MDB
BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

2024 ANNUAL REPORT

& FINANCIAL STATEMENTS

GATEWAY TO FINANCE

Enquiries relating to this report should be addressed to
Communications & PR on info@mdb.org.mt

Malta Development Bank
5, Market Street
Floriana, FRN 1083
Malta

T. (+356) 2226 1700
W. www.mdb.org.mt

The Malta Development Bank (MDB) has made every effort to ensure that the information, data, and all content of this annual report is accurate at the time of publication. The information presented, unless otherwise indicated, covers the period 1 January to 31 December 2024.

GATEWAY
TO FINANCE

BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

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ABOUT THE MALTA DEVELOPMENT BANK

The Malta Development Bank (MDB) was established by virtue of the Malta Development Bank Act which was passed by Parliament in May 2017 and came into force in November 2017. On 11 December 2017, the then Minister for Finance, the Hon Prof. Edward Scicluna, appointed the members of the Board of Directors and the Supervisory Board of the MDB. On the same day, the Board of Directors held their first meeting and the Bank officially commenced operations.

The MDB's strategic objective is to address market failures or financial gaps by offering financing facilities to support productive and viable operations where the market is unable or unwilling to accommodate such activities on its own in whole or part.

The MDB complements commercial banks through a non-competitive and mutually supportive relationship, thereby ensuring additionality and diversifying Malta's financial base in a cost-effective manner.

MDB's primary goal is to contribute to public policy objectives and it is therefore not driven by purely commercial and profit maximisation considerations. Nonetheless, the MDB supports only bankable investments and assesses proposals on the basis of sound banking principles, including feasibility. In performing its promotional banking role, MDB's remit of activities covers a wide range of possible operations where there is evidence of market failure. In general terms, the MDB is engaged in the following priority areas:

- **Private Sector Development,** in particular financing the private sector through innovative financing, credit enhancement, venture capital, advisory function;
- **Skills and Technology,** in particular sustaining competitiveness by investment in innovation, skills, knowledge-generation and technology;
- **Infrastructure development** of regional or national importance;
- **Green Economy,** in particular supporting clean energy and energy efficiency projects, sustainable transport, and water resources;
- **Community Services,** in particular supporting social enterprises operating community services in such sectors as education, health and housing

OUR VISION

To make a significant contribution towards a higher quality of life by focusing on financing projects that contribute to sustainable economic development. This can be achieved by playing a pivotal role in securing a prosperous, inclusive and resilient economy for the benefit of Malta. This Vision includes the promotion of inclusive growth, poverty reduction, fostering innovation and strengthening the country's competitiveness.

OUR MISSION

To contribute towards sustainable economic development that benefits Maltese society in line with public policy objectives by:

- promoting inclusive and environmentally sustainable economic growth
- supporting infrastructure development
- linking entrepreneurship, investment and economic growth to improve living conditions, ensure a higher quality of life, and encourages social inclusion.

BOARD OF
DIRECTORS

In exercise of the powers conferred by Article 21 of the Malta Development Bank Act, the Minister responsible for the Bank appoints the Bank's Directors. As at end 2024 the Board is composed of:

Chairperson
Mr Leo Brincat

Directors
Prof. Rose Mary Azzopardi
Mr Victor Carachi
Dr Michele Cardinali
Mr Steve Ellul
Mr Norbert Grixti
Mr Anthony Valvo

These appointments are valid for the periods stipulated in Article 21(4), (5) and (6) of the Act.

Dr Bernadette Muscat, the Bank's Chief Legal and Compliance Officer, served as the Secretary of the Board. Dr Muscat resigned on 5 January 2025 and was succeeded by Mr Rene Saliba as Board Secretary.


Mr Leo Brincat


Mr Victor Carachi


Prof. Rose Mary Azzopardi


Mr Norbert Grixti


Dr Michele Cardinali


Mr Anthony Valvo


Mr Steve Ellul


Mr Rene Saliba

LETTER OF **TRANSMITTAL**

BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

5, Market Street,
Floriana. FRN 1083
T: + 356 2226 1710
info@mdb.org.mt
https://mdb.org.mt/

14 April 2025

The Hon. Clyde Caruana B.Com (Hons), MA (Econ.), MP
Minister for Finance
Maison Demandols
South Street
Valletta VLT 2000

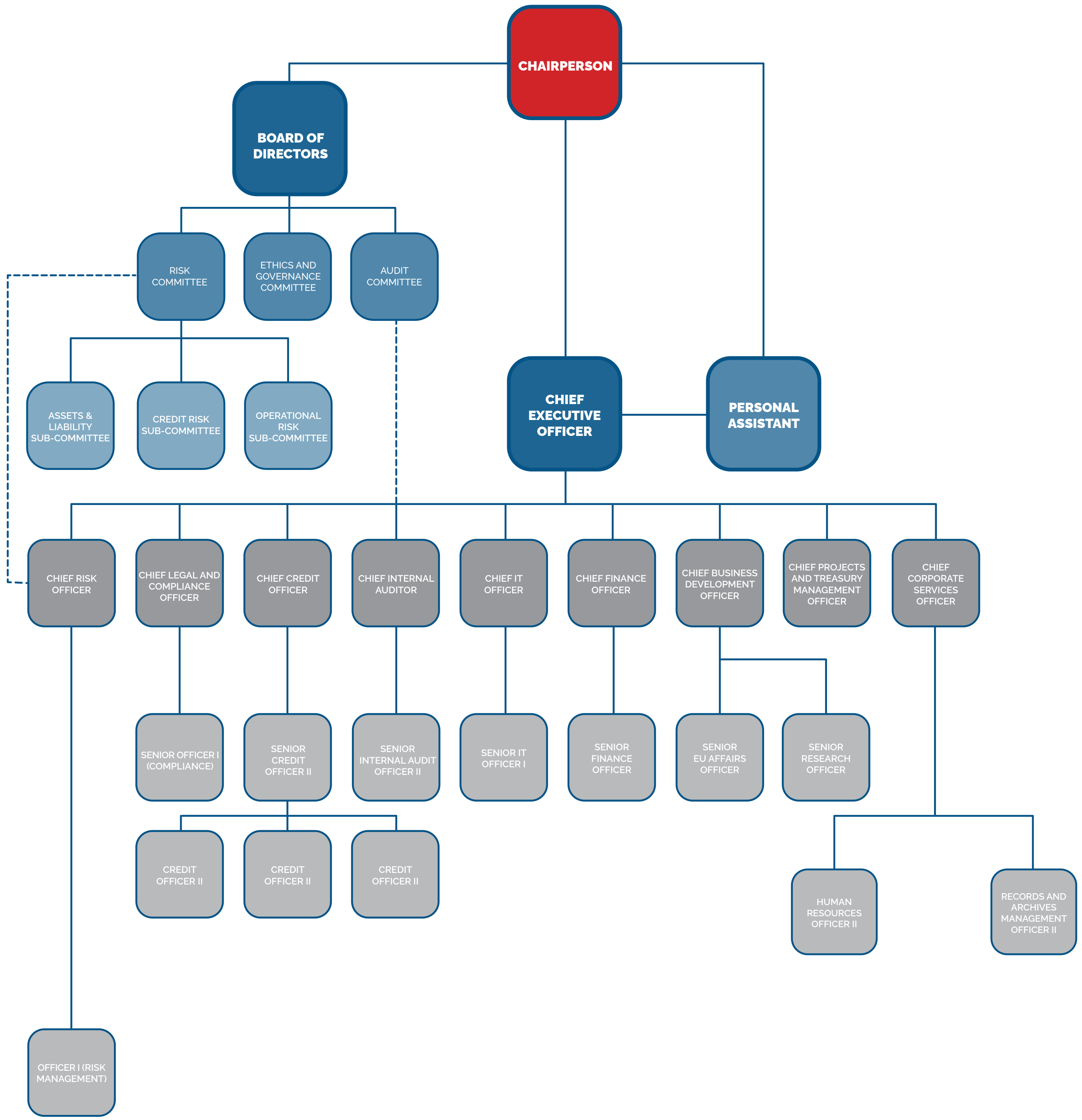
Dear Minister,
In terms of article 33 of the Malta Development Bank Act, 2017 (Cap 574), I have the honour to transmit to you a copy of the Annual Report of the Malta Development Bank for the year 2024.

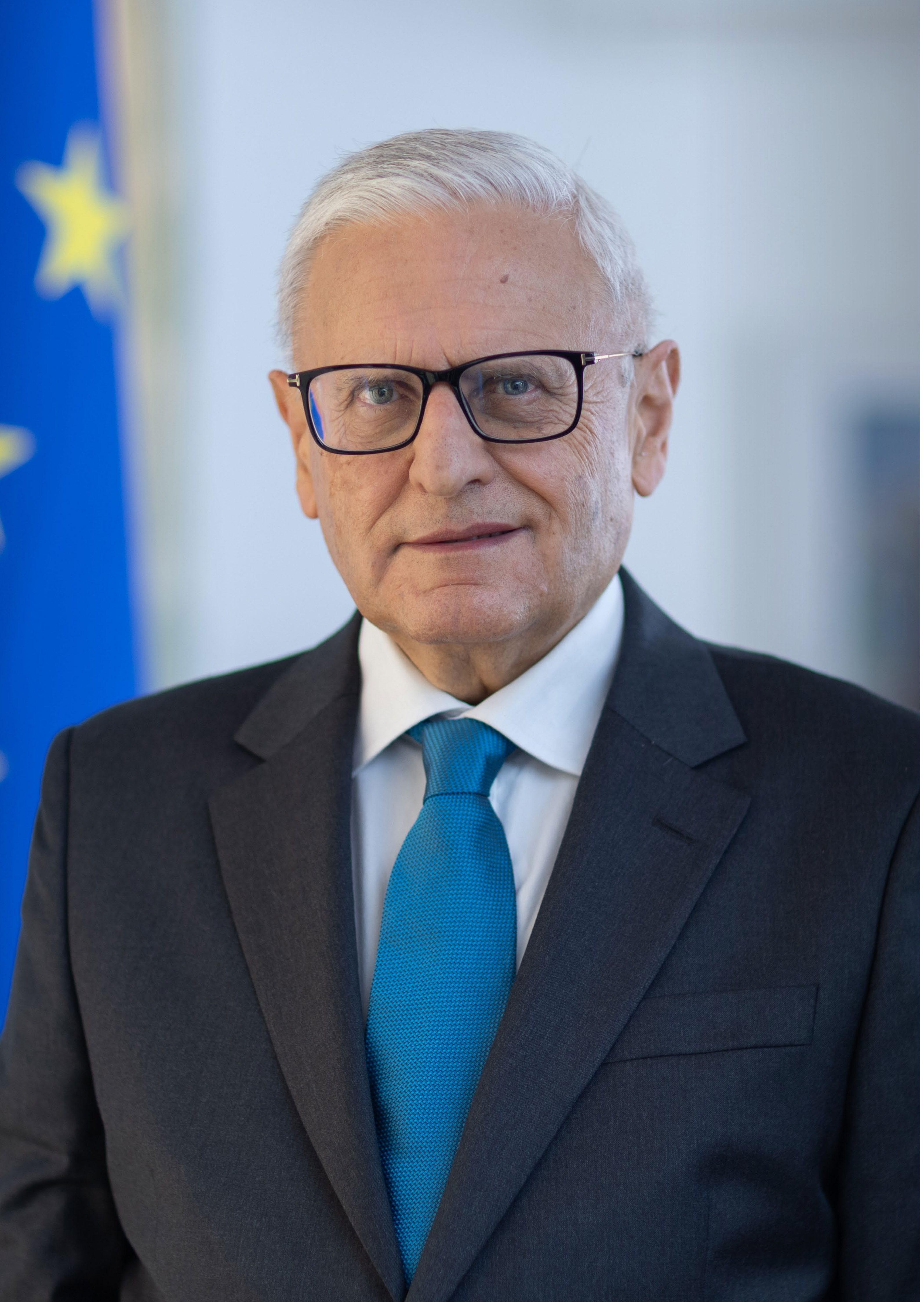
In terms of article 33 of the Malta Development Bank Act, I am also transmitting a copy of the audited accounts of the Bank as at and for the financial year ended 31 December 2024.

Yours sincerely

LEO BRINCAT
Chairperson

MALTA DEVELOPMENT BANK **ORGANISATIONAL CHART**





CHAIRPERSON'S **STATEMENT**

ADAPT, TRANSFORM, SIMPLIFY: THRIVING IN DISRUPTIVE TIMES

The key to thriving in both global and regional disruptions lies in our ability to demonstrate a strong readiness to adapt, transform, and simplify our processes.

Every organization evolves, and ours is no exception.

The past has provided us with invaluable lessons, strengths, and a platform to reach greater heights. Yet, the future brings both daunting challenges and new opportunities, for which we must display an even stronger readiness and resolve.

Over the past year, we have intensified our journey of transformation.

In an environment full of known unknowns, compounded by rapid change and shifting expectations from stakeholders—such as government, partners, the commercial community, and future clients—the need for agility has never been more urgent. To succeed, it is essential to reinforce our longstanding commitment to:

- Deepening further our impact on the ground
- Increasing our visibility
- Strengthening transparency and governance to optimal levels
- Building strong, effective partnerships
- Empowering our team with the tools and environment they need to thrive

When navigating uncharted waters, driving growth, funding innovation, and empowering society while enhancing our competitiveness, these components are non-negotiable.

The status quo can no longer be an option.

As a government-funded entity with strong EU institutional ties that operates independently, we must continue to prioritize and innovate within national sectoral needs.

Our primary objective is to continuously evolve into a true reflection of our island's national, entrepreneurial, and citizen-focused aspirations.

In line with our original mandate, which was unanimously approved by the Maltese parliament, our overriding mission is to address market failures by offering financial solutions that support viable operations where the market cannot or will not act independently.

This is not a personal dream but a true reflection of the spirit and foundation on which this bank was built.
In recent months, our outreach efforts have intensified, and now our focus needs to shift to results-driven outcomes.

We must continually redefine and recalibrate our approach.
This can only be achieved by deepening further our engagement with our partners and stakeholders, fostering tangible and practical cooperation.

Our networking must evolve beyond a one-time exercise and become an ongoing process.

An appetite to scale up is not a utopian dream, but tangible proof of the confidence we have in our organization and its potential for collective community benefit.

SMEs are the lifeblood of our economy, and we are committed to supporting them to the best of our ability.
Our mission is to help SMEs grow, innovate, and prosper.

We want society to realize that we are providers of low-cost funding and promoters of risk-sharing lending products that meet their financing needs.

As new geoeconomic challenges emerge, our ultimate satisfaction lies in expanding the SME financing market, especially by supporting new entrants, particularly those with innovative ideas, through our tailored product offerings.

The key benefit of partnering with us is that, while we do not compete with commercial banks, we strive to increase the availability of low-cost, long-term loans, enabling businesses to access funding without the barriers they may encounter with conventional finance.

Through instruments such as loan guarantees, direct lending, and co-lending schemes, the MDB ensures enterprises can access capital. By fostering a more inclusive financial landscape, we strengthen our commitment to supporting business growth and long-term sustainability.

While we have been instrumental in responding to various crises, the challenges ahead are new and unique.

Beyond disrupted supply chains and energy-driven price volatility, we face macroeconomic policy uncertainty in the world's leading economies and the potential reversal of established norms in international trade policy.

Strengthening competitiveness requires more than just an analysis of current trends; it demands urgent investment in strategic sectors, innovation, and productivity-enhancing measures.

The MDB can play a pivotal role in enabling Maltese businesses to adapt, grow, and compete effectively within an evolving European landscape by facilitating access to finance in these critical areas.

Recent experience has shown that sustainability extends beyond environmental concerns—it is central to economic resilience, investor confidence, and long-term business success.

Globally, promoting resource efficiency, economic stability, and climate action has become essential for a sound future—one that goes beyond mere financial returns.

The Green Gateway Advisory Project has significantly enhanced the Bank's capacity to support resilient investments. Meanwhile, the Green Gateway Report, developed with the EIB, maps out investment opportunities and aligns financing tools with EU funding mechanisms.

As we look ahead, our ambitions focus on strategically addressing gaps in the market while staying attuned to the new realities unfolding. Our main strategic objectives in these uncertain times include:

- An unwavering focus on SMEs
- Tailored facilities offering bespoke solutions for infrastructure and large projects
- Socially oriented projects targeting accessibility and investment in human capital
- A strong push for the green and digital agendas across horizontal sectors, with an expanded role in supporting startups and new areas
- A readiness to act counter-cyclically when necessary

In a world of growing financial constraints and complex challenges, the effort to continue adapting to emerging economic realities while remaining true to our mandate is not just a goal—it is our obligation.

I would like to extend my sincere thanks to the entire Board of Directors for their active participation and high level of engagement over the past year.

While showing my appreciation of the consistent and sustained assistance of the State Aid Monitoring Board, a special thanks also goes to the members of the Supervisory Board, who, despite keeping a low profile by design, have maximized their role in accordance with the powers vested in them by the MDB Act. Their professionalism in monitoring, advising, and regulating our activities has been exemplary.

Finally, I would like to express our appreciation to the CEO for his contribution to the Bank over the years. Equally, I extend my heartfelt thanks to the management and staff of the MDB for their unwavering dedication and commitment to our shared goals. Without their efforts, none of the Bank's successes would have been possible.

In our Bank, we value every team member's unique contribution, regardless of age, experience, or abilities, since we are one team and do not believe in silos.

I invite you all to continue this journey with us as we deliver on our mandate with renewed energy and a strong sense of purpose.

Ultimately, new challenges bring new opportunities, and with them, innovative solutions and a spirit of renewal. Let us embrace change together as one team.

Leo Brincat
March 2025.

CEO'S **STATEMENT**

As I reflect on MDB's Annual Report for 2024, it is with pride, poignancy, and anticipation that I share this, my parting message as the Chief Executive Officer of the Malta Development Bank.

Pride because leading this institution for the last three years, and serving as Deputy CEO for the previous two and a half years, has been a true privilege. As I near the end of my tenure, I look back with great satisfaction at the significant milestones our teams have achieved.

A sense of poignancy because I know that I will miss working with our great teams of professional staff, collaborating to find creative solutions to new problems for the good of the Bank.

Anticipation because I am an optimist and experience has taught me that positivity bears fruit while negativity scorches the land.

During my time as CEO, the MDB has made remarkable progress not only in terms of financial performance but more importantly in fulfilling its public policy mission.

With good leadership from the top and continued support from all staff MDB as an organisation will, I am sure, continue to thrive and add value.

Impact

I am pleased to report that since 2017, when the Bank was set up, we have supported more than 700 small and medium-sized enterprises (SMEs). The MDB facilitated around €400 million in financing to these SMEs: this has enabled SMEs to innovate, grow, and contribute to job creation and exports, furthering the development of the Maltese economy, at a time of an unprecedented mix of challenges, ranging from a once-in-a-century pandemic to two major wars on the periphery of our continent.

Equally important, we have empowered around 700 students through affordable financing, amounting to €30 million in loans, helping them pursue higher education and ultimately enhance their career prospects. Our Further Studies Made Affordable scheme - a core pillar of our mission - incentivised students, unlocked private capital via a commercial bank, and made good use of EU funding. The scheme has been used by the EU's Fi-Compass as a best-in-class example of what can be achieved in this area.

During 2024 we continued to successfully manage a substantial portfolio of working capital loans under the COVID-19 Guarantee Scheme. I am proud to highlight that claims against the guarantee provided by Government has so far remained negligible considering the €550 million which were loaned to companies during dire economic conditions. Despite operating under extraordinarily difficult circumstances, the MDB, along with nine partnering commercial banks, built a high-quality portfolio in record time, during the crisis, striking the right balance between impact and risk mitigation.

Sustainability

Throughout the year under review, we concluded the Green Gateway Advisory project with the European Investment Bank (EIB). The project provides the MDB with the tools to design schemes aimed to address sustainability and renewable energy, to supply credit to local businesses and ensure our schemes have tangible targets. This is part of our ultimate objective of establishing ourselves as Malta's bank for financing green initiatives.

During 2024 we also signed a €30 million standby loan from the EIB to support climate enhancing projects.

To lead Maltese business towards sustainability, via targeted credit and guarantees, it is important to look internally, not just externally. The MDB has therefore commissioned a detailed and top-class energy audit as you can read in this Report under Special Topic III.

Upon acquiring the building on Market Street, Floriana, which currently houses our offices, we promptly initiated efforts to enhance its sustainability through various large and small measures, including the efficient use of water, energy conservation, and the use of natural light. These renovations were recognised in the energy audit report and the Bank looks forward to continuing with these improvements.

InvestEU

Supported by an EU budget of nearly €30 billion, the InvestEU Programme motivates investment across Europe by supporting economic sectors with financial backing and advice so that companies can grow and innovate.

For the MDB to be able to utilise InvestEU resources, in 2020 we started an intensive exercise of capacity building on all fronts which would enable us to pass the EU's Pillar Assessment. As a result, by the end of 2023 we had a robust institutional framework that reflects a mature bank with a solid governance structure at all levels. During 2024 our work was audited by an external auditing firm to independently verify the effectiveness of the various initiatives undertaken.

In view of this detailed and effective capacity building, the MDB aims to achieve accreditation as a direct Implementing Partner of Invest EU. This will pave the way to start negotiations on the first guarantee agreement with the European Commission directly with the MDB. Such an initiative provides greater opportunities of financing that will allow us to diversify further our portfolio in the years ahead.

Our teams have also nurtured our valued relationships with European associations of development banks and guarantee institutions. We are in constant contact with these associations via visits and online meetings.

Back in 2022 we had the pleasure of hosting the Annual General Assembly of the European Long-Term Investors (ELTI). Over the past years, ELTI has strengthened its role as an active agent which represents, at both European and national levels, the position of its 31 current members. During their meeting in Malta, the development banks discussed the key lessons learnt from the varied support measures to the crises which affected the European economy in the last few years.

During 2024 we also made preparations so that, in February 2025, the MDB hosted the Operational Training Session of the European Association of Guarantee Institutions (AECM) and welcomed 20 organisations. We discussed how best to finance digital innovation, a sector of great importance to Europe and Malta. We exchanged best practices, insights, and experiences which are crucial to develop effective financing solutions.

In March 2025 we also hosted the professional working group from the third association of which we are members: the Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI). This Network, with members from EU States as well as the UK, supports and financed nearly one million SMEs from all over Europe.

The Bank is a proud member of these key development associations and seeks to continue to foster our relationships.

New Schemes

Importantly, we have successfully accessed InvestEU through the European Investment Fund under the Sustainability Window, reinforcing our commitment to green financing.

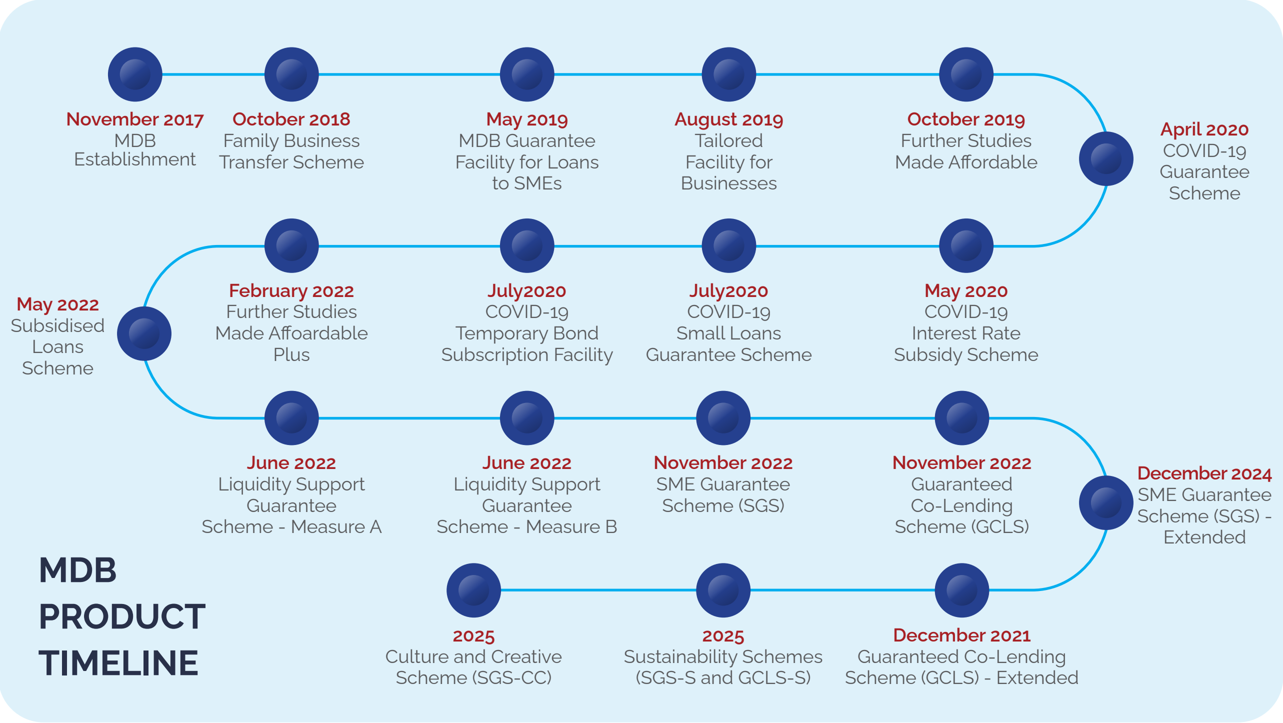
In 2024 we extended the Bank's two flagship schemes. In addition, to avoid unnecessary costs and new legal agreements, the InvestEU Sustainability schemes were incorporated in the two flagship schemes, the SME Guarantee Scheme, and the Guaranteed Co-Lending Scheme.

To the SGS we also added a new Cultural and Creative window so that the MDB would guarantee loans to companies involved in the arts and culture.

These schemes allow the Bank to tailor its support according to the realities of the market and the specific situations of businesses seeking finance, thereby contributing to economic resilience and supporting the foundations for more sustainable economic growth.

We also look forward to making a meaningful impact on Malta's green transition by ensuring that sustainable investments, wherever possible, receive the necessary financial support to be able to thrive.

The following timeline shows MDB's constant production of financial products and schemes during its relatively short life:



Financial Progress

The MDB was set up in 2017 and grew rapidly. The following graphics show its financial progress while being of service to hundreds of Maltese firms and individuals.

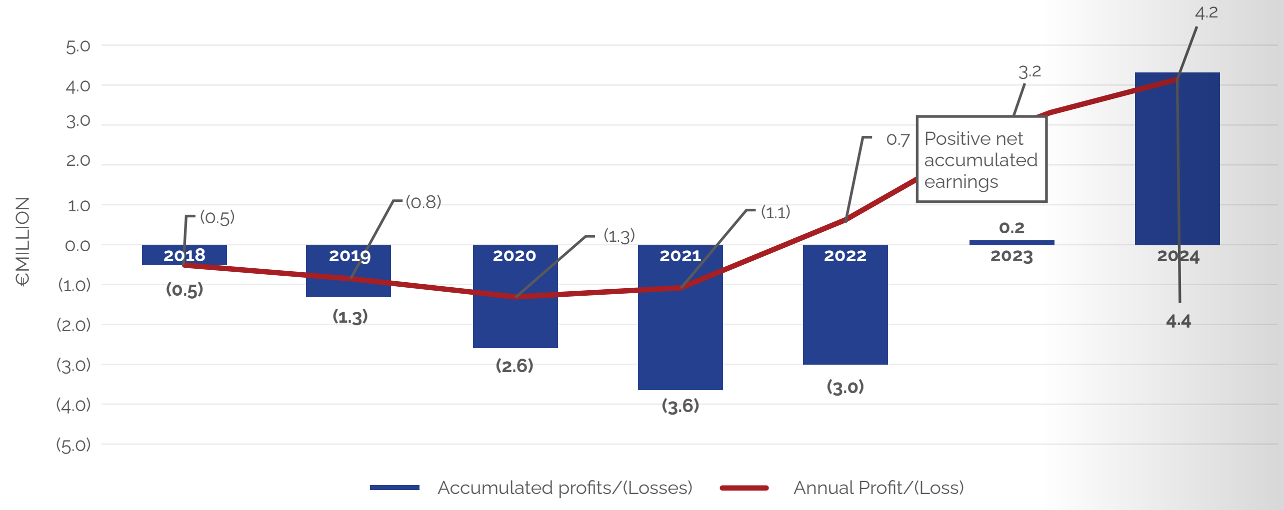
The Government has consistently maintained its support, steadily providing share capital and guarantees. The Bank's paid-up share capital now stands at €80 million, with the last increment of €20 million occurring in 2022.

As the following graphic shows, during the first years, the Bank had to incur start-up costs. In 2022 we registered the first small profit and during 2023 we managed to wipe out all the start-up costs incurred when we registered a profit of €3.2 million. Last year, we achieved a profit of €4.2 million, of course after making ample provision against possible losses from loans due to borrowers' defaults. The accumulated profit as at the end of 2024 was €4.4 million.

This was achieved by pointing a sharp pencil at costs and grasping every opportunity – within the Bank's remit – to increase revenue.

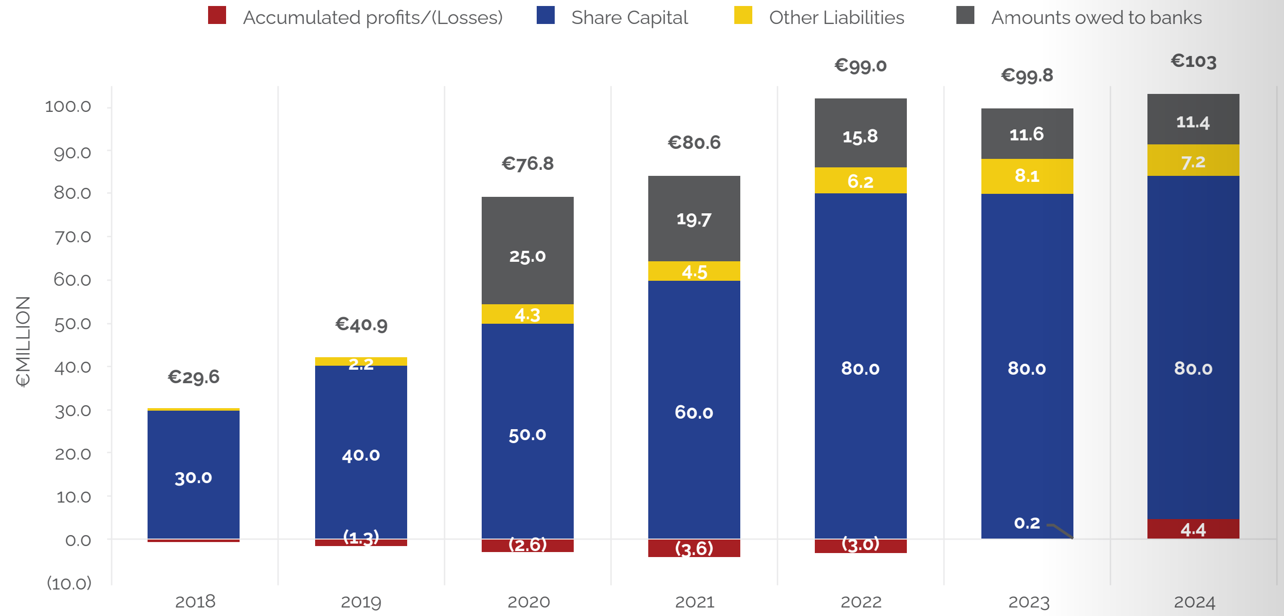
Importantly, this was done without leaving any demand for bankable loans unsatisfied from those firms which approached us directly or through the commercial banks. We assisted all projects which came our way as long as they satisfied the basic criteria laid down in the Malta Development Act, 2017.

Net Profit/(Loss)

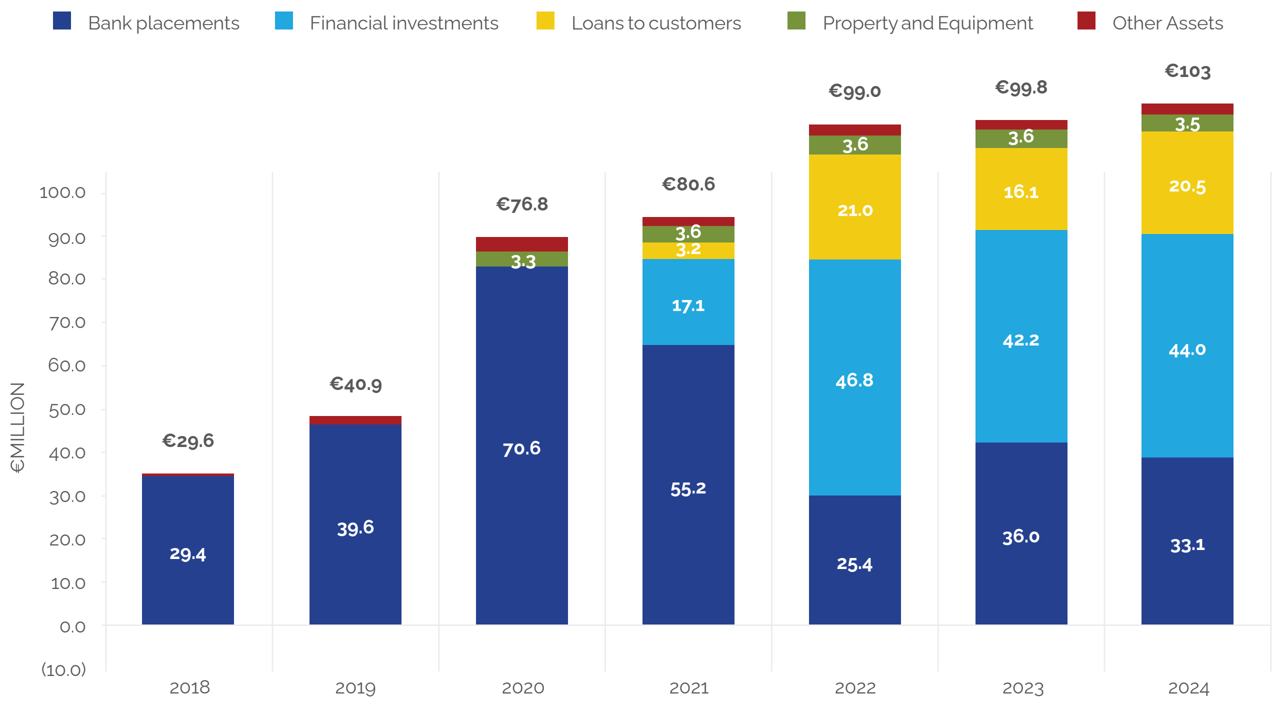


The following two graphics show the development of our balance sheet over the seven years since the Bank was set up. The balance sheet more than tripled in size.

TOTAL EQUITY AND LIABILITIES



TOTAL ASSETS



The MDB, therefore, has so far justified Government's confidence by preserving all the share capital it injected, by producing €4.4 million in accumulated profits, and by evolving into a fully-fledged development bank capable of producing sophisticated financial products, engineer measures for countercyclical and financial stability activities in the Maltese economy, partner effectively with commercial banks, access EU funds, and be ready to loan money on its own for socially important projects if private finance desists.

Our Staff Teams

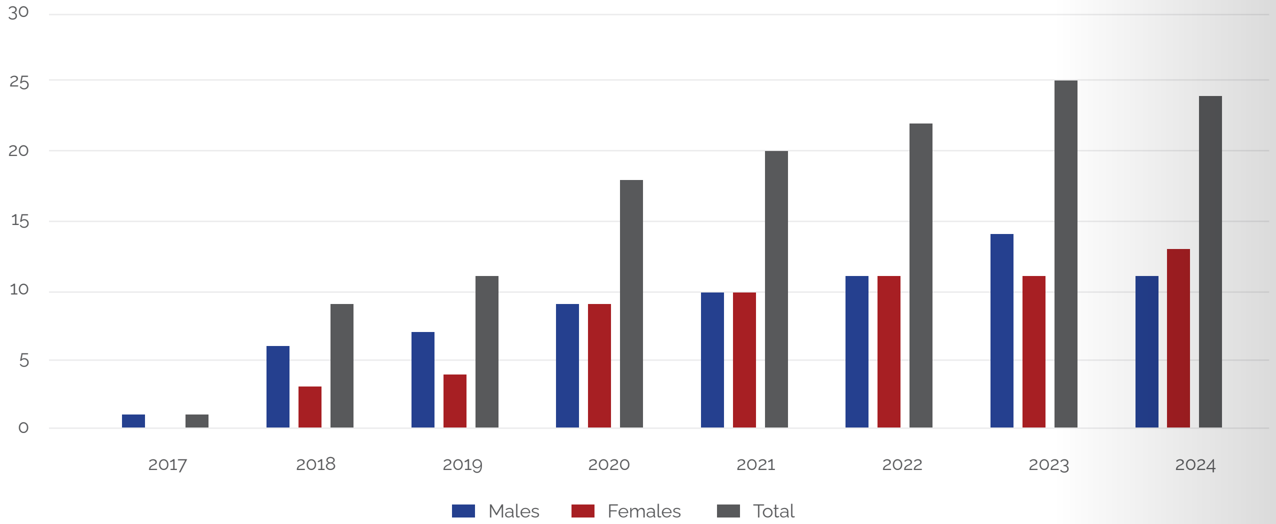
All our achievements would not have been possible without the Bank's dedicated team, which has now grown to 24 full-time employees.

This strong core team is made up of experts in relevant business areas, bringing great experience and knowledge to drive the Bank forward. Their dedication, commitment and expertise have been instrumental in shaping MDB into a robust institution, ensuring we are well-equipped to meet future challenges and opportunities.

Of special importance – something to which the Bank paid particular importance from its very beginning – is our staff's growing expertise in State Aid regulation and its application to local businesses. Staff attended regular training and conferences dealing with this elaborate framework. Recently staff have also received training in EU's regulations on agriculture and fisheries, two sectors which, we feel, are of crucial importance to Malta and which require urgent attention. I would here also like to thank the State Aid Monitoring Board (SAMB) for its guidance and continued support. Also of importance is our teams' ability to blend EU and other funds with loans in specially engineered financial schemes

While building our teams we have also paid particular attention to gender balance, achieving it at nearly all levels.

STAFF COMPLEMENT



I am truly grateful for the dedication and the full support which our staff teams have always provided me. They have made my job as CEO much easier and enjoyable.

I would also like to thank for their support over the years members of our successive Board of Directors and the Bank's Supervisory Board.

At the MDB, we have a flat organisation. Such a structure is important in order to be able to deal effectively with a rapidly changing economic and social environment, especially while the Bank itself is in its early phases. A flat organisation makes it possible for the Bank to react to its environment in a timely manner, being able to put together multi-functional teams rapidly.

Instilling a strong financial sense, balancing the Bank's socio-economic remit with practical business considerations, motivating and empowering our Chief Officers and their teams, and improving management processes at the Bank were some of my valued objectives in my term as CEO.

Today, the positive financial results achieved, the sources of revenues, and the structure of the Bank's balance sheet enhances the sustainability of our model, where impact and financial viability go hand in hand.

These accomplishments go beyond numbers; they represent the positive change we are creating within society. The Bank's unique position allows it to serve a public policy purpose—addressing critical gaps in financing for SMEs and students—without relying on taxpayer funding and maintaining its autonomy from Government. This self-sustaining model ensures that the Bank, with proper ethical leadership, can continue its mission for years to come, contributing to socio-economic development and empowering individuals and businesses to succeed.

The solid capital base MDB enjoys, and its highly skilled teams positions the Bank for continued success and growth. We have laid the groundwork for future expansion and impact, providing a platform for the institution to continue serving the community and driving economic development for generations.

As I prepare to transition from my role as CEO, I am confident that the Bank is on a path of continued success. Properly nurtured and supported, our committed staff will carry the institution forward, building on the strong foundation we have established. We also welcome Ms. Alison Micallef, our new Deputy CEO, and wish her every success in this important role.

It has been an honour to steer this organisation through a transformative period, and I am proud of the progress we have achieved together.

The future is bright for the Bank, and I am excited to see it continue to create meaningful impact, offering vital services to those who need it most, without burdening the taxpayer.

It has truly been a privilege to serve as Chief Executive Officer of the Malta Development Bank and I look forward to seeing the ongoing success of the Bank as it continues its mission of positive change in Malta.

Paul V. Azzopardi
March 2025.

CORPORATE GOVERNANCE STATEMENT

GOVERNANCE

The Malta Development Bank Act (Cap. 574) was adopted by Parliament on 5 May 2017 and came into effect on 24 November 2017 through Legal Notice No. 340 of 2017. Subsequently, on 11 December 2017, the Minister for Finance appointed the members of the Board of Directors and the Supervisory Board of the MDB.

The Board of Directors is responsible for ensuring sound governance practices by setting strategic objectives, defining targets, and making key decisions on all major business matters. The day-to-day management and operational control of the MDB rests with the Chief Executive Officer (CEO) in line with the direction set by the Board. Under the guidance of the Board, the CEO and senior management team implement the strategic direction established by the Board, ensuring alignment with the Bank's overarching mission. In turn, management provides the Board with comprehensive analyses and recommendations to support informed discussions and decision-making.

BOARD STRUCTURE AND RESPONSIBILITIES

The Malta Development Bank Act (hereinafter "the Act") provides that there shall be a Board of Directors consisting of a Chairperson and four Directors chosen from the private non-bank sector appointed by the Minister as well as two independent Directors appointed by the Minister on the recommendation of the Malta Council for Economic and Social Development.

The Act also provides that the Board of Directors shall exercise its mandate independently and in an autonomous manner and shall not seek or receive instructions from the Government or any other public authority.

Article 21 of the Act provides that the Chairperson shall be appointed after consultation with the Opposition. The Chairperson shall be appointed for a term of six years, with the possibility of reappointment for an additional four years. The other Directors, excluding the Chairperson and independent Directors, shall be appointed for a term of five years and may be reappointed for an additional period of three years. The independent Directors shall hold office for a period of six years and may be re-appointed for three years.

At the end of 2024, the Board of Directors was composed of Mr Leo Brincat as Chairman, and Prof. Rose Mary Azzopardi, Mr Victor Carachi, Dr Michele Cardinali, Mr Steve Ellul, Mr Norbert Grixti and Mr Anthony Valvo as Directors.

The Board of Directors are accountable to carry out their responsibilities in a professional manner and to establish the professional standards and corporate values that promote integrity in accordance with the Code of Ethics for the Board of Directors. The responsibilities of the Board are prescribed in article 22 of the Act, which formally lists the matters reserved for decision by the Board. These include:

- Annual Report and Financial Statements
- Risk management policy and framework
- Strategic plan
- Budget and financing facilities
- Credit and risk-sharing policy
- Appointment and terms and conditions of the Chief Executive Officer

During the financial year under review, the Board met 14 times.

The Board delegates specific responsibilities to three committees, namely the Audit Committee, the Ethics and Governance Committees and the Risk Committee. Each Committee operates in line with respective terms of reference approved by the Board.

BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee's role is to assist the Board in:

- Providing oversight of the financial reporting process to ensure accurate, adequate and timely financial reporting as required for statutory reporting, to meet regulatory requirements and for the proper and sound management of the Bank.
- Fostering and ensuring adequate and systematic financial management practices to be consistent and compliant with MDB's values and ethics.
- Ensuring that the Bank's overall governance, risk management and internal control frameworks are effective and aligned with the business strategy.
- Ensuring effectiveness, performance and objectivity of the internal and external auditors and other assurance providers.

The Audit Committee comprises three Directors appointed by the Board, and is Chaired by Prof. Rose Mary Azzopardi (Chairperson), Mr Anthony Valvo and Dr Michele Cardinali.

The Chief Internal Auditor attends Audit Committee meetings in a non-voting capacity. Other directors, Senior Management and Chief Officers may be invited to attend in an advisory capacity. The external auditors and an independent audit firm that contributes to the Internal Audit function under a co-sourcing arrangement are invited to attend specific meetings.

During 2024 the Committee received regular reports from the Chief Internal Auditor, the Chief Finance Officer and the Chief Risk Officer. The Committee reviewed the key findings from the outcome of individual internal audit reviews carried out, monitored the status of implementation of agreed audit action points emanating from audit reports, and approved the risk-based internal audit plan. The Committee also reviewed the Financial Statements of the Bank and recommended them for the approval to the Board. The review focused on the adopted accounting policies, significant assumptions and estimates adopted in the preparation of financial statements, the appropriateness of financial reporting procedures and the accuracy and completeness of disclosures in line with international financial reporting standards as adopted by the EU.

The Committee met on five occasions in 2024.

ETHICS AND GOVERNANCE COMMITTEE

The Ethics and Governance Committee is appointed by the Board to oversee that a high standard of, and best practice in, corporate governance is maintained by fostering a culture of ethics, transparency and accountability. In fulfilling its oversight responsibilities, the Committee is to:

- Ensure that the Bank's corporate governance principles, policies, standards and practices optimally support the Bank's internal control priorities.
- Foster values and establish the ethical policy framework of the Bank, ensuring compliance with professional and ethical standards.
- Provide recommendations in the best interest of MDB in relation to procurement practices and remuneration packages to achieve the strategic plan adopted by the Board.

During 2024, the Ethics and Governance Committee reviewed and approved updates to the Business Travel Policy. The review included revisions to the process flow and expense form, as well as the introduction of a new event report to enhance accountability and documentation.

In addition, the Committee approved amendments to its Terms of Reference, which now incorporate Environmental, Social, and Governance (ESG) oversight responsibilities, reflecting the Bank's commitment to sustainable and responsible governance.

The Committee also acknowledged the annual programme undertaken by the Health and Safety Task Force, recognising its ongoing efforts to promote a safe and compliant working environment.

These updates demonstrate the Committee's continued focus on governance, efficiency, and corporate responsibility. The Committee is composed of three Directors appointed by the Board, and is chaired by Mr Leo Brincat.

RISK COMMITTEE

The Risk Committee plays an important role in supporting the Board by:

- **Strengthening Risk Governance:** Promoting strong risk governance practices across the Bank's operations while proactively anticipating changes in business conditions.
- **Overseeing Risk Management Processes:** Establishing and monitoring mechanisms to ensure that management identifies, reports, assesses, and manages risks effectively in alignment with the Bank's strategy and operations.
- **Ensuring Strategic Alignment:** Monitoring adherence to the Bank's overarching risk appetite and strategy, ensuring alignment with the Board-approved business objectives, corporate culture, and values.
- **Fostering Risk Awareness:** Encouraging a culture of risk awareness within the Bank through regular communication and education initiatives.

In 2024, the Risk Committee was chaired by Mr. Leo Brincat.

Throughout the year, the Committee received detailed reports on the Bank's risk exposures and mitigation measures. It engaged actively in discussions regarding the management of the Bank's risks, ensuring alignment with the Bank's strategic objectives and legal framework.

In line with its mandate, the Risk Committee met four times during 2024, meeting the minimum annual requirement of four meetings.

The Risk Committee is supported by three management sub-committees: the Asset and Liability Committee (ALCO), the Credit Committee, and the Operational Risk Committee. Each sub-committee plays an important role in ensuring the effective implementation of the Bank's risk management framework.

- **Asset and Liability Committee (ALCO)**

ALCO is responsible for executing asset and liability management functions, including the evaluation of liquidity risk, interest rate risk, and capital risk. Its role includes assessing structural changes to the Bank's balance sheet and achieving strategic objectives related to the Bank's financial position.

ALCO was chaired by Mr. Norbert Grixti, MDB Director.

In 2024, ALCO convened four times, meeting the minimum requirement of four meetings per year.

- **Credit Committee**

The Credit Committee is tasked with approving or recommending the approval of credit requests and guarantees, overseeing the credit risk framework, ensuring effective loan portfolio management, and reporting any policy deviations to the Board.

The Committee was chaired by Mr. Leo Brincat, the Bank's Chairman.

In 2024, the Credit Committee met five times, exceeding the minimum requirement of four meetings per year.

- **Operational Risk Committee**

The Operational Risk Committee oversees the Bank's operational risks, including the management of reputational risks and the monitoring of the Bank's Risk Register. It reviews processes to address operational risks and ensures appropriate risk mitigation measures are in place.

The Committee was chaired by Mr. Victor Carachi, MDB Director.

In 2024, the Operational Risk Committee met twice, meeting the minimum requirement of two meetings per year.

The composition and functions of these sub-committees reflect the entity-wide approach and collaborative nature of the MDB's risk management strategy, supporting comprehensive oversight and alignment with the Bank's objectives.

THE INTERNAL AUDIT FUNCTION

The purpose of the Internal Audit function of the Malta Development Bank is to independently and objectively assess, within the context of its Third Line of Defence role, the mitigation of key risks of the Bank and improve the Bank's operations, guided by a philosophy of adding value. By applying a systematic and disciplined approach, it examines and evaluates the adequacy and effectiveness of risk management, internal control, compliance and governance processes deployed by the Bank through its First and Second Lines of Defence functions and thus assists the Bank in meeting its objectives.

In this regard, the MDB's Internal Audit function enhances and protects organisational value by providing risk-based and objective assurance, advice and insight. This is achieved through:

1. The provision on an on-going basis, of reasonable, independent, objective and timely assurance to the Bank' management at all levels, the Audit Committee and the Board of Directors, that the governance, risk management and control processes in place are effective and efficient in the way they are designed and deployed.

2. The provision of advice to its stakeholders particularly targeted to strengthen and sustain governance, risks management, control and monitoring frameworks and mechanisms, promote their alignment to best practice and ensure these are discharged in a cost-conscious and environmentally aware operational regime.

3. Representation of the Malta Development Bank in all matters relating to Internal Audit both locally and internationally. This includes, but is not exclusive to, making quality and timely contributions to the work of the Supervisory Board, external auditors and other stakeholders as and when these are requested.

INTERNAL AUDIT ACTIVITIES

In accordance with the risk-based audit plan for 2024, the Bank's internal auditors carried out a number of audit engagements covering specific focus areas including data quality and integrity, reporting, compliance with statutory legislations and internal policies, and operational audits including the sound application of IT General Controls. Special focus was placed on the provision of assurance related to Credit Management operations in line with the Bank's strategic objectives. As in previous years, the work of the internal auditors in this area was augmented with specific audit services provided by a reputable external audit firm to carry out credit file reviews assessing compliance by the Bank's authorised financial intermediaries with the eligibility criteria approved by the European Commission under the Temporary Framework for State Aid Measures for facilities granted under the COVID-19 Guarantee Scheme. Periodic follow-up activities were also undertaken facilitating regular and timely reporting to the Audit Committee and senior management on progress achieved in the implementation of risk mitigating measures recommended by the auditors.

As part of its consultancy portfolio, the Internal Audit function also supported other business areas in advising on the deployment of controls in a cost-conscious manner and in line with best practice. In this regard, the auditors also reviewed a number of internal policies and recommended changes and enhancements where necessary. Reviews of agreements entered into with partner banks were also undertaken to ensure a streamlined, comprehensive and aligned approach to credit risk management activities deployed by the Bank.

All activities carried out by the MDB's Internal Audit function were guided by the International Standards for the Professional Practice of Internal Auditing and strictly in adherence to the provisions of the Institute of Internal Auditors' Code of Ethics.

COMPLIANCE AND LEGAL ACTIVITIES

During 2024, the Legal and Compliance Department continued to provide legal services in relation to the MDB's contractual, legislative and operational aspects, and implement and strengthen the compliance framework of the Bank in line with regulatory standards.

COMPLIANCE

AML Activities

In 2024, the Board of Directors approved the annual review of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Policy, the Customer Acceptance Procedures, and the AML Business Risk Assessment.

The Customer Acceptance Procedures were amended twice in 2024. The first amendment regarded the updating of the customer risk assessment for personal and non-personal customers and the introduction of a risk assessment mechanism for intermediary partner banks. The second amendment regarded the compilation of the customer due diligence report, the ongoing monitoring of transactions and customers and the jurisdiction risk categorisation methodology, particularly, low and medium risk jurisdictions.

The annual AML/CFT Business Risk Assessment and the AML Risk Register review ensured that the Bank identifies and records all the AML/CFT risks emanating from its current operations, the control measures in place and their effectiveness, and that the residual risk components are in line with the risk appetite of the Bank.

The MDB continued to carry out due diligence procedures in respect of both its direct customers and on its intermediary partners that are accredited under the MDB's schemes. In 2024, Legal and Compliance concluded the review of the AML/CFT procedures of two banks which participated in the MDB's COVID-19 Guarantee Scheme and undertook a full assessment of the financial crime compliance framework of an intermediary partner accredited under the MDB's flagship schemes, namely the Guaranteed Co-lending Scheme, the SME Guarantee Scheme, and the Further Studies Made Affordable plus Scheme.

On a quarterly basis, the Money Laundering Reporting Officer reported to the Board of Directors the work undertaken by Legal and Compliance in relation to financial crime compliance and provided all MDB employees with the annual AML/CFT training, in line with regulatory requirements.

Data Protection Update

The Board of Directors approved the revisions to Data Protection Policy which was updated in line with recommendations provided by the Bank's external auditor in relation to the InvestEU Pillar Assessment.

In line with the Data Protection Policy, the Data Protection Officer audited four internal processes to ensure their adherence with the Policy. Follow-up meetings were held to discuss remediation plans to address findings within established time-limits.

The Bank's privacy statement and the staff privacy statement were updated to reflect the latest operational changes in the processing of personal data conducted by the Bank in accordance with the General Data Protection Regulation. The Data Processing Register, which records all the data processing activities of the MDB has been reviewed and updated accordingly.

In line with statutory requirements, all employees received training on the data protection policy and related legal framework.

Other Compliance activities

In line with the MDB's compliance programme, questionnaires were sent out to the business units to monitor compliance with the MDB Act. All staff provided a declaration that they abide by the requirement in article 43 of the MDB Act to retain the confidentiality of customer information.

In March, the Board of Directors approved the amendments of the Tax Avoidance Surveillance Policy and Procedures which were undertaken based on the recommendations provided by the Bank's external auditor in relation to the Invest EU Pillar Assessment. The main amendments concerned the involvement of the Special AML/CFT Committee set up under the AML/CFT Policy to decide on the refusal or otherwise of a facility, and the revision of the list of non-cooperative jurisdictions based on recent EU updates.

The Freedom of Information Notice published on the MDB's website was reviewed and updated in line with regulatory obligations.

In August, the Board of Directors approved the main amendment to the Anti-Fraud Policy which concerned the inclusion of a new fraud category – sanctions evasion, which allows a business that would have been flagged, taxed, restricted, or prohibited to proceed unhindered. Training was provided to staff as a reminder of their obligations under this Policy.

Legal services activities

During 2024, the Legal and Compliance Department continued work on a number of risk-sharing agreements and other agreements required to regulate relations with intermediary partners under the MDB's new sub-schemes.

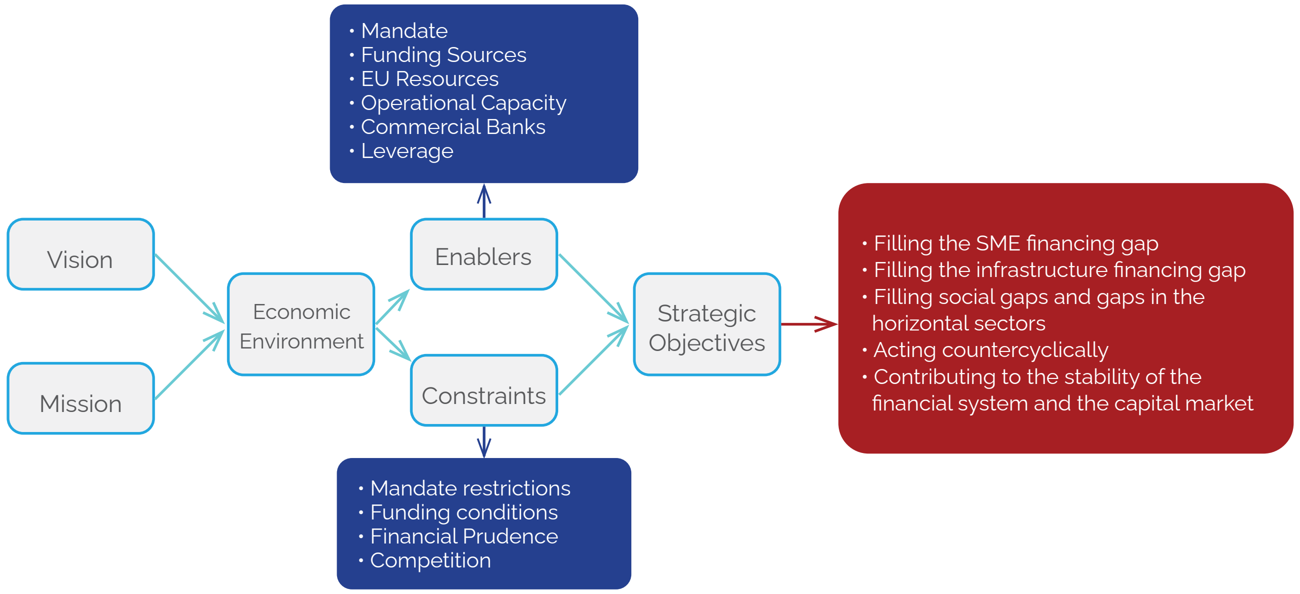
The legal function participated in discussions with the Ministry of Finance in relation to the proposed amendments to the MDB Act.

A Memorandum of Understanding has been drafted to allow for cooperation between the MDB, Ministry for EU Funds and the National Development and Social Fund in relation to the issue of blended instruments to assist voluntary organisations in eligible new projects.

The Chief Legal and Compliance Officer continued to perform the functions of Secretary to the Board of Directors during the year under review.

BUSINESS STRATEGY

In April 2024, the Bank's Chairman, on behalf of the MDB, launched the Bank's business strategy, describing the MDB's contribution to the Maltese economy, offering a comprehensive evaluation of the economic landscape, and pinpointing critical gaps in the Maltese financial system. The strategy's framework examines MDB's tools, resources, enablers, and limitations, providing a clearer understanding of its capacity to fulfil its mission. Drawing from these insights, MDB develops strategic objectives to effectively steer its future direction.



Over time, MDB's strategy has adapted to evolving economic conditions, and public policy priorities. Through regular reviews, MDB ensures that its ability to respond to market changes is maintained and improved. In fact, the Bank continuously refines its business strategy framework, including its vision, mission, and strategic objectives, integrating experience and progress, along with anticipated macroeconomic shifts, to optimise the ability to deliver on its mandate.

Enhancing credit conditions for small and medium-sized enterprises remains a key priority for the MDB. Other priority areas outlined in the strategy include initiatives that foster social inclusion, as well as those supporting sustainable infrastructure, technological innovation, renewable energy production, and energy efficiency.

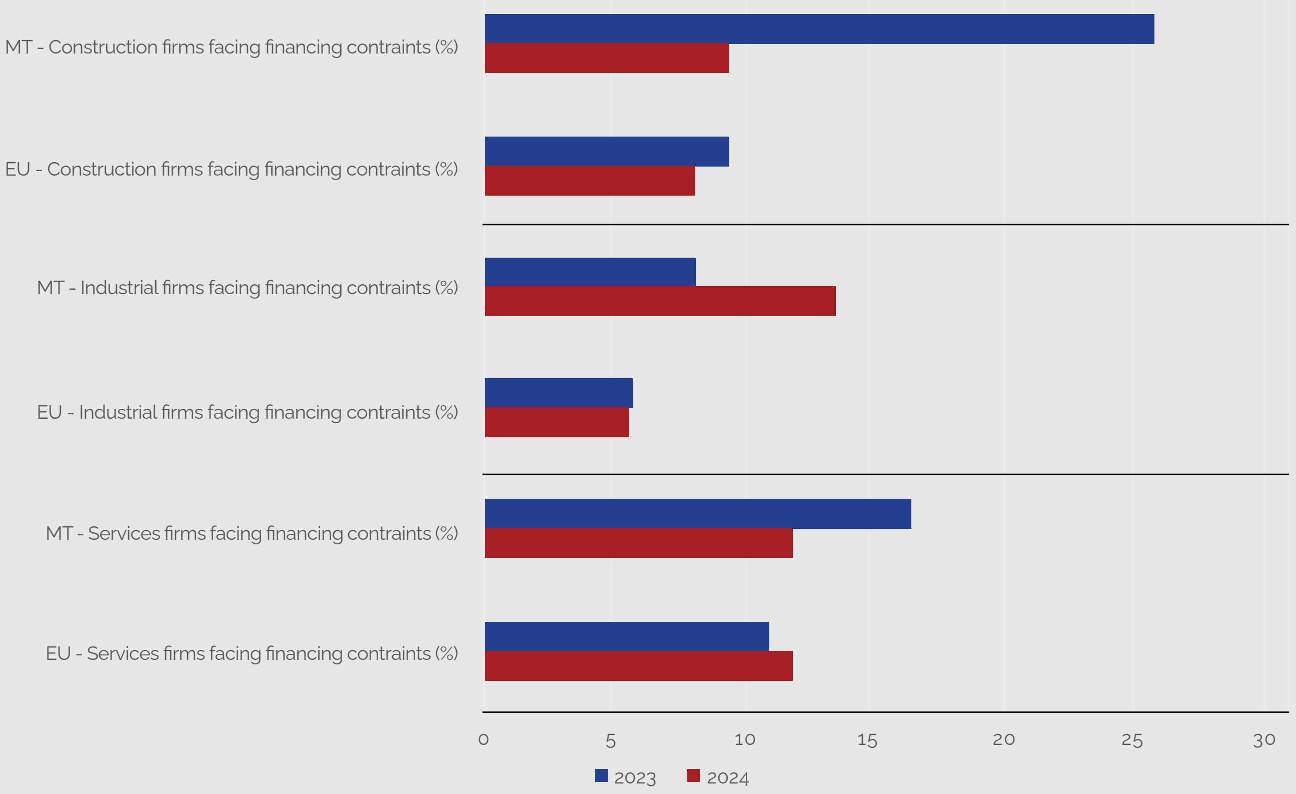
These priority areas are key in guiding the Bank's policy efforts. By engaging stakeholders across all sectors in Malta, the MDB is in turn able to help and support different authorities and policymakers to achieve their own targets. In fact, for example, over 2024, the MDB was involved in technical discussions with Xjenza Malta to renew and improve the Bank's collaboration on the Go to Market loan assistance scheme. This scheme targets innovative start-ups in Malta willing to commercialise their technological and innovative ideas.

SPECIAL TOPIC I – ASSESSING DEVELOPMENTS IN ACCESS TO FINANCE

Bank credit to non-financial corporations in Malta grew steadily in 2024. Bank interest rates on non-financial corporation loans remained high, with a level comparable to euro area rates.[1] Access to finance for Maltese firms, even with robust growth, remains persistently more restricted when compared to their European peers. This view is confirmed consistently in successive surveys from the European Commission (EC).

Every month, the Directorate-General for Economic and Financial Affairs (DGECFIN) within the EC carries out surveys with firms across EU Member States. These questions are directed towards companies operating within three key economic sectors that represent the economy: industrial, services, and construction businesses. In its monthly and quarterly questions, the EC asks respondents the main factors limiting firms' operations in Malta.[2] The replies indicate that when compared with 2023, the proportion of respondent firms facing financing constraints in 2024 decreased for services and construction firms in Malta but worsened for those operating in the industrial sector. However, when comparing these annual averages with overall EU replies, a higher proportion of Maltese firms across all three sectors reported that financing constraints limited their businesses compared to their EU peers (see Chart 1). This may reflect the financing conditions faced by key sectors in Malta, or peculiarities of the sectors' business models compared to businesses in the EU.[3]

Chart 1: Firms facing financing constraints in Malta and the EU (annual average), by sector



Source: DG ECFIN, MDB calculations.

1 International Monetary Fund (2025), Country Report No. 2025/017 – "Malta: 2024 Article IV consultation—press release and staff report," 2025-01-22.
2 The monthly sample sizes reported in the Survey's meta data for the industrial, services and construction sectors are 50, 72 and 23, respectively.
3 For example, the International Monetary Fund notes how companies operating in the building sector in Malta repay their loans by selling property only upon completion of the construction projects. (IMF Country Report No. 19/347, December 2019).

EIB Investment Survey (EIBIS)

The European Investment Bank's 2024 Investment Survey (EIBIS) focuses on corporate investment, constraints, and financing decisions of firms in Malta in 2024.[4] The Survey's findings offer a comprehensive overview of investment dynamics and other valuable insights for the Malta Development Bank.

Investment in Malta, as reflected in gross domestic product and national account statistics, is particularly sensitive to one-off events. These exceptional investment flows are often tied to large-scale projects, or the registration of high-value, specialised assets in Malta, typically within the aviation or maritime sectors and linked to individual companies. As a result, the overall investment figures in national accounts may not accurately reflect the investment conditions faced by most Maltese businesses.

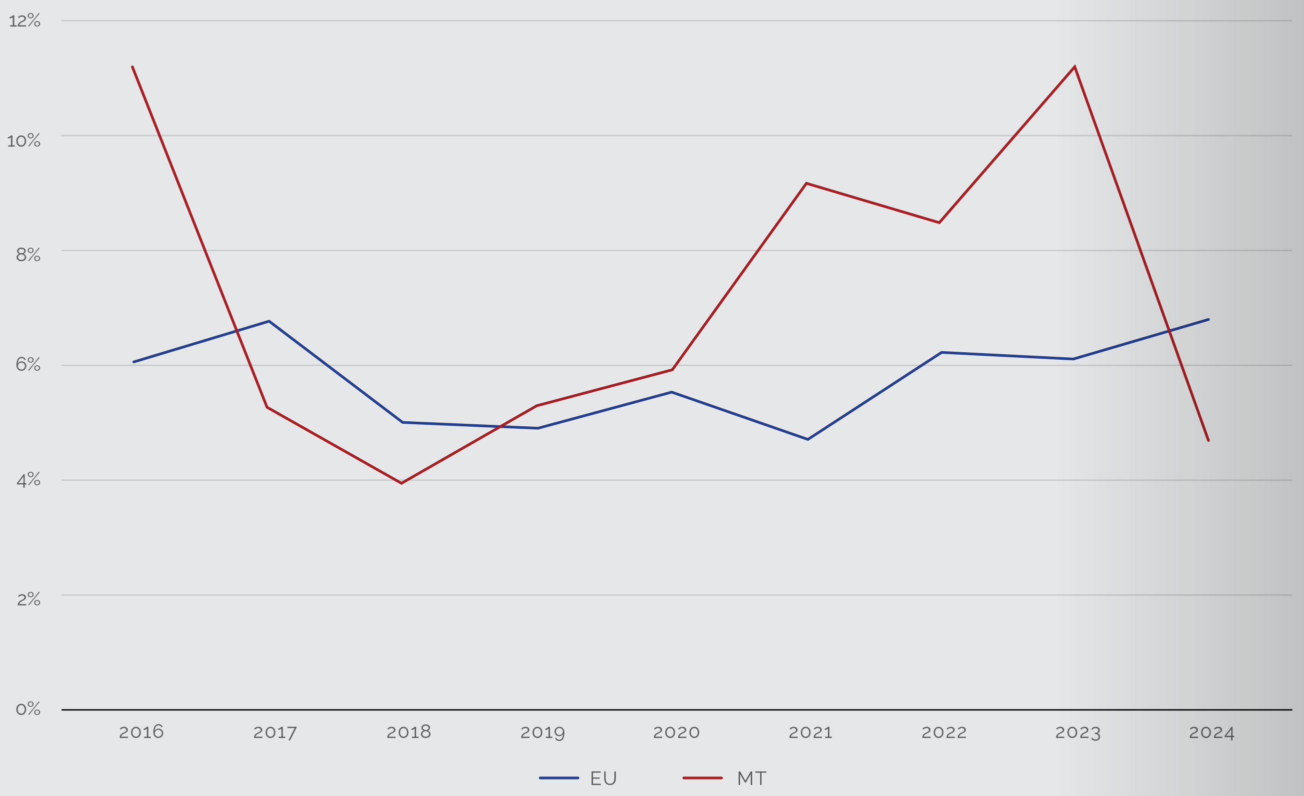
In that sense, the EIBIS' trends appear to be more in line with what the typical Maltese firm is facing, rather than the outliers discussed above. In the 2024 EIBIS, 13% of Maltese firms believe that over the past three years, there was an investment gap between businesses' perceived investment needs and their investment plans.

Focusing on the Survey's responses related to access to finance, internal funding sources remained the largest contributor to finance investments in Malta (79%), followed by external finance (16%). The Survey's EU average indicate that 66% of businesses rely more on internal funding, whereas 25% seek external financing.

Financing sources change across firm size, with micro and small enterprises financing a higher fraction of their investment through internal funding, when compared to medium or large enterprises (85% against 75%). Services firms tend to use external funding to a larger degree, while manufacturing businesses rely more on intra-group financing.

Slightly more than a quarter of Maltese firms that invested over the last year financed some of their investment through external finance (27%). While lower, this is similar to replies received in the 2023 EIBIS; but is lower than the EU average for 2024 (42%). Medium or larger firms were likelier to have resorted to external finance than micro and small firms (29% and 23%, respectively).

Chart 2: Financing constraints over time

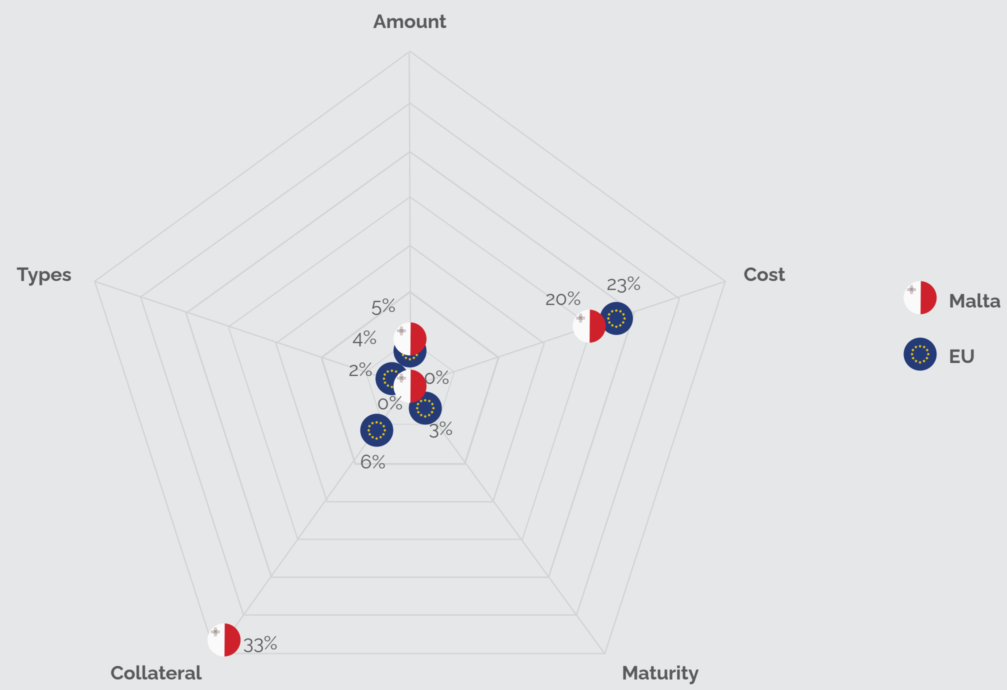


Source: EIB

Moreover, as shown in Chart 2, the share of financially constrained firms in Malta (4.7%) returned to below the EU average (6.8%) for the first time since 2018. This contrasts with results obtained from the EC DG-ECFIN surveys, and is a marked improvement from the previous year (MT 2023: 11.2%). The main restriction in Malta relates to rejections (3.5%), followed by insufficient financing amounts (1.2%) that are offered by banks. The sector with the largest share of financing constrained firms in Malta is the services sector (9.6%).

4 The EIBIS was deemed to be a truer depiction of firms' financing conditions in Malta than the European Commission's Survey of Access to Finance (SAFE) – both in terms of sample size (181 respondents) and representativeness.

Chart 3: Dissatisfaction with external finance received



Source: EIB

When asked about dissatisfaction with external financing received (see Chart 3), Maltese businesses are most dissatisfied with collateral requirements (33%), and cost (20%). Dissatisfaction levels are broadly comparable to the EU average – with a notable difference – collateral requirements (33% in Malta compared with 6% in the EU).

The Malta Development Bank plays a crucial role in bridging the financing gap for businesses by creating innovative financial solutions. Serving as a strategic partner, it helps address shortcomings in traditional lending channels. Businesses often struggle with challenges such as high collateral requirements and insufficient loan volumes—areas where the MDB's support is particularly valuable. Additionally, the Bank's guarantees help reduce risk for commercial banks, ultimately lowering credit costs for end beneficiaries.

Through initiatives like loan guarantees, direct lending, and co-lending schemes, the MDB ensures businesses have access to capital on favourable terms. By fostering a supportive financial environment, the MDB remains committed to promoting the growth and sustainability of diverse enterprises. Acting as a key enabler of finance, the Bank continues to drive economic progress and resilience in Malta.

MOBILISING RISK-SHARING INSTRUMENTS AT EU LEVEL

EIF's InvestEU

The European Investment Fund (EIF) offers credit risk protection through portfolio guarantees (both direct and counter) to selected financial intermediaries. These guarantees, which can be capped or uncapped, partially cover the credit risk associated with eligible debt financing transactions provided to specific categories of final recipients. During 2024, the MDB closely followed developments of the EIF's InvestEU products, as well as the feedback process on the InvestEU programme through the networks of European national promotional banks and institutions (NPBIs).

In its aim to provide access to the InvestEU guarantee in Malta, the MDB finalised its guarantee application with the EIF under the InvestEU programme in 2024. In this way, the MDB intends to start mobilising the InvestEU guarantee in Malta as quickly as possible, while concurrently proceeding with the ambitious process of becoming a direct implementing partner (see next section).

In fact, in April 2024, the MDB signed an agreement with the EIF for the Sustainability InvestEU Guarantee, which is intended to be mobilised mainly through the SME Guarantee Scheme (SGS) and Guaranteed Co-Lending Scheme (GCLS). The MDB also signed another agreement with the EIF for the Cultural and Creative Sector, to be able to better support this sector.

At the same time, the MDB began the process to renew its SGS and GCLS schemes, bringing them in line with new state aid provisions, and improving credit terms offered for Maltese SMEs. By December 2024, the internal process to draft the renewed legal agreements for its intermediating partner banks was concluded. Separately from this renewal process, the MDB also included provisions for two new sub-schemes to mobilise the EIF's guarantees, to be implemented through the SGS and GCLS.

These new MDB sub-schemes will benefit from the EIF's Sustainability InvestEU Guarantee, and the EIF's InvestEU Guarantee for the Cultural and Creative Sector. The benefit of the combined MDB and EIF guarantees shall be transferred to the final beneficiaries in various forms, including reduced interest rates, shorter repayment periods, lower collateral requirements, and a reduced front contribution.

The final agreements for the sub-schemes are expected to be signed by the banks in the first half of 2025.

InvestEU and the Pillar Assessment process

As Malta's sole national promotional bank, the MDB aims to position itself as the country's primary direct entry point for InvestEU guarantees. Before achieving this, the Bank undertook a comprehensive assessment of its eligibility and capacity to manage EU guarantees. In 2024, the final pillar assessment report was submitted to the European Commission. Following an expected final exchange with the Commission on the contents of this report, the MDB expects to hold the last exit meeting with the European Commission in 2025. After this meeting, the Bank intends to begin negotiations on the first guarantee agreement under InvestEU as a direct Implementing Partner.

The InvestEU programme aims to foster sustainable investment, innovation, and job creation across the EU. Through this programme, for the first time, NPBIs and other international financial institutions gained direct access to EU guarantees, improving responsiveness to national investment needs. The MDB remains closely updated with developments in the InvestEU programme, in particular through its European NPBI networks.

In 2024, three years after the launch of InvestEU, ELTI members proposed ten recommendations to enhance InvestEU's operations, which should be considered in the mid-term review and the next Multi-annual Financial Framework. Key suggestions include improving negotiation and transparency of Guarantee Agreements, adjusting provisioning rates based on market performance, streamlining reporting requirements, ensuring a level playing field among Implementing Partners (IPs), and bolstering the InvestEU Advisory Hub. Additional recommendations highlight streamlining governance and applying a state aid consistency regime to all IPs, ensuring more efficient operations in future projects.

SPECIAL TOPIC II – USE CASES – EIB GREEN GATEWAY AND EIF SUSTAINABILITY

In its efforts to increase lending for green and sustainable investments, the Malta Development Bank has worked intensely on the launch of two new products, operating under its flagship schemes, the SME Guarantee Scheme (SGS) and the Guaranteed Co-Lending Scheme (GCLS). These schemes benefit from a guarantee of the European Investment Fund (EIF), under the InvestEU Sustainability window. The MDB, in turn, studied the best way of deploying this guarantee, with MDB staff obtaining significant insights from the European Investment Bank's (EIB) Green Gateway Advisory project.

The Green Gateway initiative, led by the EIB and the EIF, is designed to support sustainable investments that contribute to the EU's climate and energy targets. Through this framework, various projects—ranging from energy-efficient building upgrades to zero-emission transport solutions—can access financing to promote decarbonisation, enhance energy efficiency, and expand the use of renewable energy sources. The initiative aligns with the broader European Green Deal objectives, ensuring that investments drive meaningful environmental progress while supporting economic growth.

The MDB may choose to fund loans for sustainability projects from the EIB Climate Loan Facility subject to eligibility. The online "Green Eligibility Checker" tool, provided by the EIB for the MDB, can be found at https://mdb.greenchecker.eib.org/ . The examples of light commercial vehicles, air conditioner replacement, and photovoltaic systems highlighted in this Special Topic represent just three of the many eligible use cases under this framework. Other examples include thermal insulation, electric charging stations, electric passenger vehicles, electric energy storage and small-scale wind turbines. All of these business investment projects are eligible under the Bank's SME Guarantee Scheme – Sustainability (SGS-S), and Guaranteed Co-Lending Scheme – Sustainability (GCLS-S). Small and medium enterprises as well as small mid-caps are eligible under both Sustainability sub-schemes.[5]

Likewise, the MDB's deployment of the EIF Sustainability guarantee means that the Bank can, in turn, guarantee sustainability-related projects if these are eligible under the EIF's terms. The EIF's "Sustainability Guarantee Tool" online checker can be found at https://sustainabilityguarantee.eif.org/ . For the sake of clarity, the examples and use cases we discuss below, which are mentioned for EIB eligibility, were chosen to also comply with EIF sustainability requirements.

Use case 1: Low and zero-emission light commercial vehicles

Increasing the share of low-and zero-emission light commercial vehicles (LCVs) under 3.5 tonnes helps reduce greenhouse gas emissions and support climate change mitigation. Until 2025, LCVs with emissions of up to 50 gCO_2/km (Worldwide Harmonised Light Vehicle Test Procedure, WLTP) or 40.32 gCO_2/km (NEDC) qualify for EIB green financing, and the EIF sustainability guarantee, as this threshold is significantly below the expected average emissions of new vehicles, with a stricter zero-emission requirement from 2026. LCVs emitting between 50-147 gCO_2/km (WLTP) or 40.32-118.55 gCO_2/km (NEDC) are not eligible for green financing but are considered 'Paris aligned' and can be supported through EIB's intermediated debt products, whereas those exceeding 147 gCO_2/km (WLTP) or 118.55 gCO_2/km (NEDC) are ineligible for EIB funding. To confirm eligibility, a copy of the vehicle registration documents stating emission values and a Certificate of Conformity must be collected and stored. Additionally, for reporting purposes, vehicles produced after 1 September 2019 require WLTP CO_2 emissions data, while those produced before this date require NEDC CO_2 emissions data.

In the case of vehicles under category M1, for EIF eligibility, the cost of the vehicle – VAT excluded- must be up to EUR 60,000.

5 An SME is defined by Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC) as an enterprise that, among other aspects, has fewer than 250 employees, has an annual turnover of up to €50 million or a balance sheet total of up to €43 million, has less than 25% of its capital or voting rights controlled by a public body, is established and operating in the Republic of Malta. A 'small mid-cap' means an entity with fewer than 500 full-time equivalent employees that is not an SME.

Use case 2: Air conditioners and related technical equipment

Air conditioners regulate indoor temperature using a vapour compression cycle powered by an electric compressor. The replacement of air conditioners and related technical equipment qualifies for EIB green financing if it results in primary energy savings and supports EU targets for renewable energy in heating and cooling, as outlined in Directive 2018/2001/EU. To confirm eligibility, one of the following documents must be collected: a Green Checker Results PDF report, an energy audit, or an Energy Performance Certificate (EPC) issued before and after implementation, in line with the Energy Performance of Buildings Directive (EPBD). Additionally, data on primary energy saved and the energy efficiency rating of the new air conditioner must be gathered for reporting purposes.

The installation and upgrade of air conditioners and ancillary technical equipment is eligible under the EIF InvestEU Sustainability Guarantee if the investment complies with the minimum requirements set in the applicable national regulations transposing the EPBD, and complies with any applicable Commission regulation in the ecodesign Directive 2009/125/EC, or if it is rated in the highest two populated classes (or higher) of energy efficiency as laid down in a delegated act under Regulation (EU) 2017/1369 or Directive 2010/30/EU. The latter is assessed by the EIF tool based on the technical specification provided by the user. PDF documentation from the EIF eligibility tool, as well as other technical data on the installation are required.

Use case 3: Photovoltaic systems

Photovoltaic (PV) systems convert sunlight into electricity, with on-site renewable generation ensuring that most of the energy produced is consumed by the related building. All on-site solar energy systems, including PV systems, qualify for EIB green financing, regardless of the type of installation site, whether domestic, industrial, or agricultural. To confirm eligibility, one of the following documents must be collected: an energy audit, ex-ante and ex-post EPCs, a Green Checker Results PDF report, or other EIB-approved documentation, such as technical project details specifying system capacity. For reporting purposes, at least one of the following impact indicators must be provided: installed capacity (kWpeak), primary energy savings (kWh/year), or renewable energy generated (kWh/year).

All systems that make use of solar power, including PV systems, are eligible under the EIF InvestEU Sustainability Guarantee. As above, documentation evidencing the cost(s) of the relevant expenditure, such as invoices, purchase contracts, price quotation/technical offer, project implementation documents etc. or a combination thereof are required, as are either the PDF report generated by this tool confirming the eligibility of this measure specification under the EIF InvestEU Sustainability Guarantee, or a description of the investment, explaining the measure including the additional renewable and other safe and sustainable zero and low-emission energy generation capacity installed (MW).

Different reporting requirements apply for different investment decisions, and eligibility depends on the Use Case documents, for both the EIB and the EIF, as well as the incentive guidelines linked with the MDB's SGS-S and GCLS-S schemes.

The MDB is committed to supporting the transition to a greener economy by facilitating access to funding for businesses and individuals investing in sustainable solutions. By leveraging EIB and EIF support, the Bank is well-positioned to make these initiatives a success, through its intermediating partner banks, reinforcing Malta's role in the shift towards a climate-friendly and resilient economy.

GATEWAY TO GREEN FINANCING

Throughout the year, the Bank's business development strategy prioritised strengthening collaborations to drive green investments. During this period, the MDB also advanced its efforts to develop financing tools that support Malta's economic regeneration and sustainable growth.

In fact, in 2024, the MDB strengthened its commitment to sustainability by advancing key initiatives under the Green Gateway Advisory project. A milestone in this effort was the official presentation of the Market Assessment and Recommendations Report by EIB. This project, launched earlier in the year, was designed to accelerate climate action and sustainable investments across Malta.

The Green Gateway Report provides a strategic evaluation of Malta's green investment landscape, identifying critical sectors for climate-focused financing while assessing the MDB's existing portfolio of grant and financial instruments. The report also highlights untapped investment opportunities and offers a detailed comparison of eligibility criteria across various EIB Group funding sources, ensuring a more streamlined and effective financing approach.

A key component of MDB's green strategy is its €30 million climate-action operation, funded by the EIB, which is dedicated exclusively to green and sustainable projects.

With the backing of the EIB Group, the MDB is enhancing its ability to identify, support, and finance sustainable projects. This collaboration not only reinforces MDB's role as a catalyst for green finance but also aligns its operations with international standards, positioning the Bank to leverage emerging opportunities in the green economy.

As part of the Green Gateway initiative, four priority areas for green financing have been identified for further discussion: electric vehicles, energy-efficient buildings, renewable energy, and waste management. These focus areas reflect MDB's ongoing efforts to drive sustainable development and environmental resilience in Malta.

Furthermore, the Bank continued discussions with stakeholders in the energy sector in Malta in view of augmenting the Sustainability sub-scheme with a further financial incentive to support investment in renewable energy.

Connect Europe Facility – Alternative Fuels Investment Facility (AFIF)

An important development in 2024 was the MDB's role as an implementing partner under AFIF, a key driver of the EU's efforts to expand alternative fuel supply infrastructure across its trans-European transport network. As Malta's sole implementing partner under this facility, the MDB ensured its support for a project focused on investing in recharging stations for the transition of public buses from internal combustion engines to fully electric vehicles.

While the project was selected by the Connecting Europe Facility administrators, and was ready to move forward, unforeseen circumstances led to its halt. Despite this, there is now heightened interest in AFIF support from multiple transport sector operators in Malta, targeting to apply under new AFIF calls in 2025, with the MDB remaining eager to assist in advancing these projects.

RISK MANAGEMENT STRATEGY

The Malta Development Bank (MDB) is committed to contributing to Malta's sustainable economic development, promoting inclusive and environmentally sustainable growth, and supporting infrastructure development. This mission, reflected in the statutory purpose outlined in Article 4 of the Malta Development Bank Act, highlights the Bank's role in fostering socio-economic progress.

To fulfil this mission, the MDB engages in promotional investment and financing activities. This includes providing credit and guarantees for loans extended by the MDB's implementing partner banks. Such activities inherently expose the MDB to a range of financial and non-financial risks, emphasising the importance of a strong risk management framework. The MDB recognises that sustaining a sound risk culture – characterised by a high level of risk awareness and proactive management – is essential to its long-term success.

The MDB employs the industry-recognised three lines of defence model to effectively manage its risks. This model ensures that responsibility and accountability for risk management are distributed across all levels and units within the organisation, with ultimate oversight residing with senior management. The second line of defence is supported by dedicated Risk Management and Legal and Compliance functions, which play an important role in protecting the Bank's operations.

In particular, the Risk Management function undertakes comprehensive risk analysis, assessment, and measurement. It is responsible for developing and implementing policies, procedures, and methodologies that align with the Bank's risk management framework. The function also recommends and monitors exposure limits, provides recommendations for mitigating risks, and ensures compliance with established limits. Furthermore, it regularly reports risks to the Board and relevant committees, ensuring transparency and informed decision-making across the organisation.

ENTERPRISE RISK MANAGEMENT

The MDB's enterprise risk management framework is structured to support the Bank's risk-taking activities in alignment with its mission and strategic objectives. This framework is designed to account for the Bank's risk-bearing capacity, defined risk appetite, and the minimum quantitative thresholds for capital and liquidity.

The Bank's willingness to assume risk is articulated within its Risk Appetite Framework, which aligns the MDB's risk-taking with statutory obligations, strategic business goals, and capital planning considerations. This framework serves as a clear articulation of the fundamental principles governing the Bank's approach to risk-taking, risk mitigation, and risk avoidance.

The principles outlined in the Risk Appetite Framework are embedded in the MDB's risk management policies, which provide clear guidance for managing key risks, including credit, operational, and liquidity risks. In 2024, the Risk Appetite Framework was reviewed and recalibrated to refine the metrics and ensure their continued relevance and effectiveness in managing the Bank's risk exposure.

Credit Risk Management

The MDB manages credit risk through the Credit Risk Framework that governs all stages of the credit process, from the development of new products and loan requests to the ongoing monitoring of borrowers and the final repayment of loans. This framework establishes internal control systems aimed at proactively managing credit risk. Recognising that effective credit risk management is integral to its business strategy, the MDB has developed a Credit Risk Framework, which encompasses the following documents:

- ***Credit Risk Policy:*** This policy is designed to achieve sustainable, long-term performance by balancing growing credit exposure with maintaining an acceptable level of credit quality. It seeks to minimise bad debts while aligning with the Bank's credit risk appetite. The policy provides clear guidelines for extending credit, ensuring lending decisions are consistent with the Bank's risk tolerance.

- ***Risk Assessment Framework:*** This framework outlines a structured, practical, and sustainable risk assessment process that is practical to implement and understand. It ensures that borrower risk levels remain within defined tolerance thresholds without being excessively restrictive or missing desirable opportunities.

- ***Risk Assessment Criteria:*** These criteria apply to SMEs and infrastructure project finance, serving as an internal rating system to evaluate the risks associated with credit exposures and facilitate the effective management of borrower relationships. In 2024, the MDB further refined these criteria, enhancing the accuracy of credit risk assessments and ensuring consistent evaluations across all borrowers. The resulting credit scores play an important role in the analysis of both new and existing borrowers under MDB schemes.

- ***Credit Risk Mitigation Policy:*** This policy supports informed and prudent risk decisions, ensuring that the MDB's credit risk management objectives are met. It establishes supplementary credit risk mitigation measures that enhance and complement core credit risk considerations, promoting responsible and effective lending practices.

Interest Rate Risk Management in Non-Trading Activities

The management of interest rate risk arising from non-trading activities is guided by the principles outlined in the Bank's Interest Rate Risk in the Banking Book Policy, as well as the decisions and recommendations of the Board of Directors, the Risk Committee, and the Asset and Liability Management Sub-Committee.

The Interest Rate Risk in the Banking Policy establishes the governance framework and methodologies for measuring and managing interest rate risk in non-trading activities. It ensures alignment with the MDB's Risk Appetite Statement and corresponding risk indicators, enabling the Bank to effectively monitor and mitigate risks associated with adverse interest rate movements.

OPERATIONAL RISK MANAGEMENT

The Operational Risk Management Framework defines the principles governing the identification, assessment, monitoring, and mitigation of operational risks. This framework establishes a structured approach to managing responsibilities, calculating capital requirements for operational risk, and implementing a comprehensive reporting system to support informed decision-making.

The Risk Management Function maintains a tailored Risk Register in alignment with the Operational Risk Management Policy. This register includes a detailed list of identified risks that are linked to the Bank's strategic and operational objectives, where the occurrence of such risks could pose significant threats. Risks are systematically identified and assessed based on their potential impact and likelihood of occurrence.

To prioritise these risks, each event is mapped to a two-dimensional impact-likelihood matrix, enabling their ranking by overall risk score, from the most critical to the least significant. Operational risk incidents are reported on a continuous basis, with detailed management information presented to the Operational Risk Committee to ensure ongoing oversight and appropriate mitigation strategies.

LIQUIDITY RISK MANAGEMENT

The management of the MDB's liquidity is guided by the Treasury Management Policy, with decisions approved by the Board of Directors, the Risk Committee or ALCO as appropriate. This policy establishes the principles for maintaining sufficient liquidity to support the Bank's operations and strategic objectives.

To mitigate liquidity risk, the MDB maintains callable balances with the Central Bank of Malta and other reputable financial institutions. Additionally, the Bank utilises a structured maturity ladder of short-term deposits and money market instruments, including Malta Government Treasury Bills, to facilitate the availability of funds for financial obligations.

In order to manage liquidity effectively, the MDB operates a liquidity ratio defined as the ratio of the projected net cash position at the end of the month to the sum of the 12-month projected net cash outflows. This approach aims to support the availability of adequate funds for financial commitments.

In adherence to the provisions of the MDB Act, the Bank is prohibited from accepting retail deposits, which highlights its reliance on alternative mechanisms for liquidity management.

OPERATIONAL STRATEGY

CORPORATE SERVICES

Corporate Services delivers essential support services to the Bank's business functions, ensuring efficient, effective, and compliant operations aligned with the Bank's strategic direction. The department's activities are guided by a commitment to operational excellence and the integration of Environmental, Social, and Governance (ESG) principles. This commitment reinforces MDB's dedication to environmental sustainability, social responsibility, transparency, and accountability.

During the reporting period, the MDB experienced continued growth in its business operations, resulting in an increased demand for specialised talent. The Human Resources department responded effectively to this demand by implementing a recruitment programme designed to attract and onboard highly qualified individuals. Concurrently, Human Resources maintained its focus on the well-being and professional development of existing staff, recognising their crucial contribution to MDB's success. The department's activities encompassed attracting, onboarding, and training new employees, while also fostering a supportive and engaging work environment conducive to productivity and professional growth.

The Administration and Procurement department provided essential services to support the Bank's various business functions, playing a crucial role in the management and upkeep of MDB premises. The department prioritised resource management practices in order to minimise environmental impact and promoted the well-being of employees. Furthermore, the department has also been intimately involved in an energy audit study that should provide the MDB with a blueprint for further improvement in energy conservation.

Records and Archives Management remained dedicated to safeguarding the Bank's institutional knowledge. The department ensured the meticulous documentation, secure storage and of key organisational record. These efforts are vital to preserving the Bank's legacy and ensuring the availability of critical documentation when required.

Policies

The policy development focused on the review and revision of several key policies. The Business Travel Policy was revised to ensure efficient and transparent business travel practices within MDB. The updated policy clarifies roles, responsibilities, and reporting requirements, and introduces a new event report mechanism to capture key learnings from business travel activities. Substantial reviews were also conducted for both the Dignity at the Workplace and Discipline at the Workplace policies. These reviews included updated definitions and general revisions to enhance clarity and understanding of the procedures and context. Furthermore, these policies were updated concurrently due to their interconnectedness and frequent cross-referencing of shared concepts and procedures.

Human Resources

In 2024, the Human Resources Department continued to refine and enhance its internal processes and recruitment initiatives to support MDB's business goals. The department's focus remained on fostering a high-performing and engaged workforce. Throughout the year, Human Resources actively engaged in the design and delivery of targeted employee training programs, addressing key skill development needs identified through performance reviews. The department also effectively managed performance management procedures and appraisals. Furthermore, Human Resources played a key role in planning and organising events that promoted employee well-being initiatives thus fostering collaboration and participation among staff members. These initiatives included fundraising initiatives and teambuilding events.

Recruitment

During 2024, the Bank sought to fill open positions across several departments, including Internal Audit, Credit, Administration and Procurement, Finance, Communications, and Risk Management. Of these open positions, three were successfully filled. The Credit Department saw two hires: one to fill an existing vacancy and another to a newly created role. A replacement was also hired within the Internal Audit Department following a retirement. Recruitment activities are continuing to address the remaining open positions across the various departments.

As at end 2024, MDB's total headcount stood at 24 employees, comprised of 13 female and 11 male employees. At the Professional level, there are 9 female employees compared to 5 male employees. Conversely, the Managerial level has a higher representation of males with 6 employees, while the female representation is 4 employees. This data suggests a higher representation of female employees at the Professional level and a higher representation of male employees at the Managerial level.

Chart 1: Total Employees per Grade and Gender

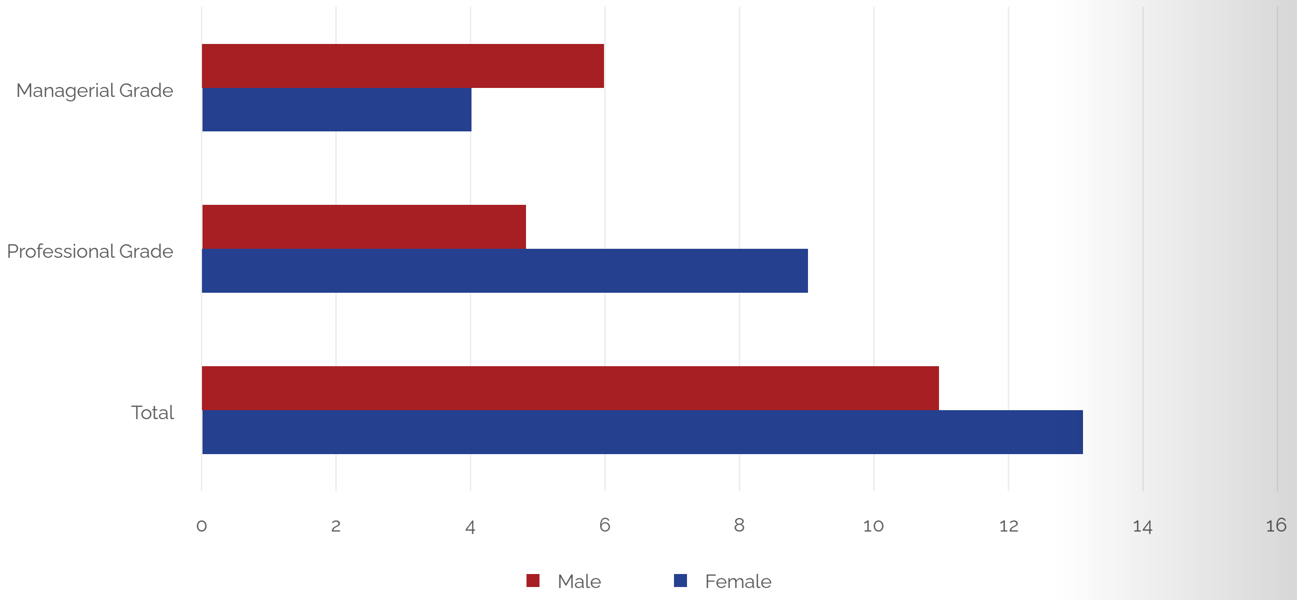
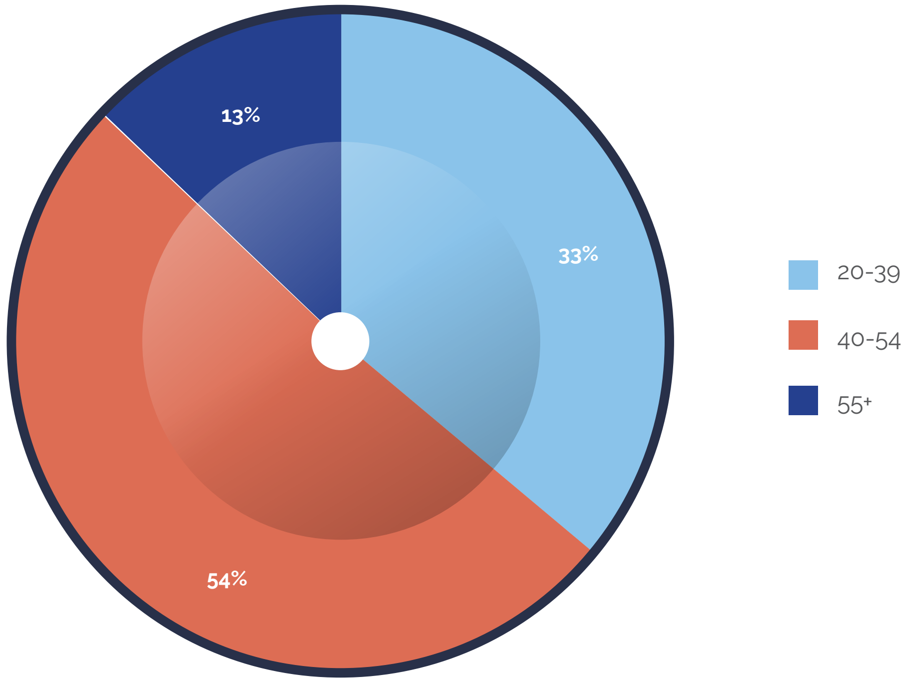


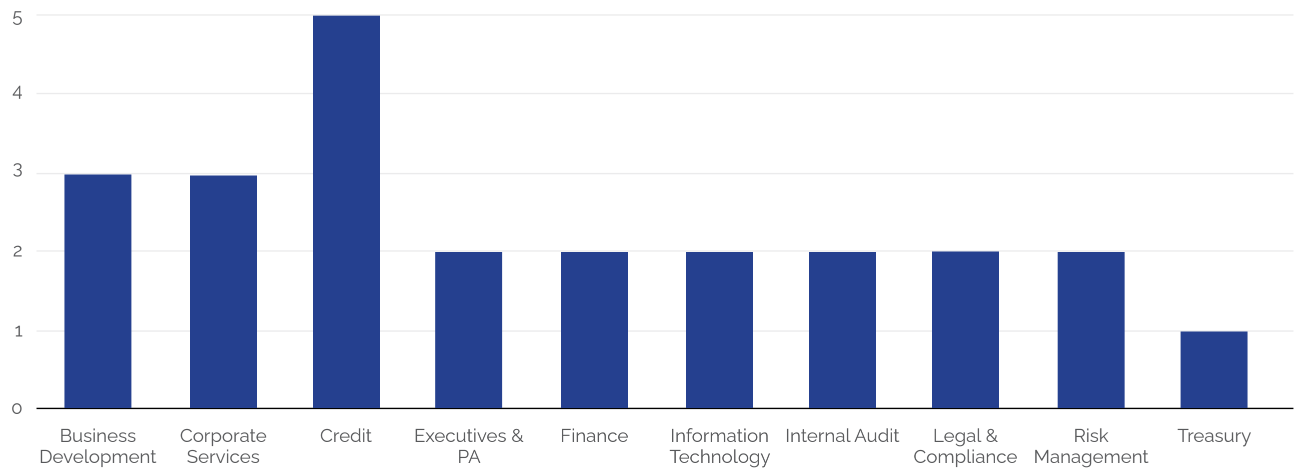
Chart 2: Employee Age Distribution



The age distribution of employees as represented in Chart 2, highlights that 33% of the workforce is aged between 20 and 39. The largest proportion of the MDB employees, 54%, falls within the 40-59 age bracket. Finally, employees aged 60 and above make up 13% of our workforce. This diverse age range contributes to a dynamic and balanced work environment.

The staff complement in each department as at end of 2024 is highlighted in Chart 3.

Chart 3: Employees per Department



The Management team as at the end of 2024 was made up of the following:*
Mr Paul V. Azzopardi, Chief Executive Officer
Mr Saviour Busuttil, Chief Corporate Services Officer
Mr Joseph Darmanin, Chief Business Development Officer
Ms Joanne Dimech, Chief Finance Officer
Ms Moira Falzon, Chief Internal Auditor
Mr Glen Lethridge, Chief Information Technology Officer
Mr Tyrone Mizzi Navarro, Chief Risk Officer
Dr Bernadette Muscat, Chief Legal and Compliance Officer
Mr Kevin Vassallo, Chief Projects and Treasury Management Officer
Ms Maria Xuereb, Chief Credit Officer

* In February 2025, Ms Alison Micallef joined the Bank as Deputy Chief Executive Officer, following a call for applications issued in 2024.

Training

The MDB recognises its workforce as a crucial asset and a key driver of success. A comprehensive, training and development programme fosters a culture of continuous learning. A commitment to professional development is integrated into the MDB's corporate culture. Regular training sessions, conducted internally and in collaboration with external professional institutions, are delivered through various formats, including webinars, seminars, conferences, and presentations. These sessions address a range of topics, including finance, anti-money laundering compliance, General Data Protection Regulation adherence, state aid procedures, ESG considerations, leadership development, and risk management.

Beyond mandatory training and continuing professional education, the MDB supports initiatives promoting self-development and personal growth. These initiatives encourage staff to embrace new challenges, cultivate problem-solving skills, and broaden knowledge, enhancing the professionalism and effectiveness of operations.

Premises

Maintaining optimal operational efficiency and a safe and comfortable work environment remained a key priority for the Administration and Procurement Department in 2024. The Bank undertook a program of general maintenance across its premises to ensure the upkeep and longevity of its facilities. Recognising the importance of workplace safety, a review and refresh of health and safety risk assessments were conducted, ensuring alignment with current best practices and regulatory requirements. Furthermore, MDB launched a significant energy audit exercise, a crucial step in its commitment to environmental sustainability. This initiative involved the meticulous collection of data encompassing the premises' footprint, equipment inventory, structural plans, and occupancy patterns. The data gathered will serve as the foundation for calculating Greenhouse Gas (GHG) Scope 1 and 2 emissions and, importantly, for developing a comprehensive energy conservation plan aimed at reducing the Bank's environmental footprint. This assessment will also include the development of an energy mapping model, a valuable tool that will allow the Bank to simulate and evaluate the potential impact of various energy conservation initiatives. This proactive approach will enable MDB to make informed decisions regarding energy efficiency and sustainability.

Procurement

In 2024, the Procurement Unit prioritised strengthening the alignment of its processes with Public Procurement Regulations, ensuring transparency, accountability, and value for money in all procurement activities. To achieve this, employees participated in targeted training programs focused on the electronic Public Procurement System (ePPS) and Public Procurement Regulations. This training equipped staff with the necessary knowledge and skills to navigate the complexities of public procurement and adhere to best practices. The Unit is also actively pursuing enhanced coordination and collaboration, aiming to leverage synergies and improve efficiency across the Bank.

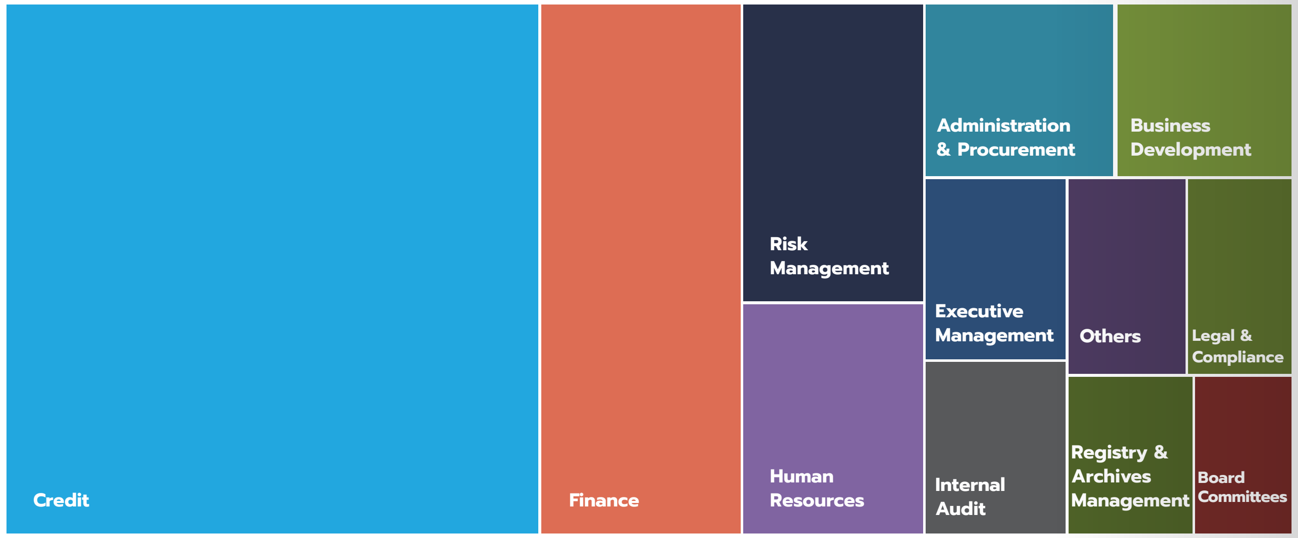
Corporate procurement activities at MDB were moderated in 2024, reflecting a strategic focus on long-term investments and operational efficiency. A key initiative undertaken during the year was the engagement of a consultancy firm to conduct a comprehensive energy audit assessment of MDB premises. Throughout the year, the Procurement Unit undertook a review and consolidation of procurement reporting requirements. This resulted in the streamlining of all reports into a single, comprehensive document, providing key information to both the Unit and MDB executive management, thereby enhancing transparency and facilitating more effective oversight.

Records and Archives Management

The Records and Archives Management Office (RAMO) plays a critical role in managing and maintaining a centralised repository of the Bank's records, thus ensuring organisational and statutory obligations. The Records and Archive Management Policy and the Records Retention Policy govern the retention, maintenance, archival and disposal of personal and official records and documentation across the Bank.

All business areas are now fully operating from the electronic document system introduced in 2022. RAMO was instrumental in ensuring that the transition from network drives to a document system went smoothly. This document system ensured that employees could continue working more efficiently in this new environment. RAMO also assisted in bringing a more dynamic approach to certain libraries where staff from different business areas collaborated on shared documents. The distribution across the organisation of more than 163,000 items in the document management system is highlighted in Chart 4.

Chart 4: Document Distribution by Business Function



During 2024 the Office also coordinated the management and upkeep of the retention schedules. These schedules were compiled by all business units in line with legal and operational requirements. The retention process prompts business units to review and reconsider any documents due for removal.

RAMO continued to maintain the Bank's contract database, which now serves as a central component of contract management. It includes key information on each contract and notifications for contracts nearing expiration, giving relevant business areas ample time to consider their renewal.

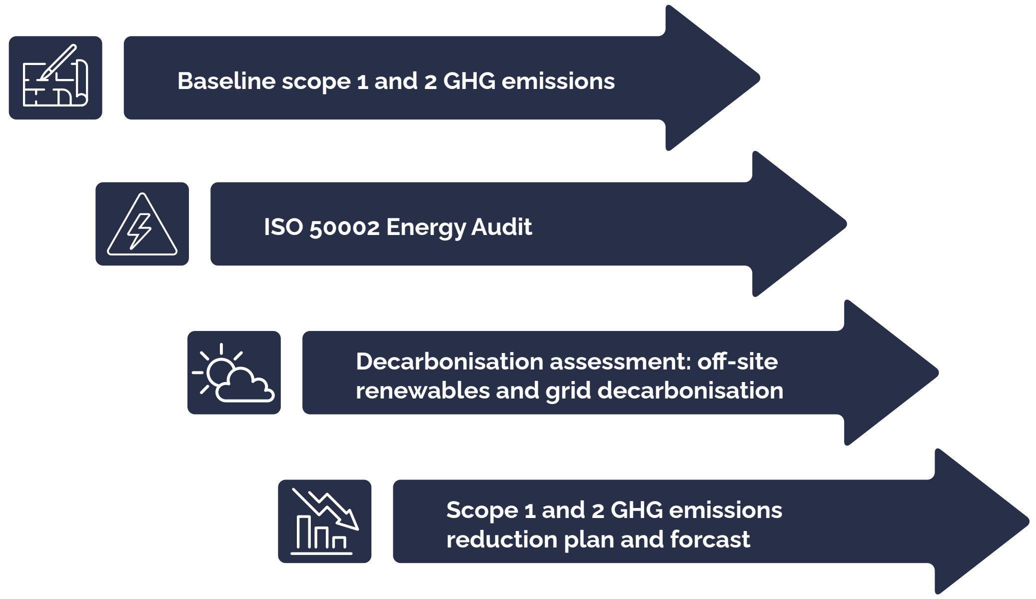
RAMO is responsible for centrally retaining the Policies and Procedures, which are a crucial part of the Bank's governance system. The Policies and Procedures library is accessible to all staff through an electronic management system, ensuring they have access to the latest versions of all policies approved by the Board of Directors.

RAMO manages the project time logs to track the amount of time dedicated to each initiative. This practice not only serves as a key efficiency metric but also enhances operational efficiencies and supports the activity-based project cost accounting system.

SPECIAL TOPIC III - GREENHOUSE GAS EMISSIONS REDUCTION FRAMEWORK

During 2024, the Malta Development Bank commissioned a specialised energy audit company to conduct a comprehensive audit alongside a greenhouse gas (GHG) emissions assessment and reduction plan for the Bank's premises in Floriana. This Special Topic summarises the findings and recommendations from this assessment, establishing a framework for MDB to achieve net-zero scope 1 and 2 emissions. The assessment follows the GHG Protocol Reporting Standard and ISO 50002 energy audit methodology, using the calendar year 2024 as the baseline year. Figure 1 shows a flow chart of the emissions reduction framework implemented in this report. The proposed framework considers a whole building approach prioritising energy demand reduction through energy efficiency improvements prior to incorporating renewable energy, as endorsed by various authoritative organisations as best practise to minimise carbon emissions.

Figure 1: Emissions reduction framework for the MDB



Step 1: Baseline Scope 1 and 2 GHG Emissions

The first step establishes the foundation for MDB's emissions reduction framework by calculating scope 1 and 2 GHG emissions. The analysis revealed that MDB is responsible for zero scope 1 emissions (direct emissions from owned sources). Scope 2 emissions (indirect emissions resulting from the consumption of purchased energy) arise only from electricity consumption. For the baseline year 2024, MDB consumed 43,907 kWh of electricity, resulting in 17.4 tonnes of CO_2e of scope 2 emissions using a location-based reporting methodology.

Step 2: ISO 50002 Energy Audit

This comprehensive assessment systematically evaluated the building's energy performance through site visits, data collection, and dynamic energy modelling. A dynamic energy model – a computer simulation that predicts energy use based on building characteristics and occupancy patterns (refer to Figure 2) – was developed to identify and quantify improvement opportunities. The model was validated against real-world electricity consumption data to ensure reliability. The analysis showed that MDB's recent renovations have already reduced energy consumption by 18.28% compared to a business-as-usual scenario (BAU). This reduction includes 10.45% from cooling improvements and 7.83% from lighting upgrades.

Four new key energy efficiency measures were identified with potential to reduce electricity consumption and emissions by a further 45.9% from the current (base) scenario: *implementing a behavioural energy management strategy, installing occupancy sensors integrated with VRF*[6] *controllers, applying spectrally selective films to windows, and installing a rooftop solar PV system, as shown in Table 1.*

Figure 2: Building energy model geometry for the MDB. The office building and surrounding structures are rendered, with light grey shapes representing nearby elements used for shading simulation.

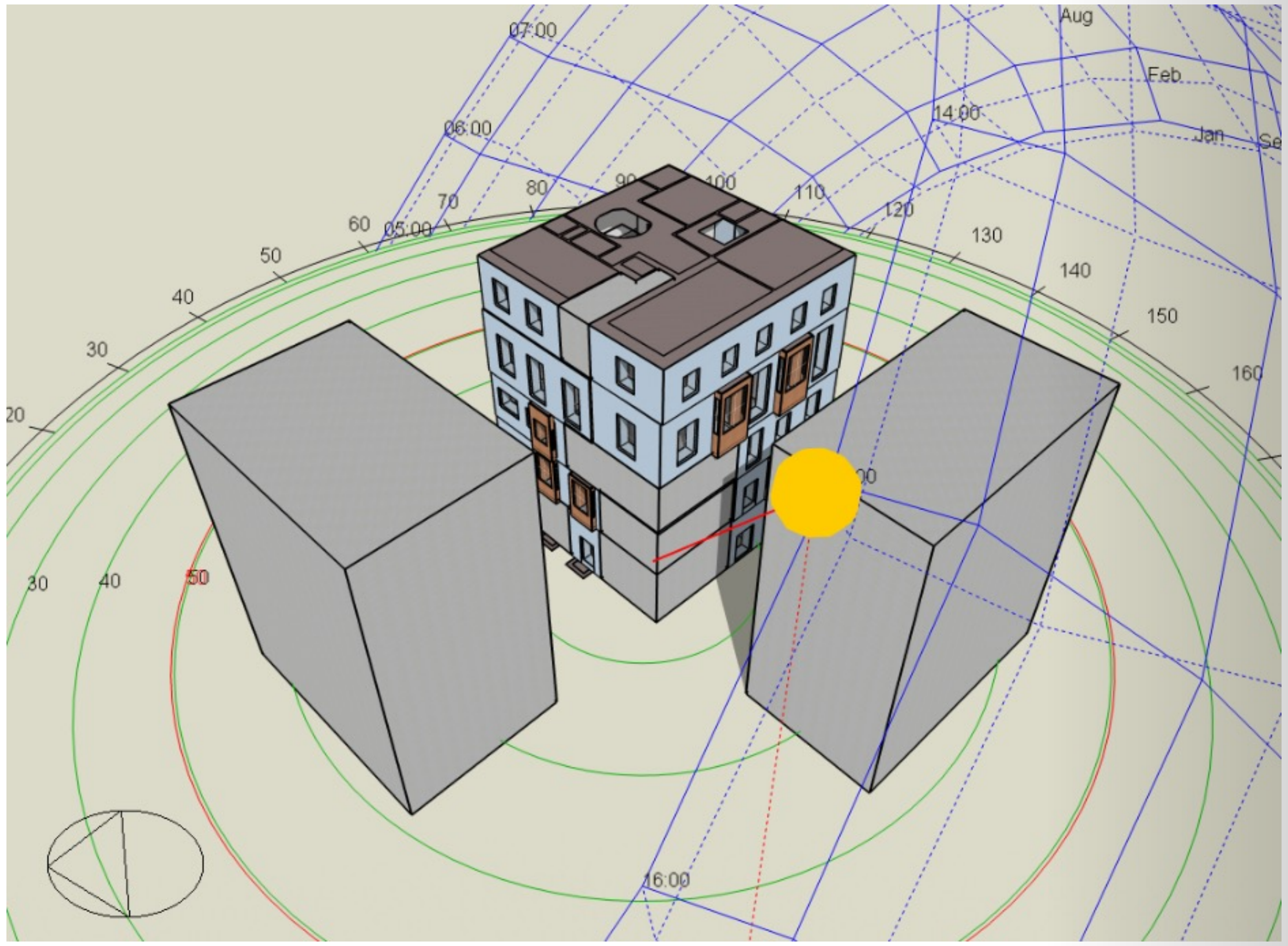


Table 1: New energy performance improvement measures considered in the audit.

REF	DESCRIPTION OF MEASURE	CLASSIFICATION	ESTIMATED ANNUAL REDUCTION SCOPE 2 GHG EMISSIONS REDUCTIONS (KG CO2E /YR)
1	Implement an energy management strategy and educate occupants (vis-à-vis temperature set-points and lighting control)	No-Cost Behavioural Measures	895
2	Install occupancy sensors coupled with a central VRF system controller	Low-Cost Energy Management Measures	895
3	Install external spectrally selective films on the glazing of wooden balconies	Passive Measure	105
4	Install 9 kWp of roof-mounted PV panels	Renewable Energy	5.544
Total Identified Savings from Current Scenario			**7.439**
Percentage Savings from Current Scenario (%)			**43.6**

6 VRF (Variable Refrigerant Flow) is an advanced air conditioning technology that allows precise control of refrigerant flow to multiple indoor units from a single outdoor unit.

Step 3: Decarbonisation Assessment - Off-Site Renewables and Grid Decarbonisation

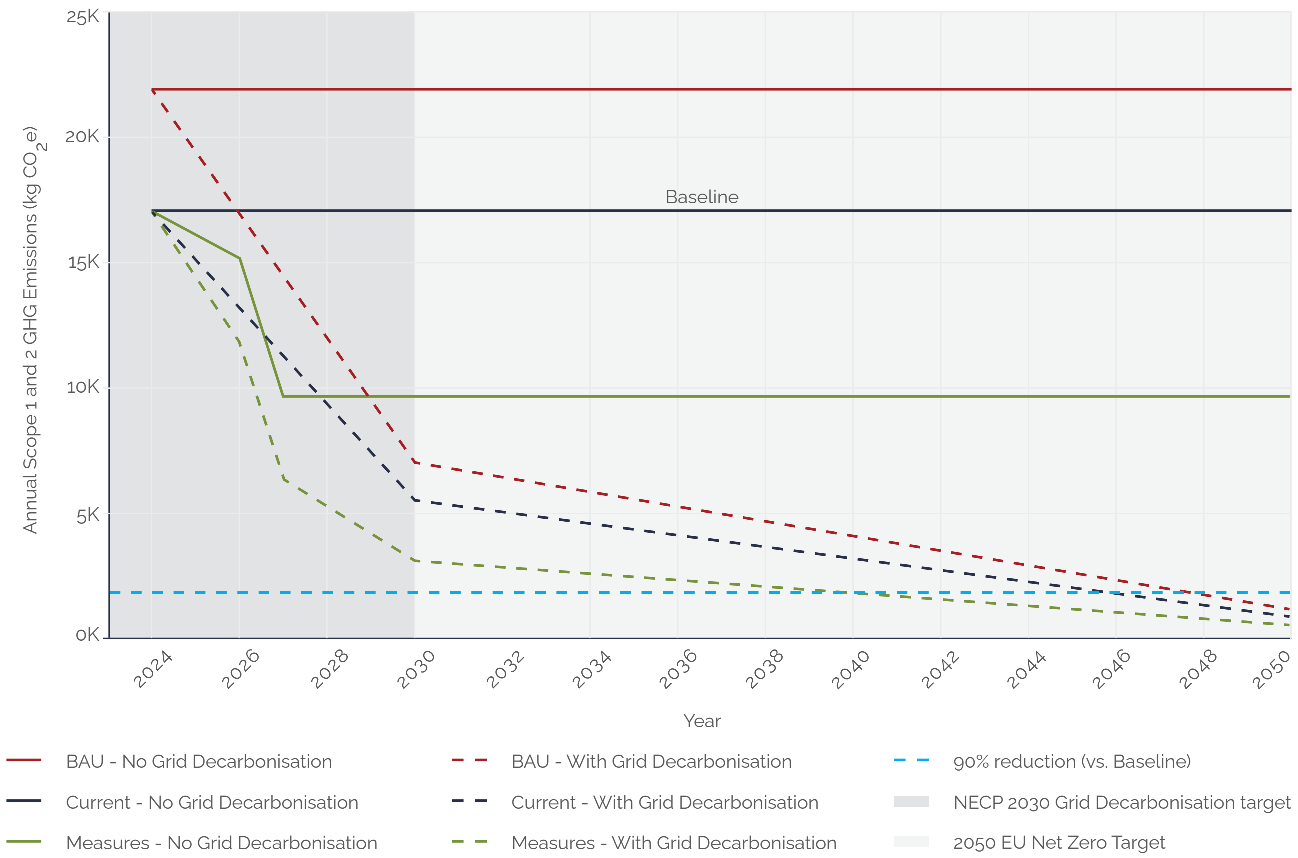
There is insufficient space at MDB to generate 100% of the organisation's energy needs from renewable energy self-generation alone. It is reasonable to assess the possibility of MDB accessing renewable energy generated off-site. In other countries and elsewhere in the European Union, there is the possibility for organisations to procure renewable energy from suppliers using contractual instruments, like Power Purchase Agreements (PPA) and Guarantees of Origin (GO). GOs are certificates issued to verify the renewable origin of electricity consumed by a business. Malta currently does not support Guarantees of Origin (GOs) due to the absence of a regulatory framework. Nonetheless, the MDB may consider procuring renewable energy generated off-site should such initiatives become available in the future. While there is some degree of uncertainty regarding national electricity grid decarbonisation, Malta's National Energy and Climate Plan (NECP) targets a 77% reduction in grid emissions compared to 2005 levels. This would lower the grid's carbon intensity to 126.75 gCO_2e/kWh by 2030, representing a 68% reduction from 2024 levels, which would significantly benefit MDB's emissions profile even without implementing additional measures.

Step 4: Scope 1 and 2 GHG Emissions Reduction Plan and Forecast

The Malta Development Bank's carbon reduction strategy integrates comprehensive energy efficiency measures with Malta's national grid decarbonisation goals to create a clear pathway toward net-zero operations. The proposed implementation plan of the energy efficiency measures will follow a strategic timeline spanning 2025-2027. A potential audit and replacement of the VRF system may be conducted between 2026-2027, pending a detailed cost-benefit analysis.

The emissions forecast (Figure 3), shows that by implementing all recommended measures alongside projected national grid decarbonisation, MDB can achieve an 82.36% reduction in emissions by 2030, decreasing from 17.4 tCO_2e to just 3.07 tCO_2e. This trajectory continues downward, reaching approximately 1.6 tCO_2e by 2039, representing a 90.5% reduction from baseline emissions. This revised projection aligns well with the EU's interim net-zero scope 1 and 2 emissions targets and positions MDB favourably to achieve net-zero emissions, provided Malta meets its 2050 net-zero carbon commitments.

Figure 3: Forecasted Scope 1 and Scope 2 GHG Emissions in Malta under different scenarios



INFORMATION TECHNOLOGY

The MDB continually evaluates its technical infrastructure to ensure that core systems are aligned to market standards both in terms of functionality offered to its business functions, as well as security controls against on-going cyberthreats and vulnerabilities. To this regard, the Bank successfully upgraded its Core Accounting System to the latest technical release during 2024. The upgrade consisted of a fresh installation of all the infrastructure components and was complemented with a fully-fledged independent vulnerability assessment to identify, and subsequently rectify, any technical vulnerabilities or misconfigurations that could undermine the overall security stance of the system.

Information security remains high on the Bank's agenda with various activities conducted throughout the year. Similarly to the Core Accounting System, an independent vulnerability assessment was conducted by an external third on the Bank's website with a positive outcome. Moreover, MDB staff participated in a formal Security Awareness Training program and numerous informative sessions on security-related policies and procedures to enhance the Bank's operational resilience by avoiding disruptions originating from human error. The Bank also developed a more comprehensive setup of secured offline backups to cater for major disaster recovery scenarios, thus enhancing its Business Continuity Management Policy. The policy aims to guide MDB staff to prepare for, and effectively respond to, business interruption whilst safeguarding the Bank's assets, preserving safety of its staff, upholding its reputation, and ensuring continued operations of critical activities throughout major crises.

FINANCE FUNCTION

Throughout the year under review the Finance function continued to support the Bank's strategic mission through its various functions particularly focused on financial management and control.

The Finance function was particularly engaged in enhancements in the Bank's financial planning to ensure financial stability throughout the conduct of the Bank's development mandate as driven by its strategic mission. Finance oversees liquidity management to ensure sufficient funding is available to meet its obligations and finance projects over the medium to long term.

Finance develops and monitors the annual budget which serves as a monitoring tool for steering operations in line with the agreed strategy. Cost controls are embedded through daily operations as regular variance analysis is conducted to compare actual spending against budgeted amounts, aimed at optimising operational and economic efficiency. During 2024, Finance continued to enhance its performance monitoring and efficiency metrics through the application of Key Performance Indicators. Finance further supports the Board of Directors and senior management through internal reporting of financial information.

Finance ensures financial sustainability while the Bank maintains its mandate to fill in financing gaps. The cost of MDB's projects is determined using an activity-based costing methodology which enables management to improve its costing and pricing strategies whilst measuring the effectiveness of financial interventions in achieving development goals.

Finance also provides ongoing support to credit risk management through the monitoring of credit risk performance and the implementation of risk mitigation strategies. The Finance function determines the level of Expected Credit Loss (ECL) provisions and presents recommendations to the Audit Committee regarding changes to the ECL policy and assumptions including material judgements, decisions and management overlays. It ensures that sufficient capital reserves are maintained to allow for potential losses resulting from credit risk.

During the year, credit exposures and borrowers' delinquency status are continuously monitored and assessed to determine the appropriate staging for ECL provisioning as required by IFRS 9. The measurement of ECL provisions is supported through a bespoke Probability of Default (PD) model developed internally which maps PDs to internal credit scores based on domestic non-financial corporate borrowers' delinquency stages.

The Finance Department ensures the timely submission of statutory and prudential regulatory reports, and compliance with financial reporting requirements as required by the MDB Act. Moreover, the Finance Department provides oversight of daily operational controls and procurement processes to ensure risks are managed in line with the Bank's policies.

TREASURY MANAGEMENT FUNCTION

During the year under review, short-term money market interest rates declined sharply by more than 100bp. The 3-month EURIBOR benchmark rate fell gradually from a high of 3.97% in January to a low of 2.68% in December. In the local money market, the three-month Treasury Bill rate also fell from a high of 3.61% in May to a low of 2.54% in September. Nonetheless, the Treasury Department still managed to employ the Bank's excess liquidity in a profitable manner in eligible financial instruments as defined in the Bank's Treasury Management Policy, mainly Malta Government Treasury Bills. These instruments are highly liquid and offer an optimal risk-return trade-off. In addition, the Treasury

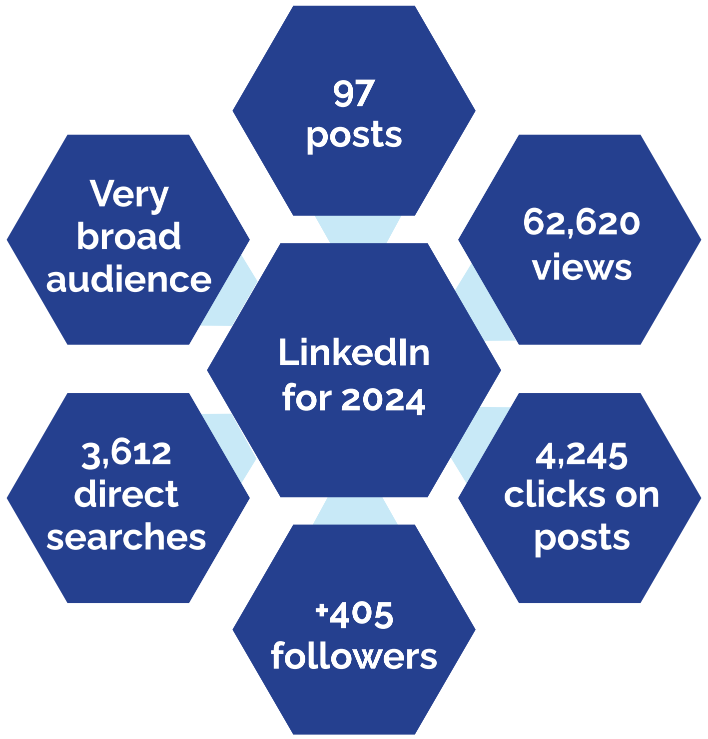
function also manages a portfolio of fixed-income instruments with a longer-term duration that yields a higher return. and which is the major contributor to the Bank's overall financial performance. The department was also involved in the liability side of the Bank's balance sheet with respect to an overdraft facility entered into with a local credit institution at a fixed rate as well as the servicing of existing loan agreements with international development banks that are currently in force.

PUBLIC RELATIONS FUNCTION

Throughout 2024, the Bank continued in its efforts to raise awareness and visibility of its role, the products it offers through the intermediary banks, its position as a workplace of choice, as well as on its stream of activities. Over the year under review, the MDB issued fifteen press statements, in English and Maltese, detailing noteworthy information, or updates relating to its schemes. Moreover, senior Bank officials wrote several opinion pieces and interviews in printed newspapers.

The Bank continued to maintain its presence on LinkedIn throughout 2024, with a regular stream of posts attracting almost 36,000 impressions, with increasing levels of engagement (see Chart 4). In the years since the creation of this page, the MDB attracted a regular following, consisting mostly of financial service practitioners, lawyers, officials from authorities and other similar stakeholders. Likewise, the MDB posts social media updates on an official Facebook page, with a similar following.

Chart 4: Professional social media reach



In addition to this, MDB officials participated actively in a steady stream of public events including conferences and fora hosted by key stakeholders to share information during debates, panels as well as through networking.

BUSINESS REVIEW

During 2024, the MDB continued working to ensure that the portfolio of schemes and instruments offered mirror the changing needs of the Maltese economy. Indeed, the MDB enhanced its outreach and worked closely with different entities in connection with its role of offering financing facilities that support productive and viable operations, as well as a vehicle for leveraging EU resources.

To meet Malta's ambitious climate targets, substantial investment is needed, and this will require more private capital to be unlocked. In this regard, the Bank's focus in 2024 was on the design and intermediation of the sustainability sub-schemes (see more on page 42).

This section of the report will offer an overview of the Bank's funding sources and outline the financial instruments facilitated by the MDB. Furthermore, the analysis in this section sheds light on the economic importance and implications of the Bank's products in the prevailing macroeconomic scenario.

FUNDING SOURCES AND GOVERNMENT GUARANTEE

Funding

The MDB is funded by its paid-up share capital as provided by the Government in terms of Article 10 of the MDB Act, its accumulated earnings and loan agreements entered into with international development banks.[7] After being launched in 2017 with an initial paid-up equity capital of €30 million, this paid-up equity capital was increased in line with its business plan by €10 million annually in 2019, 2020 and 2021 and by €20 million in 2022 to reach €80 million. Over this period the Bank has also built up internal reserves of €4.4 million through its accumulated earnings. Together with these internal sources of capital, the MDB's funding mix also includes bilateral borrowing agreements with international development institutions. Such funds are earmarked for on-lending to local operators, both in the SME segment as well as for economic operators engaged in infrastructural projects, particularly those that exhibit a social or environmental dimension. In this regard, the MDB is party to two such loan agreements, one of €45 million with the KfW Group and a climate action loan agreement of €30 million with the EIB. These funds are utilised by the MDB to support SMEs, mid-caps and infrastructure projects by private and public-sector entities, particularly those promoting investment in sustainable mobility, renewable energy production, energy efficiency and recycling.

Government guarantee

In line with the indicative targets specified in the memorandum of understanding signed between the MDB and the Ministry for Finance on 16 February 2018 as per Article 5(2) of the MDB Act, the Government Guarantee in favour of the Bank has been increased gradually in line with the Bank's business growth. At the end of 2024, it stood at €150 million. Some 70% of these guarantees have been earmarked to cover the three main international borrowing operations with the EIB and the KfW Group, while the balance is intended for other prospective operations which the MDB shall be carrying out on its own account. In addition to the above guarantees, in April 2020 the Government had issued another guarantee of €350 million specifically for the COVID-19 response facilities which the MDB is managing as agent on behalf of the Government. As this guarantee was not fully utilised, part of it was reallotted towards the Ukraine crisis response financial instruments launched in 2022.

7 The MDB has an authorised share capital of €200 million. This stems from Article 10(1) of the MDB Act. In terms of the First Schedule to the Act, €80 million were subscribed by Government as initial capital. The Board of Directors is empowered by Article 10(3)(b) of the MDB Act to determine the paid-up capital of the Bank. The issued and subscribed share capital of €100 million by 2025 is a projection based on the Bank's business plan and accordingly is a function of its forecasted economic activity.

PRODUCT OUTLINE OF SCHEMES AVAILABLE FOR BUSINESSES AND STUDENTS

The products outline below summarises the key features of all the schemes offered by the MDB during 2024.

PRODUCT NAME	SME GUARANTEE SCHEME (SGS)
Product Outline	Launched in 2022, the SGS is an uncapped portfolio guarantee scheme intermediated by accredited commercial banks. It enhances enterprises access to bank credit for new investment as well as other purposes; including for working capital related to new investment and business transfers. The facility enables commercial banks to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows these businesses to fulfil their growth ambitions.
Objective	The scheme addresses the following barriers to lending: (i) inadequate collateral; (ii) lack of credit history; and (iii) novel business market, sector or technology that is perceived by finance providers as higher risk.
Structure	The MDB provides an uncapped guarantee of 80% on the loan portfolio of the financial intermediary. The scheme is open to all accredited commercial banks. A covered loan portfolio of up to €80,000,000 is being made available.
Banking Facility	Facilities of €10,000 up to €1,000,000, with a term of loan of up to 10 years. The minimum loan size may vary from one intermediary partner to another. The MDB restricts the take up of collateral to a maximum of 20% of the facility amount. The loan term is up to 10 years and the last date for inclusion of loans is end 2027.
Eligibility criteria	
Loan eligibility	The purpose of the financing under SGS covers a wide spectrum of possible activities including: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise; (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises, (e) investment-related working capital, (f) business ownership transfers, in whole or in part, as long as this does not create or enhance a position of significant market dominance, conforming with applicable legislation (including but not limited to S.L 379.08).
Eligible applicants	The scheme is open to all SMEs in all economic sectors save for the excluded and prohibited activities of the MDB. Priority will be given to projects related to green and digital investments. Applications shall be assessed by both the MDB and the intermediary partners in terms of viability.
State Aid Regime	The SGS is notified under de minimis regulations.
Benefits	Eligible enterprises benefit from: enhanced access to credit availability; better terms and conditions, including a longer repayment period, lower collateral requirements; and lower interest rates as a result of the credit risk protection from the MDB's guarantee.
Application process	The scheme is available through intermediary partners accredited by the MDB until 31 December 2027. Three leading banks have signed as intermediary partners of the SGS – BOV, HSBC, APS.

PRODUCT NAME	GUARANTEED CO-LENDING SCHEME FOR SMES (GCLS)
Product Outline	The GCLS is a risk-sharing facility involving co-lending between the MDB and the accredited commercial bank on a 50:50 basis. In addition, the MDB provides a guarantee of 60% on the commercial bank's part of the lending. This scheme was launched in the last quarter of 2022.
Objective	The objective of the GCLS is to enhance access to finance to SMEs that face financial and other constraints and do not fit under the SME Guarantee Scheme due to the size of the loan required.
Structure	The targeted GCLS global loan portfolio can reach up to €100 million, of which €50 million will be originated by MDB and €50 million by the participating commercial banks. MDB shall provide an additional guarantee of €30 million (60%) on the €50 million loans by the participating banks.
Banking Facility	The maximum loan amount under the GCLS is €10 million - €5 million by MDB and €5 million by the participating bank. The maximum term of the loans is 15 years, subject to State Aid considerations. The MDB loans will have the same terms and conditions as the commercial banks' loans except for the: a) Interest rate on the loan, which will be up to a maximum of 25 bps lower than that of the commercial banks: and b) Partial Guarantee – the MDB will cover 60% of the commercial banks' portion of the loan.
State Aid Regime	The GCLS is notified under both the de minimis and general block exemption regulation (GBER).
Eligibility criteria	
Loan eligibility	Loans shall target: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise or (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises. The investment to be supported under GCLS: (a) shall be an investment in tangible and/or intangible assets relating to the setting-up of a new establishment, the extension of an existing establishment, diversification of the output of an establishment into new additional products or a fundamental change in the overall production process of an existing establishment; and (b) the investment shall be new and has not yet been started at time of approval of the loan; and (c) the minimum cash contribution to be put forward by the borrower is 20% of the total investment; and (d) shall be expected to be financially viable as assessed by the commercial bank and the MDB.
Eligible applicants	The scheme is open to all SMEs in all economic sectors. To be eligible, SMEs have to: run a commercial activity in the non-excluded activities sector; are a sole trader, partnership, co-operative or limited company; have a viable business proposal in the opinion of the MDB and the partner commercial bank; and prove that they are able to repay the facility. Any investments related to green and digital technologies will be prioritised.
Benefits	Lower interest rates; Longer duration; Lower collateral requirement; Enhanced access to more finance
Application process	The scheme is available through accredited commercial banks until end-2027. Three leading banks have signed as intermediary partners of the GCLS – APS, BOV and HSBC.

PRODUCT NAME	TAILORED FACILITY FOR BUSINESSES AND INFRASTRUCTURE
Product Outline	The Tailored Facility was launched in August 2019 and is aimed at assisting SMEs, including start-ups, in enhancing their access to finance. This facility offers a bespoke solution for SMEs with investment plans that require credit larger than what currently is offered under other standard schemes of the MDB.
Objective	The facility is designed to address the following major barriers to lending: insufficient value or type of collateral; innovative business ventures, economic sectors or technologies which fall outside the risk appetite and tolerance of commercial banks; and other factors for which commercial banks may not be willing or able to provide the required financing in whole or part.
Structure	Loans are co-financed by the commercial bank and the MDB in such portions as may be agreed between the parties. On a case-by-case basis, the MDB may offer a partial guarantee on the commercial bank's share of the loan.
Banking Facility	The size of the loan ranges from a minimum of €750,000 to a maximum of €5 million. The minimum term of the loan is 24 months. The maximum term depends on the lifetime of the asset being financed, to be agreed on a case-by-case basis.
Eligibility criteria	
Loan eligibility	The project must be supported by a viable business plan and considered bankable by the commercial bank and the MDB, meaning that the business is reasonably expected to generate sufficient cash flow to enable timely repayments. The purpose of the financing covers a wide spectrum of possible activities including: the establishment of new enterprises, expansion capital, capital for the strengthening and/or stabilisation of the general activities of an enterprise or the realisation of new projects, penetration of new markets or new developments by existing enterprises. New investment contributing to the promotion of national competitiveness, social inclusiveness and green and sustainable development are given priority.
Eligible applicants	Applicants must be viable SMEs, established and operating in Malta. The activities of the SME should not be in the exclusion criteria of the EU.
State Aid Regime	The provision of funding for the tailored purpose facility is made in accordance with the state aid rules and obligations of the de minimis and/or GBER.
Benefits	SMEs benefit from enhanced access to credit as insufficient collateral and lack of credit history should not remain an obstacle when seeking finance from the commercial bank. SMEs also benefit from better terms and conditions and lower interest rates as a result of the risk sharing co-financing arrangement with the commercial bank and the protection of the MDB's guarantee, if applicable. The commercial bank shall pass on the benefit from MDB's guarantee, if applicable, to the SME.
Application process	SMEs are to apply with their commercial bank or directly with the MDB by providing their borrowing proposal and any other necessary documentation. The approval of the facility is at the discretion of the commercial bank acting in conjunction with the MDB.

PRODUCT NAME	FURTHER STUDIES MADE AFFORDABLE PLUS (FSMA+) SCHEME - BOV'S STUDIES PLUS+
Product Outline	This financial instrument is targeted towards students aiming at furthering their educational attainment. This scheme builds on the success of the FSMA scheme which was launched in October 2019. This instrument is financed under Malta's European Social Fund (ESF) and European Social Fund plus (ESF+) Operational Programmes.
Objective	The FSMA+ scheme seeks to support students in pursuing higher level of studies at internationally recognised institutions. FSMA+ is available to students through MDB's intermediating partner Bank of Valletta, under BOV's Studies Plus+ scheme.
Structure	The MDB provides a First Loss Guarantee covering 80% of the individual loans under the scheme which is capped at 25% of the commercial bank's portfolio earmarked for such loans, generating a multiplier of 5. Thus, a fund of €3 million financed from the ESF stimulates up to €15 million of new eligible loans. The financial instrument is divided into two elements: (i) Guarantee element: portfolio capped financial guarantee providing credit risk coverage on a loan-by-loan basis; and (ii) Interest rate subsidy element to cover all the interest incurred during the moratorium period of each student loan.
Banking Facility	The maximum size of eligible loans guaranteed under the facility is €100,000, with a loan term of up to 15 years, including the moratorium period. The maximum term of capital moratorium covers the term of the course plus an additional twelve months, subject to a maximum moratorium period of five years.
Eligibility criteria	
Loan eligibility	Students pursuing a study programme which is an accredited course in MQF levels 5, 6, 7 and 8, as well as internationally recognised certificates. The loans are available for full time and part time studies. The loan can finance tuition fees, living expenses, accommodation fees, transport expenses, textbooks and related expenses.
Eligible applicants	The applicant has to be a Maltese citizen; or national of an EU/EEA Member State provided that such person has obtained permanent residence in Malta or is in Malta exercising his/her EU Treaty rights as an employee, self-employed person or person retaining such status. The applicant can also be a third country national that has been granted long-term residence status in Malta.
State Aid	No state aid rules apply for this scheme.
Benefits	No payment obligations during the period of study plus one year. A maximum term of capital moratorium that covers the term of the course plus an additional twelve months, subject to a maximum moratorium period of five years. Attractive interest rate. No interest burden on the borrower during the moratorium period. The interest due during the moratorium period is fully covered by an interest rate subsidy funded by the ESF. No collateral or upfront contribution shall be requested from the borrower by the partnering commercial bank.
Application process	The scheme is available through MDB's implementing partner – Bank of Valletta under the name of BOV Studies Plus+ (BOV Studies Plus+ Loan).

OUTREACH OF MDB'S SCHEMES

This section highlights the economic importance, impact and outreach of MDB schemes, including key performance indicators, and where possible, provide a qualitative assessment of the most impactful schemes offered by the MDB.

Macroeconomic backdrop

In 2024, Malta's economy continued to demonstrate resilience and robust growth. While real GDP growth moderated from 6.9% in 2023 to 6.0%,[8] Malta maintained its position as one of the EU's top performers. This positive trajectory is largely attributed to strong labour market and higher consumer spending power that have supported Malta's continued economic and social development. The services sector, particularly tourism and financial services, continued to be the main drivers of export growth.

The disinflationary process continued during 2024, with HICP inflation dropping to 2.4%, down from 5.6% in 2023, reflecting a broad-based decline in food, services and non-energy industrial goods inflation. At the same time, the labour market remained strong and demand for labour high, with the unemployment rate standing at slightly more than 3.0% and employment growing by 4.0% in 2024.

The fiscal deficit remained above the 3% benchmark, reaching 3.7% of GDP in 2024. Nonetheless, public debt-to-GDP stood well below the 60% threshold, at 48.9%.[9]

Pass-through from European Central Bank (ECB) policy interest rates to Malta's retail interest rates has been relatively limited due to ample liquidity in the banking system, with banks relying largely on domestic deposit funding. Bank interest rates on non-financial corporate (NFC) loans are on the rise but at a slower pace than in other euro area countries.[10]

According to the Central Bank of Malta's latest forecasts, Malta's real GDP growth should ease from 6.0% in 2024, to 4.0% in 2025. Growth is set to moderate further in the following two years, reaching 3.3% in 2027. Risks to economic activity are balanced, with potential downsides and upsides. On the downside, weaker foreign demand due to geopolitical tensions, additional US tariffs beyond current projections, and possible retaliatory measures could slow growth. Prolonged economic and geopolitical uncertainty may further dampen activity. On the upside, the labour market could perform better than expected, driving stronger employment, wage growth, and private consumption.

MDB's assistance to businesses and students

Throughout the year under review, the Bank focused on promoting its flagship schemes for SMEs and students. However, in 2024, significant efforts were also directed towards developing new initiatives and sub-schemes to strengthen the MDB's role in facilitating sustainable and digital investments. While the design of these financial instruments, along with securing counter-guarantees and engaging with key stakeholders, took place in 2024, their implementation and intermediation are set to commence in 2025.

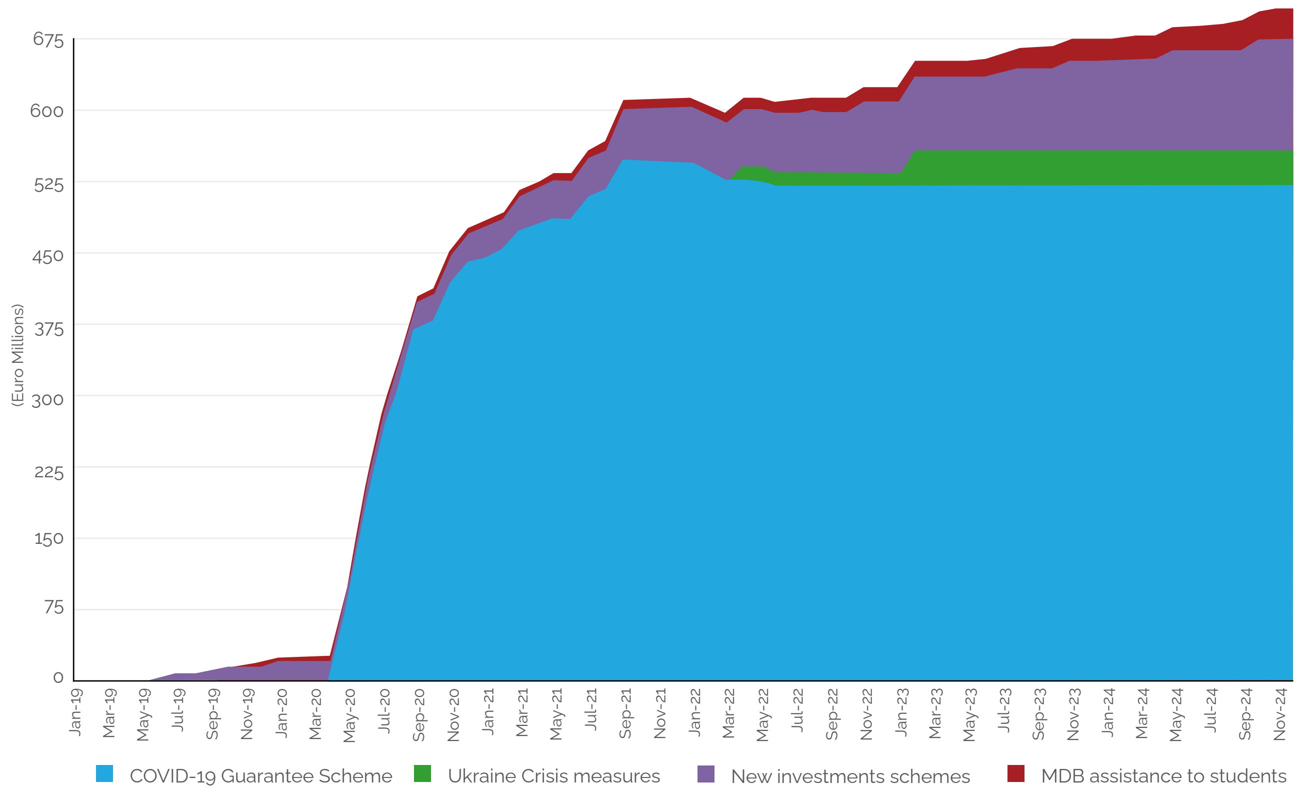
As at end 2024, the total cumulative assistance, in terms of both direct and guaranteed loans, reached around €660.0 million, largely reflecting the exceptional role played by the Bank during the pandemic. Overall, during the first six years of operations, the Bank sanctioned close 1600 facilities to almost to 1500 businesses and students. When compared to the position as at end December 2023, MDB's assistance during the twelve months under review increased by €30.7 million (see Chart 1). The latter, reflects assistance in terms of increased access to finance for new investment, as well as a notable rise in guaranteed soft-loans to students.

8 NSO News Release "GDP Q4/2024" - NR 035/2025.

9 Central Bank of Malta, Outlook for the Maltese Economy 2025-1.

10 IMF Article IV Mission Report January 2025.

Chart 1: MDB's total assistance to businesses and students



Gateway to finance new investments

In 2024, the MDB continued to serve as a key facilitator of new investment through its financial schemes. Aligned with its mission to enhance access to finance and diversify funding options for SMEs, the MDB has strengthened its promotional role by collaborating with credit institutions. These partnerships enable banks to better respond to the financing needs of businesses, supporting their growth ambitions.

MDB's investment schemes provide attractive financing terms for viable projects across various economic sectors. During the year under review, the Bank offered three instruments dedicated to new investments: the SME Guarantee Scheme (SGS), the Guaranteed Co-Lending Scheme (GCLS), and the Tailored Facility for Businesses. These schemes prioritise investments in innovation, digitalisation, and competitiveness, as well as socially driven initiatives and projects that foster sustainability, including the green and circular economy.

By the end of 2024, the MDB had facilitated €108.1 million in loans for new investments - an increase of €22.4 million compared to the previous year. This growth was primarily driven by expanded activity under the SGS and GCLS, schemes that are intermediated through APS Bank, Bank of Valletta and HSBC Bank Malta.

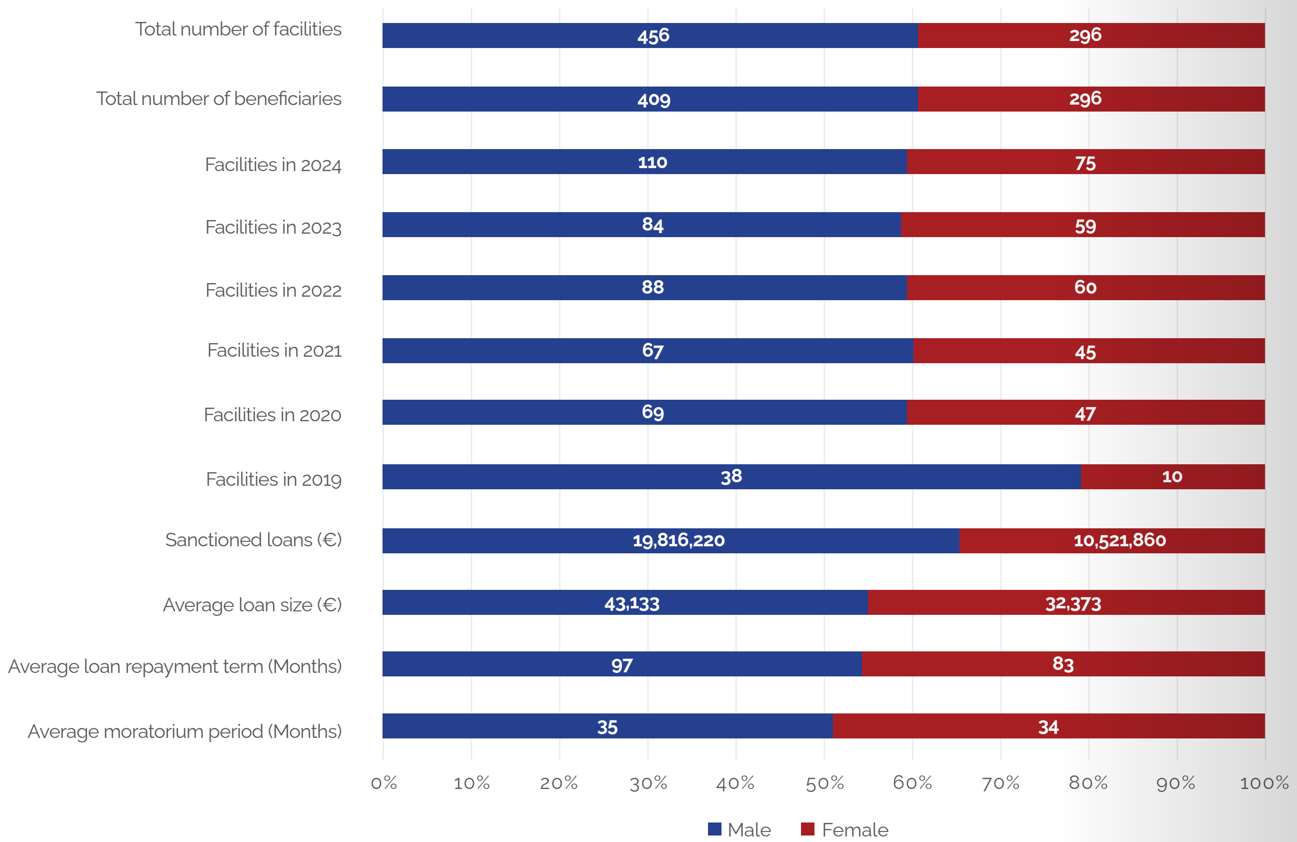
Further Studies Made Affordable Plus schemes (FSMA+)

In Malta's small yet vibrant economy, human capital is one of its most valuable assets. As a key driver of inclusive and sustainable economic growth, the MDB recognises education as a crucial enabler of this vision. To support students in financing their studies locally and abroad, the MDB introduced its study loan schemes in 2019. This scheme blends resources from the European Social Fund (ESF) and European Social Fund Plus (ESF+), with funds allocated by the Managing Authority (MA). The MDB has been entrusted by the MA to implement these schemes, and the Bank blends these resources with a guarantee also funded through the ESF and ESF+. These schemes cover a range of expenses, including tuition fees, accommodation, travel, subsistence, and other related costs. They cater to students pursuing full-time, part-time, or distance learning courses at MQF levels 5 to 8, as well as other internationally recognised academic qualifications. The maximum loan amount available is €100,000, with repayment terms of up to 15 years.

Beyond offering significantly reduced interest rates, these loans include a moratorium on capital and interest payments throughout the study period, plus an additional 12 months. During this time, the accrued interest is fully covered by an interest rate subsidy, ensuring that students are not burdened with repayments while they focus on their studies. This also grants them a one-year grace period post-graduation to secure employment. The schemes come with no additional charges, processing fees, collateral requirements, life insurance obligations, or upfront contributions. Designed to ease the financial strain on students, these facilities provide the flexibility and peace of mind needed to pursue academic and professional aspirations without immediate financial pressures.

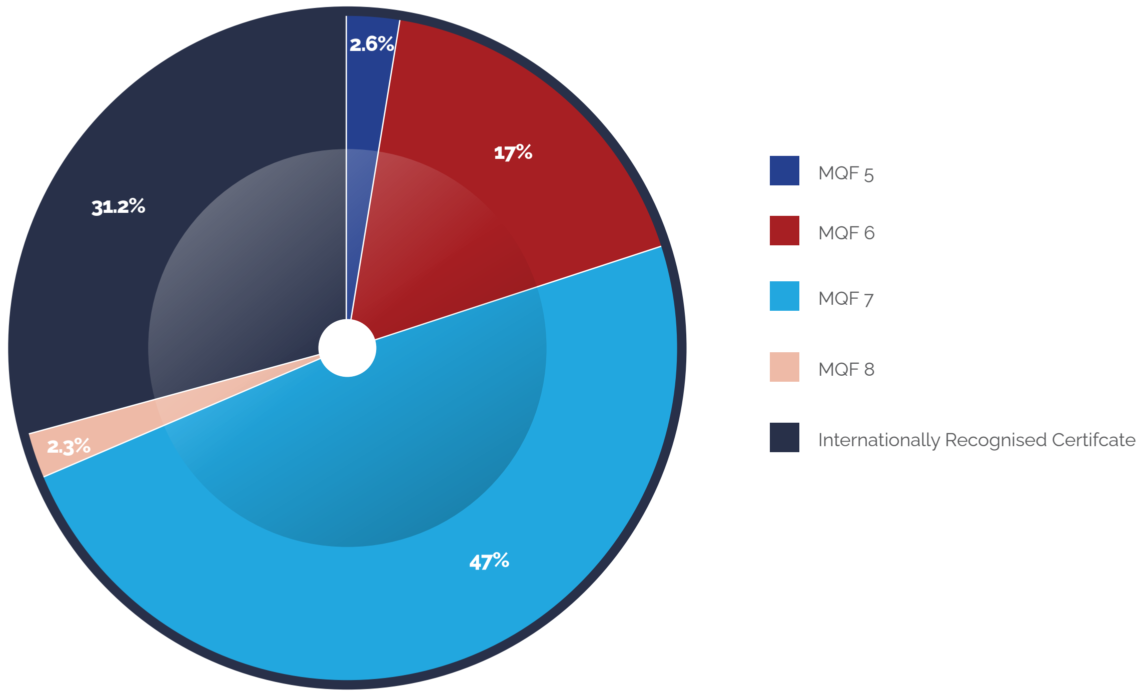
By the end of 2024, around 700 individuals were supported through 752 facilities granted under the FSMA and FSMA+ schemes. Facilities rose by 185 compared to end-2023. Out of these beneficiaries, 409 are male, whereas 288 are female. Total loans sanctioned under both schemes reached €30.3 million by end-2024. Reflecting the higher number of male beneficiaries, as well as the skewed uptake of male students opting for the more expensive aircraft pilot courses, total sanctioned loans for males is close to twice than that of female beneficiaries. The latter is also resulting in notable differences in the average loan size by gender (see Chart 2).

Chart 2: FSMA schemes characteristics by gender



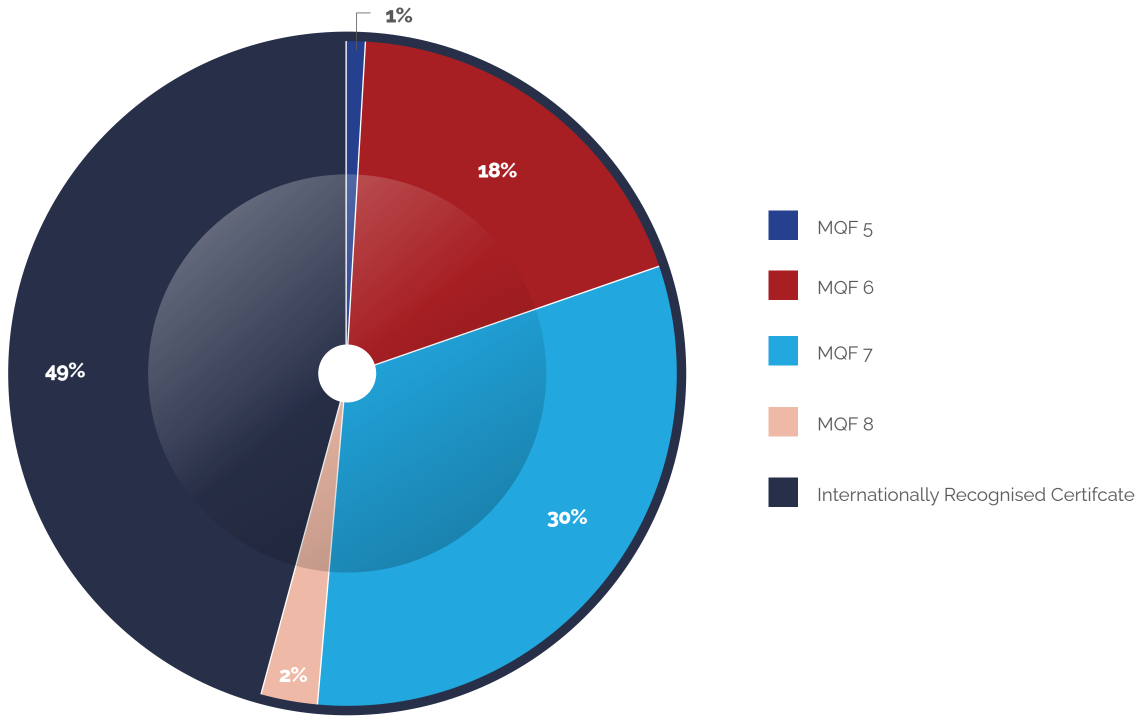
Under these two schemes, the overall average loan size reached €40,343, which is markedly higher than what commercial banks are willing to offer outside the scheme. On sanctioning date, the beneficiaries are aged between 18 and 59 years. However, close to two-thirds of all beneficiaries are in the 16-24 age cohort.

Chart 3: Beneficiary facilities sanctioned under FSMA schemes



As shown in Chart 3, the most popular courses undertaken by FSMA beneficiaries were for MQF 7 level of education, which is equivalent to a Master's degree. Almost half, or 47.0% of facilities, opted for these courses, followed by 31.2% of facilities, mainly linked with internationally recognised certificates, predominantly courses for aircraft pilots. Reflecting the substantial costs related to the latter professional courses, the total amount sanctioned for international recognised certificates accounted for almost half of the total financing sanctioned under the schemes (see Chart 4).

Chart 4: Beneficiary facilities sanctioned under FSMA schemes, by value



The MDB emphasises the importance of investing in human capital to strengthen Malta's growth potential and sustain its long-term macroeconomic competitiveness. The uptake of MDB schemes has significantly exceeded initial projections.

SUSTAINING INFRASTRUCTURAL INVESTMENT

Financing large-scale infrastructure projects remains a key pillar of the Bank's overall strategy. Such projects play a critical role in economic development, yet they often encounter significant financing challenges. These challenges stem from the long repayment periods required to make them bankable, as well as the substantial funding amounts that may exceed the capacity of most commercial banks, particularly in a market where loan syndication is not yet well established.

Recognising this gap, the MDB aims to act as a catalyst in facilitating the financing of these large-scale investments. Throughout the year under review, the Bank was approached by several entities seeking guidance on how the MDB could support new infrastructure-related investments. The Bank's approach prioritises collaboration with commercial banks to ensure that financing solutions are structured effectively while fostering a more dynamic syndicated loan market in Malta.

By working alongside financial institutions, the MDB can help bridge funding gaps, share risk, and enhance the viability of projects that are essential for national development. This collaborative model not only strengthens the financial ecosystem but also promotes a more sustainable and resilient infrastructure landscape. Moving forward, the MDB remains committed to identifying opportunities where its strategic involvement can unlock investments that drive sustainable economic progress, innovation, and long-term growth.

SIGNIFICANT EVENTS

MDB strengthens ability to finance green projects through EIB's Green Gateway support

In January 2024, the Malta Development Bank (MDB) and the European Investment Bank (EIB) launched the Green Gateway Advisory initiative to strengthen the MDB's capacity to support Malta's green transition. This collaboration, backed by the EIB and the European Commission, aims to enhance MDB's ability to finance sustainable projects and identify promising green market segments. The initiative aligns with MDB's ESG policy and is complemented by a €30 million EIB loan to finance small-scale green investments, supporting Malta's shift to a low-carbon economy.

By October 2024, the MDB and EIB had completed a Market Assessment and Recommendations Report under the Green Gateway initiative, officially presented by EIB Vice President Kyriacos Kakouris. The report highlights priority green investment sectors, evaluates MDB's financial products, and proposes four key financing solutions for Malta's sustainability transition. This milestone reinforces MDB's role in climate finance and prepares it to launch new green schemes under the European Investment Fund's (EIF) InvestEU Sustainability Guarantee, further strengthening the Bank's impact on Malta's environmental resilience.

MDB outreach to main stakeholders and banking sector

In 2024, the MDB embarked on an outreach effort with key stakeholders, inviting representatives from national institutions, social partners, multiple organisations, and commercial banks for dialogue with the Bank's senior management.

The MDB's Chairman Mr Leo Brincat, and the MDB CEO Mr Paul Azzopardi had extensive discussions with these stakeholders. Mr Brincat commended the engagement of commercial banks and other social partners in recognising the evolving landscape of sustainable development and sustainable finance, and their willingness to collaborate to achieve these goals. He emphasised the need for sustained dialogue and collective action to address the challenges and capitalise on the opportunities presented by the green and digital transition.

The MDB and the EIB are natural partners to facilitate Malta's economic transformation process

In March 2024, the MDB welcomed EIB Vice President Gelsomina Vigliotti to its Floriana offices, reaffirming their partnership in Malta's economic transformation. The Bank highlighted the two institutions' shared commitment to the green and digital transitions, fostering competitiveness and private sector investment. On their part, EIB representatives emphasised MDB's role in economic growth and climate action, noting a recent agreement to fund sustainable mobility, renewable energy, and recycling projects. Both institutions remain dedicated to entrepreneurship and socio-economic development through green investments.

InvestEU: EIF – Malta Development Bank agreement

In April 2024, the EIF and the MDB signed an InvestEU-backed agreement to mobilise €44 million for sustainable and creative projects in Malta. The deal included guarantees for €15 million for green initiatives and €5 million for cultural and creative small and medium enterprises (SMEs). This built on a €30 million MDB-EIB agreement in 2023. The MDB then kickstarted an internal process to mobilise these guarantees as sub-schemes to its existing flagship schemes. In June, the MDB welcomed representatives from the EIB and EIF, with Bank senior management highlighting how sustainability and creativity are key to Malta's economic growth, with InvestEU enhancing financing access for SMEs and job creation.

OUTREACH, AND PARTICIPATION IN CONFERENCES AND EVENTS

MDB's information sessions

In 2024, MDB senior officers continued with their information and outreach sessions. The Bank held regular information sessions with key stakeholders, including accountancy firms, organised bodies, industry representatives, and professional associations, to enhance awareness of the Bank's role and offerings. These sessions provide a platform to discuss MDB's mandate, financial instruments, and support schemes, ensuring that stakeholders clearly understand how the Bank can facilitate access to finance. Through these outreach initiatives, MDB aims to strengthen engagement, improve collaboration, and expand its visibility within the business and financial community.

Other conferences and events

The MDB's CEO took part in an event hosted by the Malta Chamber of SMEs. Mr Azzopardi was a panellist on one of the workshops focusing on entrepreneurs' risk taking, availability of aid, and related issues for innovators.

The MDB's CEO, the Bank's Chief Credit Officer and the Chief Business Development Officer also delivered a detailed presentation to the members of Malta Chamber of Commerce, on the MDB's work, credit process, and the upcoming sub-schemes that will deploy the Sustainability guarantee, and the support to the creative and culture sectors.

Our Senior Research Officer, Mr Reuben Ellul Dimech, represented the MDB throughout 2024 on the Malta Innovation Forum.

INTERNATIONAL AFFILIATIONS AND COOPERATION

MDB's membership with European associations and networks

Since its inception in 2017, the MDB has endeavoured to cultivate a value-driven relationship and has collaborated with numerous international associations, multinational development institutions, and foreign development banks. In this spirit, the MDB is also a member of the European Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI), and the European Association of Guarantee Institutions (AECM).

Membership of these associations brings significant benefits to the MDB. These organisations foster the exchange of information, facilitate engagement, and promote the sharing of technical expertise and best practices. Other advantages include being part of a strong lobbying group that represents its members at the European level, participating in consultations and discussions with EU institutions on financial instruments, regulations, and legislative proposals, as well as enabling dialogue and strategic partnerships with other development banks and institutions.

Membership of these organisations has given the MDB access to key individuals who have provided technical support or assistance with applications, enabling the Bank to launch schemes within exceptionally short timeframes. Continued participation in these networks remains crucial for sustaining and strengthening these relationships. Ultimately, it is these connections that have contributed to many of the MDB's successes. In 2024, MDB representatives took part in numerous meetings, seminars, and training events organised by these networks, including NEFI's permanent working group meetings, ELTI's CEOs and General Assembly meetings, and AECM's Operational Training Sessions.

EUROPEAN ASSOCIATION ELTI LONG-TERM INVESTORS

aecm EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS

NEFI Network of European Financial Institutions for Small and Medium Sized Enterprises

ELTI General Assembly in Finland, and CEO meeting in Belgium

Mr Azzopardi, MDB's CEO and the Senior EU Affairs Officer, Mr Silvio Attard, attended the 13th General Assembly of ELTI in Helsinki, Finland. During this occasion, ELTI members elected new members for the organisation's board. The General Assembly included a panel discussion on the role of International Financial Institutions and National Promotional Banks and Institutions (NPBIs) in addressing financing gaps and attracting private capital to support national and EU strategic priorities.

The MDB's CEO Mr Azzopardi, and Mr Attard also attended ELTI's CEO meeting, hosted by Belgian NPBIs in Brussels during Belgium's EU presidency, included discussions on EU industrial policy and defence sector financing, with panellists emphasising the need for strategic cohesion to enhance Europe's competitiveness.

European Leaders Programme

Following an invitation from Cassa Depositi e Prestiti (CDP), Italy's largest promotional bank, our Senior Audit Officer, Mr Anthony Psaila, participated in a leadership training programme. The aim of the European Leaders Programme is to equip participants with the essential tools to understand the implications of key developments on the EU agenda from both a policy and sectoral standpoint. Designed by CDP and ELTI, the Programme is tailored for interdisciplinary managers who engage in discussions with high-level experts, policymakers, and senior executives. Technical sessions were held in Brussels, Belgium, and Milan, Italy. This network has the potential to strengthen long-term collaboration between national promotional banks and institutions while shaping their collective future in Europe.

Other meetings, conferences and workshops

The MDB's Senior Credit Officer, Ms Diane Attard, had the opportunity to attend the 10th Annual EU Conference on EAFRD Financial Instruments in Madrid on 28 November 2024, organised by the European Commission, Directorate-General for Agriculture and Rural Development (DG AGRI), and the European Investment Bank. The conference focused on innovative financial tools to support rural development, with key discussions on how these instruments can enhance investments in agriculture and rural communities.

Our Senior Research Officer, Mr Reuben Ellul Dimech represented the MDB on the ELTI's Chief Economist Working Group.

RISK AND CAPITAL MANAGEMENT

In accordance with the Malta Development Bank Act (Act No. XXI of 2017), the Bank adopts a prudent approach to risk-taking, consciously accepting risks within established limits to support viable projects that face challenges in accessing the required financing. This approach aligns with the MDB's core mission to facilitate entrepreneurship and drive socio-economic development in Malta.

The MDB is committed to managing risks in a proactive and informed manner, in accordance with its Risk Management Framework. This ensures that the level of risk undertaken is consistent with the Bank's core business activities and that the MDB is well-equipped to manage or absorb the potential impact of any materialised risks.

To support this commitment, the MDB has established an organisational structure based on a framework that fosters transparency and promotes an enterprise-wide culture of risk awareness. This framework ensures that behaviours, attitudes, and decisions at all levels reflect a commitment to risk awareness and mitigation. Central to this structure is a strong risk governance framework, which incorporates socioeconomic value statements, codes of conduct and ethics, comprehensive policies and procedures, and thorough risk assessments.

Additionally, the Risk Management function plays an important role in embedding a culture of risk awareness across the organisation. Through continuous efforts, this function supports the development of a resilient risk management framework and effective control processes, ensuring the Bank operates in a sound and sustainable manner.

This holistic approach to risk management strengthens the MDB's ability to achieve its strategic objectives while upholding its mandate to contribute to Malta's socio-economic progress.

RISK GOVERNANCE FRAMEWORK AND CULTURE

The risk governance structure is designed to facilitate a comprehensive understanding of existing and emerging risks through close collaboration among the Board of Directors, the three lines of defence, and the Supervisory Board. This integrated approach supports the effective implementation of reliable risk management controls while highlighting the essential role of the MDB's risk culture in achieving its entrepreneurship and socio-economic development objectives.

Supervisory Oversight of the Malta Development Bank

The MDB operates under the prudential oversight, regulation, and supervision of a Supervisory Board, as stipulated in the MDB Act (Act No. XXI of 2017). This board is appointed under Article 37(1) of the Act. Due to the MDB's unique public policy mandate, the Bank is exempt from the European Union's Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), and other banking regulations, pursuant to Article 2(5) of the CRD as amended by Directive (EU) 2019/878. Instead, the MDB is subject to a local regulatory framework that enables it to effectively fulfil its promotional role and public policy objectives, while adhering to sound banking practices.

In terms of Article 40 of the Act, the Supervisory Board is composed of representatives from key national institutions, including the Malta Financial Services Authority (MFSA), the Central Bank of Malta, and the Ministry for Finance, alongside two independent professionals with banking or regulatory expertise. The Chairperson is appointed by the Minister responsible for finance, following consultation with the Opposition, and must be one of the independent professionals. As of the end of 2024, the Supervisory Board was chaired by Mr John Cassar White and included the following members: Mr Oliver Bonello, Deputy Governor of the Central Bank of Malta; Prof Christopher Buttigieg, Chief Officer Supervision at the MFSA; Mr Paul Zahra, Permanent Secretary at the Ministry for Finance; and Dr Chris Cilia, an independent professional.

The Supervisory Board plays an important role in ensuring the effective governance and oversight of the MDB. Under Article 37 of the Act, the board is tasked with overseeing the Bank's policies and their implementation, reviewing its overall state of affairs, and issuing directives related to prudential conduct, capital adequacy, and risk strategy. To this end, the Supervisory Board exercises monitoring, advisory, and regulatory powers to uphold sound governance and best practices. Its responsibilities also include oversight of the MDB's corporate governance, regulatory compliance, management systems, internal controls, business performance, asset-liability management, and remuneration practices, among other aspects outlined in Part III of the Act.

Additionally, the Supervisory Board has the authority to request information from the MDB as needed and to issue analyses and recommendations to the MDB's Board of Directors and the Minister responsible for the Bank. The operational framework and responsibilities of the Supervisory Board are detailed in the Second Schedule of the Act, ensuring clarity and accountability in its role of safeguarding the MDB's adherence to its statutory objectives and sound operational standards.

Governance and Oversight of Risk Management

The Board of Directors of the MDB is responsible for establishing the Bank's risk appetite and overseeing its risk management activities. A key focus of the Board is to embed a strong risk management culture within the Bank, ensuring it aligns with the MDB's overall values and strategic objectives. The management team is tasked with regularly reviewing and affirming the effectiveness of the controls in place, fostering a proactive and comprehensive approach to risk management.

To uphold effective governance, the Board is supported by three key committees: the Audit Committee, the Ethics and Governance Committee, and the Risk Committee. These committees play an integral role in ensuring sound governance practices and provide important oversight of the Bank's activities, as detailed in the Corporate Governance Statement of this Annual Report. A full list of the Board of Directors is provided on page 12.

Promoting a Culture of Integrity and Risk Awareness

The MDB is committed to fostering a culture of integrity, high ethical standards, and strong risk awareness throughout the organisation. Every individual within the Bank plays an active role in promoting this culture, contributing to the maintenance of a strong internal control environment and the effective operation of the Bank's enterprise risk management framework. To support this, the MDB has established a clear governance structure supported by a comprehensive set of policies and procedures designed to uphold sound risk practices.

This commitment to a strong risk culture is implemented through the three-lines-of-defence model. The first line of defence consists of the risk-taking business functions, which are responsible for managing risks within their daily operations and ensuring adherence to internal policies, regulations, and procedures. The second line of defence comprises the Risk Management and Legal & Compliance functions, tasked with providing thorough oversight and monitoring of risk management activities. The third line of defence is the Internal Audit function, which independently evaluates and audits the effectiveness of the Bank's internal control systems. Together, these layers ensure a cohesive and proactive approach to managing risks across the organisation.

RISK MANAGEMENT AT THE MALTA DEVELOPMENT BANK

The MDB is exposed to various risks that have the potential to impact its financial performance and operational objectives. To manage these effectively, the MDB has established an Enterprise Risk Management Framework that outlines the procedures for identifying, assessing, reporting, and mitigating risks. The MDB has identified the following key risks that could adversely affect the achievement of its objectives.

RISK	DESCRIPTION OF THE RISK	RISK MITIGATION MEASURE
STRATEGIC RISK	The MDB's primary strategic objective is to address financing gaps in the Maltese credit market by providing credit to local enterprises. This objective is contingent on demand from businesses. Should the MDB fail to design appropriate products or deploy an effective delivery strategy, there is a risk that businesses may not engage as projected or show interest in the financial products offered by the Bank.	The MDB proactively engages with prospective partner banks and relevant stakeholders to tailor products that meet the needs of SMEs and financial institutions. Consultations and soft-market testing are conducted to ensure alignment with market requirements.

CREDIT RISK	Credit risk arises from the potential default of borrowers on their obligations, exposing the MDB to financial losses. This risk stems from loans extended directly to borrowers and from risk-sharing schemes under which the MDB guarantees loans provided by partner banks to final beneficiaries	The MDB employs a comprehensive credit risk management framework that includes a dual-layered assessment approach. In addition to the credit evaluations performed by partner banks, the MDB conducts its own credit assessment at the credit application stage to ensure alignment with its risk tolerance and strategic objectives. Other key measures include: • Conducting thorough due diligence prior to lending decisions. • Monitoring facilities continuously to ensure compliance with covenants and undertakings. • Undertaking regular portfolio assessments and quarterly reporting that includes risk analysis aligned with the Risk Appetite Statement. The Credit Risk Policy and Credit Risk Mitigation Policy are key documents guiding this area, ensuring prudent lending and effective risk control. Oversight is provided by the Credit Committee and the Board of Directors.
LIQUIDITY RISK AND INTEREST RATE RISK	Liquidity risk involves the possibility that the MDB may be unable to meet its short-term obligations without incurring significant losses. It arises from insufficient cash availability or challenges in converting assets into cash efficiently. Interest rate risk arises from adverse movements in interest rates, which may affect the MDB's net interest income and the economic value of its equity.	To address liquidity risk, the MDB maintains adequate liquidity reserves, continuously monitors current and projected liquidity needs, and, to the extent possible, aligns the maturity profiles of its loans and funding agreements to minimise mismatches. For interest rate risk, the MDB ensures its lending facilities are structured to align with funding arrangements, mitigating significant rate mismatches. Oversight of liquidity and interest rate risks is managed by the Asset-Liability Committee (ALCO), a sub-committee of the Risk Committee, and the Board of Directors.
OPERATIONAL RISK	Operational risk arises from inadequate or failed internal processes, human errors, system failures, or external events. Material operational risks may adversely affect the MDB's reputation, financial standing, or ability to fulfil its statutory and strategic objectives.	The MDB manages operational risks through its Operational Risk Policy and Risk Register. The Risk Register identifies and ranks risks based on their likelihood and potential impact, linking them to specific processes within the Bank. Mitigation measures and responses are reviewed and approved by the Operational Risk Committee and the Board to address residual risks effectively.

CAPITAL MANAGEMENT FRAMEWORK

Capital management is a core component of the Bank's risk management function, designed to create a common framework for identifying, addressing, and managing risks to mitigate their potential impact on the MDB's operations and financial statements. While the MDB is not subject to externally imposed capital requirements, the MDB Act specifies certain capital parameters. The Bank is committed to maintaining sufficient capitalisation to support balance sheet growth and provide a buffer against potential credit and other losses, under both normal and adverse economic conditions.

To ensure adequate capitalisation and resilience, the MDB employs a structured approach that includes:

- Integrating capital planning into the Bank's current and future business strategy to meet the minimum internally determined capital level, while adhering to the risk profile set by the Board of Directors and aligned with the Bank's public policy objectives.
- Maintaining sufficient capital to withstand extreme yet plausible financial shocks, including market volatility and cyclical macroeconomic downturns.
- Utilising capital efficiently to maximise the achievement of the Bank's public policy objectives.

This structured framework supports the MDB's commitment to maintaining its internally established minimum capital levels, ensuring it remains adequately capitalised to absorb potential losses while effectively fulfilling its public policy mandate.

Capital Adequacy

While the Malta Development Bank (MDB) is not subject to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), it remains committed to maintaining sound capitalisation. The Bank ensures it holds a strong capital buffer to support balance sheet growth and mitigate potential losses, both under normal conditions and in more challenging scenarios.

As of 31 December 2024, the MDB's paid-up share capital remained at €80 million, unchanged from the end of 2023. This capital is fully funded by the Government of Malta, the Bank's sole shareholder.

The Bank's exposure at the end of 2024 amounted to €19.6 million in guarantees, comprising €13.4 million for outstanding balances and €6.2 million for approved but undrawn credit facilities. Additionally, the MDB's direct lending exposure totalled €29.5 million, including €8.8 million in unutilised commitments.

The MDB continues to maintain a strong capital position, well above its internally set minimum capital adequacy requirements. This stable capital base ensures the Bank is well-equipped to meet its public policy objectives.

MDB
BANK MALTI GHALL-IŻVILUPP
MALTA DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2024

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DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Malta Development Bank ('the Bank' or 'the MDB') for the year ended 31 December 2024.

PRINCIPAL ACTIVITIES

The Bank was established under the Malta Development Bank Act, which was passed on 5 May 2017 and came into effect on 24 November 2017 through Legal Notice No. 340 of 2017. It is fully owned by the Government of Malta.

As a key facilitator of new investments, the Bank plays a strategic role in bridging financing gaps within traditional lending channels. Its mission is to enhance access to finance and diversify funding options, enabling SMEs across various economic sectors to implement viable projects.

Through its promotional role, the MDB collaborates with credit institutions to better address the financing needs of local businesses, supporting their growth ambitions. By offering innovative financial products such as loan guarantees, direct lending, and co-lending schemes, the Bank provides accessible capital at favourable terms, ultimately reducing borrowing costs for end beneficiaries. Guarantee schemes are primarily intermediated through local credit institutions, while direct lending can support both national social and economic infrastructure projects led by public and private sector entities.

By fostering a supportive financial ecosystem, the MDB contributes to inclusive and environmentally sustainable economic growth and infrastructure development. Its focus areas include innovation, digitalization, competitiveness, socially driven initiatives, and the green and circular economy.

REVIEW OF BUSINESS DEVELOPMENTS

During the financial year ending 31 December 2024, the Bank had three instruments dedicated to new investments – the SME Guarantee Scheme ('SGS'), the Guaranteed Co-Lending Scheme ('GCLS') and the Tailored Facility for Businesses.

New loans sanctioned under the SGS scheme amounted to €6.2 million by the end of the year, an increase of €3.7 million over the prior year.

During the year, the Bank continued to attract new investment through the GCLS, a risk-sharing facility designed for larger projects. This scheme features a 50:50 co-lending structure between the MDB and accredited partner banks, along with a 60% guarantee on the partner bank's loan.

As of 31 December 2024, projects financed under the GCLS were primarily focused on innovation, digitalization, and retail, with the MDB sanctioning a total of €15.7 million (2023: €7.7 million). The outstanding amount of these facilities stood at €9.3 million at year-end (2023: €4.0 million).

Through the Tailored Facility for Business, the Bank also supported large-scale infrastructure projects, which experienced restrictions in accessing the appropriate financing through commercial banks. The direct lending portfolio of sanctioned facilities under this scheme of €14.3 million (2023: €19.3 million) facilitated financing towards sustainable sports facilities and education.

Existing schemes supporting investments guaranteed by MDB include the SME Loan Guarantee Scheme ("SME Invest") and Family Business Transfer Facility ('FBT'). Both schemes are intermediated through a commercial bank. The total sanctioned loans under such schemes amounted to an aggregate of €41.3 million (2023: €44.2 million) whilst the outstanding loan portfolio amounted to €27.4 million in 2024 compared to €32.6 million in 2023.

The Further Studies Made Affordable ('FSMA') and the Further Studies Made Affordable Plus ('FSMA+') which were set up in collaboration with the Managing Authority of EU funds, were aimed at reducing the financing cost of students studying locally and overseas. The FSMA scheme closed on 8 February 2022. By the end of 2024 total sanctioned facilities amounted to €27.1 million increasing by €7.1 million over the previous year.

During 2024, MDB continued to manage the portfolio of working capital loans under the COVID-19 Guarantee Scheme ('CGS'). The CGS closed on 30 June 2022 and the total CGS portfolio of sanctioned loans amounted to €482.6 million. The outstanding amount of such loans declined to €126.7 million by the end of the year (2023: €288.8 million) through scheduled loan amortisation.

Financing under the Liquidity Support Guarantee Scheme ('LSGS') was provided as part of an aid package in response to the conflict in Ukraine which amounted to €24.5 million in sanctioned facilities. The LSGS was available until the end of 2023.

More detailed information on these schemes is provided in the Business Review section of the Annual Report.

Total assets increased to €103 million as of the period end (2023: €100 million), driven by the reinvestment of retained earnings into new lending. The most significant contributor was a €4.3 million expansion in the loan portfolio, reflecting the bank's strategy to enhance income-generating assets. Additionally, financial investments grew by €1.9 million, further supporting asset growth and diversification into high-credit-quality assets.

The Bank funds its operations and investments through its earnings from guarantee and lending operations, financial investments, share issuance or external funding sources. During the year under review, the Bank utilised external funding through a new overdraft facility which amounted to €2.2 million at the end of 2024. There were no share capital injections during the year. Up to end of 2024, the Government subscribed to €80 million of paid-up capital in terms of Article 10 of the MDB Act.

The MDB supplements the paid-up capital with bilateral borrowing from international development institutions and EIB. To this effect, the MDB has utilised a loan facility of €25 million with the KfW Group. During the year under review, partial repayments of the fixed term loan with KfW amounted to €2.4 million. As at 31 December 2024, the Bank had outstanding loan borrowings of €9.2 million (2023: €11.6 million) from the KFW loan facility. As of the end of the year, such funding was fully deployed through projects including direct lending to SMEs and large cap infrastructure.

The MDB is party to a loan agreement of €30 million with the European Investment Bank ('EIB') to finance small-scale green investments on favourable conditions. As a result, MDB can provide access to credit to entities willing to invest in projects that combat the adverse impact of climate change.

The support of the EIB and KfW enables a transfer of benefit in the form of a lower interest to the final beneficiaries.

FINANCIAL PERFORMANCE

The Bank has strengthened its positive financial performance while maintaining a stable risk profile for its lending and guarantee exposures. This achievement reflects prudent risk management practices grounded in sound banking principles. The Bank reported net profits of €4.2 million after provisions, marking a €1.1 million increase from the previous year. This growth is primarily attributed to higher net interest income, driven by the strategic allocation of reserve assets into higher-yielding financial investments and the steady growth of its direct lending portfolio.

Towards the end of 2023, the Bank successfully secured attractive rates on its reserve assets by placing them in term deposits at the peak of the European Central Bank's interest rate hikes. This strategic move allowed the Bank to significantly enhance returns on its reserve asset portfolio throughout 2024.

During the reporting period, the Bank achieved a positive net interest margin of €4.1 million, up from €3.3 million in 2023.

The reserve asset portfolio consists of a mix of fixed-income debt securities and a term deposit with a local bank, generating a return of €3.7 million—an increase from €2.9 million in the previous year.

Additionally, the Bank recorded higher interest income from its portfolio of loans and advances to customers, due to an increase in loan originations and disbursements during the year. Total interest income from the Bank's direct lending facilities reached €607,362 in the reporting year, up from €552,450 in 2023.

In its administrative role, the Bank maintained a steady administrative fee income of €2.6 million over the reporting period and the prior year from the CGS and other schemes managed by MDB and guaranteed by the Government.

In 2024, guarantee fee income from schemes directly guaranteed by MDB amounted to €224,308, reflecting an increase of €40,886 over the prior year.

Additionally, the Bank generated €81,304 in other income, up from €37,782 in the previous year. This growth was primarily driven by higher ancillary fee income from direct lending activities.

Additional expected credit loss ('ECL') provisions of €278,679 (2023: €665,793) were recognized during the year, driven by staging migrations and a net increase in credit exposures, including direct loans, commitments, and financial guarantee contracts.

As of year-end, the ECL provision for the direct lending portfolio stood at €202,299 (2023: €77,948), while provisions for financial guarantees and undrawn loan commitments amounted to €2.4 million (2023: €2.2 million).

The Bank's operating costs increased by €194,841 over the prior year, primarily due to higher staffing levels to support expanding operations and the impact of inflation on goods and services.

Other results may be referred to in the Statement of Financial Position and Statement of Comprehensive Income on pages 92 and 93 respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Bank faces the following principal risks and uncertainties:

- **Strategic Risk** – The Bank's ability to achieve its main key strategic objective of providing credit to businesses in Malta and addressing failures in the Maltese credit market depends on local businesses' demand. Should the Bank fail to structure its products well and deploy a suitable delivery strategy, there is a risk that businesses will not participate as expected and will not have an appetite for products offered by the Bank.

- **Credit Risk** – The MDB faces the risk of potential default by borrowing counterparties, leading to partial or complete non-repayment of debt and subsequent losses. The risk comes from (i) loans to borrowers and (ii) its risk sharing schemes, where the MDB guarantees loans to financial beneficiaries.

- **Liquidity risk and Interest rate risk** - Liquidity risk is the possibility that the MDB might not be able to meet its short-term debt obligations without incurring material losses due to the high cost of liquidity. This risk involves the potential for loss when there's insufficient cash to fund day-to-day operations and the MDB will be unable to convert assets into cash in a timely manner without incurring material losses. The MDB is also exposed to interest rate risk on its interest rate sensitive receivables (securities) and payables (funding positions). Adverse movements in the interest rates may result in a negative impact on the net interest income and the economic value of the equity of the MDB.

- **Operational Risk** – The MDB is exposed to the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. When material, such risk could impact the reputation of the MDB, its financial position or, in extreme cases, its ability to meet its statutory purpose and strategic objectives. As part of operational risk, the Bank considers compliance and legal risks. Its activities are subject to EU State aid and other regulations, so there's a risk of non-compliance, potentially leading to reputational or financial damage to the Bank.

Note 2 to the financial statements provides further details on risks faced by the Bank.

BOARD OF DIRECTORS

During the year the following individuals served as Directors during the period. The process for appointment and removal of Directors by the Minister for Finance is governed by Article 21 of the Act.

Mr Leo Brincat – Chairman
Prof. Rose Mary Azzopardi
Mr Victor Carachi
Dr Michele Cardinali
Mr Steve Ellul
Mr Norbert Grixti
Mr Anthony Valvo

These appointments are valid for the periods stipulated in Article 21(4), (5) and (6) of the Act.

Dr Bernadette Muscat, Chief Legal and Compliance Officer served as Secretary to the Board during the period ending 31 December 2024. Effective from 6 January 2025, Mr Rene Saliba was appointed as Secretary to the Board following the resignation of Dr Bernadette Muscat, Chief Legal and Compliance Officer.

DIRECTORS' RESPONSIBILITIES

The directors are responsible to ensure that the financial statements are drawn up in accordance with the requirements of the Act. The Act requires the directors to approve financial statements which give a true and fair view of the financial position of the Bank as at the end of each reporting period and of the profit or loss for that period.

In approving these financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Act. 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 Malta Development Bank for the year ended 31 December 2024 are included in the Annual Report 2024, which is published in hard-copy printed form and is 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.

After reviewing the Bank's plans for the coming financial years, the Directors are satisfied that at the time of approving these financial statements, it is appropriate to adopt the going concern basis in preparing these financial statements.

No significant events have taken place since the financial reporting date that would have otherwise required adjustment to and/or disclosure in this Annual Report.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 28 March 2025 and signed on its behalf by:

LEO BRINCAT
Chairperson

PROF. ROSE MARY AZZOPARDI
Director

Registered Address

Malta Development Bank
5 Market Street,
Floriana, Malta

Independent auditor’s report

To the Shareholders of the Malta Development Bank

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of the Malta Development Bank (the Bank) as at 31 December 2024, and of the Bank’s financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Development Bank Act (Cap. 574).

What we have audited

The financial statements of the Malta Development Bank, set out on pages 92 to 136, comprise:

- the statement of financial position as at 31 December 2024;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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 *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor’s report - *continued*

To the Shareholders of the Malta Development Bank

Other information

The directors are responsible for the other information. The other information comprises the Directors’ report (but does not include the financial statements and our auditor’s report thereon) which we obtained prior to the date of this auditor’s report, and the Malta Development Bank’s complete Annual Report, which is expected to be made available to us after that date.

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 obtained prior to the date of this auditor’s 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 Malta Development Bank’s complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with the ISAs.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Malta Development Bank Act (Cap. 574), 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.

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 and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Independent auditor's report *- continued*

To the Shareholders of the Malta Development Bank

Auditor's 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 auditor's 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.
- 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 auditor's 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 auditor's 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 those charged with governance 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.

Independent auditor's report *- continued*

To the Shareholders of the Malta Development Bank

Other matter – use of this report

Our report, including the opinion, has been prepared for and only for the Bank's shareholders as a body in accordance with the Malta Development Bank Act (Cap. 574) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Fabio Axisa
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

28 March 2025

STATEMENT OF FINANCIAL POSITION

	NOTES	AS AT 31 DECEMBER	
		2024	2023
		€	€
ASSETS			
Balances with Central Bank of Malta	3	**903,080**	508,430
Loans and advances to banks	3	**32,246,055**	35,527,955
Financial investments	4	**44,025,890**	42,172,788
Loans and advances to customers	5	**20,469,991**	16,138,263
Investment property	6	**597,806**	606,377
Property and equipment	7	**3,478,579**	3,566,023
Intangible assets	9	**23,793**	19,308
Other assets	10	**1,254,392**	1,280,253
Total assets		**102,999,586**	99,819,397
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	**80,000,000**	80,000,000
Accumulated profits		**4,396,384**	155,051
Total equity		**84,396,384**	80,155,051
LIABILITIES			
Amounts owed to banks	12	**11,367,099**	11,565,012
Amounts owed to entities	13	**4,538,488**	5,626,515
Other liabilities	14	**2,697,615**	2,472,819
Total liabilities		**18,603,202**	19,664,346
Total liabilities and equity		**102,999,586**	99,819,397
MEMORANDUM ITEMS			
Financial guarantees and other commitments	15	**28,480,451**	27,196,603

The notes on pages 96 to 136 are an integral part of these financial statements.

The financial statements on pages 92 to 136 were approved by the Board of Directors on 28 March 2025 and signed on its behalf by:

MR LEO BRINCAT
Chairperson

PROF. ROSE MARY AZZOPARDI
Director

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	YEAR ENDED 31 DECEMBER	
		2024	2023
		€	€
Interest receivable and similar income	16	**4,260,334**	3,413,952
Interest payable and similar expense	17	**(120,623)**	(109,586)
Net interest income		**4,139,711**	3,304,366
Income from financial guarantees	18	**224,308**	183,422
Administrative fee income	19	**2,583,481**	2,605,678
Other income	20	**81,304**	37,782
Net operating income		**7,028,804**	6,131,248
Administrative expenses	22	**(593,926)**	(599,954)
Employee compensation and benefits	23	**(1,783,344)**	(1,572,985)
Depreciation	6, 7, 8	**(122,657)**	(134,582)
Amortisation of intangible assets	9	**(8,865)**	(6,430)
Total operating expenses		**(2,508,792)**	(2,313,951)
Profit for the year before changes in expected credit losses		**4,520,012**	3,817,297
Changes in expected credit losses	21	**(278,679)**	(665,793)
Profit for the year - total comprehensive income		**4,241,333**	3,151,504

The notes on pages 96 to 136 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

		SHARE CAPITAL	ACCUMULATED PROFITS / (LOSSES)	TOTAL EQUITY
		€	€	€
At 1 January 2023		80,000,000	(2,996,453)	77,003,547
Comprehensive income				
Profit for the year - total comprehensive income		-	3,151,504	3,151,504
At 31 December 2023		**80,000,000**	**155,051**	**80,155,051**
At 1 January 2024		80,000,000	155,051	80,155,051
Comprehensive income				
Profit for the year - total comprehensive income		-	4,241,333	4,241,333
At 31 December 2024		**80,000,000**	**4,396,384**	**84,396,384**

The notes on pages 96 to 136 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	NOTES	YEAR ENDED 31 DECEMBER	
		2024	2023
		€	€
Cash flows from operating activities			
Net cash used in operating activities	24	**(3,035,856)**	(3,185,384)
Cash flows from investing activities			
Interest received on financial assets held as investments	16	**2,378,509**	2,378,000
Purchase of property and equipment	7	**(28,070)**	(40,499)
Purchase of intangible assets	9	**(13,350)**	(7,788)
Proceeds from disposals of tangible assets		**572**	-
Net cash generated from investing activities		**2,337,661**	2,329,713
Cash flow from financing activities			
Repayments of borrowing	12	**(2,418,702)**	(4,204,669)
Proceeds from borrowing from counterparty banks	12	**2,220,789**	-
Payments for the principal portion of lease liabilities	8	**-**	(11,856)
Net cash used in financing activities		**(197,913)**	(4,216,525)
Net decrease in cash and cash equivalents		**(896,108)**	(5,072,196)
Cash and cash equivalents at beginning of year		**14,558,108**	19,630,304
Cash and cash equivalents at end of year	25	**13,662,000**	14,558,108

The notes on pages 96 to 136 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

1.1 BASIS OF PREPARATION

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as adopted by the EU and with the requirements of the Malta Development Bank Act, 2017. These financial statements are prepared under the historical cost convention, as modified by the fair valuation of certain financial assets and financial liabilities.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their professional judgement in the process of formulating and applying the Bank's accounting policies.

Standards, interpretations and amendments to published standards effective in 2024

In 2024, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2024. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Bank's accounting policies impacting the Bank's financial performance or position.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning on or after 1 January 2025 have been published by the date of authorisation for issue of these financial statements. The Bank has not early adopted these requirements of IFRSs as adopted by the EU and the Bank's directors are of the opinion that there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application, with the exception of the below.

<u>IFRS 18, 'Presentation and Disclosure in Financial Statements'</u>

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information. While IFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. The Bank is currently assessing the detailed implications of applying the new standard on the Bank's financial statements.

1.2 FUNCTIONAL TRANSACTIONS AND BALANCES

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in euro, which is the Bank's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 FINANCIAL ASSETS

Initial recognition and measurement

The Bank recognises a financial asset in its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not recognised at fair value through profit or loss ('FVTPL'), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions.

At initial recognition, an expected credit loss ('ECL') allowance is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Classification and subsequent measurement

As of 31 December 2024 and 2023, all of the Bank's financial assets were classified under the amortised cost measurement category.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government and corporate bonds and treasury bills.

Classification and subsequent measurement of debt instruments depend on:

i. The Bank's business model for managing the asset; and
ii. The cash flow characteristics of the asset.

Based on these factors the Bank classifies its debt instruments into the following measurement category:

- ***Amortised cost:*** Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in Note 2.4.3. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Business Model Assessment

Key management personnel determine the Bank's business model by considering the way financial instruments are managed in order to generate cash flows i.e. whether the Bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified and measured at FVTPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management.

The information that will be considered in such assessment includes:

- the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Cash flows that represent solely payments of principal and interest

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- features that modify consideration for the time value of money (for example, periodic reset of interest rates).

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Modification of financial instruments

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of

default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, revision of interest rate and changing the timing of interest payments.

When modification happens, the Bank assesses whether the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

1.4 IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such exposures at each reporting date. The measurement of ECL reflects:

i. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
ii. The time value of money; and
iii. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 2.4.3 provides more detail of how the expected credit loss allowance is measured.

ECL allowances are presented in the Statement of Financial Position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- Loan commitments and financial guarantee contracts: as a provision within 'Other liabilities'.

1.5 INVESTMENT PROPERTY

All investment property is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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:

	YEARS
Buildings	75

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.6 PROPERTY AND EQUIPMENT

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss 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:

	YEARS
Buildings	75
Improvements to property	5 - 15
Computer equipment	5
Other equipment	5 - 15
Furniture	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period during which the asset is derecognised.

1.7 CURRENT AND DEFERRED TAX

By virtue of the Malta Development Act (Cap. 574), the Bank is exempt from all taxation under the Income Tax Act and the Duty on Documents and Transfers Act that may apply to the Bank's assets, property, income, operations and transactions.

1.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise unrestricted balances and deposits with contractual maturities of less than three months from the acquisition date and which are subject to an insignificant risk of changes in their fair value. Subsequent to initial recognition, cash and cash equivalents are carried at amortised cost in the statement of financial position.

1.9 FINANCIAL LIABILITIES

Initial recognition and measurement

The Bank recognises a financial liability on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. Financial liabilities not at FVTPL are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability.

Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised cost, except for financial guarantee contracts and loan commitments (Note 1.12).

Financial liabilities measured at amortised cost comprise principally of amounts owed to banks and entities and other liabilities. Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derecognition

The Bank derecognises a financial liability from its Statement of Financial Position when the obligation specified in the contract or arrangement is discharged, is cancelled, or expires.

1.10 FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the guarantor to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt obligation. Loan commitments are the Bank's commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan are initially measured at fair value. Subsequently, they are measured at the higher of the credit loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Loan commitments provided by the Bank are measured as the amount of the credit loss allowance.

Liabilities arising on financial guarantees and loan commitments are included within provisions.

1.11 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

1.12 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Bank and these can be measured reliably.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all transaction costs, premiums or discounts and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Income on financial guarantees

The Bank provides financial guarantees on loan portfolios to credit institutions. These fees are charged on a periodical basis and are based on fixed contractual rates. These fees are recorded in the Income Statement within 'Income from financial guarantees'.

Administrative fee income

The Bank administers a number of schemes on behalf of the Ministry of Finance and receives fee income as a consideration for the implementation and ongoing administration of these schemes. Fees received in relation to the administration are charged on a periodical basis and are based on fixed contractual rates. These fees are recorded in the Income Statement in 'Administrative fee income'.

Revenue related to transactions is recognised at the point in time when the transaction takes place.

1.13 PROVISIONS FOR PENSION OBLIGATIONS

The Bank contributes towards the state defined contribution pension plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the Income Statement as they accrue. The Bank does not contribute towards any other retirement benefit plans.

2. FINANCIAL RISK MANAGEMENT

2.1 ORGANISATION

The Board of Directors is responsible for establishing and overseeing the Bank's risk management framework. To assist in this, the Board has set up the Audit and Risk Committees, each with specific duties. The Audit Committee helps the Board by overseeing financial reporting, ensuring sound financial management, and ensuring that governance and risk frameworks align with the Bank's business strategy. It also ensures the effectiveness and independence of both internal and external auditors. The Risk Committee supports the Board by strengthening risk governance, overseeing risk management processes, ensuring that they align with the Bank's strategic goals, and promoting a culture of risk awareness. Both Committees are made up of non-executive directors, the Chief Executive Officer, who also attends Board meetings, and the Chief Officers.

The Risk Committee is supported by three management committees: the Asset and Liability Committee ('ALCO'), the Credit Committee and the Operational Risk Committee.

- The ALCO manages asset and liability functions, including assessing liquidity, interest rate, and capital risks, while ensuring alignment with the Bank's financial objectives.
- The Credit Committee approves or recommends credit requests and guarantees, oversees the credit risk framework, manages the loan portfolio, and reports policy deviations to the Board.
- The Operational Risk Committee manages operational risks, including reputational risks, monitors the Risk Register, and ensures appropriate risk mitigation measures are in place.

The MDB's Enterprise Risk Management Framework is designed to oversee the Bank's risk-taking activities, ensuring they align with its mission and strategy. This framework takes into account the Bank's risk-bearing capacity, risk appetite, and the minimum quantitative requirements for capital and liquidity. It addresses the following key areas:

i. Credit risk, managed through the Credit Risk Management Framework;
ii. Funding and liquidity risk, governed by the Treasury Management Policy;
iii. Interest rate risk arising from non-trading activities; and
iv. Operational risk, managed through the Operational Risk Framework.

The Bank's risk management policies and processes are regularly reviewed by the Board to ensure they reflect changes in market conditions and the evolving nature of the products and services offered.

2.2 RISK EXPOSURE

The Bank is exposed to the following risks:

- *Credit risk*: This risk of financial loss due to a counterparty's failure to meet its contractual obligations, or an increased likelihood of default during the term of the transaction (Note 2.4).
- *Liquidity risk:* This risk of incurring losses due to an inability to meet obligations as they fall due (Note 2.6).
- *Interest rate risk:* This risk arising from adverse movements in interest rates that affect the Bank's positions in its banking book (Note 2.5.1).
- *Operational and other risks:* The risks of losses resulting from inadequate or failed internal processes, people, systems, or from external events.

2.3 CAPITAL MANAGEMENT

The Bank is not subject to externally imposed capital requirements. As at 31 December 2024, the Bank's paid-up share capital stood at €80 million (2023: €80 million), which has been provided by the Bank's sole shareholder, the Government of Malta.

The Bank's capital risk management process includes adherence to its internal minimum level of capital such that it remains adequately capitalised to absorb any potential losses whilst fulfilling its public policy objectives as set by the Board of Directors in accordance with the MDB Act.

	2024	2023
	€	€
Capital		
Paid up share capital	**80,000,000**	80,000,000
Accumulated profits	**4,396,384**	155,051
Total capital	**84,396,384**	80,155,051

2.4 CREDIT RISK

2.4.1 CREDIT RISK MANAGEMENT

The MDB effectively manages credit risk through its comprehensive Credit Risk Framework, which includes all stages of the credit processes, from developing new products to monitoring borrower behaviour and loan repayments. This framework establishes internal control systems aimed at proactively managing credit risk. Periodic reviews of the Bank's credit risk policies and procedures ensure alignment with evolving market conditions and changes in the products and services offered.

In maintaining prudent credit risk levels relative to the Bank's capital base, lending decisions are reasonably balanced between risk and return. Any credit risk that is to be assumed by the Bank in direct lending, contingent obligations, and promotional lending schemes, whether secured, unsecured or carrying a third-party indemnity of whatever kind, is presented to the Credit Committee. The Credit Committee analyses the financing arrangement and approves or recommends approval of credit requests and guarantees to the Board of Directors for their approval. This approach ascertains a clear and unequivocal process in the credit approval process.

Additionally, the Bank implements a credit quality review process to provide early identification of possible changes in creditworthiness of counterparties. Facilities are generally reviewed periodically to analyse factors such as the customer profile, credit quality and other financial and non-financial considerations. Moreover, exposures showing early signs of deterioration, such as days past due or other warning indicators, undergo rigorous analysis by the Credit and Risk Management functions.

The Bank, in line with its principal activities and business model, originates a number of different types of financing to address market failures and financing gaps within the local market. These financial instruments are described below:

(i) Financial guarantee contracts

The Bank issues financial guarantee contracts to credit institutions, with the aim of facilitating the provision of credit facilities to customers of the same credit institutions that are eligible under one of the Bank's credit schemes. Through these guarantees, the MDB binds itself to pay a specified sum to the intended beneficiary in case the borrowing entity fails to meet its obligations in accordance with the agreed terms.

The financial guarantee schemes facilitated by the Bank comprise the following:

- *Guarantee Facility for loans to SMEs ('SME Invest'):* to provide financial guarantees for loans to Small and Medium Enterprises ('SMEs') facilitating lending to smaller businesses that are viable but unable to obtain the required amount of finance from a commercial bank. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan, subject to a portfolio capping of 25%. The last date for inclusion of loans under this scheme was 30 June 2023.
- *Family Business Transfer Facility ('FBT'):* to provide financial guarantees to commercial banks to assist and facilitate family businesses to transfer their business from one generation to the next. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan, subject to a portfolio capping of 50%. The last date for inclusion of loans under this scheme was 31 March 2022.
- *SME Guarantee Scheme ('SGS'):* to enhance access to bank financing for SMEs that, in spite of having viable projects, are unable to access the required bank finance for various reasons. The scheme addresses the following barriers to lending: (i) inadequate collateral; (ii) lack of credit history; and (iii) novel business market, sector or technology that is perceived by finance providers as higher risk under the current credit risk evaluation practices. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan.
- *Guarantee Co-Lending Scheme ('GCLS'):* to provide financial guarantees for loans to SMEs with a special focus on SMEs with large loan requirements aimed at achieving a high level of sustainability or to promote the circular economy. The risk-sharing agreement entered into with counterparty commercial banks guarantees 60% of each eligible loan.

The Bank's credit risk exposure emanating from the GCLS and SGS schemes is covered under a Guarantee by the Government of Malta up to a maximum of €20 million covering both schemes. This Guarantee was contracted on 31 October 2024 and provides coverage in respect of financial guarantees for loans issued under the GCLS and SGS schemes since their introduction.

During the year, two new products, the SME Guarantee Scheme - Sustainability ('SGS-S') and Guaranteed Co-Lending Scheme - Sustainability ('GCLS-S'), were launched under the SGS and GCLS programmes which benefit from a guarantee of the EIF under the Invest EU Sustainability window. In addition, the new Cultural and Creative product ('SGS-CC') was added to the SGS programme allowing the Bank to guarantee loans to borrowers involved in the field of arts and culture.

As of 31 December 2024, the Bank issued financial guarantee contracts in respect of total sanctioned loans net of repayments, amounting to €49.4 million (2023: €44.3 million). The Bank needs to honour the guarantee in the event that the borrower defaults on the obligation to the counterparty commercial bank. However, the risk sharing agreements entered into between the Bank and the counterparty commercial banks limit the credit risk exposure in the event of default by the borrower and effectively reduce the credit risk of the Bank to €19.6 million (2023: €13.4 million) (see Note 15). The Bank has earmarked a pre-determined amount of own capital to fund these credit facilities in the event of default.

During the financial years ended 31 December 2023 and 2024, the Bank was also entrusted to implement and manage the following guarantee schemes on behalf of the Ministry for European Affairs and Equality and the Government of Malta:

- *Further Studies Made Affordable ('FSMA') and Further Studies Made Affordable Plus ('FSMA+'):* to provide financial guarantees and interest subsidies on loans sanctioned by third-party commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent. The last date for inclusion of loans under the FSMA Scheme was 8 February 2022. The FSMA+ scheme was introduced on 8 February 2022.

- *COVID-19 Guarantee Scheme ('CGS'):* to provide financial guarantees to commercial banks to enhance access to bank financing for the working capital requirements of businesses in Malta that faced a sudden acute liquidity shortage as a result of the COVID-19 outbreak. The last date for inclusion of loans under this scheme was 30 June 2022.

- *Liquidity Support Guarantee Scheme ('LSGS'):* to provide emergency liquidity support to businesses as part of an aid package in response to the Ukraine crisis. The LSGS consisted of two measures: one open to all undertakings affected by the crisis ('LSGS-A') and the other specific to the fuel and oil importers ('LSGS-B'). The last date for inclusion of loans under this scheme was 31 December 2023.

The FSMA, FSMA+, CGS and LSGS schemes are backed by a government guarantee that provides cover against all credit risks emanating from credit losses. The Government of Malta provides indemnification to the Bank in respect of all expected credit losses. The impact of these financial guarantees therefore results in a nil loss given default ('LGD') and therefore a nil ECL in view of the Government support.

(ii) Loans and advances to customers

The MDB offers direct loans to private or public individuals that are eligible under one of the following credit schemes:

- *Guarantee Co-Lending Scheme ('GCLS'):* to provide loans to SMEs with a special focus on SMEs with large loan requirements aimed at achieving a high level of sustainability or to promote the circular economy.

- *Tailored Facility for Businesses:* to provide favourable financing terms for bankable projects with a special focus on:

  i. SMEs particularly those involving innovation, digitalisation and, more broadly, the preservation and enhancement of competitiveness;
  ii. Socially oriented initiatives, particularly those involving knowledge generation, education, health and social inclusion;
  iii. Investment that addresses environmental issues such as water usage, water treatment, waste treatment, reduction, and reuse; and
  iv. Investment aimed to achieve a high level of sustainability or promote the circular economy.

The credit risk arising from this scheme is assumed by the Bank.

- *Subsidised Loan Scheme ('SLS'):* to provide temporary urgent liquidity support to ensure national security of strategic supply to companies undertaking the importation and wholesale of grains affected by the current macroeconomic environment following the ongoing conflict in Ukraine. The credit risk arising on these loans is backed by a government guarantee of 90%. The last date for inclusion of loans under this scheme was 31 December 2023 and all facilities provided under this scheme were fully repaid during 2024.

The Bank's credit risk exposures emanating from the GCLS are covered by two guarantees:

i. Loans originated before 31 December 2022, are backed by a 70% guarantee by the European Investment Fund; and
ii. All other remaining loans may be covered by a guarantee by the Government of Malta up to a maximum of €20 million as per a guarantee agreement entered between the Government of Malta and MDB on 31 October 2024.

The macroeconomic forecasts for Malta as published by the Central Bank of Malta project a moderate GDP growth, with a 4.9% increase in 2024, slowing to 3.9% in 2025, 3.6% in 2026 and subsequently to 3.4% in 2027. Domestic demand will be the main growth driver as a result of the fast growth in private consumption. The continued growth in private consumption is attributed to the moderation in inflation leading to a significant recovery in real disposable income. Private investment is expected to recover from the sharp contraction recorded in 2023. Net exports are also projected to retain a positive contribution over the forecast horizon, driven mainly by services exports.[1]

The Bank's credit and risk management functions perform periodic reviews to identify borrowers who are, or are likely to be, facing financial difficulties due to ongoing macroeconomic challenges. The finance function then assesses whether these updates constitute a Significant Increase in Credit Risk ('SICR') or Unlikeliness-To-Pay ('UTP') trigger event. The Bank evaluates borrowers by reference to recent credit assessments and management information, including updated forecasts.

(iii) Other financial assets

Excess liquidity is employed in eligible financial assets outlined in the Treasury Management Policy with the objective of optimising adequate returns. Money market business is only conducted with financial institutions that have been included in the Bank's list of eligible counterparties.

As at 31 December 2024, the Bank's other financial assets consisted of balances held with the Central Bank of Malta, amounts placed with local banks, treasury bills issued by the Government of Malta and local sovereign and corporate debt securities. All financial assets were placed with local high-quality counterparties.

	2024	2023
	€	€
Balances with Central Bank of Malta	**903,080**	508,430
Loans and advances to banks	**32,246,055**	35,527,955
Financial investments	**44,025,890**	42,172,788
	77,175,025	78,209,173

As at 31 December 2024 and 2023, these financial assets were neither past due nor impaired; and the credit quality grading attributable to these assets was considered of investment grade.

2.4.2 CREDIT RISK MEASUREMENT

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank measures expected credit losses ('ECLs') using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD') parameters.

(a) Loans and advances to customers and financial guarantee contracts

The Bank's Credit Risk Policy defines an internal credit risk grading framework, which is used to inform the PD assigned to the individual counterparties or facilities, including loans, advances to customers and financial guarantee contracts. The rating is based on an assessment of the borrower, considering both qualitative and quantitative criteria. Internal credit risk grades are determined by reference to the borrower's business performance, payment behaviour, loan-specific information, borrower-specific information and expert judgement.

The internal credit risk grades are defined and calibrated to better reflect the borrower's creditworthiness, with each higher grade indicating a greater level of risk. In this respect, the Bank manages the credit quality of its financial assets by using internal credit risk grades, which provide a progressively increasing risk profile ranging from '1' (Very low risk) to '8' (Non-performing). These internal credit risk grades are essential for the assessment and measurement of credit risk in respect of exposures classified within the Group's portfolios of financial assets.

1 Outlook for the Maltese Economy 2024: issued by the Central Bank of Malta

The following table provides an overview of the Bank's internal credit risk grades, as well as an indicative mapping of the internal credit risk grades to the different stages. In this respect, the different stages emanating from the requirements of IFRS 9 – Stage 1, Stage 2 and Stage 3 (credit-impaired) – are aligned to the internal credit risk grades, as further explained in Note 2.4.3.

Credit risk grade	Category	Definition	Credit grade	IFRS staging
1	Very low risk	The capacity of the obligor to meet loan commitments ranges from very strong and stable to acceptable.	Regular	Stage 1
2	Low risk			
3	Low-medium risk			
4	Medium risk	The capacity of the obligor to meet loan commitments has weakened but the borrower is still expected to meet its obligations without actions such as selling its collateral or other assets that can impact the entity's going concern.	Watch	Stage 2
5	Medium-high risk			
6	High risk	The borrower is experiencing financial difficulties. Meeting loan obligations without actions such as selling its collateral is still possible, albeit less probable.	Substandard	
7	Very high risk			
8	Non-performing loan	The obligor is not likely to meet its loan commitments without recourse to extraordinary actions such as the liquidation of collateral.	Doubtful	Stage 3

(b) Other financial assets

Other financial assets include balances held with the Central Bank of Malta, loans and advances to banks and financial investments. The Bank uses public ratings issued by external credit rating agencies to reflect its assessment of the probability of default of individual counterparties. These published grades are continuously monitored and updated.

2.4.3 EXPECTED CREDIT LOSS MEASUREMENT

IFRS 9 outlines a 'three stage' model for impairment measurement based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk monitored by the Bank;
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired; and
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on lifetime ECL. The measurement of ECL considers forward-looking information.

The ECL requirements are applicable to financial assets measured at amortised cost, loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered 'Stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'Stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit-impaired, would be classified as 'Stage 3'.

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition		
STAGE 1	**STAGE 2**	**STAGE 3**
(Initial recognition)	*(Significant increase in credit risk since initial recognition)*	*(Credit-impaired financial assets)*
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

2.4.3.1 SIGNIFICANT INCREASE IN CREDIT RISK

To determine whether the credit risk arising from a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Bank's credit assessment and forward-looking information.

The Bank primarily identifies whether a SICR has occurred through the Bank's internal credit risk grades. The Bank allocates each exposure to an internal credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing credit monitoring.

As part of credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

As a backstop indicator, the Bank presumes that SICR has occurred when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest due date for which full payment has not been received.

In the case of other financial assets, the Bank applies the low credit risk simplification to exposures considered 'investment-grade', thereby not being subjected to the SICR assessment.

The Bank's assessment to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Bank considers exposures to be in default when:

- The counterparty is past due more than 90 days on any material credit obligation to the Bank or to another credit institution through which financial guarantee contracts are intermediated; and/or
- The counterparty is unlikely to pay its credit obligations to the Bank in full or to another credit institution through which financial guarantee contracts are intermediated, without recourse by the Bank to actions such as realising security (if any is held).

In assessing whether a borrower is in default/credit-impaired, the Bank considers indicators that are:

- qualitative - such as non-adherence to terms and conditions of sanction and/or other breaches of covenant;
- quantitative - such as the borrower's debt repayment capacity by reference to its financial performance and financial position, as well as overdue status; and
- based on data developed internally and obtained from external sources.

The default definition is applied consistently when modelling the PD, EAD and LGD parameters throughout the Bank's expected credit loss calculations. The Bank continued to perform assessments to determine whether the current macroeconomic conditions may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to Stage 3 to reflect the level of change in credit risk.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria, and when the Bank is satisfied that the borrower no longer shows signs of unlikeliness to pay. In line with the Bank's Credit Risk Policy, all exposures which migrate to a performing status, and accordingly exit the non-performing classification, are reviewed by the Credit Committee.

2.4.3.3 MEASURING ECL – EXPLANATION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES

The ECL is measured on either a 12-month or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECLs represent the discounted value of the product of PD, EAD, and LGD. These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the originated effective interest rate or an approximation thereof.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

(a) Loans and advances to customers and financial guarantee contracts

The PD calculation for loans and advances to customers and financial guarantee contracts is derived from transition matrices which show the probability of a borrower's transition from a performing state to a non-performing state over an observed period of time. In this respect, the PDs are derived by reference to historical data observed in the local market for comparable borrowers and exposures, which enables the Bank to track the transition of accounts from performing to non-performing status within a defined time horizon. The main assumption is that the future PDs are influenced by the historic characteristics of the observed movements.

The conditional PD is adjusted to consider forward-looking information through local macroeconomic modelling (see Note 2.4.3.4).

EAD is based on the gross amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

The 12-month and lifetime EADs are determined based on the expected payment profile that is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents ECLs on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral values (if any) at the time it is expected to be realised and the time value of money. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, including haircuts applied to collateral values.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD (see Note 2.4.3.4).

During the financial year ended 31 December 2024, the Bank continued to enhance the modelling of PDs by expanding the population of historical observations used within the applicable transition matrices through the incorporation of more default data sourced from the local market for exposures of comparable size and nature. This did not have a significant impact on the ECL calculation as at 31 December 2024. There were no other significant changes in estimation techniques or significant assumptions made during the reporting period.

(b) Other financial assets

The PD in respect of other financial assets is determined based on publicly available realised default rates, as published by external credit rating agencies. If a counterparty or exposure migrates between external credit ratings, this will then lead to a change in the associated PD.

2.4.3.4 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODEL

The calculation of ECL incorporates forward-looking information. The Bank performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses by reference to local default rates. In this regard, during 2024, the Bank refreshed its historical analysis by incorporating more default data / observations sourced from the local market to better align its underlying model data with its portfolios of exposures in terms of nature of borrower. In this respect, the Bank expanded the population of data used to determine statistical relationships between economic variables and local default rates and, on this basis, determined that the first-level changes in net exports, the Harmonized Index of Consumer Prices ('HICP'), and the previous period's default rate are good predictors of domestic non-financial corporate default rates.

This constitutes a change compared to the macroeconomic modelling used for the purposes of the ECL calculation as at 31 December 2023 in terms of the statistical relationship between the economic variables and local default rates. As a result, the Real GDP and the Gross Fixed Capital Formation were no longer considered to be statistically related to the PD as of 31 December 2024 compared to prior year. The impact of these economic variables on the PD is determined by performing statistical regression analysis to explain the historical impact that the change in these variables had on the local lending market.

The most significant period-end assumptions used for the ECL estimate in terms of the projected macroeconomic path in respect of the selected key economic variables for the forecasted period under the 'Base' scenario are set out below:

	AS AT 31 DECEMBER 2024	
	2025	**2026**
Previous period's default rate	**28.39%**	20.51%
Exports (% change)	**3.2%**	3.0%
Imports (% change)	**3.4%**	3.2%
HICP (% change)	**2.1%**	2.0%

	AS AT 31 DECEMBER 2023	
	2024	**2025**
Real GDP (% change)	**3.6%**	3.6%
Gross Fixed Capital Formation (% change)	**1.5%**	2.7%
Exports (% change)	**3.3%**	3.0%
Imports (% change)	**3.3%**	3.0%
HICP (% change)	**3.1%**	2.3%

As with any macroeconomic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and, therefore, the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

The 'Base', 'Upside' and 'Downside' scenarios which were used are further explained below:

- The 'Base' Scenario captures business-as-usual macroeconomic expectations, whereby the current rhythm of economic activity is maintained;
- The 'Downside' Scenario is based on a subdued level of economic activity hypothesized to correspond to an economic recession; and
- The 'Upside' Scenario assumes that it would be possible to marginally improve further over the already benign economic conditions.

Forecasted economic data in respect of the 'Base' scenario are sourced by reference to the economic outlook published by the Central Bank of Malta, which is refreshed on a quarterly basis. The relative paths under the 'Upside' and 'Downside' scenarios are then determined through statistical variance analysis techniques applied to the 'Base' scenario. Beyond the three-year forecasting horizon, the economic variables are assumed to tend to a long-run average growth rate.

Each scenario is weighted by a probability of occurrence, determined by a combination of macroeconomic research and expert credit judgment, taking account of the range of possible outcomes that each chosen scenario represents. The Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

The weightings assigned to each economic scenario remained constant during 2024 at 50% (2023: 50%) for the 'Base' scenario, 30% (2023: 30%) for the 'Downside' scenario and 20% (2023: 20%) for the 'Upside' scenario. The economic scenarios were simulated over a full economic cycle.

The scenarios and their attributes, including the macroeconomic variables, are reassessed at each reporting date. The Board considers that the probability weightings assigned to the respective scenarios reflect an unbiased evaluation of a range of possible outcomes.

Economic scenarios sensitivity analyses of ECL estimates

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made throughout the incorporation of forward-looking economic conditions. Management has assessed the sensitivity of the Bank's ECLs by assigning a 100% weighting to the 'Base', 'Downside' and 'Upside' scenarios respectively. The Bank's credit loss allowances would decrease by €47,689 (2023: €59,703) if the provisions had to be calculated solely on the 'Base' scenario; ECLs would increase by €598,352 (2023: €545,617) if these had to be estimated using only the 'Downside' scenario and would reduce by €778,302 (2023: €669,169) if the 'Upside' scenario only was to be taken into consideration. In 2024 and 2023, the sensitivity impact was not considered to be significant, cognisant of the Bank's strong capital base.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This matter is reviewed and monitored for appropriateness on an ongoing basis.

2.4.4 MAXIMUM EXPOSURE TO CREDIT RISK

An 'exposure' is defined as the amount at risk arising from the Bank's assets and commitments. The Bank's maximum credit risk exposure is classified into the following categories:

- Financial assets comprising principally of balances held with the Central Bank of Malta, loans and advances to banks and customers and debt securities. The maximum exposure to credit risk on these financial assets equals their gross carrying amounts.

- Financial guarantee contracts entered into on behalf of third parties. The maximum exposure to credit risk from financial guarantees is the full amount that the Bank would have to pay if the guarantees are called upon unless the exposure is backed up by a government guarantee as detailed in Note 2.4.1.

- Lending commitments and other credit related commitments that are irrevocable over the life of the respective facilities. Most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored similarly to loans and advances. The maximum exposure to credit risk is the full amount of the committed facilities.

The Bank's credit risk exposures reflecting the maximum exposure to credit risk before collateral held or other credit enhancements include the following:

	2024		2023	
	GROSS EXPOSURE	ECL ALLOWANCE	GROSS EXPOSURE	ECL ALLOWANCE
	€000	€000	€000	€000
Credit risk exposures relating to on-balance sheet assets				
Financial assets measured at amortised cost Balances with Central Bank of Malta				
and other banks	**33,183**	**(34)**	36,088	(52)
Financial investments	**44,065**	**(39)**	42,227	(54)
Loans and advances to customers	**20,672**	**(202)**	16,216	(78)
Credit risk exposure	**97,920**	**(275)**	94,531	(184)
Credit risk exposures relating to off-balance sheet instruments				
Financial guarantees	**19,591**	**(2,364)**	13,421	(2,161)
Undrawn commitments to lend	**8,772**	**(6)**	13,659	(22)
Credit risk exposure	**28,363**	**(2,370)**	27,080	(2,183)

2.4.5 CREDIT CONCENTRATION RISK

Within the Bank, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively monitoring, measuring, and reporting on an ongoing basis the risk concentration levels against reasonable thresholds for counterparties and products.

As at 31 December 2024, no loans and advances to customers, or financial guarantee contracts were deemed to be prohibited large exposures in accordance with the requirements emanating from the MDB Act.

The Bank transacts with counterparty banks and other financial institutions. To mitigate the risk of losses in respect of such transactions, the Bank places funds solely with pre-approved reputable counterparties.

Credit concentration risk by industry sector

The Bank's financial investments (gross of credit loss allowances) are analysed in the following table:

	2024	2023
	€000	€000
Government of Malta	**22,065**	**20,227**
Corporate – financial services	**22,000**	**22,000**
Net carrying amount	**44,065**	**42,227**

The industry sector analysis of the Bank's loans and advances to customers (gross of credit loss allowances) is set out in the following table:

	2024	2023
	€000	€000
Information and communication	**4,140**	3,278
Wholesale and retail	**4,420**	712
Real estate activities	**1,309**	**-**
Manufacturing	**-**	2,943
Accommodation and food service activities	**9,285**	9,283
Arts, entertainment and recreation	**1,518**	-
	20,672	16,216

All financial assets were held with local counterparties in Malta.

2.4.6 INFORMATION ON THE CREDIT QUALITY OF BALANCES WITH BANKS AND DEBT SECURITIES

As at the end of the reporting period, the Bank held debt securities issued by investment grade sovereign and non-sovereign counterparties. The debt securities held by the Bank were listed on the Malta Stock Exchange, or on other recognised exchanges, whereas the Bank's investment in treasury bills issued by the Government of Malta are unlisted. Loans and advances to banks included money market placements and balances held with counterparty banks. The issuers and counterparties are approved and regularly reviewed, focusing on market developments.

At 31 December 2024 and 2023, none of the above-mentioned financial assets were past due or credit-impaired.

The credit rating of Malta was classified as investment grade by external rating agencies as at 31 December 2024 and 2023.

The following tables set out information on the credit quality of financial assets measured at amortised cost. The credit quality of the financial assets is determined by external credit ratings applicable to issuers or counterparties. An explanation of the terms '12-month ECL', 'lifetime ECL' and 'credit-impaired' is included in Note 2.4.3.2 and Note 2.4.3.3.

	2024			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
Gross carrying amount	33,183	-	-	33,183
Loss allowance	(34)	-	-	(34)
Carrying amount	**33,149**	-	-	**33,149**

	2023			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
Gross carrying amount	36,088	-	-	36,088
Loss allowance	(52)	-	-	(52)
Carrying amount	**36,036**	-	-	**36,036**

	2024			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial investments measured at amortised cost				
Gross carrying amount	44,065	-	-	44,065
Loss allowance	(39)	-	-	(39)
Carrying amount	**44,026**	-	-	**44,026**

	2023			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial investments measured at amortised cost				
Gross carrying amount	42,227	-	-	42,227
Loss allowance	(54)	-	-	(54)
Carrying amount	**42,173**	-	-	**42,173**

2.4.7 INFORMATION ON THE CREDIT QUALITY OF LOANS AND ADVANCES TO CUSTOMERS

The credit quality of loans and advances to customers is managed by the Bank using internal credit risk grades. The Bank classifies exposures as Stage 1, Stage 2 or Stage 3 (credit-impaired) on the basis of qualitative and quantitative assessments.

The following table sets out information about the credit quality of loans and advances to customers measured at amortised cost.

	2024			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Loans and advances to customers				
Gross carrying amount	15,009	5,663	-	20,672
Loss allowance	(23)	(179)	-	(202)
Carrying amount	**14,986**	**5,484**	**-**	**20,470**

	2023			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Loans and advances to customers				
Gross carrying amount	16,216	-	-	16,216
Loss allowance	(78)	-	-	(78)
Carrying amount	**16,138**	-	-	**16,138**

As at 31 December 2024 and 2023, the Bank's loans and advances to customers were neither past due nor credit-impaired.

2.4.8 INFORMATION ON THE CREDIT QUALITY OF FINANCIAL GUARANTEES AND UNDRAWN COMMITMENTS TO LEND

The credit quality of financial guarantees and undrawn commitments to lend is managed by the Bank using internal credit risk grades. The Bank classifies exposures as Stage 1, Stage 2 or Stage 3 (credit-impaired) on the basis of qualitative and quantitative assessments.

The following table sets out information about the credit quality of financial guarantees and undrawn commitments to lend.

	2024			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial guarantees				
Guaranteed amount per individual exposure	27,498	7,553	1,396	36,447
Loss allowance	(381)	(918)	(1,065)	(2,364)

	2023			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial guarantees				
Guaranteed amount per individual exposure	29,519	2,784	1,584	33,887
Loss allowance	(580)	(497)	(1,084)	(2,161)

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest scheme and a portfolio capping of 50% under the Family Business Transfer Facility, which effectively limit the credit risk exposure of the Bank arising from these two schemes to €5.6 million (2023: €6.8 million). No portfolio capping is applicable to the SGS and GCLS, where the maximum credit risk exposures amounts to €14.0 million (2023: €6.6 million) (refer to Note 2.4.1 and Note 15).

	2024			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Undrawn commitments to lend				
Undrawn amounts	8,345	427	-	8,772
Loss allowance	-	(6)	-	(6)

	2023			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Undrawn commitments to lend				
Undrawn amounts	13,659	-	-	13,659
Loss allowance	(22)	-	-	(22)

2.4.9 FORBORNE LOANS AND ADVANCES TO CUSTOMERS

The contractual terms of a loan may be revised for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the credit quality of a customer. Forbearance measures comprise concessions made on the contractual terms of a loan where the obligor is experiencing or about to experience difficulties in meeting its financial commitments.

The bank classifies and reports loans on which concessions have been granted under conditions of credit distress as 'forborne loans' when their contractual payment terms have been modified because the bank has significant concerns about the borrowers' ability to meet contractual payments when due.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the forborne loan is substantially a different financial instrument, the loan would be derecognised and recognised as a new loan, for accounting purposes. However, newly recognised loans retain the 'forborne loans' classification.

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments for the residual life of the debt, the deferral of foreclosures, and other forms of loan modifications.

The Bank's credit risk management policies and practices are based on criteria which enable management to judge whether repayment is likely to continue. These typically provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has shown a willingness to repay the loan and is expected to be able to meet the revised obligations.

When the Bank grants a concession to a customer that the Bank would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly. A forborne loan is presented as credit-impaired when there has been a change in contractual cash flows as a result of a concession which the Bank would otherwise not consider, and it is probable that, without the concession, the borrower would be unable to meet contractual payment obligations in full. Accordingly, where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the forbearance measures, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as credit-impaired, unless the concession granted is insignificant.

The Bank classifies a forborne exposure as performing if no unlikeliness-to-pay indicators are evident. Renegotiated loans are classified as non-credit impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet contractual payment terms but contractual cash flows are expected to be collected in full following the renegotiation.

The forborne loan will continue to be disclosed as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment.

Unless the conditions for classification as a performing forborne exposure are met, forborne loans are classified as Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Transition from Stage 3 to Stage 1 requires a minimum of 24 months (being a probation of twelve months to transition to Stage 2, and a further twelve months to transition to Stage 1).

At 31 December 2024, forborne loans and advances to customers amounted to €4.1 million (2023: nil), in respect of which an ECL allowance of €179,245 (2023: nil) was estimated. All forborne exposures were classified as performing forborne exposures in Stage 2 as at 31 December 2024.

	2024	2023
	€000	€000
Movement in forbearance activity during the year:		
At 1 January	-	-
Loans granted forbearance measures during the year	3,695	-
Further disbursements	464	-
Repayments	(18)	-
At 31 December	**4,141**	-

None of the forbearance measures granted during the financial years ended 31 December 2024 and 31 December 2023 resulted in a substantial modification of cash flows and, as a result, none of the renegotiations led to the derecognition of the original financial instrument and subsequent recognition of new financial instruments.

2.4.10 LOSS ALLOWANCES

Reconciliation of 12-month and lifetime ECL provision

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up' (or 'step down') between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular updates of model inputs;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwinding within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period:

	2024			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
At 1 January 2024	36,088	52	36,088	52
Increase in balances	1,048	-	1,048	-
Withdrawals	(3,953)	(7)	(3,953)	(7)
Net remeasurement of ECL arising from changes in risk parameters	-	(11)	-	(11)
At 31 December 2024	**33,183**	**34**	**33,183**	**34**
Total net income statement release for the year				(18)

	2023			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
At 1 January 2023	25,700	35	25,700	35
Increase in balances	28,318	42	28,318	42
Withdrawals	(17,930)	(25)	(17,930)	(25)
At 31 December 2023	**36,088**	**52**	**36,088**	**52**
Total net income statement charge for the year				17

	2024			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Financial investments at amortised cost				
At 1 January 2024	42,227	54	42,227	54
Acquisitions	11,907	-	11,907	-
Redemptions	(10,000)	-	(10,000)	-
Other movements	(69)	-	(69)	-
Net remeasurement of ECL arising from changes in risk parameters	-	(15)	-	(15)
At 31 December 2024	**44,065**	**39**	**44,065**	**39**
Total net income statement release for the year				(15)

	2023			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Financial investments at amortised cost				
At 1 January 2023	46,857	54	46,857	54
Acquisitions	31,280	-	31,280	-
Redemptions	(35,948)	-	(35,948)	-
Other movements	38	-	38	-
At 31 December 2023	**42,227**	**54**	**42,227**	**54**
Total net income statement charge for the year				-

	2024					
	STAGE 1		STAGE 2		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000
Loans and advances to customers at amortised cost						
At 1 January 2024	16,216	78	-	-	16,216	78
New and further lending	5,866	23	3,097	-	8,963	23
Repayments	(3,988)	(42)	(519)	-	(4,507)	(42)
Transfers between stages:						
Stage 1 to Stage 2	(3,085)	(36)	3,085	36	-	-
Net remeasurement of ECL arising from changes in risk parameters	-	-	-	143	-	143
At 31 December 2024	**15,009**	**23**	**5,663**	**179**	**20,672**	**202**
Total net income statement charge for the year						124

	2023					
	STAGE 1		STAGE 2		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000
Loans and advances to customers at amortised cost						
At 1 January 2023	20,982	17	-	-	20,982	17
New and further lending	4,034	71	-	-	4,034	71
Repayments	(8,800)	(10)	-	-	(8,800)	(10)
At 31 December 2023	**16,216**	**78**	**-**	**-**	**16,216**	**78**
Total net income statement charge for the year						61

	2024					
	STAGE 1		STAGE 2		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000
Undrawn commitments to lend						
At 1 January 2024	13,659	22	-	-	13,659	22
New commitments to lend	4,876	-	-	-	4,876	-
Loan drawdowns and other reductions in commitments	(6,672)	(3)	(3,091)	(19)	(9,763)	(22)
Transfers between stages:						
Stage 1 to Stage 2	(3,518)	(19)	3,518	19	-	-
Net remeasurement of ECL arising from changes in risk parameters	-	-	-	6	-	6
At 31 December 2024	**8,345**	**-**	**427**	**6**	**8,772**	**6**
Total net income statement release for the year						(16)

	2023					
	STAGE 1		STAGE 2		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000
Undrawn commitments to lend						
At 1 January 2023	6,094	24	-	-	6,094	24
New commitments to lend	10,915	-	-	-	10,915	-
Loan drawdowns and other reductions in commitments	(3,350)	(2)	-	-	(3,350)	(2)
At 31 December 2023	**13,659**	**22**	**-**	**-**	**13,659**	**22**
Total net income statement release for the year						(2)

	2024							
	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000	€000	€000
Financial guarantees								
At 1 January 2024	29,519	580	2,784	497	1,584	1,084	33,887	2,161
New financial guarantees originated	8,773	82	-	-	-	-	8,773	82
Reduction and expiry of financial guarantees	(5,270)	(212)	(755)	(1)	(188)	(106)	(6,213)	(319)
Transfers between stages:								
Stage 1 to Stage 2	(5,674)	(160)	5,674	160	-	-	-	-
Stage 2 to Stage 1	150	22	(150)	(22)	-	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	71	-	284	-	87	-	440
At 31 December 2024	**27,498**	**383**	**7,553**	**918**	**1,396**	**1,065**	**36,447**	**2,364**
Total net income statement charge for the year								203

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest scheme and a portfolio capping of 50% under the Family Business Transfer Facility which effectively limit the credit risk exposure of the Bank arising from these two schemes to €5.6 million (2023: €6.8 million). No portfolio capping is applicable to the SGS and GCLS, where the maximum credit risk exposure amounts to €14.0 million (2023: €6.6 million) (refer to Note 2.4.1 and Note 15).

	2023							
	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000	€000	€000	€000	€000
Financial guarantees								
At 1 January 2023	31,003	333	3,528	614	893	624	35,424	1,571
New financial guarantees originated	4,532	195	-	-	-	-	4,532	195
Reduction and expiry of financial guarantees	(5,553)	(68)	(301)	(74)	(215)	(111)	(6,069)	(253)
Transfers between stages:								
Stage 1 to Stage 2	(1,151)	(15)	1,151	15	-	-	-	-
Stage 1 to Stage 3	(906)	(13)	-	-	906	13	-	-
Stage 2 to Stage 1	1,594	285	(1,594)	(285)	-	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(137)	-	227	-	558	-	648
At 31 December 2023	**29,519**	**580**	**2,784**	**497**	**1,584**	**1,084**	**33,887**	**2,161**
Total net income statement charge for the year								590

2.4.11 WRITE-OFF POLICY

The Bank writes off loans, and/or receivable balances (and any related allowances for impairment losses) when management determines that the loan, security and/or receivables are uncollectible, and the Bank has exhausted all practical recovery efforts and concluded that there is no reasonable expectation of recovery. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. There were no write offs recorded during 2024 or 2023.

2.4.12 COLLATERAL

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the underlying borrower and the nature of the lending.

Collateral obtained on loans and advances to customers and related undrawn commitments to lend refers to charges in favour of the Bank over real estate properties, cash or securities.

Collateral held as security for financial assets other than loans and advances to customers depends on the nature of the instrument. Debt securities, loans and advances to banks and balances held with the Central Bank of Malta are generally unsecured.

Collateral held in respect of financial guarantee contracts includes charges over real estate properties, cash or securities, obtained through the intermediation of counterparty commercial banks.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses.

Financial guarantees that were credit-impaired and in respect of which collateral in the form of immovable property was held are shown below:

	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXTENDIBLE VALUE OF COLLATERAL
	€000	€000	€000
Financial guarantee contracts			
At 31 December 2024			
Credit-impaired	**383**	**(353)**	**33**
At 31 December 2023			
Credit-impaired	417	(267)	36

The remaining credit-impaired financial guarantee contracts amounting to €1.01 million (2023: €1.12 million) as at 31 December 2024 were unsecured and, accordingly, have not been included within the table above.

2.5 MARKET RISK

Market risk comprises the risk of losses in value caused by unexpected changes in market prices before the affected positions can be closed out or hedged. Market risk for the Bank consists of interest rate risk which is the risk of losses due to adverse changes in interest rates. As at 31 December 2024 and 2023, the Bank did not have any foreign exchange exposures and neither held any equity positions.

2.5.1 INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. The risk is managed by monitoring on a continuous basis the level of mismatch of interest rate repricing, taking cognisance of the terms of the Bank's principal financial liabilities and amounts owed to banks, that are not re-priceable.

Exposure to interest rate risk

The following table summarises the Bank's exposure to interest rate risk by listing the interest-bearing financial instruments, and their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	CARRYING AMOUNT	EFFECTIVE INTEREST RATE	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
	€000		€000	€000	€000	€000
As at 31 December 2024						
Financial assets						
Balances with Central Bank of Malta	903	0.10%	903	-	-	-
Loans and advances to banks	32,246	4.07%	7,273	-	24,973	-
Financial investments	44,026	5.38%	5,479	-	38,547	-
Loans and advances to customers	20,470	3.62%	9,766	99	1,328	9,277
Total financial assets	**97,645**	**4.53%**	**23,421**	**99**	**64,848**	**9,277**
Financial liabilities						
Amounts owed to banks	11,367	0.90%	3,435	1,209	6,723	-
Total financial liabilities	**11,367**		**3,435**	**1,209**	**6,723**	-
Interest repricing gap			**19,986**	**(1,110)**	**58,125**	**9,277**
Cumulative gap			**19,986**	**18,876**	**77,001**	**86,278**

	CARRYING AMOUNT	EFFECTIVE INTEREST RATE	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
	€000		€000	€000	€000	€000
As at 31 December 2023						
Financial assets						
Balances with Central Bank of Malta	508	0.10%	508	-	-	-
Loans and advances to banks	35,528	3.69%	10,564	1	24,963	-
Financial investments	42,173	5.54%	3,472	-	38,701	-
Loans and advances to customers	16,138	3.11%	6,120	734	796	8,488
Total financial assets	**94,347**		**20,664**	**735**	**64,460**	**8,488**
Financial liabilities						
Amounts owed to banks	11,565	0.6%	1,214	1,205	9,146	-
Total financial liabilities	**11,565**		**1,214**	**1,205**	**9,146**	-
Interest repricing gap			**19,450**	**(470)**	**55,314**	**8,488**
Cumulative gap			**19,450**	**18,980**	**74,294**	**82,782**

Interest rate profile

The table below analyses interest-earning assets and interest-bearing liabilities differentiating between those that have a fixed rate and those with a variable rate:

	2024		2023	
	FIXED	VARIABLE	FIXED	VARIABLE
	€000	€000	€000	€000
Interest-earning assets				
Balances with Central Bank of Malta	-	903	-	508
Loans and advances to banks	24,973	7,273	24,964	10,564
Financial investments	44,026	-	42,173	-
Loans and advances to customers	-	20,470	2,936	13,202
	68,999	**28,646**	**70,073**	**24,274**
Interest-bearing liabilities				
Amounts owed to banks	11,367	-	11,565	-
	11,367	**-**	**11,565**	**-**

Loans and advances to customers include variable interest rate loans of €10,802,999 (2023: €9,284,355) which are fixed for a period between 7 and 13 years since origination, and which will reprice between 2031 and 2033.

Fair value sensitivity analysis for fixed-rate instruments

The Bank does not hold any fixed rate financial assets or liabilities which are measured at fair value. Loans and advances to banks and customers, amounts owed to banks and financial investments measured at amortised cost are not expected to be disposed of and are therefore not subject to fair value changes arising from interest rate risk.

Cash flow sensitivity for variable rate instruments

The Bank is exposed to cash flow interest rate risk principally in respect of the financial assets which are subject to floating interest rates.

At the end of the reporting period, if interest rates had increased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, the result for the year would increase by €578,624 (2023: €302,279). Likewise, if interest rates had decreased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, the result for the year would decrease by €578,624 (2023: €302,279).

2.5.2 CURRENCY RISK

At 31 December 2024 and 2023, the Bank's financial assets and liabilities were all denominated in Euro and therefore the Bank was not exposed to currency risk.

2.5.3 FAIR VALUES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

All of the Bank's financial assets are measured at amortised cost in the Statement of Financial Position and reported net of impairment allowances to reflect the estimated recoverable amounts.

The directors consider the carrying amounts of these assets, excluding financial investments, to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting period.

Financial investments

The fair value of debt securities measured at amortised cost on the Statement of Financial Position amounted to €45,552,360 (2023: €42,729,842) at 31 December 2024, based on quoted prices.

2.6 LIQUIDITY RISK

Liquidity risk is the risk that the Bank's obligations to repay liabilities or fund new loans exceed the Bank's ability to raise funds from either the liquidation of assets or the acceptance of new funding. Liquidity risk arises when the Bank does not exactly match the maturity of assets with the maturity of liabilities as it must always be able to meet its liabilities as they fall due. Liquidity risk may also be affected by the depth of the market in which the Bank has its exposure in assets and liabilities.

The Bank's approach to managing liquidity risk is to ensure, to the extent possible, that it always holds sufficient liquid assets to meet its obligations when these fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's liquidity risk management focuses on structuring assets and liabilities in order to diversify funding sources and maintain a spread of asset and liability maturities to the extent practicable.

The Bank's liquidity risk during 2024 and 2023 was insignificant in view of the margin of liquidity available to manage repayments of liabilities.

The following table presents financial assets and liabilities at the end of the reporting period by the remaining period to maturity:

	CARRYING AMOUNT	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Financial assets						
Balances with Central Bank of Malta	903	903	-	-	-	-
Loans and advances to banks	32,246	7,273	-	24,973	-	-
Financial investments	44,026	5,479	-	38,547	-	-
Loans and advances to customers	20,470	163	284	5,952	14,071	-
Other assets	1,164	995	169	-	-	-
Total financial assets	**98,809**	**14,813**	**453**	**69,472**	**14,071**	**-**
Financial liabilities						
Amounts owed to banks	11,367	3,435	1,209	6,723	-	-
Amounts owed to other entities	4,538	-	-	-	-	4,538
Other liabilities	328	166	162	-	-	-
Total financial liabilities	**16,233**	**3,601**	**1,371**	**6,723**	**-**	**4,538**
Maturity gap		**11,212**	**(918)**	**62,749**	**14,071**	**(4,538)**
Cumulative gap		**11,212**	**10,294**	**73,043**	**87,114**	**82,576**

	CARRYING AMOUNT	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Financial assets						
Balances with Central Bank of Malta	508	508	-	-	-	-
Loans and advances to banks	35,528	10,565	-	24,963	-	-
Financial investments	42,173	3,472	-	38,701	-	-
Loans and advances to customers	16,138	2,276	1,066	2,623	10,173	-
Other assets	1,194	1,028	166	-	-	-
Total financial assets	**95,541**	**17,848**	**1,232**	**66,287**	**10,173**	**-**
Financial liabilities						
Amounts owed to banks	11,565	1,214	1,205	9,146	-	-
Amounts owed to other entities	5,627	-	-	-	-	5,627
Other liabilities	290	145	145	-	-	-
Total financial liabilities	**17,482**	**1,359**	**1,350**	**9,146**	**-**	**5,627**
Maturity gap		**16,490**	**(118)**	**57,141**	**10,173**	**(5,627)**
Cumulative gap		**16,490**	**16,372**	**73,513**	**83,686**	**78,059**

3. BALANCES WITH CENTRAL BANK OF MALTA AND OTHER BANKS

	2024	2023
	€	€
Current		
Repayable on call and at short notice	**8,183,360**	11,086,758
Non-current		
Term loans and advances	**25,000,000**	25,001,392
Gross carrying amount	**33,183,360**	36,088,150
Less: Allowances for expected credit losses	**(34,225)**	(51,765)
	33,149,135	36,036,385

By virtue of an agreement entered into between the Ministry for European Affairs and Equality (the 'Managing Authority') and the Bank, as the entity entrusted with the implementation of the Further Studies Made Affordable ('FSMA') and Further Studies Made Affordable Plus ('FSMA+') programmes, funds are being held in favour of, and for the ultimate benefit of, the Managing Authority as part of the implementation of the FSMA programmes. These funds are intended to provide financial guarantees and interest rate subsidies on loans sanctioned by counterparty commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent. As at 31 December 2024, the balance of these funds amounted to €4.5 million (2023: €5.6 million) (see Note 13).

The term loans and advances represent a term deposit placed with a local credit institution and pledged in favour of the same institution as part of a financing agreement entered into during 2024 (see Note 12). As at 31 December 2023, all amounts were free from any encumbrance.

4. FINANCIAL INVESTMENTS

The Bank's financial investments measured at amortised cost are analysed as follows:

	2024	2023
	€	€
Debt instruments:		
Local government debt securities listed on the Malta Stock Exchange	**16,586,342**	16,755,640
Local private debt securities listed on the Irish Stock Exchange	**22,000,000**	22,000,000
Unlisted local government treasury bills	**5,478,640**	3,471,350
Less: Allowances for expected credit losses	**(39,092)**	(54,202)
	44,025,890	42,172,788

The movement in the carrying amount of financial investments is summarised as follows:

	2024	2023
	€	€
At 1 January	**42,172,788**	46,803,063
Acquisitions	**11,906,550**	31,280,341
Redemptions	**(10,000,000)**	(35,948,027)
Amortisation of premium/discount	**(68,558)**	37,411
Movement in expected credit loss allowances	**15,110**	-
At 31 December	**44,025,890**	42,172,788

5. LOANS AND ADVANCES TO CUSTOMERS

	2024	2023
	€	€
Term loans and advances	**20,672,290**	16,216,211
Less: Allowances for expected credit losses	**(202,299)**	(77,948)
Net loans and advances to customers	**20,469,991**	16,138,263

6. INVESTMENT PROPERTY

	€
At 1 January 2023	
Cost	642,851
Accumulated amortisation	(27,903)
Net book amount	614,948
Year ended 31 December 2023	
At 1 January 2023	614,948
Depreciation charge	(8,571)
At 31 December 2023	606,377
At 31 December 2023	
Cost	642,851
Accumulated amortisation	(36,474)
Net book amount	606,377
Year ended 31 December 2024	
At 1 January 2024	**606,377**
Depreciation charge	**(8,571)**
At 31 December 2024	**597,806**
At 31 December 2024	
Cost	**642,851**
Accumulated amortisation	**(45,045)**
Net book amount	**597,806**

Investment property is located outside of Malta and comprises an office building which is currently being leased to a third party. As at 31 December 2024 and 2023, the Board considers the carrying amount of the investment property to be fairly close to its fair value as reflected below.

Disclosures required in terms of IFRS 13 in relation to fair value attributable to investment property are presented below.

	FAIR VALUE AT 31 DECEMBER 2024 AND 2023	UNOBSERVABLE SIGNIFICANT INPUTS	
		VALUATION TECHNIQUE	RENTAL VALUE PER SQUARE METRE
	€		€
Office Building	**640,000**	Equivalent value per square metre	**4,100**

This fair value is considered as Level 3 and is based on the highest and best use of the property, which is equivalent to its current use.

7. PROPERTY AND EQUIPMENT

	BUILDINGS	IMPROVEMENTS TO PROPERTY	FURNITURE	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000	€000	€000
Year ended 31 December 2024						
Opening net book amount	3,019,860	360,002	85,838	69,928	30,395	3,566,023
Additions	-	2,434	6,827	17,579	1,230	28,070
Disposals	-	-	-	(3,266)	-	(3,266)
Depreciation charge	(42,162)	(24,750)	(11,814)	(25,820)	(9,540)	(114,086)
Depreciation released on disposal	-	-	-	1,838	-	1,838
Closing net book amount	**2,977,698**	**337,686**	**80,851**	**60,259**	**22,085**	**3,478,579**
At 31 December 2024						
Cost	3,135,806	408,818	124,078	173,269	48,448	3,890,419
Accumulated depreciation	(158,108)	(71,132)	(43,227)	(113,010)	(26,363)	(411,840)
Net book amount	**2,977,698**	**337,686**	**80,851**	**60,259**	**22,085**	**3,478,579**

	BUILDINGS	IMPROVEMENTS TO PROPERTY	FURNITURE	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000	€000	€000
At 1 January 2023						
Cost	3,135,806	377,701	114,713	150,846	47,218	3,826,284
Accumulated depreciation	(73,784)	(23,094)	(19,861)	(62,321)	(7,372)	(186,432)
Net book amount	**3,062,022**	**354,607**	**94,852**	**88,525**	**39,846**	**3,639,852**
Year ended 31 December 2023						
Opening net book amount	3,062,022	354,607	94,852	88,525	39,846	3,639,852
Additions	-	28,683	2,538	9,278	-	40,499
Disposals	-	-	-	(1,168)	-	(1,168)
Depreciation charge	(42,162)	(23,288)	(11,552)	(27,875)	(9,451)	(114,328)
Depreciation released on disposal	-	-	-	1,168	-	1,168
Closing net book amount	**3,019,860**	**360,002**	**85,838**	**69,928**	**30,395**	**3,566,023**
At 31 December 2023						
Cost	3,135,806	406,384	117,251	158,956	47,218	3,865,615
Accumulated depreciation	(115,946)	(46,382)	(31,413)	(89,028)	(16,823)	(299,592)
Net book amount	**3,019,860**	**360,002**	**85,838**	**69,928**	**30,395**	**3,566,023**

As at 31 December 2024, capital expenditure authorised and contracted for amounted to €117,000 (2023: €117,000) and is mainly related to the acquisition of immovable property. This contracted expenditure is included within 'Financial guarantees and other commitments' in Note 15.

8. RIGHT-OF-USE ASSETS

Until 2023, the Bank maintained a lease agreement for a motor vehicle designated for executive use. The lease contract expired during 2023, and no new lease agreements were entered into thereafter. In this respect, there were no lease-related cash payments in 2024 (2023: €11,856). During the year, no depreciation was charged to profit or loss with respect to right-of-use assets (2023: €11,683) and no interest expense was incurred on lease liabilities (2023: €111).

9. INTANGIBLE ASSETS

	COMPUTER SOFTWARE
	€
At 1 January 2023	
Cost	36,753
Accumulated amortisation	(17,329)
	19,424
Year ended 31 December 2023	
At 1 January 2023	19,424
Additions	7,788
Disposals	(1,769)
Amortisation charge	(6,430)
Amortisation released on disposal	295
At 31 December 2023	19,308
At 31 December 2023	
Cost	42,772
Accumulated amortisation	(23,464)
Net book amount	19,308
Year ended 31 December 2024	
At 1 January 2024	**19,308**
Additions	**13,350**
Amortisation charge	**(8,865)**
At 31 December 2024	**23,793**
At 31 December 2024	
Cost	**56,122**
Accumulated amortisation	**(32,329)**
Net book amount	**23,793**

10. OTHER ASSETS

	2024	2023
	€	€
Accrued interest	**406,360**	364,486
Prepayments	**90,031**	86,523
Accrued income from financial guarantees	**63,833**	48,394
Accrued administrative fee income	**689,668**	766,050
Other receivables	**4,500**	14,800
	1,254,392	1,280,253

11. SHARE CAPITAL

	2024 €	2023 €
Authorised		
2,000,000 shares of €100 each	**200,000,000**	200,000,000
Issued and fully paid up		
800,000 (2023: 800,000) shares of €100 each	**80,000,000**	80,000,000

The Bank is fully owned by the Government of Malta. In accordance with Article 10(1) of the Malta Development Bank Act, Chapter 574 of the Laws of Malta, the authorised share capital of the Bank is €200 million divided into two million shares having a par value of €100 each.

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to perform the functions assigned to it under the Malta Development Bank Act, Chapter 574 of the Laws of Malta, and to maintain an optimal capital structure.

Government guarantee

In terms of Article 5 of the Malta Development Bank Act, the Government of Malta guarantees up to 100% of all obligations of the Bank and up to 100% of the loans, facilities and guarantees issued by the Bank. A Government guarantee was issued on 16 February 2018 in favour of the Bank which stood at €150 million as at 31 December 2024 (2023: €150 million).

12. AMOUNTS OWED TO BANKS

	2024 €	2023 €
Current	**4,643,860**	2,418,701
Non-current	**6,723,239**	9,146,311
	11,367,099	11,565,012

On 24 June 2019, the Bank entered into a loan agreement with KfW, for the amount of €45 million. On 31 March 2020 and 30 June 2020, the Bank withdrew €10 million and €15 million, respectively. The disbursement period of this facility expired on 23 June 2022. The loan is unsecured, subject to a fixed interest rate of 0.6% and matures in 2029. As at 31 December 2024, the outstanding balance amounted to €9.2 million (2023: €11.6 million).

On 14 November 2023, the Bank entered into a Climate Action Finance Agreement with the European Investment Bank ('EIB') for an amount of €30 million. This facility, which is guaranteed by the Government of Malta, will allow the Bank to provide access to credit to SMEs, mid-caps and local authorities for investment in projects that contribute to the fight against adverse climate change. The EIB's favourable financing cost will be passed on to the industry together with longer repayment periods thus enabling better investment planning in sustainable projects. As at 31 December 2024 and 2023, no amounts under this agreement had been disbursed.

During 2024, the Bank entered into an overdraft facility agreement with a local credit institution to support its liquidity requirements as part of its lending operations. This facility is collateralised by a pledge on a term deposit held by the Bank with the same local credit institution (see Note 3). In addition, the facility is repayable on demand and subject to interest at a fixed rate of 2.15% per annum. As at 31 December 2024, the outstanding balance amounted to €2.2 million.

13. AMOUNTS OWED TO ENTITIES

By virtue of an agreement entered into between the Managing Authority and the Bank, as the entity entrusted with the implementation of the FSMA and FSMA+ programmes, funds are being held in favour of, and for the ultimate benefit of, the Managing Authority as part of the implementation of the FSMA and FSMA+ programmes. These funds are intended to provide financial guarantees and interest rate subsidies on loans sanctioned by counterparty commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent. As at 31 December 2024, the balance of these funds amounted to €4.5 million (2023: €5.6 million) (see Note 3).

14. OTHER LIABILITIES

	2024 €	2023 €
Accounts payable	**29,062**	45,244
Accrued interest payable	**26,190**	27,985
Accruals	**272,290**	216,495
Expected credit losses arising on off-balance sheet items (Note 15)	**2,370,073**	2,183,095
	2,697,615	2,472,819

15. FINANCIAL GUARANTEES AND OTHER COMMITMENTS

As at the end of the reporting period, total outstanding financial guarantees and other commitments were as follows:

	2024 €	2023 €
Financial guarantees		
Maximum exposure guaranteed by the MDB on SME Invest and FBT	**5,633,798**	6,839,877
Maximum exposure guaranteed by the MDB on SGS and GCLS	**13,957,653**	6,580,920
	19,591,451	13,420,797
Commitments		
Undrawn commitments to lend	**8,772,000**	13,658,806
Capital commitments	**117,000**	117,000
	8,889,000	13,775,806

As of the end of the reporting period, the Bank sanctioned commitments amounting to €8.8 million (2023: €13.7 million), inclusive of two facilities amounting to €4.9 million (2023: €10 million) which were sanctioned subject to a number of conditions precedent to initial drawdown which were in the process of being perfected as at the reporting dates.

As detailed in Note 2.4.1, the Bank, in line with its principal activities and business model, originates several financial guarantees.

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest and a portfolio capping of 50% under the Family Business Transfer Facility schemes, which effectively limit the credit risk exposure of the Bank to €5.6 million (2023: €6.8 million). No portfolio capping is applicable to the SGS and GCLS schemes, where the maximum credit risk exposure amounts to €14.0 million (2023: €6.6 million) (refer to Note 2.4.1).

Financial guarantees are further explained below:

	2024			2023		
	DRAWN COMMITMENTS €	UNDRAWN COMMITMENTS €	TOTAL €	DRAWN COMMITMENTS €	UNDRAWN COMMITMENTS €	TOTAL €
Financial guarantees						
Total sanctioned loans (net of repayments)	**39,789,170**	**9,574,493**	**49,363,663**	36,746,170	7,533,837	44,280,007
Guaranteed amount by the MDB per individual exposure	**29,847,936**	**6,599,023**	**36,446,959**	28,591,497	5,295,309	33,886,806
Maximum exposure guaranteed by the MDB (portfolio capping)			**19,591,451**			13,420,797

As at 31 December 2024, the expected credit losses arising on financial guarantees amounted to €2,364,238 (2023: €2,160,620).

Expected credit losses in respect of undrawn commitments to lend attributable to loans and advances to customers as at 31 December 2024 amounted to €5,835 (2023: €22,475).

16. INTEREST RECEIVABLE AND SIMILAR INCOME

	2024	2023
	€	€
On balances with Central Bank of Malta and other banks	**1,343,021**	446,091
On loans and advances to customers	**607,362**	552,450
	1,950,383	998,541
On debt instruments	**2,378,509**	2,378,000
Net amortisation of discounts and premiums	**(68,558)**	37,411
	2,309,951	2,415,411
Total interest receivable and similar income	**4,260,334**	3,413,952

17. INTEREST PAYABLE AND SIMILAR EXPENSE

	2024	2023
	€	€
On amounts owed to banks	**120,623**	109,475
On lease liabilities (Note 8)	**-**	111
Total interest payable and similar expense	**120,623**	109,586

18. INCOME FROM FINANCIAL GUARANTEES

	2024	2023
	€	€
SME Invest Scheme	**153,040**	164,707
SME Guarantee Scheme	**12,186**	-
Family Business Transfer Facility	**404**	464
Guarantee Co-Lending Scheme	**58,678**	18,251
	224,308	183,422

As detailed in Note 2.4.1, the Bank issues financial guarantees to credit institutions (see Note 15) who are eligible under one of the Bank's credit schemes. The Bank receives a portion of the interest charged by the credit institutions in the form of a guarantee fee as consideration for providing these guarantees.

19. ADMINISTRATIVE FEE INCOME

	2024	2023
	€	€
COVID-19 Guarantee Scheme	**2,323,820**	2,471,843
Further Studies Made Affordable	**33,837**	44,709
Further Studies Made Affordable Plus	**34,610**	1,405
Liquidity Support Guarantee Scheme	**191,214**	87,721
	2,583,481	2,605,678

As detailed in Note 2.4.1, the Bank has been entrusted to implement and manage guarantee schemes on behalf of the Ministry for European Affairs and Equality and the Government of Malta. The Bank receives fee income as a consideration for the implementation and ongoing administration of these schemes.

20. OTHER INCOME

	2024	2023
	€	€
Rental income	**39,172**	36,646
Other income	**42,132**	1,136
	81,304	37,782

21. CHANGES IN EXPECTED CREDIT LOSSES

	2024	2023
	€	€
On balances with Central Bank of Malta and other banks	**(17,540)**	17,173
On financial investments	**(15,110)**	-
On loans and advances to customers	**124,351**	60,856
On undrawn loan commitments	**(16,640)**	(2,444)
On financial guarantee contracts	**203,618**	590,208
	278,679	665,793

22. ADMINISTRATIVE EXPENSES

	2024	2023
	€	€
Legal and professional fees	**139,999**	143,612
Supervisory fees	**19,500**	19,500
Directors' fees	**90,713**	88,307
Travelling and accommodation	**9,920**	10,339
Memberships of local and international associations	**28,863**	45,726
Insurance costs	**65,861**	55,840
Advertising and public awareness	**36,834**	31,190
Repairs and maintenance	**70,950**	94,022
Other	**131,286**	111,418
	593,926	599,954

Other administrative expenses include training, telecommunication expenses, cleaning expenses, water and electricity and other miscellaneous expenses.

Auditor's remuneration

Fees charged by the external auditor, exclusive of VAT, for services rendered relate to the following:

	2024	2023
	€	€
Annual statutory audit	**40,000**	37,500

23. EMPLOYEE COMPENSATION AND BENEFITS

	2024	2023
	€	€
Staff costs		
- Wages, salaries and allowances	**1,691,526**	1,472,211
- Social security costs	**65,220**	54,219
- Other costs	**26,598**	46,555
	1,783,344	1,572,985

The average number of persons employed by the Bank during the year was as follows:

	2024	2023
	€	€
Senior management	**10**	10
Middle management	**7**	8
Other	**8**	6
	25	24

24. NET CASH USED IN OPERATING ACTIVITIES

	2024	2023
	€	€
Profit for the year	**4,241,333**	3,151,504
Adjustments for:		
Depreciation (Notes 6, 7, 8)	**122,657**	134,582
Loss on disposal of intangible assets	**-**	1,476
Loss on disposal of tangible assets	**854**	-
Amortisation of intangible assets (Note 9)	**8,865**	6,430
Interest income on debt instruments (Note 16)	**(2,378,509)**	(2,378,000)
Net amortisation of discounts and premiums on financial investments (Note 16)	**169,300**	169,212
Changes in expected credit losses (Note 21)	**278,679**	665,793
Interest expense on lease liabilities (Note 8)	**-**	111
	(1,798,154)	(1,400,396)
Changes in operating assets and liabilities:		
Decrease/(Increase) in term loans and advances to banks (Note 3)	**1,392**	(11,000,005)
Decrease/(Increase) in loans and advances to customers (Note 5)	**(4,456,079)**	4,765,965
Decrease/(Increase) in amounts owed to entities (Note 13)	**(1,088,027)**	1,321,174
Decrease/(Increase) in other assets (Note 10)	**25,861**	(47,403)
Increase in accruals and accounts payable (Note 14)	**37,818**	23,777
Net Cash used in operating activities	**(3,035,856)**	(3,185,384)

25. CASH AND CASH EQUIVALENTS

The table below shows an analysis of the Bank's balances of cash and cash equivalents as shown in the Statement of Cash Flows. Cash and cash equivalents comprise of deposits held at call with banks and short-term highly liquid investments with contractual maturity of less than three months.

	2024	2023
	€	€
Balances with Central Bank of Malta and other banks		
Repayable on call and at short notice (Note 3)	**8,183,360**	11,086,758
Financial investments		
Malta Government treasury bills (Note 4)	**5,478,640**	3,471,350
	13,662,000	14,558,108

26. RELATED PARTIES

26.1 IDENTIFICATION OF RELATED PARTIES AND THE ULTIMATE CONTROLLING PARTY

The Bank's ultimate controlling party is the Government of Malta. All functions and bodies forming part of the Government of Malta (including ministries), together with all entities that are ultimately controlled or significantly influenced by the Government of Malta or whose share capital is entirely owned by the Government of Malta, are considered to be related parties. Key management personnel of the Bank are also considered to be related parties.

Key management personnel are defined as those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank, being the Board of Directors and the Bank's chief officers.

26.2 TRANSACTIONS WITH THE SHAREHOLDER

During the year, the following transactions were undertaken by the Bank with its shareholder and other entities controlled or significantly influenced by the shareholder:

	2024	2023
	€	€
Income received from related parties		
Interest receivable and similar income	**2,311,149**	2,420,147
Income from financial guarantees	**71,994**	48,991
Administrative fee income	**2,070,374**	2,125,639
Other income	**39,172**	36,646
Expenses paid to related parties		
Administrative expenses	**83,201**	95,332

The Bank treats all related party transactions at arm's length in a transparent, open and non-discriminatory manner. The Bank acts independently and in an autonomous manner and does not seek nor receive instructions from an authority, public or otherwise, or from any other institution.

26.3 BALANCES WITH THE SHAREHOLDER

As at the end of the reporting period, the following balances were held by the Bank with its shareholder and other entities controlled or significantly influenced by the shareholder:

	2024	2023
	€	€
Amounts owed by related parties		
Balances with Central Bank of Malta	**903,080**	508,430
Loans and advances to banks	**5,934,623**	8,796,820
Financial investments	**44,025,890**	42,172,788
Other assets	**801,885**	811,793
Amounts owed to related parties		
Amounts owed to other entities	**4,538,488**	5,626,515
Other liabilities	**23,428**	22,055

26.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

	2024	2023
	€	€
Compensation to key management personnel	**927,268**	866,875

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

27.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Bank's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

27.2 MEASUREMENT OF THE EXPECTED CREDIT LOSSES

The measurement of the ECL allowance for financial guarantees is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 2.4.3 – 'Expected credit loss measurement'.

A number of significant judgements are required in measurement of ECLs, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECLs; and
- Establishing the number and relative weightings of forward-looking scenarios and associated ECLs.

27.3 ASSESSMENT OF ESTIMATES AND JUDGEMENTS

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements, which have been highlighted above, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

However, the directors would like to draw attention to these accounting judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect, these primarily comprise assumptions and estimates relating to the calculation of impairment allowances in respect of financial guarantee contracts (see Note 2.4.3 – 'Expected credit loss measurement').

28. STATUTORY INFORMATION

The Malta Development Bank is a Bank established by virtue of the Malta Development Bank Act, 2017 (Act XXI of 2017 – Cap. 574) with its registered address at 5, Market Street, Floriana, Malta.


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