MDB

BANK MALTI GĦALL-IŻVILUPP

MALTA DEVELOPMENT BANK

2025 ANNUAL REPORT

& FINANCIAL STATEMENTS

CONTENT

MDB's Mandate

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.

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.

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.

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 encourage social inclusion;

Letter Of Transmittal

BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

5, Market Street
Floriana, FRN1083
Malta
T: + 356 2226 1710

26 March 2026

The Hon Clyde Caruana BCom (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 2025.

In terms of article 33 of the Malta Development Bank Act, I am also transmitting a copy of the audited accounts of the Bank for the financial year ended 31 December 2025.

Yours sincerely,

Leo Brincat
Chairperson

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. During 2025 the Board was 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. Upon the conclusion of the extended terms of Prof. Azzopardi and Mr Valvo, Mr James Pearsall and Ms Kylie Spiteri were appointed directors of the Bank with effect from 9 January 2026.
Mr Rene Saliba, served as the Secretary of the Board during 2025. Following the conclusion of Mr Saliba's contract on 5 January 2026, Dr Marc Sant was appointed Board Secretary with effect from 6 January 2026.

The Board of Directors in February 2026

Chairperson's Statement

Mr Leo Brincat

As we look ahead, our focus is clear.

Two years ago, we defined and approved our corporate strategy. Last year, we took a decisive step forward with the launch of our first Board-approved business plan. Central to this plan is a robust business development framework, underpinned by an enhanced communications strategy that places a citizen-based focus at centre stage. This approach is a pivotal instrument for raising our visibility and heightening public awareness of the opportunities we offer.

In 2025, we launched a dynamic transformation process that is designed to continuously evolve and remain constantly ongoing. This momentum has been driven by a new, mission-driven Chief Executive Officer and energised by the commitment of the entire team.

We are no longer in the phase of defining direction.

We are firmly in the phase of delivery.

We are aligning our people, systems and capital to respond effectively to a global environment that is not merely changing, but that has fundamentally changed over recent months. This requires an ongoing cultural shift and an evolving mindset that is fit for purpose in light of new geopolitical and geoeconomic realities.

Vision 2050 sets out an ambitious long-term path for Malta. It challenges us to think beyond the immediate horizon, while our responsibility is to act decisively in the present. Our transformation is anchored in a clear national purpose, namely aligning the Bank's mandate, instruments and culture with Malta's future development trajectory, while supporting sustainable growth, resilience and long-term competitiveness for Malta.

As the national Development Bank, our responsibility is to translate this vision into investable projects, viable businesses and lasting economic value. This Bank is determined not merely to participate in Malta's future, but to be a driving force behind it. In line with Malta's long-term vision and European Union priorities, the onus is on us to support businesses through this transition.

We are evolving from a traditional development bank into a strategic development platform. This means crowding in private capital, sharing risk intelligently and catalysing projects that would not happen at scale without our involvement. As stewards of public funds, we are strengthening additionality, transparency and risk discipline, ensuring that every euro deployed works harder for the country. Our focus is on financing growth that is sustainable, inclusive and resilient, not only for today, but for the decades ahead.

We will continue to act as a catalyst by mobilising private capital, supporting innovation and helping businesses navigate the green and digital transitions.

Success is no longer measured by volumes alone, but by a quantifiable economic, social and environmental impact.

Balancing speed with prudence is more than a mantra. We are committed to responding swiftly to market gaps and national priorities, while maintaining strong risk discipline, state-aid compliance and long-term financial sustainability. Mobilising private capital at scale requires moving beyond traditional co-financing towards more sophisticated risk-sharing and blended finance structures that genuinely crowd in private investment rather than substitute it.

Thanks to the Bank's re-energised team, this year marked tangible progress in governance, risk management, product design and internal capabilities. These achievements are laying the foundations for a Bank that is faster, more agile and fit for the future.

Malta's economy is maturing, and our role is to support quality growth, longer investment horizons, higher value-added sectors and financing models aligned with productivity and skills development. We will do so with discipline, transparency, agility and flexibility, and with a clear focus on impact, mindful at all times of our responsibility as stewards of public funds.

However, strategy and capital alone are not sufficient. Delivery ultimately depends on trust. It also depends on a shared commitment to look forward, to invest, to innovate and to build with confidence. In other words, delivery depends on partnership. We are deepening our collaboration with commercial banks, European Union institutions, government entities and the private sector, because development is a shared endeavour rather than a solo act.

While meaningful progress has been achieved, we are not resting on our laurels. The next phase of transformation will be bolder, more targeted and more outcome driven. Malta's future growth agenda will succeed only if institutions, businesses and financiers move together. We therefore invite our stakeholders to co-create, to challenge and to partner with us as we build Malta's long-term future.

To ensure a clear focus on effective implementation and stronger results orientation, we will continue to prioritise the translation of strategy into clear annual priorities with defined ownership, timelines and measurable outcomes.

We are embedding performance indicators and impact metrics across all business lines to track delivery rather than activity alone. Execution discipline is being strengthened through regular progress reviews, escalation mechanisms and timely course correction. Resources, skills and incentives are being aligned with strategic priorities to ensure the right capacity is in place to deliver results. We are leveraging data and digital tools to improve decision-making, monitoring and reporting, deepening cross-functional collaboration to eliminate silos, and encouraging a results-driven culture focused on impact, learning and continuous improvement.

I am confident that these objectives will be achieved. This confidence is grounded in my full trust in our leadership team and staff, in our business-oriented Board of Directors, in the strongly and consistently supportive Ministry for Finance, and in the effective strategic guidance provided by the Supervisory Board, with whom we have continuously deepened our engagement. I extend my sincere thanks to all key stakeholders with whom we have built strong networks, particularly the growing number of intermediary banks with whom we have conducted fruitful business during the past financial year.

We cannot wait for new crises or pandemics to underline the relevance of this Bank. Our relevance must be anchored in delivery, translating Malta's strategic future pathway into real investment, real growth and real opportunity.

Our enhanced outreach, stronger connectivity, raised ambitions, consistent follow-through and increased customer focus can and will make this happen.

Ongoing geopolitical tensions make it abundantly clear that Malta urgently needs a national development bank capable of financing resilience. This includes strengthening energy security, diversifying the economy, upgrading digital and physical infrastructure, boosting local production capacity, safeguarding critical services and providing businesses with the adaptation capital required to compete and endure.

We are ready to meet this challenge.

CEO's Statement

Ms Alison Micallef

Leadership within a financial institution is most clearly tested when certainty is limited and conditions are in transition. In an environment shaped by persistent inflationary pressures, tighter monetary settings, geopolitical fragmentation and the repricing of long-term risk, the task of an institution is to remain disciplined, capable and responsive as circumstances evolve. These forces are structural rather than cyclical, calling for measured judgement rather than short-term reaction.

Mobilising finance for Malta's future.

For Malta, as a small and open economy, such dynamics are transmitted quickly. Shifts in global funding conditions, energy related risks and cross-border investment sentiment are reflected rapidly in domestic economic activity, influencing financing costs, investment horizons and confidence. At the same time, deeper changes in how risk is assessed, how capital is allocated and how financial intermediation functions increasingly determine the extent to which finance reaches productive and value adding activity.

It is within this context that the mandate of the Malta Development Bank must be understood. The Bank exists to intervene selectively where market capacity is constrained, particularly where longer term uncertainty or evolving risk perceptions limit otherwise viable investment. By operating alongside private financial institutions and mobilising capital with discipline and clarity, the Bank acts at the intersection of public policy objectives, market-based finance and an increasingly complex financial system.

I assumed the role of Chief Executive Officer during 2025 at a point when the Bank's legal, operational and governance foundations were already firmly in place. At this stage of the Bank's development, the emphasis has shifted decisively towards execution and purposeful deployment. This has involved strengthening alignment between strategy and the way resources are applied, broadening the range of instruments through which the Bank supports the economy, and directing institutional capacity increasingly towards activity that delivers sustained economic impact.

A key focus during the year has been the continued evolution of the Bank's operating model. As the Bank progresses beyond its formative phase, the balance between maintaining readiness and actively engaging with the economy continues to evolve. The Bank has refined how it positions its resources, ensuring that resilience remains integral while progressively deepening its role as a provider of long term, risk-sharing finance to the Maltese economy.

Strengthening organisational capability has been central to this process. Sustainable institutions depend on depth, coherence and a shared understanding of mandate and risk. The Bank has placed sustained emphasis on reinforcing a management approach grounded in consistency, accountability and long-term orientation. This has supported a culture in which strategic ambition is matched by operational discipline, enabling the institution to respond effectively as activity expands in scope and complexity.

Throughout the year, the Malta Development Bank has continued to operate independently in its investment decisions and in line with principles of prudence, transparency and demonstrable additionality. Activity has remained grounded in core banking disciplines, with careful attention to risk assessment, structuring and monitoring.

Risk-sharing widens access to credit.

Support for small and medium sized enterprises remains central to the Bank's role within Malta's financial system. Through partnership-based instruments delivered in close cooperation with domestic banks, the Bank continues to sustain credit flows, particularly where uncertainty or longer tenors constrain market appetite. Over time, these instruments are increasingly embedded within a broader framework that enables viable businesses to access finance through more effective risk sharing arrangements.

MDB - Annual Report 2025

Alongside this core activity, the Bank has continued to deepen its engagement in areas of long-term strategic importance for Malta's competitiveness. In its role as an implementing partner under the Connecting Europe Facility, the Bank supports infrastructure and energy-related investments that require patient capital, stable risk frameworks and strong delivery capacity.

Investment in education and skills also remains a priority. Through student-focused financing supported by European resources, the Bank addresses a structural gap in long-term funding with implications for productivity, labour market depth and income sustainability.

As economic needs evolve, the Bank continues to refine its range of financial instruments. Sustainability linked investments and support for the creative and cultural sectors are areas where carefully designed mechanisms can unlock private capital for projects that are commercially sound but constrained by horizon, perception or structure. Through InvestEU backed instruments, the Bank has expanded its capacity to support such projects while maintaining a disciplined approach to structuring and risk transmission.

Institutional resilience depends on governance, risk management and operational depth. During the year, the Bank continued to strengthen its control frameworks, systems and data capabilities, ensuring that growth in activity is matched by the ability to manage complexity effectively.

Looking ahead, the strategic direction of the Malta Development Bank is framed through its approved planning frameworks. The 2026–2028 Business Plan aligns the Bank's evolving instruments with Malta Vision 2050 and sets out a coherent pathway for supporting productivity, innovation, skills development, energy resilience and competitiveness. As the Bank continues to mature, its focus will increasingly centre on the deliberate deployment of its capacity in support of long-term economic resilience.

Impact defines the next phase.

The challenges ahead are well understood, even as their form and intensity continue to change. In many areas critical to Malta's long-term development, access to long-term, risk-sharing finance remains constrained more by perception than by fundamentals. Addressing these gaps requires informed judgement, close cooperation with the banking sector and an institution confident in its mandate and capacity to evolve.

The Malta Development Bank enters the next phase of its development with a stronger institutional platform and a clearer articulation of its role within Malta's financial system. This progress reflects the contribution of the Board of Directors, the professionalism and commitment of the Bank's staff, and the constructive engagement of its shareholder and European partners. The Bank will continue to evolve its role in support of Malta's long-term economic resilience and sustainable growth.

2025 AT A GLANCE

More access. More impact. More resilience.

€688 million Total cumulative assistance since inception
€130 million Loans facilitated for new investment
€27.6 million Growth in assistance during 2025

Strategic Milestones

✓ Completed InvestEU Pillar Assessment
✓ Secured EIF-backed risk-sharing instruments
✓ Launched Sustainability and Cultural & Creative schemes
✓ Relaunched education finance under StudentAssist
✓ Approved 2026–2028 Business Plan aligned with Malta Vision 2050

Human Capital

872 students supported
€38.3 million in cumulative student financing
No collateral or parental guarantees required

Market Role

- Reduced collateral intensity for SMEs
- Mobilised private bank lending through guarantees and co-lending
- Expanded access to green and transition finance
- Strengthened Malta’s access to EU guarantee instruments

Institutional Position

Strengthened governance and risk frameworks
27-person professional team
Government guarantee capacity: €150 million

MDB - Annual Report 2025

Corporate Governance

The Malta Development Bank Act (Cap. 574) was enacted 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 Malta Development Bank's (MDB) Board of Directors and Supervisory Board.

The Board of Directors is tasked with ensuring sound governance by setting strategic objectives, defining targets, and making key decisions on all major business matters. Responsibility for the day-to-day management, operational control and overall direction of the MDB lies with the Chief Executive Officer (CEO). Guided by the Board, the CEO and senior management team execute the strategic direction established by the Board, ensuring alignment with the Bank's mission. In turn, management provides the Board with detailed analyses and recommendations to facilitate informed discussions and decision-making.

Board Structure

The MDB 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 Board exercises its mandate independently, without seeking or receiving instructions from Government. The Chairperson serves a six-year term renewable for four years, while other Directors serve five-year terms and independent Directors six-year terms, both renewable for three years.

During the financial year under review, the Board met 13 times.

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

Committees

Audit Committee

The Audit Committee assists the Board in overseeing financial reporting, governance, risk management, and internal control frameworks, while ensuring the effectiveness, independence and objectivity of internal and external auditors.

The Committee comprises three Directors appointed by the Board. During 2025, its members were Prof. Rose Mary Azzopardi (Chairperson), Mr Anthony Valvo, and Dr Michele Cardinali. The Chief Internal Auditor attends meetings in a non-voting capacity, with Senior Management and other officers invited as required.

During 2025, the Committee received regular reports from the Chief Internal Auditor, Chief Finance Officer, and Chief Risk Officer, reviewed internal audit findings, monitored the implementation of audit action points, and approved the risk-based internal audit plan. It also reviewed and recommended the Bank's Financial Statements for Board approval. The Committee met six times during the year.

Ethics and Governance Committee

The Ethics and Governance Committee is appointed by the Board to ensure high standards of corporate governance, ethics, transparency, and accountability. Its responsibilities include overseeing governance policies, promoting an ethical framework, and providing recommendations on procurement and remuneration.

The Committee comprises three Directors appointed by the Board. During 2025, its members were Mr Leo Brincat (Chairperson), Mr Anthony Valvo, and Dr Michele Cardinali.

The Committee met four times during the year, one of which was as a Remuneration Committee. During 2025, it approved updates to the Performance Management Policy, a revised Grievance Policy, and a new Recruitment Policy, each aimed at improving clarity, fairness, and consistency across the organisation.

Risk Committee

The Risk Committee supports the Board by overseeing risk governance, monitoring risk management frameworks, ensuring alignment with the Board-approved Risk Appetite Framework, and promoting a culture of proactive risk awareness across the Bank.

In 2025, the Committee was chaired by Mr Leo Brincat, with Prof. Rose Mary Azzopardi and Mr Anthony Valvo as Directors, alongside the CEO and Chief Risk and Compliance Officer. Mr Victor Carachi and Mr Norbert Grixti attended in an observer capacity as Chairmen of the Operational Risk Committee and ALCO respectively, with the relevant Chief Officers also attending as observers given the strategic importance of matters discussed.

The Committee met four times during 2025, receiving quarterly Risk Dashboard reports covering key risk indicators, risk appetite adherence, and emerging trends across credit, operational, market, and liquidity risk, as well as Credit Reports on selected exposures.

The Risk Committee is supported by three management sub-committees:

- Asset and Liability Committee (ALCO): Responsible for asset and liability management, including oversight of liquidity, interest rate, and capital risks, and supporting the Bank's strategic financial objectives. The Committee was chaired by Mr Norbert Grixti, with members comprising the CEO and relevant Chief Officers. ALCO met four times in 2025.

- Credit Committee: Responsible for approving or recommending the approval of credit requests and guarantees, overseeing the credit risk framework, and ensuring effective loan portfolio management. The Committee was chaired by Mr Leo Brincat, with members comprising the CEO and relevant Chief Officers. The Credit Committee met eight times in 2025.

- Operational Risk Committee: Oversees the Bank's operational risk framework, monitoring emerging risks and the Bank's Risk Register, and ensuring appropriate mitigation measures are in place. The Committee was chaired by Mr Victor Carachi, with members comprising the CEO and relevant Chief Officers. The Committee met twice in 2025.

The composition and responsibilities of these sub-committees reflect the Bank's integrated risk management approach, fostering cross-functional collaboration and ensuring comprehensive oversight. This governance structure supports coordinated decision-making, effective risk mitigation and alignment with the MDB's strategic objectives and institutional priorities.

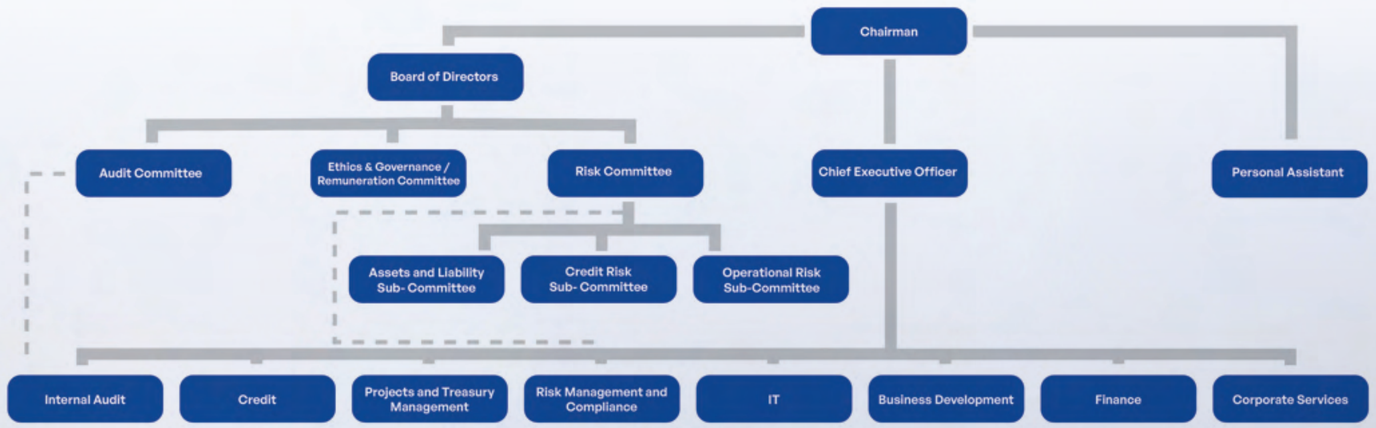
Internal Audit

The Internal Audit function creates, protects and sustains value by providing independent, risk-based assurance to the Board, Audit Committee, and management on the effectiveness of governance, internal controls, and risk management processes, serving as the Bank's third line of defence. It also provides advice on strengthening governance and control frameworks in line with best practice and represents the MDB in internal audit matters locally and internationally.

In line with the 2025 audit plan, the team completed engagements covering governance, data quality, regulatory and policy compliance, and IT controls. As in previous years, particular focus was placed on Credit Management, with sample credit file reviews assessing compliance with eligibility criteria and the provisions of risk sharing and operational agreements with the Bank's financial intermediaries. Progress on implementing audit recommendations was tracked and reported regularly to the Audit Committee and senior management.

The function also supported business areas with advice on internal controls and reviewed a number of internal policies, recommending enhancements where appropriate. All activities were conducted in guided by the International Standards for the Professional Practice of Internal Auditing and in adherence with the Institute of Internal Auditors' Code of Ethics.

Figure 1: Organisational Chart



Risk, Compliance And Control

The MDB recognises that a strong risk culture is essential to its long-term success. This culture is built on a high level of risk awareness and recognition, clear accountability, and proactive management across the organisation. Risk considerations are embedded into decision making processes to ensure that the Bank can support economic development while maintaining financial soundness and resilience.

Enterprise Risk Management

The MDB's enterprise risk management framework supports the Bank's activities by ensuring that risk-taking remains aligned with its mission and strategic objectives. The framework takes into account the Bank's capacity to absorb risk, its capital and liquidity position, and their respective quantitative thresholds.

Risk Appetite Framework

The Bank's overall approach to risk-taking is set out in its Risk Appetite Framework. This framework aligns the level and type of risk the MDB is willing to accept with its statutory obligations, strategic priorities, and long-term sustainability. It provides a clear set of principles that guide how the Bank approaches risk acceptance, mitigation, and avoidance.

These principles are embedded across the MDB's internal policies and processes and inform the management of key risk areas, including credit, operational, liquidity, interest rate, and compliance risks. The Risk Appetite Framework is regularly reviewed and refined to ensure that its metrics remain relevant, sound, and effective in supporting the Bank's evolving activities.

Core Financial Risk Areas

Credit Risk Management

Credit risk is managed through the MDB's Credit Risk Framework, which governs the entire credit lifecycle, from the design of new products and assessment of loan requests to the ongoing monitoring of borrowers and the final repayment of facilities. The framework is supported by internal control systems that support the proactive identification, assessment, and management of credit risk.

Recognising that effective credit risk management is fundamental to its development mandate and long-term sustainability, the MDB has established a comprehensive Credit Risk Framework comprising several key components: (a) Credit Risk Policy, (b) Risk Assessment Framework, (c) Risk Assessment Criteria.

Interest Rate Risk Management

Interest rate risk arising from non-trading activities is managed in accordance with the Bank's Interest Rate Risk in the Banking Book Policy and under the oversight of the Board of Directors, the Risk Committee, and the Asset and Liability Management Committee.

This policy establishes the governance structure and methodologies used to measure and manage interest rate risk in the banking book. It ensures consistency with the MDB's Risk Appetite Framework and related risk indicators, enabling the Bank to identify, assess, and mitigate the potential impact of adverse movements in interest rates on its financial position.

Liquidity Risk Management

The management of the MDB's liquidity is governed by the Treasury Management Policy and is subject to oversight by the Board of Directors, the Risk Committee, and the Asset and Liability Management Committee. This policy sets out the principles and controls designed to ensure that the Bank maintains sufficient liquidity to meet its financial obligations while supporting its strategic objectives.

To mitigate liquidity risk and ensure timely financial obligations, the MDB maintains current balances with the Central Bank of Malta and other reputable financial institutions. In addition, the Bank employs a structured maturity ladder comprising short-term deposits and money market instruments, including Malta Government Treasury Bills, to ensure short term liquidity and at the same time generate income.

Liquidity is managed by monitoring the liquidity ratio, defined as the projected net cash position at month-end relative to projected net cash outflows over the following 12-month period. This measure supports prudent liquidity planning and helps ensure that the Bank is well-positioned to meet its commitments as they fall due.

In accordance with the provisions of the Malta Development Bank Act, the MDB does not accept retail deposits. As a result, the Bank relies on alternative funding and liquidity management arrangements that are consistent with its promotional banking role.

Operational Risk Management

The MDB manages operational risk through its Operational Risk Management Framework, which sets out the principles for identifying, assessing, monitoring, and mitigating risks arising from the Bank's internal processes, systems, people, and external events. The framework provides a structured approach to assigning responsibilities, determining capital requirements for operational risk, and establishing reporting mechanisms that support effective oversight and informed decision-making.

In line with the Operational Risk Management Policy, the Risk Management and Compliance function maintains a bespoke Risk Register that captures the key operational risks that the Bank is exposed to. These risks are aligned with the MDB's strategic and operational objectives and reflect areas where events could have a significant adverse impact on the Bank's ability to fulfil its mandate.

Operational risks are systematically identified and assessed based on their likelihood of occurrence and potential impact. To support prioritisation, each risk is mapped onto an impact-likelihood matrix, resulting in an overall risk score that enables management to distinguish between the most significant risks and those of lower concern. Operational risk incidents are reported on an ongoing basis, with regular management information presented to the Operational Risk Committee to ensure continuous oversight and the timely implementation of appropriate mitigation measures.

Compliance and Financial Crime Prevention

Compliance Framework

The MDB maintains a comprehensive compliance framework to ensure adherence to applicable laws, regulations, and supervisory expectations. The Compliance pillar within the Risk Management and Compliance function is responsible for overseeing the Bank's compliance obligations and promoting a culture of ethical conduct and regulatory adherence throughout the organisation.

Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT)

The Bank operates a robust AML/CFT programme designed to prevent the misuse of its facilities for money laundering, terrorist financing, or other illicit purposes. This programme is governed by the AML/CFT and Sanctions Policy and supported by the Customer Acceptance Procedures, which together establish the framework for identifying, assessing, and mitigating financial crime risks.

MDB - Annual Report 2025

Key components of the AML/CFT framework include: (a) Business Risk Assessment, (b) Customer Due Diligence (CDD), (c) Ongoing Monitoring, (d) Sanctions Compliance and (e) Reporting and Training.

The effectiveness of the AML/CFT framework is subject to regular review and independent testing to ensure it remains fit for purpose and aligned with evolving regulatory expectations and typologies of financial crime.

Through proactive and continuous monitoring of regulatory developments, the function supports the Bank's commitment to operating within a sound and transparent governance framework that upholds the highest standards of integrity and professionalism.

Control Framework

The MDB's control framework is built on a clearly defined structure of roles, responsibilities, and accountability that governs how risk is managed and overseen across the organisation. Two key elements underpin this framework: the three lines model, which assigns risk ownership and oversight across operational, control, and assurance functions, and the integrated Risk Management and Compliance function, which coordinates the Bank's approach to identifying, managing, and reporting on risk and compliance matters.

Risk Management and the Three Lines Model

To manage risks in a structured and transparent manner, the MDB applies the widely adopted three lines model. This approach ensures that roles and responsibilities for risk management are clearly defined across all levels of the organisation. The first line comprises operational management responsible for day-to-day risk ownership and control. The second line is provided by the Risk Management and Compliance function, which plays an important role in supporting sound decision-making, ensuring that risks are identified, assessed, and managed appropriately, and maintaining adherence to regulatory and compliance obligations. The third line consists of Internal Audit, which provides independent assurance on the effectiveness of governance, risk management, and internal controls. Senior management retains overall oversight, supported by these independent control functions that strengthen governance and safeguard the Bank's operations.

Risk Management and Compliance at MDB

The Risk Management and Compliance function is responsible for identifying, analysing, and measuring the risks arising from the Bank's activities across both risk management and compliance domains. It develops policies, procedures, and methodologies that guide how risks are managed across the organisation and monitors the Bank's exposure to ensure it remains within approved limits.

Through its integrated approach, the function encompasses:

- **Risk Management:** Proactive identification, assessment, and mitigation of financial and operational risks, including credit, liquidity, interest rate, and operational risks. The function proposes risk mitigation measures where necessary and provides regular reporting to the Board of Directors and relevant committees, promoting transparency and informed oversight.

- **Compliance:** Oversight of the Bank's adherence to regulatory requirements, internal governance standards, and ethical conduct principles. This includes anti-money laundering and counter-terrorist financing (AML/CFT) obligations, sanctions compliance, customer due diligence requirements, and regulatory reporting obligations.

Through its dual mandate, the function strengthens the Bank's resilience, operational integrity, and reputation while supporting the achievement of strategic objectives.

Risk Management And Capital Adequacy

The MDB is committed to identifying, assessing, and managing risks in a proactive and informed manner in accordance with its Enterprise Risk Management Framework. This ensures that the level of risk undertaken remains aligned with the Bank's core business activities and that the MDB retains the capacity to effectively manage or absorb the impact of materialised risks.

This integrated approach to risk management enhances the MDB's ability to achieve its strategic objectives while remaining firmly committed to its mandate of contributing to Malta's long-term socio-economic development.

Supervisory Oversight of the Malta Development Bank

In view of its specific public policy mandate, the Bank is exempt from the application of the European Union's Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), and other standard banking regulations, in line with Article 2(5) of the CRD as amended by Directive (EU) 2019/878. Instead, the MDB is subject to a dedicated local regulatory framework that is tailored to its role as a promotional development bank. This framework enables the MDB to effectively fulfil its public policy objectives while ensuring adherence to sound and prudent banking practices.

Risk Management at the Malta Development Bank

The MDB faces a range of risks that could impact its financial performance and operational objectives. Within the Enterprise Risk Management Framework, the MDB has identified the following key risks that may hinder the achievement of its objectives.

STRATEGIC RISK	CREDIT RISK	LIQUIDITY & INTEREST RATE RISK	OPERATIONAL RISK
Definition The MDB's primary strategic objective is to address financing gaps in the Maltese credit market by providing credit to local enterprises.	**Definition** Financial losses arising from potential default of obligations by borrowers.	**Definition** Liquidity constraints resulting in inability to meet short-term obligations.Financial losses from adverse movements in interest rates.	**Definition** Inadequate or failed internal processes, human error, system failures, or external events.
Sources of Risk Failure to design appropriate products or deploy effective delivery strategies that attract uptake by local businesses.	**Sources of Risk** Losses may arise from direct loans as well as risk-sharing schemes which guarantee loans provided by partner banks.	**Sources of Risk** Insufficient cash reserves or challenges in liquidating assets. Asset devaluation and reduced profitability	**Sources of Risk** Material operational risks may adversely affect the MDB's reputation, financial position, or ability to fulfil its statutory and strategic objectives.
Risk Mitigants • Proactively engage partner banks • Tailor products that meet the needs of SMEs • Conduct consultations and soft-market testing • Oversight by Board of Directors	**Risk Mitigants** • Credit Risk Policy and Credit Risk Mitigation Policy • Credit worthiness assessment • Thorough due diligence • Review of facilities • Adherence to Risk Appetite Framework • Oversight by Credit Committee and Board of Directors	**Risk Mitigants** • Maintain adequate liquidity reserves • Monitor current and projected liquidity requirements • Structure lending facilities to align with funding arrangements • Minimise maturity and interest rate mismatches • Oversight by Asset- Liability Committee and Board of Directors	**Risk Mitigants** • Operational Risk Policy • Risk Register identifying specific processes and ranking risks by likelihood and potential impact • Mitigation measures and response plans to address residual risks • Oversight by Operational Risk Committee and Board of Directors

Capital Adequacy and Own Funds

While the MDB is not subject to the capital requirements set out by the CRR and 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 2025, the MDB's paid-up share capital remained at €80 million, unchanged from the end of 2024 and 2023. This capital is fully funded by the Government of Malta, the Bank's sole shareholder.

In a significant development, this was increased by a further €10 million at the start of 2026, in line with the previously agreed capitalisation timeline, bringing total paid-up share capital to €90 million.

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.

€10 MILLION CAPITAL INJECTION

February 2026

The Government of Malta approved and injected a €10 million increase in paid-up capital, bringing the Malta Development Bank's total paid-up capital to: €90 MILLION

What This Means

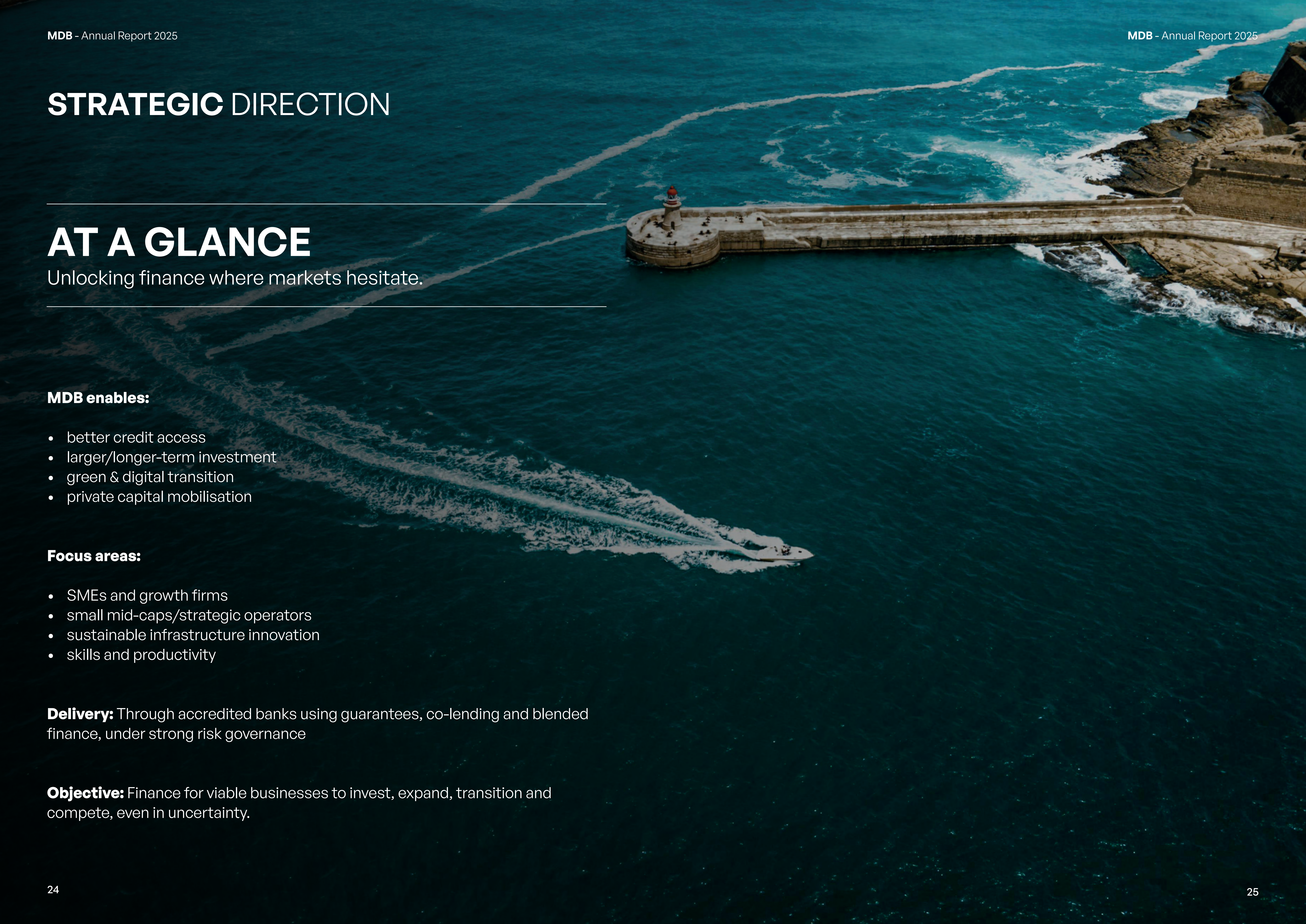
✓ **Greater capacity to support businesses and infrastructure**

✓ **Enhanced ability to mobilise private capital**

✓ **Stronger balance sheet to leverage EU guarantees**

✓ **Increased resilience in a changing global environment**

MDB - Annual Report 2025



STRATEGIC DIRECTION

AT A GLANCE

Unlocking finance where markets hesitate.

MDB enables:

- better credit access
- larger/longer-term investment
- green & digital transition
- private capital mobilisation

Focus areas:

- SMEs and growth firms
- small mid-caps/strategic operators
- sustainable infrastructure innovation
- skills and productivity

Delivery: Through accredited banks using guarantees, co-lending and blended finance, under strong risk governance

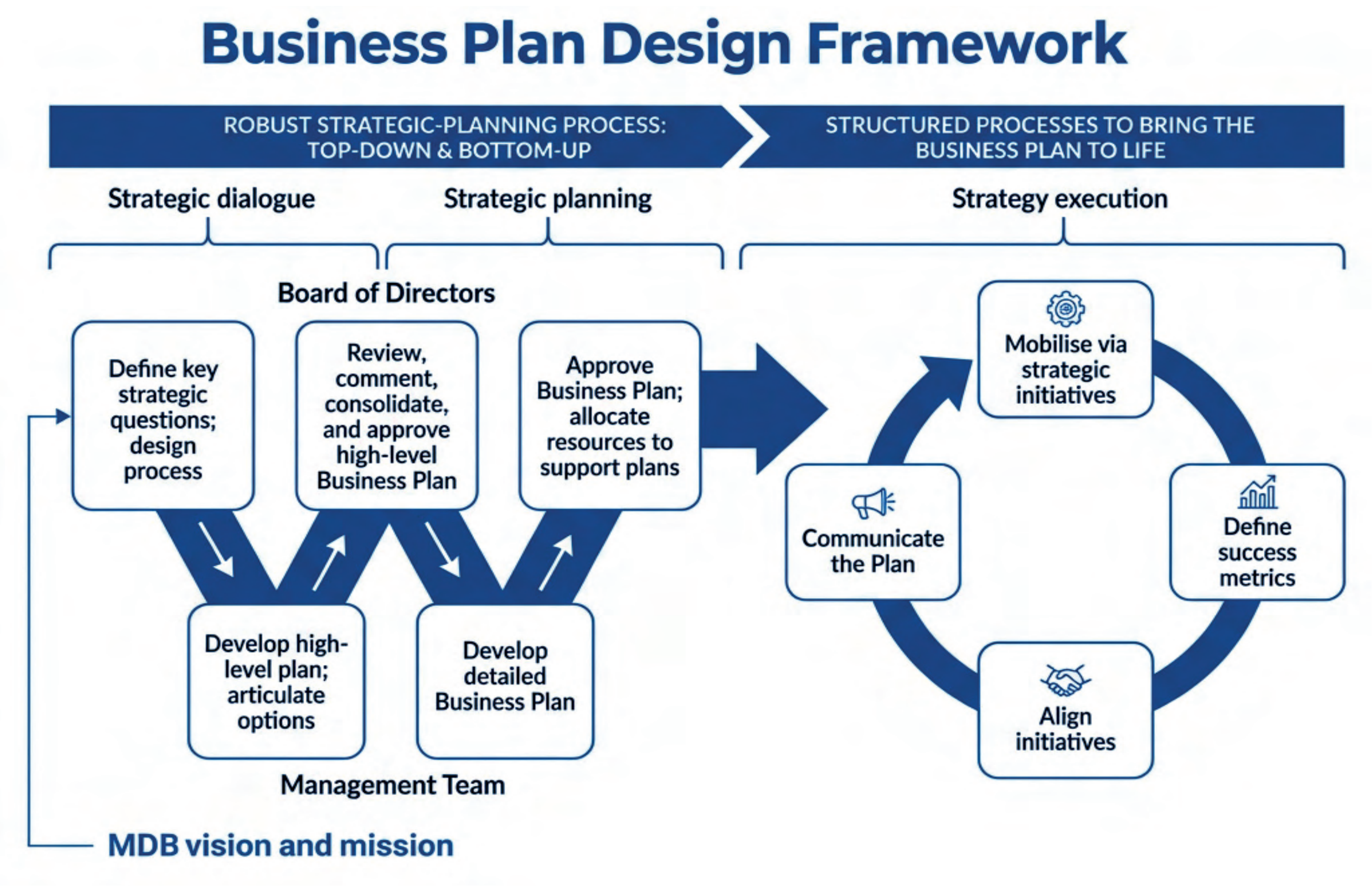
Objective: Finance for viable businesses to invest, expand, transition and compete, even in uncertainty.

The MDB operates primarily through guarantees and co-lending with commercial banks, with a strategic focus on SME access to finance, sustainable infrastructure, and environmentally and socially responsible investment. These priorities align closely with Malta Vision 2050, with ESG principles and sustainability-linked finance embedded throughout the Bank's approach. During the Vision 2050 consultation, the MDB contributed recommendations around funding sources, private capital mobilisation, blended finance, and measurable targets across key sectors, and has since integrated these priorities into its business planning.

The MDB's latest Strategy was launched in 2024. Building on this, a three-year Business Plan (2026–2028) was developed in 2025, setting out a roadmap aligned with Malta Vision 2050 and focused on SMEs, infrastructure, innovation, social inclusion, and environmental sustainability. The Plan is underpinned by a structured assessment of internal strengths and external challenges, including geopolitical uncertainty, regulatory complexity, and evolving stakeholder dynamics. A structural constraint remains in the Bank's legal restriction on direct grants, addressed through partnerships, interest subsidies, and blended financial products.

The Plan was developed through a structured process with Board engagement, covering strategic direction, resource allocation, and key growth initiatives, complemented by a Business Development Plan setting out the pipeline of initiatives across the planning horizon. It is treated as a living document, subject to regular review as conditions and national priorities evolve.

Figure 2: Business Plan Design Framework



Source: Based on BCG model

MDB - Annual Report 2025

Special Topic I - **Malta's Financing Landscape: Trends and Challenges**

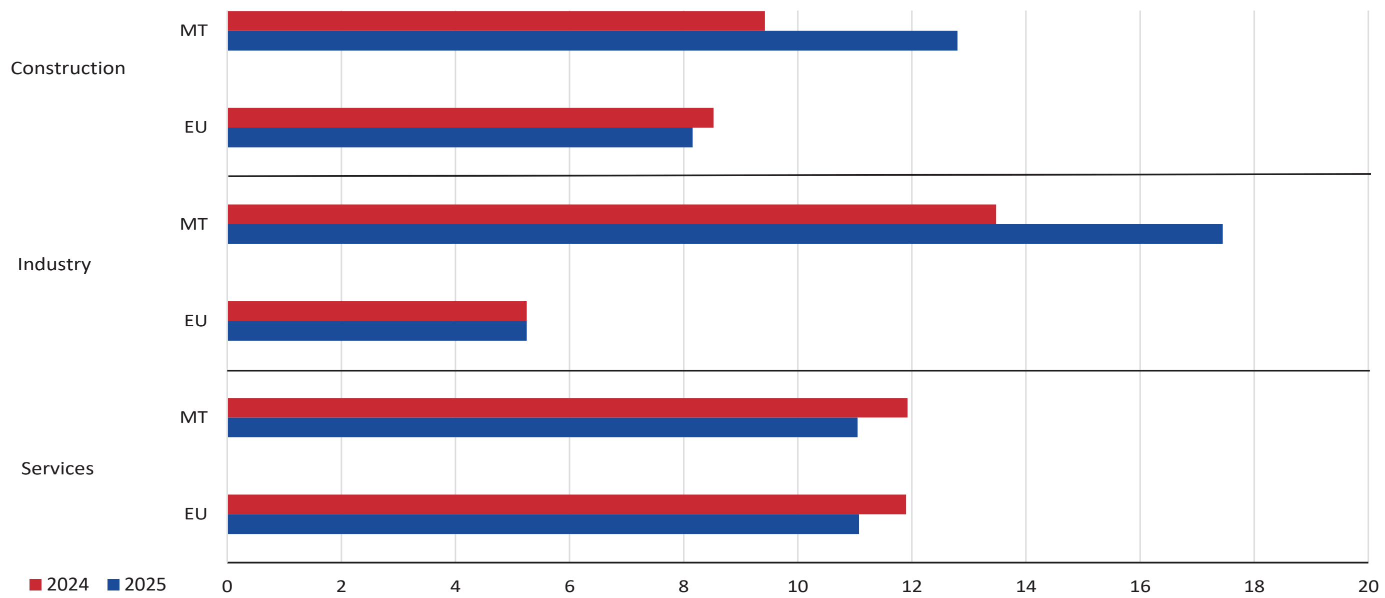
Total bank credit to non-financial corporations in Malta continued to grow steadily in 2025. In fact, the outstanding stock of loans to non-financial corporations in Malta rose by 12.3% in annual terms in 2025, accelerating significantly from the increase of 2.1% seen in 2024.

In 2025, interest rates on loans to non-financial corporations in Malta reverted to their historical pattern, once again exceeding those prevailing in the euro area on a comparable basis. Access to finance for Maltese firms, notwithstanding robust economic growth, has continued to appear relatively more constrained than in other European countries in successive business surveys, most notably those conducted by the European Commission (EC). By contrast, the European Investment Bank's (EIB) investment survey points to a comparatively more favourable financing environment for firms. Taken together, these differing survey outcomes underscore that assessments of access-to-finance conditions can be mixed and survey-specific, complicating the identification of underlying conditions, while at the same time highlighting the continued importance of a national promotional bank in mitigating financing gaps and supporting market stability.

On a monthly basis, the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission conducts business surveys across EU Member States, covering firms operating in the industrial, services and construction sectors. Through its monthly and quarterly questionnaires, respondents are asked to identify the main factors constraining their operations in Malta. [1] The results indicate that, relative to 2024, the share of firms reporting financing constraints in 2025 increased among industrial and construction businesses, while conditions eased for firms operating in the services sector.

When comparing these annual averages with overall EU replies, a notably higher proportion of Maltese firms across the industrial and construction sectors reported that financing constraints limited their businesses compared to their EU peers, while firms operating in the services sectors reported similar constraints (see Figure 3). 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.

Figure 3: Firms facing financing constraints in Malta and the EU (annual average), by sector



Source: DG ECFIN, MDB calculations

[1] The monthly sample sizes reported in the Survey's metadata for the industrial, services and construction sectors are 50, 72 and 23, respectively.

The EIB's 2025 Investment Survey (EIBIS) focuses on corporate investment, constraints, and financing decisions of firms in Malta in 2025. [2] 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.

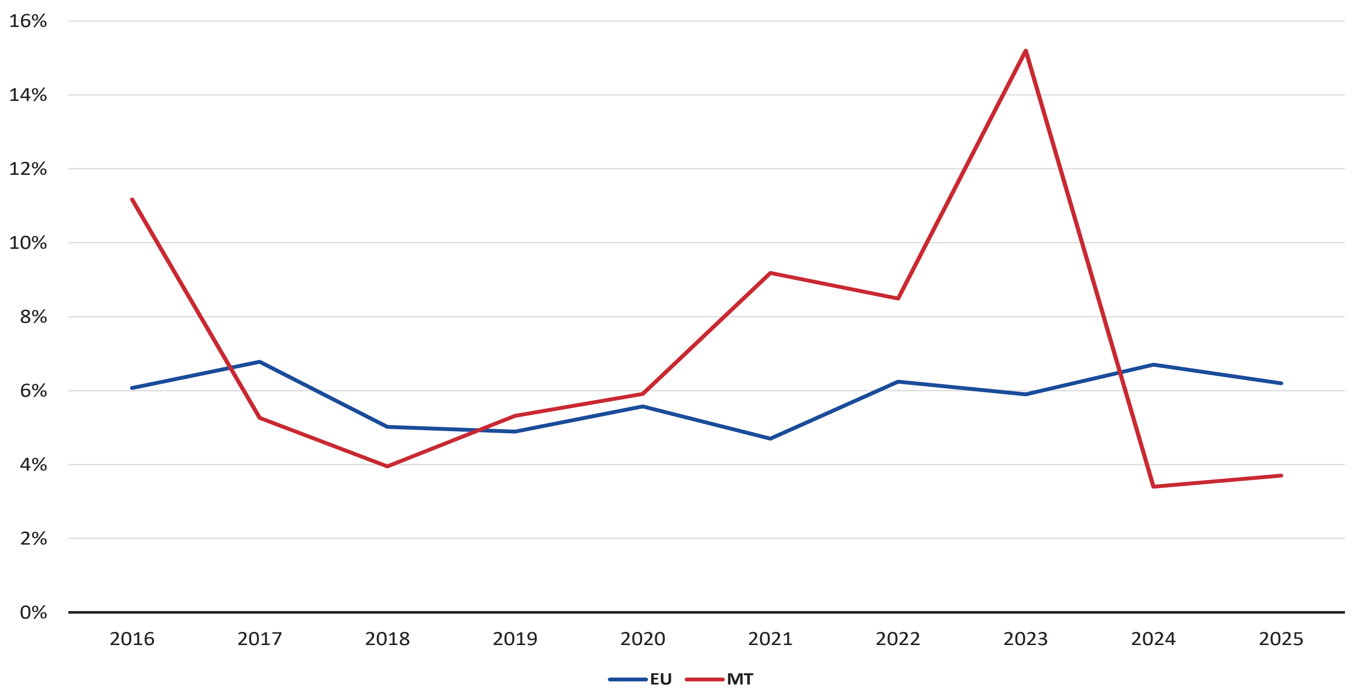
In that sense, the EIBIS' trends appear to be more in line with what the typical Maltese firm is facing, rather than the outliers discussed above. In the 2025 EIBIS, Maltese firms again reported that over the past three years investment levels were satisfactory (MT 2024: 86%, 2025: 85%) with fewer firms reporting a perceived investment gap between their 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 (75%), followed by external finance (23%). 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 (81% against 72%). Manufacturing firms tend to use external funding to a larger degree, as well as relying on intra-group financing.

More than forty percent of Maltese firms that invested over the last year financed some of their investment through external finance (42%). Medium or larger firms were likelier to have resorted to external finance than micro and small firms (49% and 28%, respectively).

Figure 4: Financing constraints over time

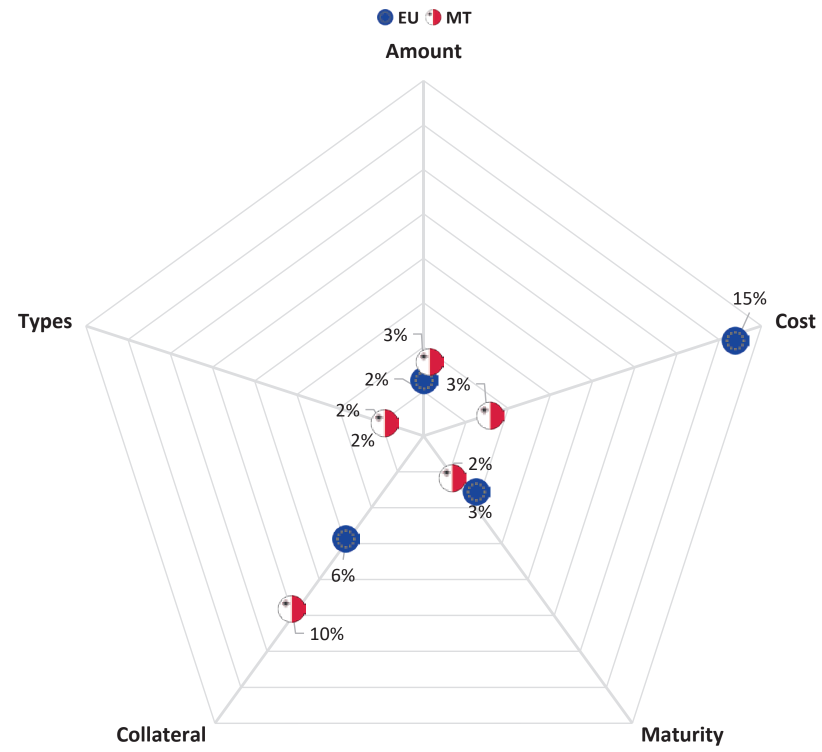


Source: EIBIS 2025

[2] 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.

Moreover, as shown in Figure 4, the share of financially constrained firms in Malta (3.7%) remained below the EU average (6.1%), extending the shift below the EU average seen in 2024. The main cause of restriction in Malta relates to rejections (2.1%), followed by insufficient financing amounts (1.3%) that are offered by banks.

Figure 5: Dissatisfaction with external finance received



Source: EIBIS 2025

When asked about dissatisfaction with external financing received (see Figure 5), Maltese businesses are most dissatisfied with collateral requirements (10%), cost and amount (3% each). Dissatisfaction levels are broadly comparable to the EU average – with the notable exception of collateral requirements. In cost terms, Maltese firms appear not to be dissatisfied when compared to their EU peers.

The Malta Development Bank plays an important role in addressing financing gaps faced by businesses through the development of targeted and innovative financial instruments.

Acting as a strategic partner to the banking sector, the MDB helps mitigate structural limitations in traditional lending channels, particularly in relation to high collateral requirements and constraints on loan size. In this context, the Bank's guarantee instruments are especially effective in reducing credit risk for commercial banks, thereby supporting more favourable financing conditions for end beneficiaries.

Through a range of products, including loan guarantees, direct lending and co-lending arrangements, the Malta Development Bank facilitates access to finance on favourable terms for viable businesses. By contributing to a more supportive and resilient financing ecosystem, the Bank remains focused on underpinning sustainable investment, economic growth and long-term resilience in Malta.

Special Topic II - Pillar Assessment: A Milestone Years in the Making

The MDB's journey to become an InvestEU implementing partner began in 2019, when it launched Pillar Assessment capacity-building with support from the European Commission's Structural Reform Support Programme. This preparatory work strengthened the Bank's internal framework, with an early focus on internal controls, accounting and financial reporting, and data protection.

The formal Pillar Assessment process started in 2020, and it evaluated several core areas of the MDB's operations.

Figure 6: The nine pillars of the InvestEU Pillar Assessment

MDB - Annual Report 2025

In October 2020, the MDB submitted its Pillar Assessment application, triggering an eligibility check by the European Commission. The Bank also appointed an independent external auditor to support the process, ensuring objectivity and compliance with the Commission's methodology.

Following a positive eligibility outcome, the Pillar Assessment was formally launched, marking the start of an intensive period of institutional development and compliance alignment. The MDB undertook a systematic review of its policies, procedures, and operational practices to demonstrate its capacity to manage EU-backed financial instruments with transparency, accountability, and risk discipline. Particular attention was paid to credit risk management, governance structures, tax avoidance safeguards, and segregation of duties, reflecting the MDB's recognition that the Pillar Assessment is a holistic evaluation of an institution's ability to responsibly deploy EU guarantees over the long term.

As the process progressed, the Bank's readiness was subject to a dry-run assessment, followed by in-depth reviews of internal policies, governance arrangements, operational capacity, and financial reporting. This phase involved the submission of extensive documentation to the European Commission, including financial statements, internal procedures, and evidence of operational track record.

By the concluding phases, external reviews confirmed that the MDB had put in place the necessary systems and controls required under the framework. The process culminated in a final exit meeting with the European Commission, the last procedural step prior to recognition as an implementing partner.

In October 2025, the MDB was formally notified of its successful completion of the InvestEU Pillar Assessment, becoming eligible to apply for EU guarantees. The Bank subsequently submitted its application under the SME Window in November and aims to commence negotiations with the European Commission for its first InvestEU Guarantee Agreement in early 2026.

This achievement positions the MDB as Malta's direct entry point for InvestEU guarantees, representing a transformative milestone in the Bank's institutional development and its ability to channel EU support into the Maltese economy.

Once the MDB signs its first InvestEU agreement, it will join a select group of institutions authorised to directly deploy InvestEU guarantees, channelling support into key EU priorities including the European Green Deal, digital transformation, innovation, and SME competitiveness. The completion of the Pillar Assessment is therefore a transformative milestone, reinforcing the MDB's role as Malta's gateway to EU guarantee instruments and a key driver of sustainable economic growth.

MDB - Annual Report 2025

EU Risk Sharing Instruments and Funding Channels

InvestEU and EIF-Backed Products

In 2024, the MDB secured EIF counter-guarantees under the InvestEU programme, establishing the risk-sharing framework needed to expand financing capacity through local partner banks. Building on this, 2025 saw the launch of two EIF-backed products targeting strategic sectors, including sustainability-focused sub-schemes under the MDB's core guarantee and co-lending schemes, and dedicated support for the cultural and creative industries.

Through these instruments, the MDB is mobilising an expected €44 million in new lending via Bank of Valletta and HSBC Malta, with a third bank currently evaluating participation. The EIF risk-sharing support enabled the MDB to pass on benefits to partner banks in the form of reduced collateral requirements and improved pricing, widening access to finance for SMEs and small mid-caps investing in areas aligned with EU and national priorities.

In early 2025, the MDB was informed that its application under the InvestEU Member State Compartment, which sought to extend guarantee products to all intermediating banks in Malta, was unsuccessful.

European Social Fund Plus - Student Finance

EU funding has played a central role in the MDB's student finance schemes, translating European resources into practical opportunities for individuals. The FSMA and FSMA+ initiatives together supported close to 900 students, mobilising over €38 million in financing for further and higher education; a clear demonstration of how EU-backed instruments can address gaps where access to finance would otherwise be limited. These EU funds were also topped with national funds.

Building on this track record, the MDB launched the StudentAssist instrument towards the end of 2025. An ESF+ allocation of €1.5 million, co-funded with national funds, is being leveraged to generate a total loan portfolio of €6.25 million, illustrating the multiplier effect of well-structured blended finance. StudentAssist offers interest rate subsidies during the study period and for one year after completion, while a guarantee covering up to 80% of each loan enables banks to lend without requiring collateral, upfront contributions, or parental guarantees. For the first time, the scheme is intermediated by two local commercial banks. Together, these features make higher education meaningfully more accessible, particularly for students from families with limited financial means, and directly support Malta's long-term human capital development.

Shaping Future EU Frameworks

As discussions advance on the EU's next Multiannual Financial Framework (MFF) for 2028–2034 and the proposed European Competitiveness Fund (ECF), the MDB has actively contributed to shaping how EU financial instruments are structured to support investment, resilience, and competitiveness across all Member States.

The MDB shared feedback on the importance of equal access to the ECF InvestEU Instrument for all eligible implementing partners, highlighting how smaller institutions can effectively deliver EU policy objectives when given predictable and proportionate access to guarantees and advisory support. The Bank also supported the Association of European Long-Term Investors' call for stronger governance involvement of implementing partners and greater continuity between successive EU financial instruments.

Drawing on its operational experience with EIF-backed products, the MDB underlined the need for long-term regulatory stability, flexible resource combinations, and clear eligibility rules to allow promotional institutions to plan pipelines, attract private finance, and sustain investment in priority areas. These views were shared with Malta's Technical Attachés in Brussels and with the Ministry for Finance.

Green Finance Partnerships

Throughout 2025, the MDB prioritised partnerships to drive green investment and support Malta's sustainable growth agenda. In collaboration with the Climate Action Authority, the Bank developed a blended finance solution combining an interest subsidy grant with MDB risk-sharing instruments to support green urban mobility, specifically the rollout of charging stations by operators of private but publicly accessible car parks.

Discussions are also ongoing with energy sector stakeholders to augment the Sustainability sub-scheme with additional incentives for renewable energy investment, and with the Managing Authority to implement an ERDF-funded instrument supporting energy efficiency and renewable energy investments by households, combining bank-intermediated guarantees with interest rate subsidies on the same loan portfolio. These initiatives reflect the MDB's broader role in mobilising EU funding efficiently to unlock private bank financing and amplify impact.

Connecting Europe Facility - Alternative Fuels Infrastructure Facility (AFIF)

As Malta's sole implementing partner under AFIF, the MDB continued to support the EU's efforts to expand alternative fuel infrastructure across its trans-European transport network. During 2025, the Bank provided support for two projects focused on the electrification of strategically important aviation and transhipment infrastructure in Malta, reinforcing its role as a key conduit for European investment in the country's green transition.

New Products and Priorities

The MDB's ability to respond to emerging financing needs depends on continuous market intelligence. Through ongoing screening, targeted analysis, and structured engagement with commercial banks and public bodies, the Bank aligns its product development with real market conditions, driving internal reforms and product calibrations in support of its mission.

Invoice Financing

During 2025, the MDB examined the potential development of an invoice financing product to support firms facing delays between the delivery of goods or services and receipt of payment. The concept under consideration involves short-term advances against verified invoices issued to established counterparties, with a primary focus on SMEs.

To inform this work, the MDB conducted an initial market assessment through a survey included in the Malta Chamber of SMEs' Q3 2025 Barometer. Results indicate that the current use of invoice-based financing among Maltese firms remains limited, particularly among micro and small enterprises, where low awareness appears to be a significant factor. Larger firms reported more frequent use, and respondents broadly identified improved cash flow management as a potential benefit. While the findings point to a market that warrants further examination, they do not yet provide a sufficient basis for determining the appropriate design or viability of a potential MDB intervention.

Operational Efficiency

The Bank undertook a comprehensive review of its intermediated guarantee schemes during the year, with the aim of enhancing operational efficiency while preserving robust risk management standards. The review drew on stakeholder consultations, market research, and benchmarking against peer national promotional banks.

The exercise identified opportunities to streamline approval processes, strengthen intermediary engagement, and address operational frictions experienced by partner banks. While these refinements represent an important step towards improving scheme effectiveness and uptake, the Bank recognises that utilisation will continue to be influenced by broader market conditions and will remain under ongoing review.

Agriculture and Fisheries

Following the expansion of its mandate in 2022 to operate under EU State aid frameworks for agriculture and fisheries, the MDB made meaningful progress in 2025 through active involvement in two ex-ante assessments that will shape the design of dedicated financial instruments.

The first, linked to the agriculture sector and targeted for implementation in late 2026, is assessing support for farmers seeking to acquire agricultural land and modernise infrastructure, to be funded under Malta's Common Agriculture Policy Strategic Plan subject to European Commission approval. The second, focused on the fisheries sector and targeted for early 2027, is evaluating a potential instrument to support investment in vessels, equipment, and operational upgrades for fishermen. In both cases, the MDB contributed technical input on market gaps, financing needs, state aid considerations, and instrument structure.

Supporting Larger Enterprises

While the MDB's schemes have historically focused on SMEs, larger enterprises also face financing and risk-sharing needs that are not always adequately addressed by existing support frameworks. State aid rules permit assistance to larger firms under the General Block Exemption Regulation, albeit at lower aid intensities and with greater structural complexity.

In this context, the MDB is in initial discussions with the EIB regarding a potential guarantee instrument targeting companies with up to 3,000 employees, which in the Maltese context would cover most firms classified locally as large. Such an instrument would allow the MDB to further scale up its sustainable finance activities and support strategic investments aligned with priorities such as sustainability and resilience.

Operating Model and Business Activity

Corporate Services

Corporate Services provides essential support to the Bank's business functions, ensuring efficient operations aligned with the MDB's strategic direction and ESG principles. The sections below provide an overview of key developments across human resources, recruitment, administration, procurement, records management, and communications during 2025.

Policies

In the spirit of good governance, the Human Resources department within Corporate Services strengthened its policy framework during the year, through a combination of policy reviews and new introductions.

The Performance Management Policy was revised to align with updates to the appraisal process, streamlining performance reviews to be more efficient and consistent across the organisation. The Grievance Policy was also comprehensively reviewed, with updates establishing clearer timelines, stronger confidentiality protections, and better-defined rights and obligations for all parties, supporting a fairer and more transparent approach to resolving employee concerns.

A new Recruitment Policy was also introduced, providing a structured framework to ensure selection processes are conducted fairly and transparently, attracting individuals whose competencies and values align with the Bank's mission and ESG principles. The policy also reinforces the MDB's commitment to diversity, inclusion, and equal opportunity.

MDB - Annual Report 2025

Human Resources

In 2025, the Human Resources department refined its processes and recruitment practices to support the Bank's strategic objectives, with targeted training and development programmes addressing skills gaps identified through the performance review process. A new Performance Management Tool was also introduced, designed to support a fairer and more transparent appraisal process, with full launch expected in the first quarter of 2026.

Several organisational adjustments took place during the year. Following the resignation of the Chief Legal and Compliance Officer, the Compliance function was integrated into the Risk Management Department, now renamed the Risk and Compliance Department, while the Legal function was assigned to Corporate Services. A recruitment process for a Senior Legal Officer is currently underway. A role within risk management was also transferred to the Finance Department, prompting a broader restructuring of that function.

An Events Team was established to plan initiatives promoting employee wellbeing, engagement, and collaboration, including fundraising, community events, and team-building activities, with Human Resources playing an active role in its coordination.

Recruitment

The Bank completed a broad recruitment exercise across key functions in 2025, successfully filling all identified vacancies except for the Senior Legal Officer role, for which the process remains ongoing. Notable appointments included a Deputy Chief Executive Officer, who subsequently assumed the role of Chief Executive Officer following the retirement of the previous CEO, and a new Chief Corporate Services Officer, also following a retirement.

Within Corporate Services, a Communications Officer was also engaged to manage the newly established communications function, and an Administration and Procurement Officer was recruited to fill an existing vacancy. The Internal Audit department was strengthened through the recruitment of a Senior Officer, replacing the vacancy created by the internal appointment of the incumbent to the post of Chief Internal Auditor. The Risk and Compliance department recruited two new Officers, and the Finance department recruited a new Finance Officer. The Chief Finance Officer post, which became vacant in October, was filled internally. In total, eight new employees joined the Bank during the year.

2025 also marked a governance milestone, with the conclusion of the term of office of the last two remaining members of the Bank's inaugural Board, marking the close of an important chapter in the Bank's institutional history.

At year end, the Bank's total headcount stood at twenty-seven employees, comprising fourteen females and thirteen males. At the Professional level, female employees were more strongly represented, with eleven females compared to seven males. At the Managerial level, male employees held a higher proportion of roles, with six males compared to three females.

Figure 7 - Total Employees per Grade and Gender

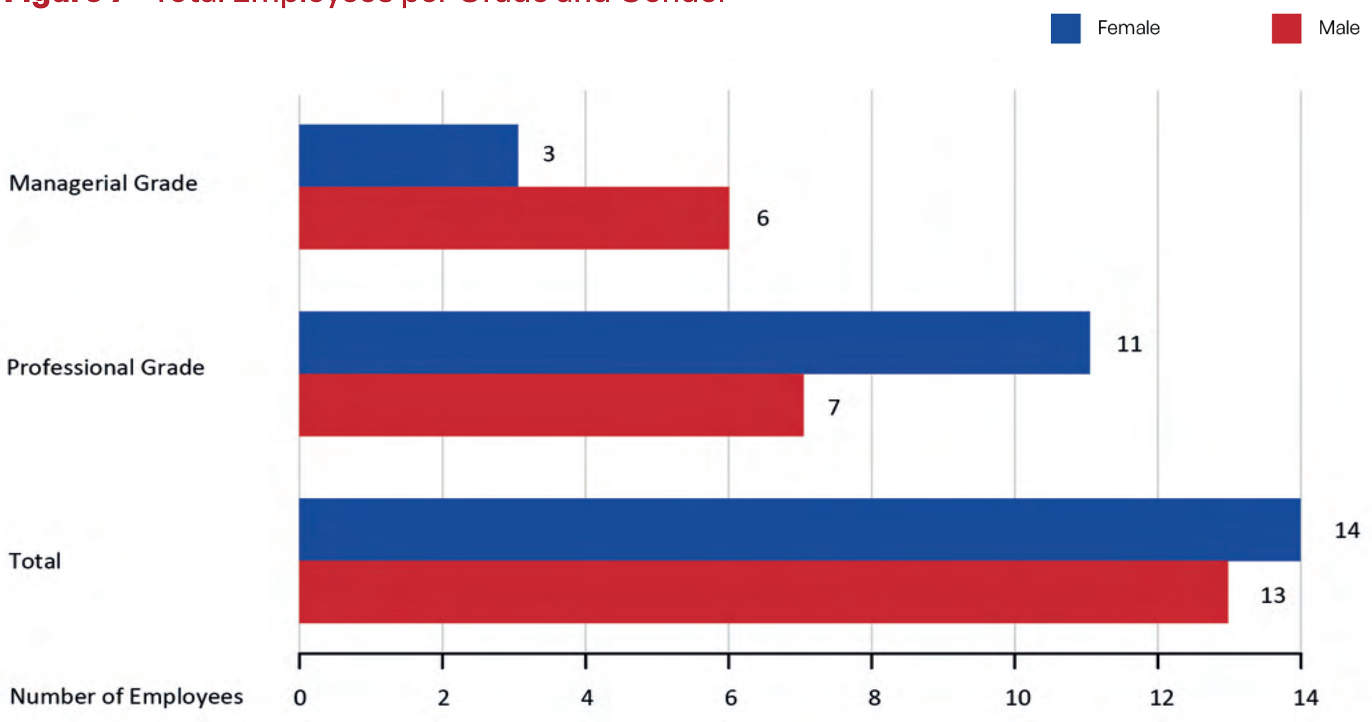
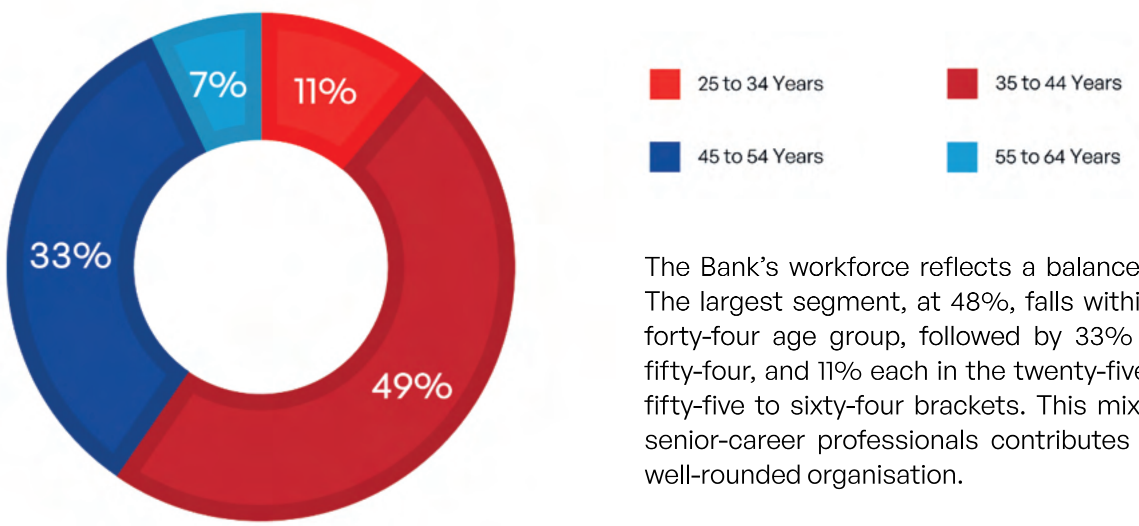


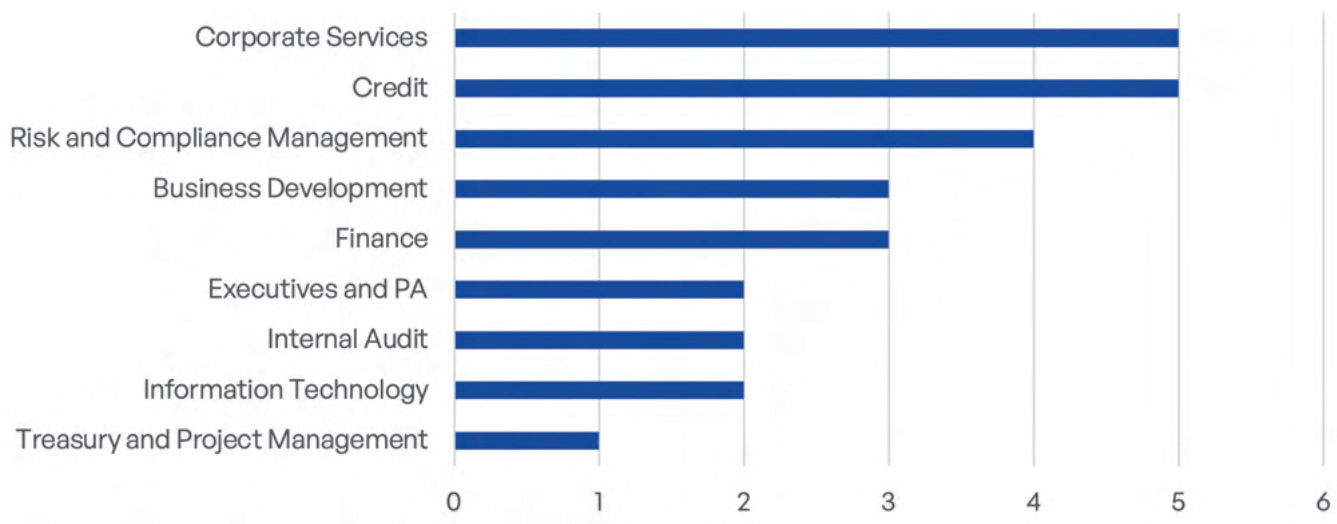
Figure 8 – Employee Age Distribution



The Bank's workforce reflects a balanced age distribution. The largest segment, at 48%, falls within the thirty-five to forty-four age group, followed by 33% aged forty-five to fifty-four, and 11% each in the twenty-five to thirty-four and fifty-five to sixty-four brackets. This mix of early, mid, and senior-career professionals contributes to a dynamic and well-rounded organisation.

MDB - Annual Report 2025

Figure 9 – Employees per Department



The Management team as at the end of 2025 was made up of the following:

Ms Alison Micallef, Chief Executive Officer

Mr Joseph Darmanin, Chief Business Development Officer

Mr Glen Lethridge, Chief Information Technology Officer

Mr Tyrone Mizzi Navarro, Chief Risk and Compliance Officer

Mr Anthony Psaila, Chief Internal Auditor

Mr Kevin Vassallo, Chief Projects and Treasury Management Officer

Ms Eliza Vella, Chief Finance Officer

Ms Maria Xuereb, Chief Credit Officer

Dr Brian Zahra, Chief Corporate Services Officer

Training

The MDB maintains a strong culture of continuous learning through a structured training and development framework. Throughout 2025, initiatives were delivered internally and through external institutions, covering finance, AML and compliance, GDPR, human resources, state aid, ESG, procurement, leadership, and risk management. A Training Gap Analysis conducted in the second quarter helped identify future learning priorities, ensuring alignment with organisational needs. The Bank also actively supports self-development beyond mandatory training, encouraging employees to broaden their knowledge and strengthen critical thinking.

Administration

The Administration and Procurement department oversaw the management and upkeep of MDB's premises, focusing on resource efficiency and maintaining a safe working environment. Building on the energy audit initiated in 2024, the department progressed follow-up initiatives to improve energy efficiency and support the Bank's long-term sustainability objectives.

Procurement

The Procurement Unit strengthened its framework in 2025 through the adoption of public procurement regulations. A notable milestone was the publication of the Bank's first tender for External Audit services through the electronic Public Procurement System, marking a significant step in formalising MDB's procurement processes. A Call for Quotations for Insurance services was also issued, and preparatory work was undertaken for additional tenders planned for the coming year.

Records and Archives Management (RAMO)

RAMO safeguards the Bank's institutional knowledge and supports governance, compliance, and operational efficiency. The centralised records repository now holds over 198,000 items, with all business areas operating fully within the electronic document management system introduced in 2022. The Office also maintained the central contract database, managed the Bank's Policies and Procedures, and administered the project time-logging framework supporting activity-based cost accounting.

Communications

A Communications Office was established in 2025, bringing the function fully in-house and adopting a more strategic approach to the Bank's public presence. A consistent social media strategy delivered strong second-half results, with LinkedIn achieving 66,289 impressions (+85.7%), 1,528 reactions (+55.4%), and a significant rise in comments (+410.5%), while Facebook recorded notable growth in views and interactions. The Office supported major product launches including StudentAssist and the Sustainability Schemes, progressed website improvements, and strengthened media engagement through coordinated interviews and improved press releases.

Special Topic III - **ESG in Practice**

Throughout 2025, ESG principles continued to be embedded in MDB's day-to-day operations, reflecting the Bank's commitment to operating responsibly across its environmental, social, and governance dimensions.

Environmental Responsibilities

MDB continued to embed environmental responsibility across its operations through a range of practical initiatives. Water management featured prominently, with the Bank operating a central reverse osmosis plant with UV filtration that significantly reduces dependence on single-use plastic bottles. Wastewater generated by the filtration process is repurposed for flushing, while harvested rainwater is used for non-potable purposes, demonstrating a genuine closed-loop approach. Water-saving fixtures, including aerated faucets and dual-flush toilets, further support this effort.

On carbon reduction, the Bank made remote working arrangements more flexible, reducing commuting and associated emissions, and prioritised local sourcing to minimise the environmental costs of long-distance supply chains. Waste separation practices continued to operate efficiently on-site, diverting materials from landfill where possible. Considerable groundwork was also laid during the year to support a transition to a fully paperless operation in 2026.

The Bank also ran a communications campaign to raise awareness among businesses of how MDB support can facilitate environmentally responsible investments, highlighting eligible measures such as building insulation, energy-efficient systems, and fleet modernisation.

Social Responsibilities

MDB's commitment to social responsibility was reflected in a balanced approach combining internal employee support with active community engagement. A dedicated Social Events Team was established during the year to coordinate charitable and community initiatives.

Internally, the Bank invested in recognising individual contributions and milestones, reinforcing a people-centred culture that promotes engagement, wellbeing, and a shared sense of purpose. World Mental Health Day was marked by reaffirming the Bank's partnership with Richmond Foundation Malta, ensuring confidential mental health support remains available to all staff.

Community engagement was a consistent theme throughout the year. In October, staff contributions and a Bank top-up resulted in a €550 donation to Hospice Malta in support of Breast Cancer Awareness Month. In September, MDB staff joined the Floriana Local Council in a community clean-up initiative. November saw employees participate in the President's Walk in aid of the Malta Community Chest Fund Foundation, and in December the Bank supported a charity concert in aid of YMCA Malta, contributing to its mission to provide shelter and dignity to people experiencing homelessness.

Governance Responsibilities

MDB's governance commitments were advanced on several fronts during 2025. The Bank introduced and reviewed several internal policies to reflect contemporary employment practices, regulatory developments, and its broader commitment to ethical conduct and operational efficiency.

Training remained a strategic priority, with employees across all levels offered both internal and external development opportunities, aimed at maintaining skills, inspiring innovation, and strengthening leadership.

The adoption of public procurement regulations formalised the Bank's purchasing framework, reinforcing transparency, accountability, and value for money in the use of public funds. The Ethics and Governance Committee met four times during the year in full compliance with its terms of reference, reflecting strong governance engagement and a commitment to effective oversight and decision-making.

Records and archives management continued to support operational efficiency, regulatory compliance, and institutional knowledge retention, with the Bank's electronic system enabling efficient retrieval of documentation and reducing storage requirements through deduplication.

MDB - Annual Report 2025

Enabling Functions

Credit

The Credit function plays a central role in advancing the Bank's development mandate while ensuring financial sustainability and prudent risk management. It is responsible for the appraisal, structuring, approval, and monitoring of credit facilities across priority sectors including infrastructure, SME support, climate resilience, and innovation.

All credit proposals are subject to a comprehensive appraisal process incorporating financial, technical, and environmental and social assessments, ensuring alignment with both the Bank's development objectives and applicable regulatory frameworks. Strong governance is maintained through clear segregation of duties between origination, assessment, and approval, with credit decisions taken within established committee structures in line with Board-approved risk appetite parameters.

The function also serves as the primary liaison with partner commercial banks, ensuring consistent application of credit standards and effective coordination across participating institutions. The Bank continues to strengthen its credit processes through digitalisation, data analytics, and capacity building.

Finance

The Finance function supports the Bank's strategic mission through financial management and control, internal reporting to the Board and senior management and compliance with supervisory and financial reporting requirements as required by the MDB Act. Cost controls are embedded in daily operations through regular variance analyses comparing actual spending against budget, and financial projections were developed during the year as part of the three-year Business Plan.

An oversight of liquidity management ensures sufficient funding is available over the medium to long term, while an activity-based costing methodology supports management in refining pricing strategies and measuring the effectiveness of financial interventions. The function also provides ongoing support to credit risk management through continuous monitoring of credit exposures and borrower delinquency, determining appropriate staging for Expected Credit Loss (ECL) provisioning under IFRS 9 and presenting recommendations to the Audit Committee regarding changes to the ECL policy and assumptions including material judgments and management overlays.

Treasury

Short-term money market interest rates declined during 2025, with the 3-month EURIBOR falling from 2.79% in January to close the year at 2.03% in December. The local market followed a similar trajectory, with the 3-month Treasury Bill rate declining from 3.08% in January to close at 2.10% in December.

Despite the lower rate environment, the Treasury department deployed the Bank's excess liquidity profitably in eligible instruments under the Treasury Management Policy, primarily Malta Government Treasury Bills. The department also manages a longer-duration fixed-income portfolio that yields a higher return and contributes meaningfully to the Bank's overall financial performance. On the liability side, the department managed an overdraft facility with a local credit institution and serviced existing financing agreements with international development banks.

Information Technology

Throughout 2025, the MDB continued to review and upgrade its technical infrastructure to ensure core systems remain aligned with market standards in both functionality and security. A key milestone was the successful upgrade of the Loan Management System, covering all infrastructure components at operating system and application levels. This was complemented by an independent vulnerability assessment to identify and address any technical weaknesses.

From a governance perspective, the Bank reviewed and updated key IT policies during the year, focusing on three areas: Change Management, to ensure all changes to IT services follow controlled procedures that minimise disruption; Incident Management, to strengthen the detection, response, and reporting of incidents; and an Acceptable Use Policy, to keep staff informed on the expected use of IT tools and technologies, including emerging technologies such as artificial intelligence, while protecting the Bank from unnecessary risk.

Business Activity

During 2025, the MDB continued to align its portfolio of schemes and financial instruments with the evolving needs of the Maltese economy, strengthening stakeholder outreach and its role as a vehicle for leveraging EU resources.

Key areas of focus included the intermediation of sustainability sub-schemes, the promotion of green facilities under the Alternative Fuels Infrastructure Facility, targeted support for the cultural and creative sectors, and the relaunch of the student soft loan scheme, building on strong uptake under FSMA+.

This section provides an overview of the Bank's funding sources, financial instruments, and their economic significance in the prevailing macroeconomic environment.

Funding Sources

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. [3]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. In February 2026, a further injection of €10 million was made bringing the total paid up capital up to €90 million. Over this period the Bank has also built-up internal reserves of €8.8 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 currently party to two such loan agreements, one of €25 million with the KfW Group which is being repaid 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 and energy efficiency.

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 2025, it stood at €150 million. Some 70% of these guarantees have been earmarked to cover the two 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.

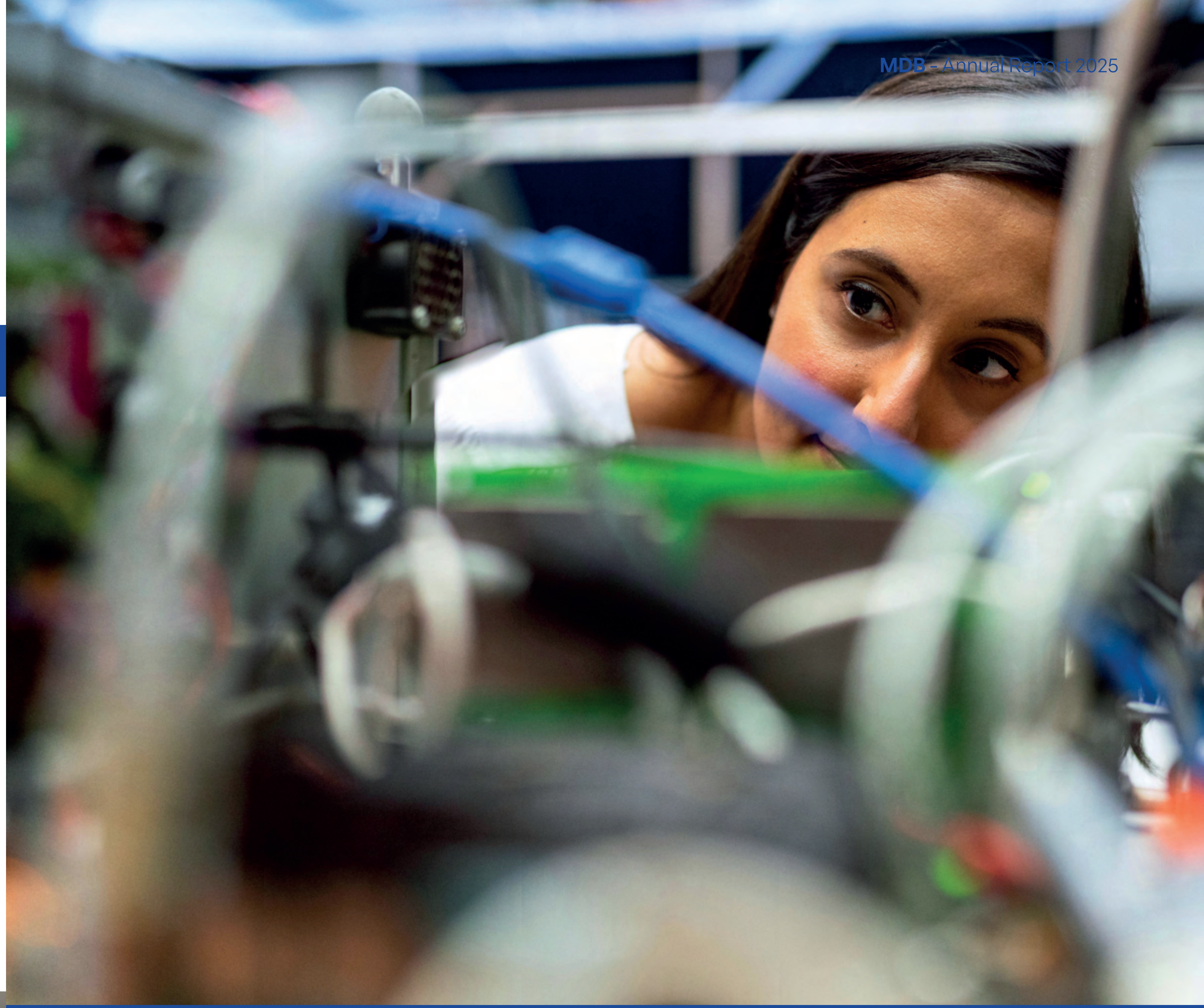
[3] The MDB has an authorised share capital of €200 million. This stems from Article 10(1) of the MDB Act. The Board of Directors is empowered by Article 10(3)(b) of the MDB Act to determine the paid-up capital of the Bank.

Product Portfolio and Delivery

The products outline below summarises the key features of all the schemes offered by the MDB during 2025.

SME Guarantee Scheme (SGS)

Product	An uncapped guarantee scheme enabling new SME investment by mitigating collateral gaps, limited credit history, and higher-risk sectors.
Structure	MDB provides an 80% uncapped portfolio guarantee. Total covered loan portfolio up to €80M. Open to all accredited banks.
Facility	Loans €10,000-€1M, terms up to 10 years. Collateral capped at 20%. Final inclusion date end-2027.
Eligible Investments	New enterprises, expansion, business stabilisation, new projects, market entry, investment-related working capital, and business transfers not creating market dominance.
Eligible applicants	All SMEs except those in excluded sectors. Priority for green and digital investment. Viability assessed by bank and MDB.
State Aid Regime	De minimis.
Benefits	Better access to credit, lower collateral, improved terms and pricing due to MDB guarantee.
Application process	Available via BOV, HSBC, APS until end-2027.



Guaranteed Co-Lending Scheme For SMEs (GCLS)

Product	A 50:50 co-lending facility between the MDB and accredited banks, with an MDB guarantee of 60% on the commercial bank's share, designed to support SMEs requiring larger loans that exceed SGS limits.
Structure	Total portfolio up to €100M (€50M MDB / €50M banks) plus additional €30M MDB guarantee.
Facility	Loan cap €10M (€5M from MDB; €5M bank). Terms up to 15 years. MDB rate up to 25 bps below banks; 60% guarantee on bank share.
Eligible Investments	New or expansion projects; tangible/intangible investment; upfront contribution 20%; must be financially viable.
Eligible applicants	All SMEs in non-excluded sectors with viable proposals; priority for green and digital projects.
State Aid Regime	De minimis and/or GBER.
Benefits	Lower rates, longer maturity, reduced collateral, larger loan amounts.
Application process	Available via APS, BOV, HSBC until end-2027.

MDB Sustainability (SGS-S & GCLS-S)

Product	The Sustainability themed products are designed to increase MDB's positive environmental and social impact by supporting SME investments in green, climate-related, circular economy, biodiversity, and social accessibility projects through enhanced guarantee schemes.
Structure	*SGS-S:* MDB provides an 80% uncapped guarantee on a portfolio of sustainable loans. *GCLS-S:* MDB lends 50% of the loan directly and also provides a 60% guarantee on the commercial bank's 50% share. Both schemes operate through accredited banks.
Facility	*SGS-S:* Loan amounts €10,000-€1,000,000, max term 10 years; moratorium up to 12 months (up to 18 months on case-by-case). *GCLS-S:* Loan amounts €1,000,001-€10,000,000, max term 15 years; moratorium up to 12 months (extended by MDB approval).
Eligible Investments	Eligible investments include: green/climate mitigation and adaptation, transition to circular economy, resource/sustainability management, biodiversity/ecosystem protection, green agriculture/forestry, and social accessibility measures; also any SME green investment certified by eco-labels or sustainable/green business models.
Eligible applicants	Open to SMEs, small mid-caps (with up to 500 employees), and small public enterprises in all economic sectors except excluded/prohibited activities under MDB and EIF rules.
State Aid Regime	*SGS-S:* De minimis. *GCLS-S:* De minimis and/or GBER.
Benefits	Eligible SMEs gain access to finance for sustainability-focused investments, longer repayment terms, reduced collateral constraints, and lower interest rates due to MDB credit risk coverage.
Application process	Available through BOV and HSBC. Loans are included on a first-come, first-served basis until 19 April 2027.

SME Guarantee Scheme – Culture And Creative (SGS-CC)

Product	Supports SME financing for cultural, artistic, and creative activities by improving access to credit for enterprises built on cultural value and creative expression.
Structure	MDB provides an 80% uncapped portfolio guarantee to accredited credit institutions.
Facility	Loan size €10,000-€1,000,000; maximum term 10 years; moratorium up to 12 months (up to 18 months on a case-by-case basis). Collateral restricted to a maximum of 20% at portfolio level.
Eligible Investments	Financing of cultural, artistic, or creative projects, including development, creation, production, dissemination, preservation, education, and related management activities. Must fall within eligible NACE codes for the sector.
Eligible applicants	Viable SMEs, small mid-caps, and small public enterprises operating in the cultural and creative sectors, excluding activities prohibited under MDB/EIF rules.
State Aid Regime	De minimis.
Benefits	Improved access to credit, longer repayment terms, lower collateral requirements, and more favourable interest rates due to MDB risk protection.
Application process	Available through accredited intermediary banks, including Bank of Valletta and HSBC Bank Malta, until 19 April 2027.

Tailored Facility For Businesses And Infrastructure

Product	Offers tailored SME financing for projects outside standard MDB schemes, targeting cases with collateral gaps, higher-risk or innovative ventures, and proposals beyond banks' risk appetite.
Structure	Loans co-financed by MDB and bank in agreed proportions; MDB may provide a partial guarantee.
Facility	Loan size €750,000-€5M. Minimum term 24 months; maximum based on asset lifetime.
Eligible Investments	Requires viable business plan. Supports new enterprises, expansion, stabilisation, and new projects. Priority for competitiveness, inclusiveness, and sustainability.
Eligible applicants	Viable SMEs operating in Malta; must comply with EU exclusion criteria.
State Aid Regime	De minimis and/or GBER.
Benefits	Improved access to credit, better terms, and lower rates due to risk-sharing and MDB guarantee.
Application process	Applications through banks or directly with MDB; approval jointly determined.

MDB - Annual Report 2025

StudentAssist

Product	An EU-funded education loan facility offering guaranteed, subsidised financing to help students access accredited programmes (MQF 5–8 and recognised certificates) locally or abroad.
Structure	MDB provides a first-loss guarantee covering 80% of each eligible loan, capped at 20% of the bank's portfolio, creating a leverage effect of 6.25. The instrument also includes an interest rate subsidy for the moratorium period and an additional year.
Facility	Maximum loan amount of €100,000, repayable over up to 15 years. No minimum loan size applies. Moratorium covers course duration plus typically 12 months afterwards.
Eligible studies	Loans must be tied to accredited study programmes (MQF 5–8) or internationally recognised certificates. Covers tuition, living, accommodation, transport, textbooks, and related study expenses. Available for both full-time and part-time study.
Eligible applicants	Maltese citizens; EU/EEA nationals with permanent residence or exercising Treaty rights in Malta; third-country nationals with long-term residence status.
State Aid	No separate state aid regime applies beyond the scheme's backing and financing structure.
Benefits	No payments (capital or interest) during moratorium; interest during moratorium fully subsidised; attractive long-term terms; no collateral, upfront contribution or parental guarantee required.
Application process	APS and BOV.

Market Outreach and Stakeholder Engagement

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

Macroeconomic backdrop

In 2025, Malta's economy continued to exhibit resilience and solid performance, albeit on a more moderate growth path compared with the exceptional expansion seen in previous years. After a strong 6.2% increase in real GDP in 2024, growth moderated to 4% in 2025. Various official forecasts suggest that Malta's economic outlook is set to remains stable, with real GDP growth projected at 3.7% over 2026-2028. Growth is expected to be driven primarily by private consumption, supported in part by recent income tax adjustments, while net exports - particularly services trade - are also forecast to contribute positively, although to a lesser extent than domestic demand.

Employment growth is projected to moderate gradually to 2.3% by 2028, while the unemployment rate is expected to edge down to 2.8%, reflecting a gradual easing of labour market tightness. Wage growth is set to remain robust but is expected to moderate over the projection horizon.

Inflationary pressures are forecast to continue easing. HICP inflation is projected at 2.3% in 2026, declining to 2.1% in 2027 and 2% in 2028, largely driven by a moderation in services inflation. While inflation risks are slightly tilted to the upside - mainly due to potential persistence in services inflation and climate-related food price pressures - downside risks remain, particularly from heightened global competition and trade re-routing effects.

On the fiscal side, public finances are projected to improve steadily. The general government deficit-to-GDP ratio is forecast to decline from 3% in 2025 to 2% by 2028, while the debt-to-GDP ratio is expected to peak at 47.1% in 2026 before easing to 46.2% by 2028. Pass-through from European Central Bank policy interest rates to domestic retail rates has continued to be relatively limited due to abundant banking system liquidity and the heavy reliance of Maltese banks on domestic deposit funding. Bank lending rates for non-financial corporations have stabilised, but at a level that remains somewhat higher than in the wider euro area economy.

Looking ahead into the medium term, Malta's economic growth is expected to remain above the broader euro-area average, supported by strengths in services - particularly tourism, financial and professional services - and resilient private consumption. However, structural constraints such as labour and skills shortages, capacity bottlenecks in key sectors, and external risks including geopolitical tensions and global economic uncertainties may temper growth prospects.

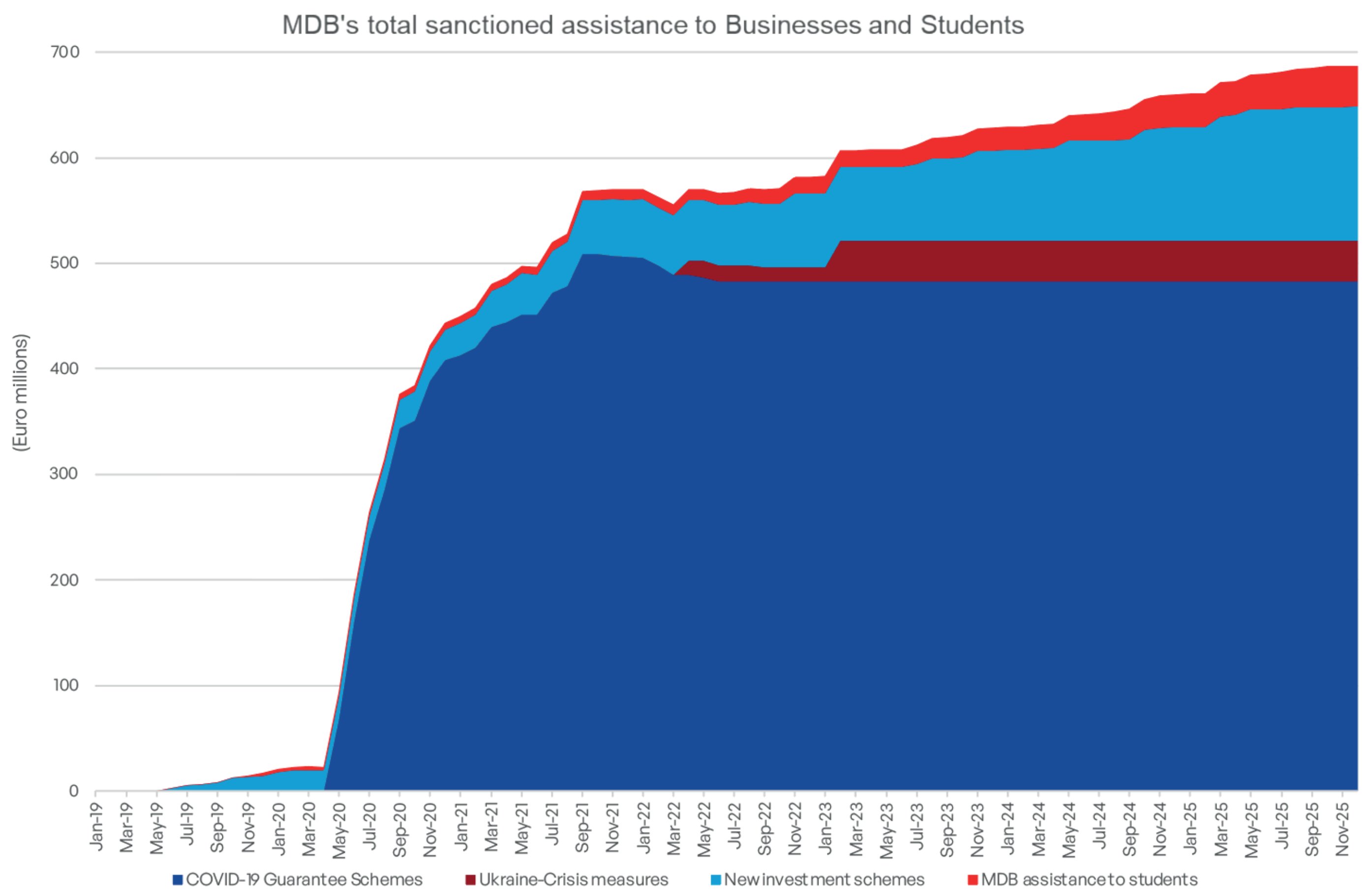
MDB's assistance to businesses and students

During 2025, the Bank continued promoting its flagship SME and student schemes while introducing thematic financial instruments supporting sustainable investment, with eligibility expanded to include small mid-caps of up to 500 employees.

As at end 2025, the total cumulative assistance, in terms of both direct and guaranteed loans, reached around €688 million, largely reflecting the exceptional role played by the Bank during the pandemic.

Compared with the position at the end of December 2024, MDB's assistance over the twelve-month period under review increased by €27.6 million. This growth reflects enhanced access to finance for new investment - particularly green investment - as well as a significant rise in guaranteed soft loans to students.

Figure 10: MDB's total assistance to businesses and students



While some larger European promotional banks have begun systematically aligning their operations with the UN Sustainable Development Goals (SDGs), approaches vary widely across institutions, with only a few - such as the EIB, KfW and, to a lesser extent, the British Business Bank - having developed structured mapping or impact frameworks. Given its size and mandate, the MDB is adopting a pragmatic approach and does not, at this stage, plan to introduce formal SDG alignment or dedicated SDG reporting, as this may add complexity disproportionate to its current operational scale. Nevertheless, a broad and high-level mapping shows that several of MDB's schemes contribute in practice to goals related to sustainable growth, innovation, and access to finance, particularly under SDGs 8 and 9 (see Figure 11).

Figure 11: Matching MDB's schemes with SDGs

MDB Schemes & SDG Alignment

United Nations Sustainable Development Goals

SCHEME	CONTRIBUTING TO	
StudentAssist	4 Quality Education	10 Reduced Inequalities
SGS & GCLS	8 Decent Work & Economic Growth	
Tailored Facility	9 Industry, Innovation & Infrastructure	
SGS-S & GCLS-S	7 Affordable & Clean Energy	13 Climate Action

SGS - SME Guarantee Scheme

GCLS - Guaranteed Co-Lending Scheme

SGS-S - SME Guarantee Scheme (Sustainability sub-scheme)

GCLS-S - Guaranteed Co-Lending Scheme (Sustainability sub-scheme)

Gateway to finance new investments

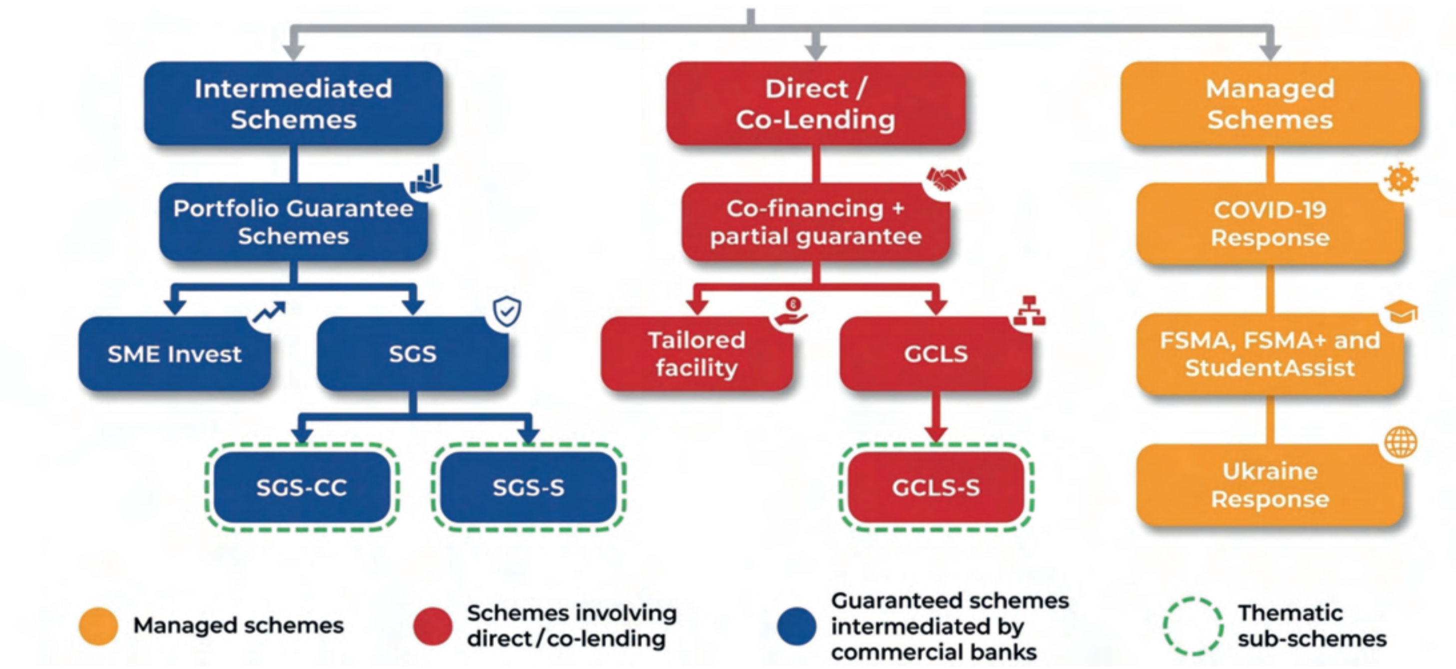
In 2025, the MDB continued to facilitate investment through its financial instruments, deepening collaboration with intermediary banks to enhance its promotional reach and support businesses in accessing the finance needed for growth.

At the beginning of the year, MDB announced the extension of its two flagship programmes, the SME Guarantee Scheme (SGS) and the Guaranteed Co-Lending Scheme (GCLS), in partnership with APS Bank, Bank of Valletta, and HSBC Bank Malta. In response to changing market dynamics and the implications of new State aid rules, MDB also revised the schemes' parameters, increasing the maximum loan amount under the SGS from €750,000 to €1,000,000, while repositioning the GCLS to cover loans ranging from €1,000,001 to €10,000,000.

In mid-2025, the MDB launched two new InvestEU-backed schemes. The Sustainability Schemes (SGS-S and GCLS-S) support businesses investing in environmental objectives, while the Cultural and Creative Sector Scheme (SGS-CC) provides targeted financing for Malta's creative industries. Both represent a deliberate expansion of the MDB's offering into sectors that are increasingly central to national and European policy priorities.

MDB - Annual Report 2025

Figure 12: MDB Facilities – Past and Current

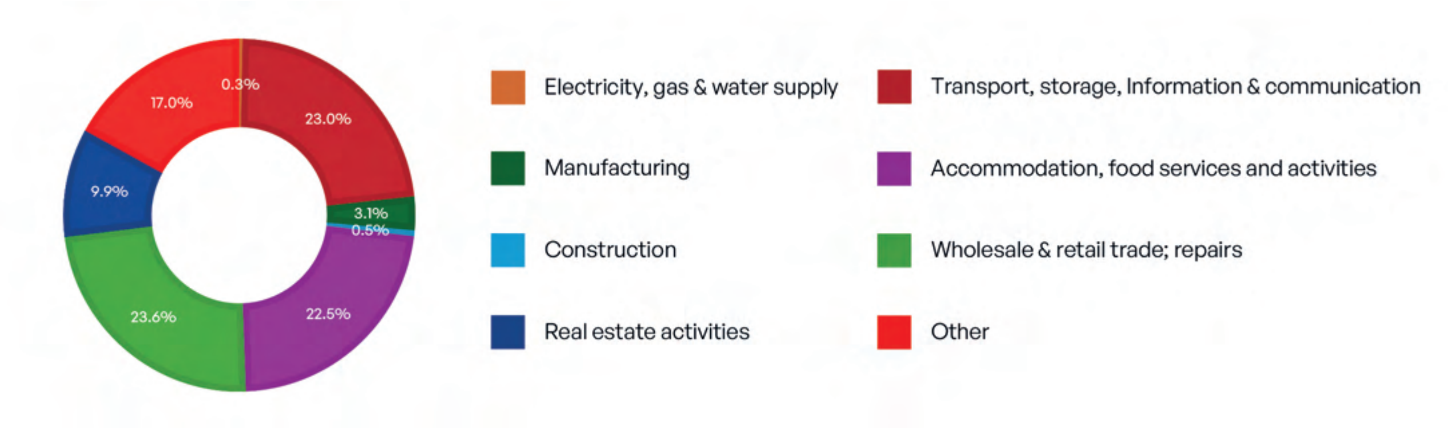


By the end of 2025, the MDB had facilitated nearly €130 million in loans supporting new investments - an increase of almost €20 million compared to the previous year. This growth spanned a broad range of facilities, with individual loan amounts ranging from €31,000 to €10 million.

Notably, the two largest facilities approved during 2025 were both sustainability-focused loans, sanctioned under the Guaranteed Co-Lending Scheme and benefitting from the Alternative Fuels Infrastructure Facility of which the MDB is Malta's implementing partner.

MDB's support has reached all key sectors of the economy, with the distribution of its outreach broadly aligned with the sectors' respective contributions to Malta's Gross Value Added. This indicates that MDB's activity reflects the overall structure of the Maltese economy. Notably, tourism-related sectors appear to benefit from a relatively higher level of support, underlining both the strategic importance of tourism to Malta and MDB's role in sustaining activity in sectors that have strong spillover effects across the wider economy.

Figure 13: MDB impact by economic sector



Special Topic IV – **Opening Doors to Higher Education**

Human capital is one of Malta's most valuable assets, and the MDB views education as a key enabler of inclusive and sustainable economic growth. The Bank launched its first student loan programme, the Further Studies Made Affordable (FSMA) scheme, in 2019. Following strong demand that led to the scheme being oversubscribed in early 2022, the FSMA+ scheme was introduced. In 2025, responding once again to high demand, the programme was relaunched under the name StudentAssist.

All three schemes have benefitted from ESF and ESF+ resources, allocated by the Managing Authority, topped by national funds, and implemented by the MDB. The loans cover a broad range of education-related expenses including tuition, accommodation, travel, and subsistence, and are available to students pursuing full-time, part-time, or distance learning at MQF levels 5 to 8 and other internationally recognised qualifications. The maximum loan amount is €100,000, with repayment terms of up to 15 years.

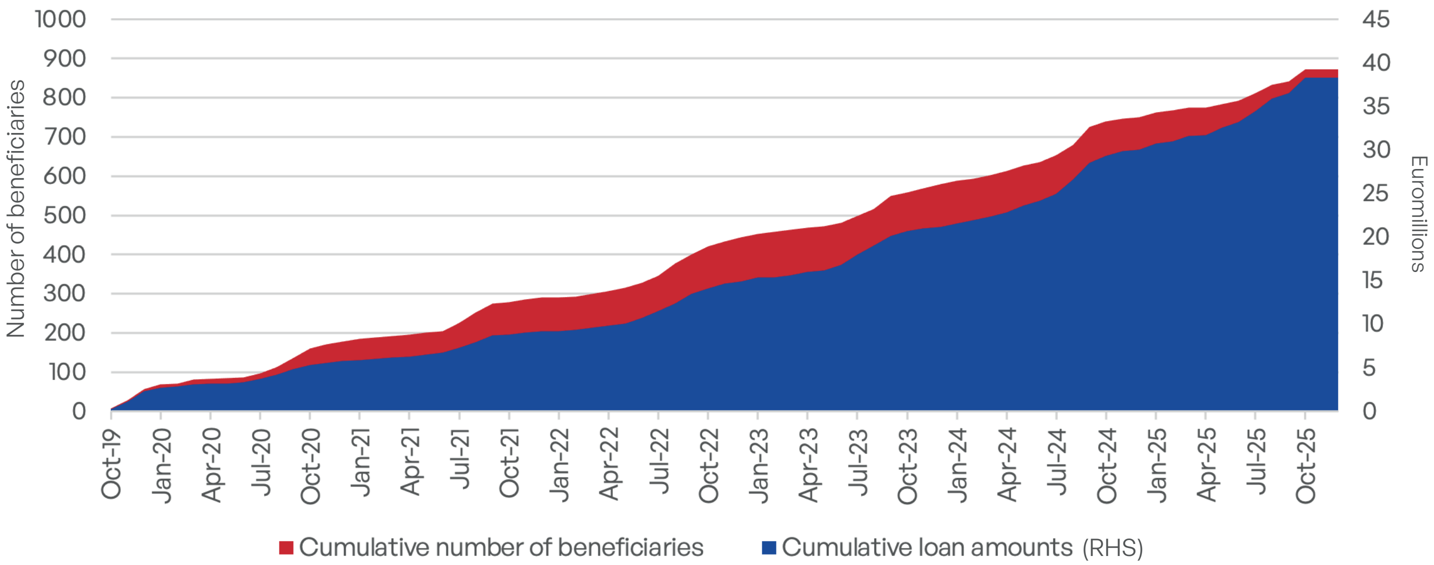
Beyond reduced interest rates, the scheme provides a moratorium on capital and interest payments for the full study period plus 12 months, with accrued interest covered by an interest rate subsidy. This gives graduates a one-year grace period to secure employment before repayments begin. The scheme carries no processing fees, collateral requirements, life insurance obligations, or upfront contributions, giving students the financial flexibility to focus on their studies.

By the end of 2025, 872 individuals were supported through close to 900 facilities granted under the FSMA and FSMA+ schemes.[4]

Out of these beneficiaries, 60% are male, whereas 40% are female. Total loans sanctioned under both schemes reached €38.3 million by end-2025 (see Figure 14).

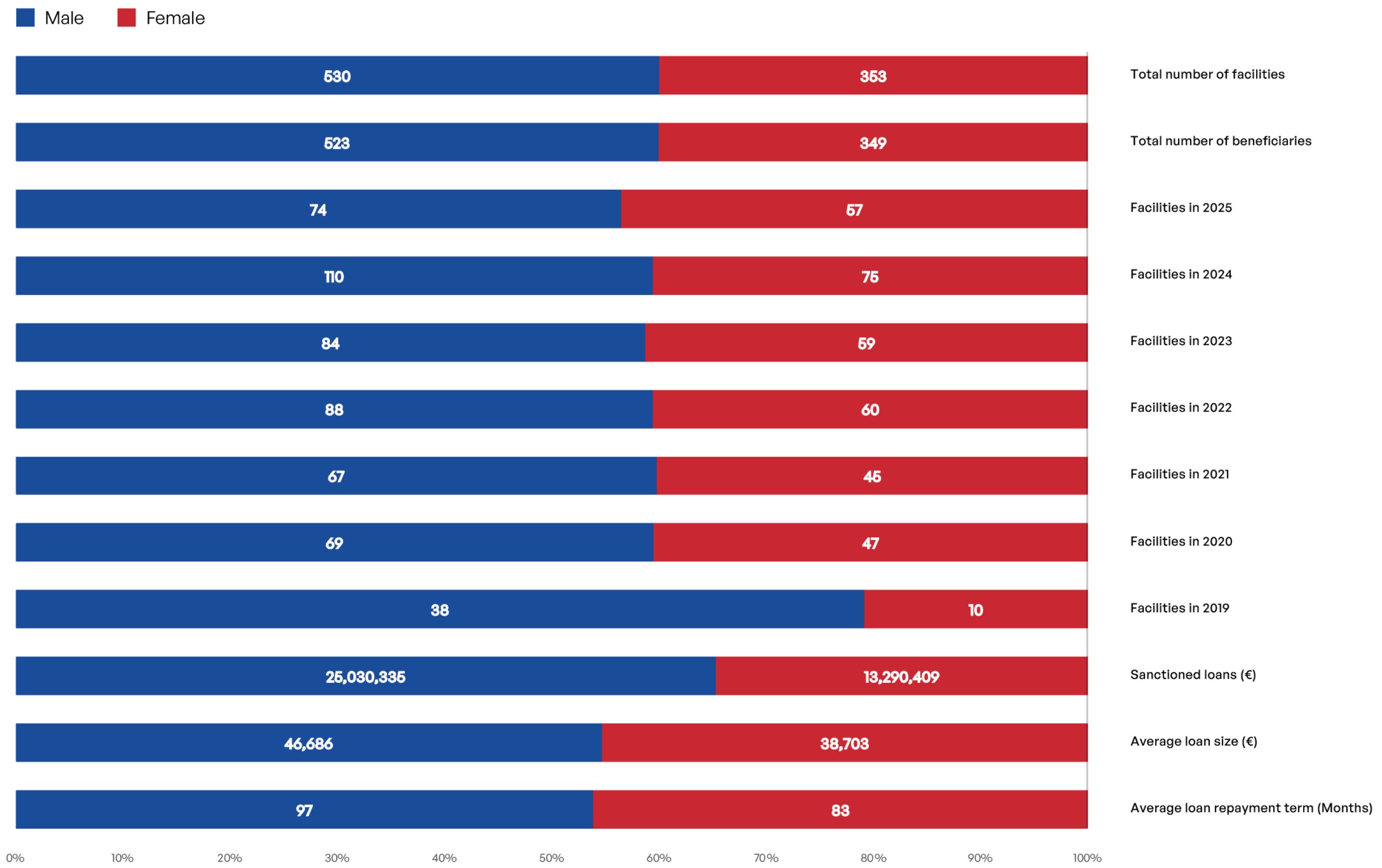
Reflecting the higher number of male beneficiaries, as well as the skewed uptake of male students opting for the more expensive aircraft pilot courses, total sanctioned loans for males is close to twice than that of female beneficiaries. The latter is also resulting in notable differences in the average loan size by gender (see Figure 15).

Figure 14: Cumulative beneficiaries and sanctioned loan amounts



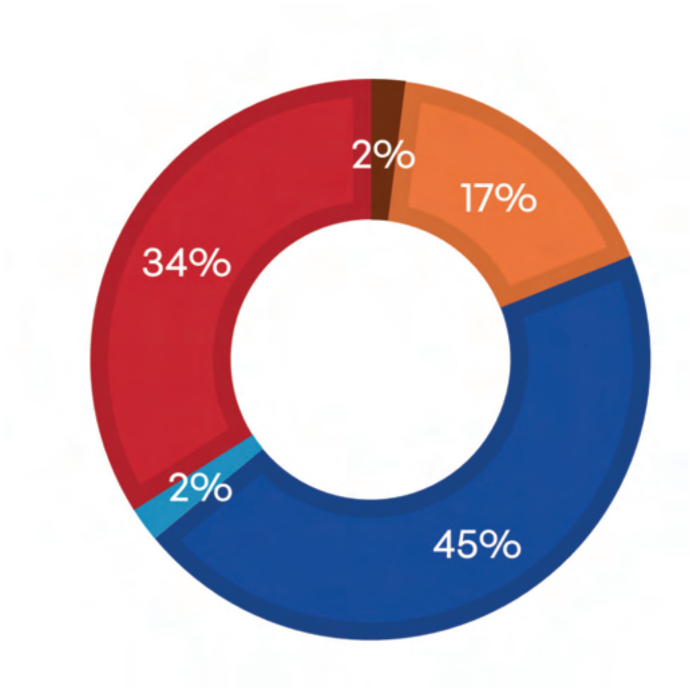
[4] Figures for sanctioned facilities and amounts included those facilities that were withdrawn, paid in advance or fully repaid by the beneficiaries.

Figure 15: FSMA schemes characteristics by gender



Under these two schemes, the overall average loan size reached around €43,500, which is markedly higher than what commercial banks are willing to offer outside the scheme. At the time of sanctioning, beneficiaries range in age from 18 to 59 years. Nevertheless, nearly two-thirds of beneficiaries fall within the 18–24 age cohort.

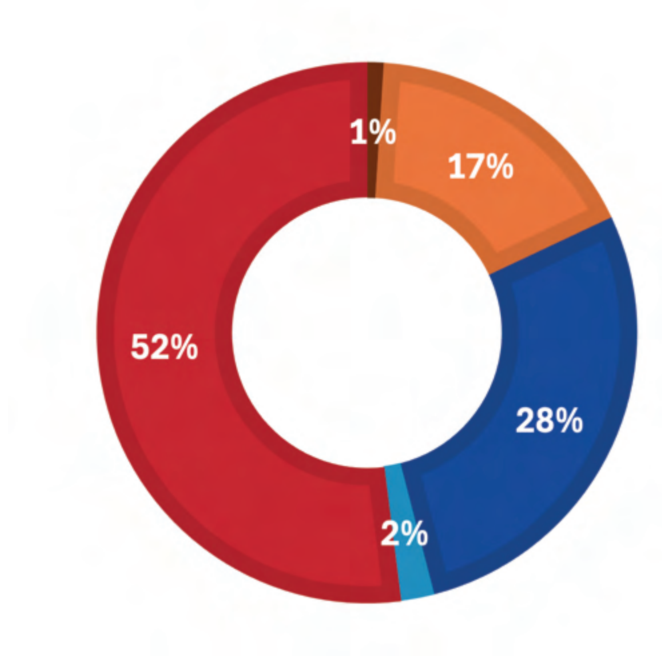
Figure 16: Beneficiary facilities sanctioned under FSMA schemes



MQF Level 7 qualifications, equivalent to a Master's degree, were the most popular among scheme beneficiaries, accounting for 45% of facilities (see Figure 16). A further 34% were linked to internationally recognised certificates, predominantly pilot training courses. Despite representing a smaller share of facilities, the high cost of professional aviation courses meant that this category accounted for slightly more than half of the total financing sanctioned under the schemes (see Figure 17).

MDB - Annual Report 2025

Figure 17: Beneficiary facilities sanctioned under FSMA schemes, by value



The strong uptake of the MDB's student schemes, well in excess of initial projections, underscores the effectiveness of these interventions and the importance of investing in human capital for Malta's long-term competitiveness. The Bank is confident that StudentAssist will build on this success. Notably, for the first time, the scheme is intermediated through two commercial banks, APS Bank and Bank of Valletta, simplifying access and allowing students to apply through their preferred institution.

Infrastructure and Long-Term Investment

The MDB stepped up its engagement with larger enterprises to promote its Tailored Facility, supported by the Malta Chamber of Commerce, Enterprise and Industry, while working to raise awareness that the Sustainability sub-schemes launched in 2025 are also accessible to small mid-caps of up to 500 employees. During the year, the Bank also supported a Maltese listed company in securing a grant under the Alternative Fuels Infrastructure Facility, reflecting its broader focus on large-scale and infrastructure-related investments.

Financing major infrastructure projects remains a core pillar of the Bank's strategy. Such projects often face significant financing challenges, including long repayment horizons and large funding requirements that may exceed the risk appetite of individual commercial banks, particularly in a market where loan syndication is still developing.

State aid and Maastricht Treaty debt implications further constrain private sector involvement in a space historically dominated by the public sector.

In response, the MDB acts as a catalyst, working with commercial banks to structure financing solutions that navigate these challenges, bridge funding gaps, and improve the bankability of projects critical to national development, while supporting the growth of a more dynamic syndicated lending market.

MDB - Annual Report 2025

Significant Events

Scheme Extensions and New Launches

In January 2025, the MDB extended its SME support schemes in partnership with APS Bank, Bank of Valletta, and HSBC Malta, reaffirming its role as a countercyclical partner and catalyst for private sector financing. Later in the year, the Bank expanded its focus on sustainable and creative economy sectors, and in November launched StudentAssist, leveraging €1.5m in EU funds, creating a portfolio of €6.25 million to support students in accessing education-related financing on favourable terms.

Outreach and Events

Throughout 2025, MDB senior officers participated in conferences and events covering infrastructure financing, sustainable finance, and education, and continued to raise awareness of the Bank's schemes through targeted information sessions for legal, accounting, and audit professionals. The Bank was also represented at the Malta Innovation Forum and SME Week.

International Cooperation

The MDB is a member of ELTI, NEFI, and AECM, providing access to technical expertise, best practices, and EU-level advocacy that has been instrumental in the Bank's development.

A highlight of 2025 was Malta's role as host for two significant events for our European organisations during the first quarter of the year.

The NEFI Permanent Working Group meeting brought together representatives from national promotional institutions across Europe to discuss common policy challenges, operational experiences, and emerging trends in development finance. The AECM Operational Training Session focused on the challenges and opportunities arising from the digitalisation of financial services, providing a platform for knowledge exchange among guarantee institutions and promotional banks. Both events enhanced cooperation among European institutions and raised Malta's profile within EU-level financial networks.

Further engagement included participation in the European Leaders Programme held in Berlin, representation at the EIB Group Forum in Luxembourg, a technical meeting in Brussels on State Aid and agricultural finance, and participation in ELTI's Chief Economist Working Group.

Financial Statements

CONTENT

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 2025.

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, digitalisation, competitiveness, socially driven initiatives, and the green and circular economy.

Review of Business Developments

During the financial year ending 31 December 2025, 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.

Active loans sanctioned under the SGS scheme amounted to €9.3 million by the end of the year, an increase of €3.1 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 2025, projects financed under the GCLS were primarily focused on digitalisation, retail, accommodation and sustainable projects, with the MDB sanctioning a total of €20.7 million active loans (2024: €15.7 million). The outstanding amount of these facilities stood at €14.4 million at year-end (2024: €9.3 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 active sanctioned facilities under this scheme of €19.7 million (2024: €14.3 million) facilitated financing towards sustainable sports facilities, education and sustainable projects.

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 active sanctioned loans under such schemes amounted to an aggregate of €35.8 million (2024: €41.3 million) whilst the outstanding loan portfolio amounted to €20.4 million in 2025 compared to €27.4 million in 2024.

The Further Studies Made Affordable ('FSMA'), the Further Studies Made Affordable Plus ('FSMA+') and the StudentAssist Scheme, which was launched during the year under review, were set up in collaboration with the Managing Authority of EU funds and were aimed at reducing the financing cost of students studying locally and overseas. The FSMA scheme closed on 8 February 2022 whilst the StudentAssist scheme was closed on the 31st October 2025. By the end of 2025 total active sanctioned facilities amounted to €32.9 million increasing by €5.8 million over the previous year.

During 2025, 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 active sanctioned loans amounted to €258.5 million. The outstanding amount of such loans declined to €56.4 million by the end of the year (2024: €126.7 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 Activity section of the Annual Report.

Total assets increased to €109 million as of the year end (2024: €103 million), driven by the reinvestment of retained earnings into new lending. The most significant contributor was a €7.6 million expansion in the loan portfolio, reflecting the bank's strategy to enhance income-generating assets.

The Bank funds its operations and investments through its earnings from guarantee and lending operations, financial investments, share issuance and external funding sources. There were no share capital injections during the year. Up to end of 2025, the Government subscribed to €80 million of paid-up capital in terms of Article 10 of the MDB Act. As disclosed in Note 25, the Government of Malta approved a €10 million increase in paid-up share capital during February 2026.

The MDB supplements its paid-up capital with bilateral borrowing from international development institutions and the 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 €3.8 million. As at 31 December 2025, the Bank had outstanding loan borrowings of €5.3 million (2024: €9.2 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 rate to the final beneficiaries.

Financial Performance

The Bank has sustained 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 €4.3 million after provisions (2024: €4.2 million). The Bank's profitability is primarily attributed to 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. During the reporting period, the Bank achieved a positive net interest margin of €4.4 million (2024: €4.1 million).

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 €3.6 million. 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 €930,829 in the reporting year (2024: €607,362).

In its administrative role, the Bank earned administrative fee income of €1.7 million over the reporting period (2024: €2.6 million) from the CGS and other schemes managed by MDB and guaranteed by the Government. In 2025, guarantee fee income from schemes directly guaranteed by MDB amounted to €271,343, reflecting an increase of €47,035 over the prior year. Additionally, the Bank generated €90,588 in other income primarily from ancillary fee income from direct lending activities.

A release in expected credit loss ('ECL') provisions of €357,800 (2024: €278,679 increase) was recognized during the year, driven by a reduction in underperforming guarantee exposures, offset by the effects of staging migrations and an increase in other credit exposures, including direct loans, commitments, and financial guarantee contracts.

As of year-end, the ECL provision for the direct lending portfolio stood at €215,123 (2024: €202,299), while provisions for financial guarantees and undrawn loan commitments amounted to €2 million (2024: €2.4 million).

The Bank's operating costs increased by €39,826 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 77 and 78 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 risk that the MDB might not be able to meet its short-term debt obligations without incurring material losses arising from the liquidation of reserve assets. The MDB is also exposed to interest rate risk on its interest rate sensitive receivables (securities and loan assets) 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.

MDB - Annual Report 2025

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 – Chairperson

Dr Michele Cardinali

Mr Victor Carachi

Mr Steve Ellul

Mr Norbert Grixti

Prof. Rose Mary Azzopardi – (initial appointment expired on 10 December 2025)

Mr Anthony Valvo – (initial appointment expired on 10 December 2025)

Mr James Henry Pearsall and Ms Kylie Spiteri were appointed as Directors with effect from 9 January 2026 in lieu of Prof Rose Mary Azzopardi and Mr Anthony Valvo.

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

Mr Rene Saliba served as Secretary to the Board during the period ending 31 December 2025. Effective from 6 January 2026, Dr Marc Sant was appointed as Secretary to the Board.

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 2025 are included in the Annual Report 2025, 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 this Annual Report.

Auditors

The Audit Committee recommended the appointment of Ernst & Young as external auditors of the Bank following a tendering process in accordance with Public Procurement Regulations. The Board of Directors has approved the said recommendation. Ernst & Young will undertake the audit of the Bank for the year ending 31 December 2026.

Approved by the Board of Directors on 26 March 2026 and signed on its behalf by:

Leo Brincat
Chairperson

Dr Michele Cardinali
Director

Registered Address

Malta Development Bank
5, Market Street,
Floriana, Malta

Independent auditor's report
To the Shareholders of Malta Development Bank

Independent auditor's report

To the Shareholders of 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 Malta Development Bank ('the Bank') as at 31 December 2025, 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 Act (Cap. 574).

What we have audited

Malta Development Bank's financial statements, set out on pages 77 to 135, comprise:

- the statement of financial position as at 31 December 2025;
- 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.

Independent auditor's report
To the Shareholders of Malta Development Bank

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 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 audits of financial statements in Malta and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have also fulfilled our other ethical responsibilities in accordance with these Codes.

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 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 express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

MDB - Annual Report 2025

Independent auditor's report
To the Shareholders of Malta Development Bank

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 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 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
To the Shareholders of 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.

MDB - Annual Report 2025

Independent auditor’s report
To the Shareholders of Malta Development Bank

- 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.

pwc

Independent auditor's report

To the Shareholders of 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 Article 179 of the Malta Development Act (Cap. 574) and for no other purpose. We do not, in giving these opinions, 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
26 March 2026

Statement of financial position

	Notes	As at 31 December 2025	2024
		€	€
ASSETS			
Balances with the Central Bank of Malta	3	**1,814,944**	903,080
Loans and advances to banks	3	**35,303,905**	32,246,055
Financial investments	4	**38,385,525**	44,025,890
Loans and advances to customers	5	**28,131,483**	20,469,991
Investment property	6	**589,235**	597,806
Property and equipment	7	**3,382,222**	3,478,579
Intangible assets	8	**24,057**	23,793
Other assets	9	**955,898**	1,254,392
Total assets		**108,587,269**	102,999,586
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	**80,000,000**	80,000,000
Accumulated profits		**8,692,317**	4,396,384
Total equity		**88,692,317**	84,396,384
LIABILITIES			
Amounts owed to banks	11	**7,324,182**	11,367,099
Amounts owed to entities	12	**10,255,045**	4,538,488
Other liabilities	13	**2,315,725**	2,697,615
Total liabilities		**19,894,952**	18,603,202
Total liabilities and equity		**108,587,269**	102,999,586
MEMORANDUM ITEMS			
Financial guarantees and other commitments	14	**34,307,404**	28,480,451

The notes on pages 81 to 135 are an integral part of these financial statements.

The financial statements on pages 77 to 135 were approved by the Board of Directors on 26 March 2026 and signed on its behalf by:

Leo Brincat
Chairperson

Dr Michele Cardinali
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2025	2024
		€	€
Interest receivable and similar income	15	**4,518,599**	4,260,334
Interest payable and similar expense	16	**(112,672)**	(120,623)
Net interest income		**4,405,927**	4,139,711
Net income from financial guarantees	17	**271,343**	224,308
Administrative fee income	18	**1,718,893**	2,583,481
Other income	19	**90,588**	81,304
Net operating income		**6,486,751**	7,028,804
Administrative expenses	21	**(582,550)**	(593,926)
Employee compensation and benefits	22	**(1,834,119)**	(1,783,344)
Depreciation	6, 7	**(121,611)**	(122,657)
Amortisation of intangible assets	8	**(10,338)**	(8,865)
Total operating expenses		**(2,548,618)**	(2,508,792)
Profit for the year before changes in expected credit losses		**3,938,133**	4,520,012
Changes in expected credit losses	20	**357,800**	(278,679)
Profit for the year - total comprehensive income		**4,295,933**	4,241,333

The notes on pages 81 to 135 are an integral part of these financial statements.

MDB - Annual Report 2025

Statement of changes in equity

	Share capital	Accumulated profits	Total equity
	€	**€**	€
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**
At 1 January 2025	80,000,000	4,396,384	84,396,384
Comprehensive income			
Profit for the year - total comprehensive income	-	4,295,933	4,295,933
At 31 December 2025	**80,000,000**	**8,692,317**	**88,692,317**

The notes on pages 81 to 135 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2025	2024
		€	€
Cash flows from operating activities			
Net cash generated from / (used in) operating activities	23	**179,408**	(3,035,856)
Cash flows from investing activities			
Interest received on financial assets held as investments	15	**2,378,000**	2,378,509
Purchase of property and equipment	7	**(20,763)**	(28,070)
Purchase of intangible assets	8	**(10,602)**	(13,350)
Proceeds from disposals of tangible assets		**3,746**	572
Net cash generated from investing activities		**2,350,381**	2,337,661
Cash flows from financing activities			
Repayments of long-term borrowing	11	**(3,813,451)**	(2,418,702)
Net (repayments of) / proceeds from borrowing from counterparty banks	11	**(229,466)**	2,220,789
Net cash used in financing activities		**(4,042,917)**	(197,913)
Net decrease in cash and cash equivalents		**(1,513,128)**	(896,108)
Cash and cash equivalents at beginning of year		**13,662,000**	14,558,108
Cash and cash equivalents at end year	24	**12,148,872**	13,662,000

The notes on pages 81 to 135 are an integral part of these financial statements.

MDB - Annual Report 2025

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.

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 2025

In 2025, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2025. 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 2026 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.

Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features.

IFRS 18, 'Presentation and Disclosure in Financial Statements'

IFRS 18 'Presentation and Disclosure in Financial Statements', which was issued by the IASB in April 2024 and endorsed for use in the European Union on 16 February 2026, is 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.

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 2025 and 2024, 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.

MDB - Annual Report 2025

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'.

MDB - Annual Report 2025

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 1.10).

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 'Other liabilities'.

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 'Net 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.

MDB - Annual Report 2025

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 2025, the Bank's paid-up share capital stood at €80 million (2024: €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.

	2025	2024
	€	€
Capital		
Paid-up share capital	**80,000,000**	80,000,000
Accumulated profits	**8,692,317**	4,396,384
Total capital	**88,692,317**	84,396,384

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 and Compliance 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.

  SME Guarantee Scheme - Sustainability ('SGS-S'): launched under the SGS programme and therefore subject to similar terms and conditions, which benefits from a guarantee of the EIF under the Invest EU Sustainability window.

  Cultural and Creative product ('SGS-CC'): added to the SGS programme and therefore subject to similar terms and conditions, allowing the Bank to guarantee loans to borrowers involved in the field of arts and culture.

- 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.

  Guaranteed Co-Lending Scheme - Sustainability ('GCLS-S'): launched under the GCLS programme which benefits from a guarantee of the EIF under the Invest EU Sustainability window.

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.

As of 31 December 2025, the Bank issued financial guarantee contracts in respect of total sanctioned loans net of repayments, amounting to €49.5 million (2024: €49.4 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 €23.1 million (2024: €19.6 million) (see Note 14). 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 2024 and 2025, the Bank was also entrusted to implement and manage the following guarantee schemes on behalf of the Ministry for European Funds and the Implementation of the Electoral Programme (MFI) and the Government of Malta:

- Further Studies Made Affordable ('FSMA'), Further Studies Made Affordable Plus ('FSMA+') and StudentAssist: 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 on which date the FSMA+ scheme was introduced, with the last date of inclusion being 31 October 2025. Subsequently, the StudentAssist scheme was launched in November 2025 replacing the FSMA+ scheme. As at 31 December 2025, no amounts under the StudentAssist scheme have been disbursed by counterparty banks.

- 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 2024.

The FSMA, FSMA+, StudentAssist, 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.

MDB - Annual Report 2025

The macroeconomic forecasts for Malta as published by the Central Bank of Malta project a stable GDP growth for 2026, 2027 and 2028. Domestic demand will be the main growth driver as a result of the fast growth in private consumption, supported in part by recent income tax adjustments. Net exports are also projected to retain a positive contribution over the forecast horizon, driven mainly by services exports. Private investment is expected to accelerate in 2026 following weak growth.

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 liquidity requirements and 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 2025, the Bank's other financial assets consisted of balances held with the Central Bank of Malta, amounts placed with local banks, and local sovereign and corporate debt securities. All financial assets were placed with local high-quality counterparties.

	2025	2024
	€	€
Balances with the Central Bank of Malta	**1,814,944**	903,080
Loans and advances to banks	**35,303,905**	32,246,055
Financial investments	**38,385,525**	44,025,890
	75,504,374	77,175,025

As at 31 December 2025 and 2024, 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.

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 from losses arising from default events within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on lifetime ECL, i.e. from default events occurring during all years up to maturity.

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

MDB - Annual Report 2025

2.4.3.1 Significant increase in credit risk (SICR)

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.

2.4.3.2 Definition of default and credit-impaired

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 effective interest rate at origination 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 as the discounted sum of the 12-month ECL for each year until maturity.

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 enhanced 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 domestic non-financial corporates. This did not have a significant impact on the ECL calculation as at 31 December 2024. During the financial year ended 31 December 2025, the Bank assessed the ongoing appropriateness of the historical default data and did not deem it necessary to further expand the population of historical observations. 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 2025, 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 Real GDP, Compensation of Employees, Gross Fixed Capital Formation, Change in Inventories, Net Exports, the Harmonized Index of Consumer Prices ('HICP'), and the previous period's default rates are good predictors of the first-level changes in the 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 2024 in terms of the statistical relationship between the economic variables and local default rates. As a result, Exports and Imports were no longer considered statistically related to the PD as of 31 December 2025 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:

MDB - Annual Report 2025

	As at 31 December 2025	
	2026	**2027**
Previous period's default rate	29.34%	31.92%
Real GDP (% change)	3.50%	3.30%
Compensation for Employees (% change)	3.70%	3.50%
Gross Fixed Capital Formation (% change)	3.70%	0.10%
Change in Inventories (% change)	-0.10%	0.00%
Net Exports (% change)	-1.17%	13.30%
HICP (% change)	2.10%	2.00%
	As at 31 December 2024	
	2025	**2026**
Previous period's default rate	28.39%	20.51%
Exports (% change)	3.20%	3.00%
Imports (% change)	3.40%	3.20%
HICP (% change)	2.10%	2.00%

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 with updates published by the Central Bank of Malta 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 2025 at 50% (2024: 50%) for the 'Base' scenario, 30% (2024: 30%) for the 'Downside' scenario and 20% (2024: 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 €135,618 (2024: €47,689) if the provisions had to be calculated solely on the 'Base' scenario; ECLs would increase by €618,390 (2024: €598,352) if these had to be estimated using only the 'Downside' scenario and would reduce by €985,599 (2024: €778,302) if the 'Upside' scenario only was to be taken into consideration. In 2025 and 2024, 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:

MDB - Annual Report 2025

	2025		2024	
	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 the Central Bank of Malta and other banks	**37,149**	**(30)**	33,183	(34)
Financial investments	**38,417**	**(31)**	44,065	(39)
Loans and advances to customers	**28,347**	**(215)**	20,672	(202)
Credit risk exposure	**103,913**	**(276)**	97,920	(275)
Credit risk exposures relating to off-balance sheet instruments				
Financial guarantees	**23,141**	**(1,984)**	19,591	(2,364)
Undrawn commitments to lend	**11,049**	**(27)**	8,772	(6)
Credit risk exposure	**34,190**	**(2,011)**	28,363	(2,370)

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 2025, 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:

	2025	2024
	€000	€000
Government of Malta	**16,417**	22,065
Corporate – financial services	**22,000**	22,000
	38,417	44,065

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:

	2025	2024
	€000	€000
Information and communication	**4,454**	4,140
Wholesale and retail	**4,318**	4,420
Real estate activities	**2,336**	1,309
Accommodation and food service activities	**12,287**	9,285
Arts, entertainment and recreation	**4,952**	1,518
Gross loans and advances to customers	**28,347**	20,672

All financial assets were held with counterparties in Malta.

MDB - Annual Report 2025

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. 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 2025 and 2024, 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 2025 and 2024.

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.

2025	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Balances with the Central Bank of Malta and other banks at amortised cost				
Gross carrying amount	37,149	-	-	37,149
Loss allowance	(30)	-	-	(30)
Carrying amount	**37,119**	-	-	**37,119**

2024	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Balances with the 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

2025	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Financial investments measured at amortised cost				
Gross carrying amount	38,417	-	-	38,417
Loss allowance	(31)	-	-	(31)
Carrying amount	**38,386**	-	-	**38,386**

2024	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Financial investments measured at amortised cost				
Gross carrying amount	44,065	-	-	44,065
Loss allowance	(39)	-	-	(39)
Carrying amount	44,026	-	-	44,026

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.

2025	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Loans and advances to customers				
Gross carrying amount	22,465	5,882	-	28,347
Loss allowance	(42)	(173)	-	(215)
Carrying amount	**22,423**	**5,709**	**-**	**28,132**

2024	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €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

As at 31 December 2025 and 2024, 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.

2025	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Financial guarantees				
Guaranteed amount per individual exposure	**28,475**	**5,843**	**1,269**	**35,587**
Loss allowance	**(435)**	**(413)**	**(1,136)**	**(1,984)**

2024	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Financial guarantees				
Guaranteed amount per individual exposure	27,498	7,553	1,396	36,447
Loss allowance	(381)	(918)	(1,065)	(2,364)

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 €4.2 million (2024: €5.6 million). No portfolio capping is applicable to the SGS and GCLS, where the maximum credit risk exposures amounts to €19.0 million (2024: €14.0 million) (refer to Note 2.4.1 and Note 14).

2025	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Undrawn commitments to lend				
Undrawn amounts	**11,049**	**-**	**-**	**11,049**
Loss allowance	**(27)**	**-**	**-**	**(27)**

2024	Stage 1 12 month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Undrawn commitments to lend				
Undrawn amounts	8,345	427	-	8,772
Loss allowance	-	(6)	-	(6)

MDB - Annual Report 2025

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 are 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 2025, forborne loans and advances to customers amounted to €4.5 million (2024: €4.1 million), in respect of which an ECL allowance of €173,122 (2024: €179,245) was estimated. All forborne exposures were classified as performing forborne exposures in Stage 2 as at 31 December 2025 and 31 December 2024.

	2025	2024
	€000	€000
Movement in forbearance activity during the year:		
At 1 January	**4,141**	-
Loans granted forbearance measures during the year	**-**	3,695
Further disbursements	**414**	464
Repayments	**(101)**	(18)
At 31 December	**4,454**	4,141

None of the forbearance measures granted during the financial year ended 31 December 2024 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:

	2025			
	Stage 1		**Total**	
	Gross carrying amount	**Expected credit losses**	**Gross carrying amount**	**Expected credit losses**
	€000	**€000**	**€000**	**€000**
Balances with the Central Bank of Malta and other banks at amortised cost				
At 1 January 2025	33,183	34	33,183	34
Increase in balances	5,902	3	5,902	3
Withdrawals	(1,936)	(2)	(1,936)	(2)
Net remeasurement of ECL arising from changes in risk parameters	-	(5)	-	(5)
At 31 December 2025	**37,149**	**30**	**37,149**	**30**
Total net income statement release for the year				(4)

	2024			
	Stage 1		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	€000	€000	€000	€000
Balances with the 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)

	2025			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments at amortised cost				
At 1 January 2025	44,065	39	44,065	39
Acquisitions	2,977	-	2,977	-
Redemptions	(8,500)	-	(8,500)	-
Other movements	(125)	-	(125)	-
Net remeasurement of ECL arising from changes in risk parameters	-	(8)	-	(8)
At 31 December 2025	**38,417**	**31**	**38,417**	**31**
Total net income statement release for the year				(8)

	2024			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €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)

	2025					
	Stage 1		Stage 2		Total	
	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000
Loans and advances to customers at amortised cost						
At 1 January 2025	15,009	23	5,663	179	20,672	202
New and further lending	7,661	11	434	-	8,095	11
Repayments	(205)	-	(215)	(5)	(420)	(5)
Net remeasurement of ECL arising from changes in risk parameters	-	8	-	(1)	-	7
At 31 December 2025	**22,465**	**42**	**5,882**	**173**	**28,347**	**215**
Total net income statement charge for the year						13

	2024					
	Stage 1		Stage 2		Total	
	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'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)
Transfer between stages:	(3,085)	(36)	3,085	36	-	-
Stage 1 to Stage 2						
Net remeasurement of ECL arising from stage transfers and 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

MDB - Annual Report 2025

	2025					
	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 2025	8,345	-	427	6	8,772	6
New commitments to lend	9,349	27	-	-	9,349	27
Loan drawdowns and other reductions in commitments	(6,645)	-	(427)	(6)	(7,072)	(6)
At 31 December 2025	**11,049**	**27**	**-**	**-**	**11,049**	**27**
Total net income statement charge for the year						21

	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)
Transfer between stages:						
Stage 1 to Stage 2	(3,518)	(19)	3,518	19	-	-
Net remeasurement of ECL arising from stage transfers and 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)

	2025							
	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 2025	27,498	381	7,553	918	1,396	1,065	36,447	2,364
New financial guarantees originated	5,478	47	-	-	-	-	5,478	47
Reduction and expiry of financial guarantees	(3,721)	(100)	(1,994)	(410)	(623)	(356)	(6,338)	(866)
Transfer between stages:								
Stage 1 to Stage 2	(1,056)	(14)	1,056	14	-	-	-	-
Stage 2 to Stage 1	276	21	(276)	(21)	-	-	-	-
Stage 2 to Stage 3	-	-	(496)	(150)	496	150	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	100	-	62	-	277	-	439
At 31 December 2025	**28,475**	**435**	**5,843**	**413**	**1,269**	**1,136**	**35,587**	**1,984**
Total net income statement release for the year								(380)

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 €4.2 million (2024: €5.6 million). No portfolio capping is applicable to the SGS and GCLS, where the maximum credit risk exposure amounts to €19.0 million (2024: €14.0 million) (refer to Note 2.4.1 and Note 14).

	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)
Transfer 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	-	69	-	284	-	87	-	440
At 31 December 2024	27,498	381	7,553	918	1,396	1,065	36,447	2,364
Total net income statement release for the year								203

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 2025 or 2024.

MDB - Annual Report 2025

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 2025			
Credit-impaired	**782**	**(710)**	**143**
At 31 December 2024			
Credit-impaired	383	(353)	33

The remaining credit-impaired financial guarantee contracts amounting to €0.49 million (2024: €1.01 million) as at 31 December 2025 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 2025 and 2024, 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 €000	Effective interest rate	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	More than 5 years €000
As at 31 December 2025						
Financial assets						
Balances with the Central Bank of Malta	1,815	0.10%	1,815	-	-	-
Loans and advances to banks	35,304	3.71%	10,325	-	24,979	-
Financial investments	38,386	5.75%	-	10,018	28,368	-
Loans and advances to customers	28,131	3.68%	14,193	99	1,167	12,672
Total financial assets	**103,636**	**4.40%**	**26,333**	**10,117**	**54,514**	**12,672**
Financial liabilities						
Amounts owed to banks	7,324	1.02%	2,880	886	3,558	-
Total financial liabilities	**7,324**		**2,880**	**886**	**3,558**	**-**
Interest repricing gap			**23,453**	**9,231**	**50,956**	**12,672**
Cumulative gap			**23,453**	**32,684**	**83,640**	**96,312**

	Carrying amount €000	Effective interest rate	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	More than 5 years €000
As at 31 December 2024						
Financial assets						
Balances with the 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

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:

	2025		2024	
	Fixed €000	**Variable €000**	Fixed €000	Variable €000
Interest-earning assets				
Balances with the Central Bank of Malta	**-**	1,815	-	903
Loans and advances to banks	**24,979**	10,325	24,973	7,273
Financial investments	**38,386**	-	44,026	-
Loans and advances to customers	**-**	28,131	-	20,470
	63,365	40,271	68,999	28,646
Interest-bearing liabilities	**7,324**	-	11,367	-
Amounts owed to banks				
	7,324	-	11,367	-

Loans and advances to customers include variable interest rate loans of €12,671,714 (2024: €9,276,886) 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 €781,879 (2024: €578,624). 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 €781,879 (2024: €578,624).

2.5.2 Currency risk

At 31 December 2025 and 2024, 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. Fair value in relation to loans and advances to customers are deemed to be fairly close to carrying amounts principally in view of the Bank's ability to reprice.

Financial investments

The fair value of debt securities measured at amortised cost on the Statement of Financial Position amounted to €39,238,800 (2024: €45,552,360) at 31 December 2025, based on quoted prices.

2.6 Liquidity risk

Liquidity risk is the risk that the Bank's obligation to repay its liabilities or fund new loans exceeds its 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 and when they fall due. Liquidity risk may also be affected by the depth of the market in which the Bank has its exposure in assets.

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 2025 and 2024 was insignificant in view of the margin of liquidity available to manage repayments of liabilities.

MDB - Annual Report 2025

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 2025						
Financial assets						
Balances with the Central Bank of Malta	1,815	1,815	-	-	-	-
Loans and advances to banks	35,304	10,325	-	24,979	-	-
Financial investments	38,386	-	10,018	28,368	-	-
Loans and advances to customers	28,131	338	850	7,331	19,612	-
Other assets	888	694	194	-	-	-
Total financial assets	**104,524**	**13,172**	**11,062**	**60,678**	**19,612**	**-**
Financial liabilities						
Amounts owed to banks	7,324	2,880	886	3,558	-	-
Amounts owed to other entities	10,255	-	-	-	-	10,255
Other liabilities	304	158	146	-	-	-
Total financial liabilities	**17,883**	**3,038**	**1,032**	**3,558**	**-**	**10,255**
Maturity gap		**10,134**	**10,030**	**57,120**	**19,612**	**(10,255)**
Cumulative gap		**10,134**	**20,164**	**77,284**	**96,896**	**86,641**

	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 the 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

3. Balances with the Central Bank of Malta and other banks

	2025	2024
	€	€
Current	**12,148,872**	8,183,360
Repayable on call and at short notice		
Non-current		
Term loans and advances	**25,000,000**	25,000,000
Gross carrying amount	**37,148,872**	33,183,360
Less: Allowances for expected credit losses	**(30,023)**	(34,225)
	37,118,849	33,149,135

By virtue of an agreement entered into between the Ministry for European Funds and the Implementation of the Electoral Programme (MFI) (the 'Managing Authority') and the Bank, as the entity entrusted with the implementation of the Further Studies Made Affordable ('FSMA'), Further Studies Made Affordable Plus ('FSMA+') and StudentAssist programmes, funds are being held in favour of, and for the ultimate benefit of, the Managing Authority as part of the implementation of these 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 2025, the balance of these funds amounted to €10.3 million (2024: €4.5 million) (see Note 12).

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 11).

4. Financial investments

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

	2025	2024
	€	**€**
Debt instruments:		
Local private debt securities listed on the Irish Stock Exchange	**16,416,909**	16,586,342
Local private debt securities listed on the Irish Stock Exchange	**22,000,000**	22,000,000
Local government treasury bills	**-**	5,478,640
Less: Allowances for expected credit losses	**(31,384)**	(39,092)
	38,385,525	44,025,890

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

	2025	2024
	€	**€**
At 1 January	**44,025,890**	42,172,788
Acquisitions	**2,977,429**	11,906,550
Redemptions	**(8,500,000)**	(10,000,000)
Amortisation of premium/discount	**(125,502)**	(68,558)
Movement in expected credit loss allowances	**7,708**	15,110
At 31 December	**38,385,525**	44,025,890

5. Loans and advances to customers

	2025	2024
	€	€
Term loans and advances	**28,346,606**	20,672,290
Less: Allowances for expected credit losses	**(215,123)**	(202,299)
Net loans and advances to customers	**28,131,483**	20,469,991

6. Investment property

	€
At 1 January 2024	
Cost	642,851
Accumulated depreciation	(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 depreciation	(45,045)
Net book amount	597,806
Year ended 31 December 2025	
At 1 January 2025	**597,806**
Depreciation charge	**(8,571)**
At 31 December 2025	**589,235**
At 31 December 2025	
Cost	**642,851**
Accumulated depreciation	**(53,616)**
Net book amount	**589,235**

MDB - Annual Report 2025

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 2025 and 2024, the Board considers the carrying amount of the investment property to approximate 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.

			Significant unobservable inputs
Description	**Fair value at 31 December 2025 and 2024**	**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
	€	€	€	€	€	€
At 1 January 2024						
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
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
Year ended 31 December 2025						
Opening net book amount	**2,977,698**	**337,686**	**80,851**	**60,259**	**22,085**	**3,478,579**
Additions	**-**	**2,380**	**3,082**	**15,301**	**-**	**20,763**
Disposals	**-**	**-**	**(1,693)**	**(15,489)**	**-**	**(17,182)**
Depreciation charge	**(42,162)**	**(24,887)**	**(12,147)**	**(24,238)**	**(9,606)**	**(113,040)**
Depreciation released on disposal	**-**	**-**	**691**	**12,411**	**-**	**13,102**
Closing net book amount	**2,935,536**	**315,179**	**70,784**	**48,244**	**12,479**	**3,382,222**
At 31 December 2025						
Cost	**3,135,806**	**411,198**	**125,467**	**173,081**	**48,448**	**3,894,000**
Accumulated depreciation	**(200,270)**	**(96,019)**	**(54,683)**	**(124,837)**	**(35,969)**	**(511,778)**
Net book amount	**2,935,536**	**315,179**	**70,784**	**48,244**	**12,479**	**3,382,222**

As at 31 December 2025, capital expenditure authorised and contracted for amounted to €117,000 (2024: €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 14.

8. Intangible assets

	Computer software
	€
At 1 January 2024	
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
Year ended 31 December 2025	
At 1 January 2025	**23,793**
Additions	**10,602**
Amortisation charge	**(10,338)**
At 31 December 2025	**24,057**
At 31 December 2025	
Cost	**66,724**
Accumulated amortisation	**(42,667)**
Net book amount	**24,057**

9. Other assets

	2025	2024
	€	€
Accrued interest	**407,408**	406,360
Prepayments	**67,598**	90,031
Accrued income from financial guarantees	**72,187**	63,833
Accrued administrative fee income	**399,175**	689,668
Other receivables	**9,530**	4,500
	955,898	1,254,392

10. Share capital

	2025	2024
	€	€
Authorised		
2,000,000 shares of €100 each	**200,000,000**	200,000,000
Issued and fully paid up		
800,000 (2024: 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 2025 (2024: €150 million).

11. Amounts owed to banks

	2025	2024
	€	€
Current	**3,766,129**	4,643,860
Non-current	**3,558,053**	6,723,239
	7,324,182	11,367,099

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. During 2025, the Bank remitted unutilised funds amounting to €1.7 million at the end of the allowed transfer period which expired on 31 January 2025, in excess of contractual repayments amounting to €2.2m. The loan is unsecured, subject to a fixed interest rate of 0.6% and matures in 2029. As at 31 December 2025, the outstanding balance amounted to €5.3 million (2024: €9.2 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 2025 and 2024, 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 2025, the outstanding balance amounted to €2.0 million (2024: €2.2 million).

12. 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, FSMA+ and StudentAssist programmes, funds are being held in favour of, and for the ultimate benefit of, the Managing Authority as part of their implementation. 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 2025, the balance of these funds amounted to €10.3 million (2024: €4.5 million) (see Note 3).

13.Other liabilities

	2025	2024
	€	€
Accounts payable	**47,655**	29,062
Accrued interest payable	**30,477**	26,190
Accruals	**226,234**	272,290
Expected credit losses arising on off-balance sheet items (Note 14)	**2,011,359**	2,370,073
	2,315,725	2,697,615

14. Financial guarantees and other commitments

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

	2025	2024
	€	€
Financial guarantees		
Maximum exposure guaranteed by the MDB on SME Invest and FBT	**4,160,784**	5,633,798
Maximum exposure guaranteed by the MDB on SGS and GCLS	**18,980,411**	13,957,653
	23,141,195	19,591,451
Commitments		
Undrawn commitments to lend	**11,049,209**	8,772,000
Capital commitments	**117,000**	117,000
	11,166,209	8,889,000

As of the end of the reporting period, the Bank sanctioned commitments amounting to €11.0 million (2024: €8.8 million).

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 €4.2 million (2024: €5.6 million). No portfolio capping is applicable to the SGS and GCLS schemes, where the maximum credit risk exposure amounts to €19.0 million (2024: €14.0 million) (refer to Note 2.4.1).

Financial guarantees are further explained below:

	2025			2024		
	Drawn commitments	**Undrawn commitments**	**Total**	Drawn commitments	Undrawn commitments	Total
	€	€	€	€	€	€
Financial guarantees						
Total sanctioned loans (net of repayments)	**40,911,939**	**8,570,015**	**49,481,954**	39,789,170	9,574,493	49,363,663
Guaranteed amount by the MDB per individual exposure	**29,853,563**	**5,733,320**	**35,586,883**	29,847,936	6,599,023	36,446,959
Maximum exposure guaranteed by the MDB (portfolio capping)			**23,141,195**			19,591,451

As at 31 December 2025, the expected credit losses arising on financial guarantees amounted to €1,984,350 (2024: €2,364,238).

Expected credit losses in respect of undrawn commitments to lend attributable to loans and advances to customers as at 31 December 2025 amounted to €27,009 (2024: €5,835).

15. Interest receivable and similar income

	2025	2024
	€	€
On balances with the Central Bank of Malta and other banks	**1,335,272**	1,343,021
On loans and advances to customers	**930,829**	607,362
	2,266,101	1,950,383
On debt instruments	**2,378,000**	2,378,509
Net amortisation of discounts and premiums	**(125,502)**	(68,558)
	2,252,498	2,309,951
Total interest receivable and similar income	**4,518,599**	4,260,334

16. Interest payable and similar expense

	2025	2024
	€	€
On amounts owed to banks	**112,672**	120,623
Total interest payable and similar expense	**112,672**	120,623

17. Net income from financial guarantees

	2025	2024
	€	€
SME Invest Scheme	**119,197**	153,040
Guarantee Co-Lending Scheme	**116,251**	58,678
SME Guarantee Scheme	**36,075**	12,186
Family Business Transfer Facility	**334**	404
	271,857	224,308
Fee expense on counter-guarantee	**(514)**	-
	271,343	224,308

As detailed in Note 2.4.1, the Bank issues financial guarantees to credit institutions (see Note 14) 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.

18. Administrative fee income

	2025	2024
	€	€
COVID-19 Guarantee Scheme	**1,435,360**	2,323,820
Liquidity Support Guarantee Scheme	**170,594**	191,214
Further Studies Made Affordable	**39,000**	33,837
Further Studies Made Affordable Plus	**73,939**	34,610
	1,718,893	2,583,481

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 Funds and the Implementation of the Electoral Programme (MFI) and the Government of Malta. The Bank receives fee income as a consideration for the implementation and ongoing administration of these schemes.

19. Other income

	2025	2024
	€	€
Rental income	**39,753**	39,172
Other income	**50,835**	42,132
	90,588	81,304

20. Changes in expected credit losses

	2025	2024
	€	€
On balances with the Central Bank of Malta and other banks	**(4,202)**	(17,540)
On financial investments	**(7,708)**	(15,110)
On loans and advances to customers	**12,824**	124,351
On undrawn loan commitments	**21,174**	(16,640)
On financial guarantee contracts	**(379,888)**	203,618
	(357,800)	278,679

21. Administrative expenses

	2025	2024
	€	€
Legal and professional fees	**92,592**	139,999
Supervisory fees	**19,500**	19,500
Directors' fees	**99,887**	90,713
International business meetings and conferences	**7,275**	9,920
Memberships of local and international associations	**21,935**	28,863
Insurance costs	**66,292**	65,861
Advertising and public awareness	**34,707**	36,834
Repairs and maintenance	**87,726**	70,950
Other	**152,636**	131,286
	582,550	593,926

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:

	2025	2024
	€	€
Annual statutory audit	**42,500**	40,000

22. Employee compensation and benefits

	2025	2024
	€	€
Staff costs		
Wages, salaries and allowances	**1,737,656**	1,691,526
Social security costs	**69,126**	65,220
Other costs	**27,337**	26,598
	1,834,119	1,783,344

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

	2025	2024
Senior management	**10**	10
Middle management	**7**	7
Other	**8**	8
	25	25

23. Net cash generated from / (used in) operating activities

	2025	2024
	€	€
Profit for the year	**4,295,933**	4,241,333
Adjustments for:		
Depreciation (Notes 6, 7)	**121,611**	122,657
Loss on disposal of tangible assets	**334**	854
Amortisation of intangible assets (Note 8)	**10,338**	8,865
Interest income on debt instruments (Note 15)	**(2,378,000)**	(2,378,509)
Net amortisation of discounts and premiums on financial investment (Note 15)	**169,433**	169,300
Changes in expected credit losses (Note 20)	**(357,800)**	278,679
	(2,434,084)	(1,798,154)
Changes in operating assets and liabilities:		
Changes in term loans and advances to banks (Note 3)	**-**	1,392
Changes in loans and advances to customers (Note 5)	**(7,674,316)**	(4,456,079)
Changes in amounts owed to entities (Note 12)	**5,716,557**	(1,088,027)
Changes in other assets (Note 9)	**298,494**	25,861
Changes in accruals and accounts payable (Note 13)	**(23,176)**	37,818
Net cash generated from / (used in) operating activities	**179,408**	(3,035,856)

MDB - Annual Report 2025

24. 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.

	2025	2024
	€	€
Balances with the Central Bank of Malta and other banks		
Repayable on call and at short notice (Note 3)	**12,148,872**	8,183,360
Financial investments		
Malta Government treasury bills (Note 4)	**-**	5,478,640
	12,148,872	13,662,000

25. Events after the reporting period

During February 2026, the Government of Malta, as sole owner of the Bank, approved a €10 million increase in paid-up share capital. The amount was remitted to the Bank on 13 February 2026. In this respect, the issued and fully paid up capital of the Bank amounted to €90 million as at the date of publication of this report.

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:

	2025	2024
Income received from related parties	€	€
Interest receivable and similar income	**2,253,268**	2,311,149
Income from financial guarantees	**113,517**	71,994
Administrative fee income	**1,485,070**	2,070,374
Other income	**39,753**	39,172
Expenses paid to related parties		
Administrative expenses	**94,700**	83,201

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:

	2025	2024
Amounts owed by related parties	**€**	€
Balances with the Central Bank of Malta	**1,814,944**	903,080
Loans and advances to banks	**9,505,886**	5,934,623
Financial investments	**38,385,525**	44,025,890
Other assets	**580,109**	801,885
Amounts owed to related parties		
Amounts owed to other entities	**10,255,044**	4,538,488
Other liabilities	**12,299**	23,428

26.4 Transactions with key management personnel

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:

	2025	2024
	€	€
Compensation to key management personnel	**982,489**	927,268

MDB - Annual Report 2025

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.

NOTES