta, Malta, 3 February.
- Meeting with U.S. Treasury senior official delegation, Malta, 15 February.
- Participation in a Governing Council Retreat, Lapland, Finland, 20-24 February.
- Virtual address and participation in the EBRD constituency meeting, Astana, Kazakhstan, 2 March.
- Speech at the House of Representatives' Family Affairs Committee, Malta, 7 March.
- Participation in the IMF and the WBG constituency meeting, San Marino, 10 March.
- Interview by Econostream Media, *We strongly believe in the robustness and resilience of our system*, Malta, 21 March.
- Keynote speaker at the Conference *Women and Finance*, organised by the Malta Bankers Association and National Council for Women, Central Bank of Malta, Malta, 24 March.
- Participation in the ECB Institutional Investor Dialogue meeting, Frankfurt, Germany, 29 March.
- Participation in the 2023 Spring Meetings of the Boards of Governors of the WBG and the IMF, Washington D.C., USA, 10-16 April.
- Interview by CNBC International TV, *Still some way to go*, Washington D.C., USA, 13 April.
- Opening speech at the Central Bank of Malta 2022 *Annual Report* Launch, Malta, 20 April.
- Meeting with Professor Inna Steinbuka, Chair of Latvia's Fiscal Discipline Council, Malta, 26 April.
- Participation in informal ECOFIN meetings, Stockholm, Sweden, 28-29 April.
- Participation in current affairs TV programme *Insights*, Malta, 11 May.

- Participation in Jacob's Coffee Run initiative, Malta, 12 May.
- Participation in the ECB's 25th anniversary gathering, Frankfurt, Germany, 24 May.
- Interview by Politico, Frankfurt, Germany, 15 June.
- Interview and article by businessnow.mt, Malta, 22 June.
- Participation in the ECB Forum on Central Banking, Sintra, Portugal, 26-28 June.
- Interview by Francine Lacqua, Bloomberg TV, Sintra, Portugal, 28 June.
- Interview by businessnow.mt, Malta, 1 July.
- Interview for EU-Startups.com, Spain, 20 July.
- Meeting with the University of Macerata on joint modelling project, Malta, 28 July.
- Courtesy visit by H.E. Gloria Gangte, India's High Commissioner to Malta, Malta, 11 September.
- Participation in informal ECOFIN meeting, Santiago de Compostela, Spain, 16 September.
- Participation in the AIIB Annual Meeting, Sharm El Sheikh, Egypt, 25-26 September.
- Courtesy visit by Dame Diana Buchanan Crossan, former New Zealand's Retirement Commissioner, Malta, 28 September.
- Meeting with the local Single Resolution Board, Malta, 29 September.
- Participation in the 2023 Annual Meetings of the Boards of Governors of the WBG and the IMF, Marrakesh, Morocco, 9-15 October.
- Interview by CNBC International TV, *It's time to start mopping up in a serious way and without upsetting the markets*, Marrakesh, Morocco, 13 October.
- Keynote speech at the Central Bank of Malta Dynare conference, Malta, 20 October.
- Opening of an exhibition at the MCAST, entitled *The History of Coins*, followed by a lecture to students, Malta, 3 November.
- Inauguration ceremony of the House of the Euro, Brussels, Belgium, 9 November.
- Introductory and Concluding meetings with the visiting IMF Article IV mission, Malta, 13 and 22 November.
- Meeting with the Managing Director, Mr Pierre Gramegna, and senior official delegation from the European Stability Mechanism, Malta, 22 November.
- Keynote speech at the Annual Dinner of the Institute of Financial Services Malta, Malta, 24 November.
- Opening speech at the Financial Stability Forum, Malta, 6 December.
- Speaker in a panel discussion on the Digital Euro, Central Bank of Slovenia, Ljubljana, Slovenia, 15 December.

