MDB BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

ANNUAL REPORT
& FINANCIAL STATEMENTS
2021

CONTENTS

ABOUT THE MALTA DEVELOPMENT BANK

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

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

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

MDB's primary goal is to contribute to public policy objectives and it is therefore not driven by purely commercial and profit maximisation considerations. Nonetheless, the MDB supports only bankable investments and assesses proposals on the basis of sound banking principles, including feasibility.

In performing its promotional banking role, MDB's remit of activities covers a wide range of possible operations where there is evidence of market failure. In general terms, the MDB is engaged in the following priority areas:

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

OUR VISION

To make a significant contribution towards sustainable economic development by promoting inclusive and environmentally sustainable economic growth and infrastructure development.

OUR MISSION

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

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

BOARD
OF DIRECTORS

In exercise of the powers conferred by Article 21 of the Malta Development Bank Act, the Minister responsible for the MDB appoints the Bank's Directors. As at end 2021 the Board is composed of:

Chairperson
Prof. Josef Bonnici

Directors
Dr Rose Mary Azzopardi
Mr Robert Borg [1]
Ms Jackie Camilleri [2]
Dr Michele Cardinali [3]
the late Mr Paul Cardona [4]
Mr Anthony Valvo

These appointments are valid for the periods stipulated in Article 21(4), (5) and (6) of the Act. Dr Bernadette Muscat, the Bank's Chief Legal and Compliance Officer, serves as the Secretary of the Board.

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1 On 25 February 2022 Prof. Philip von Brockdorff was appointed in lieu of Mr Robert Borg.
2 Ms Jackie Camilleri was appointed on 11 February 2021 in lieu of Mr Paul Abela.
3 Dr Michele Cardinali was appointed on 14 April 2021 in lieu of the late Mr Godfrey Grima.
4 Mr Paul Cardona passed away on 4 March 2022.

Prof. Josef Bonnici

Mr Robert Borg

Dr Rose Mary Azzopardi

Ms Jackie Camilleri

Mr Anthony Valvo

Dr Michele Cardinali

Mr Paul Cardona

Dr Bernadette Muscat

LETTER OF TRANSMITTAL

BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

Malta Development Bank

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22 April 2022

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

Dear Minister,

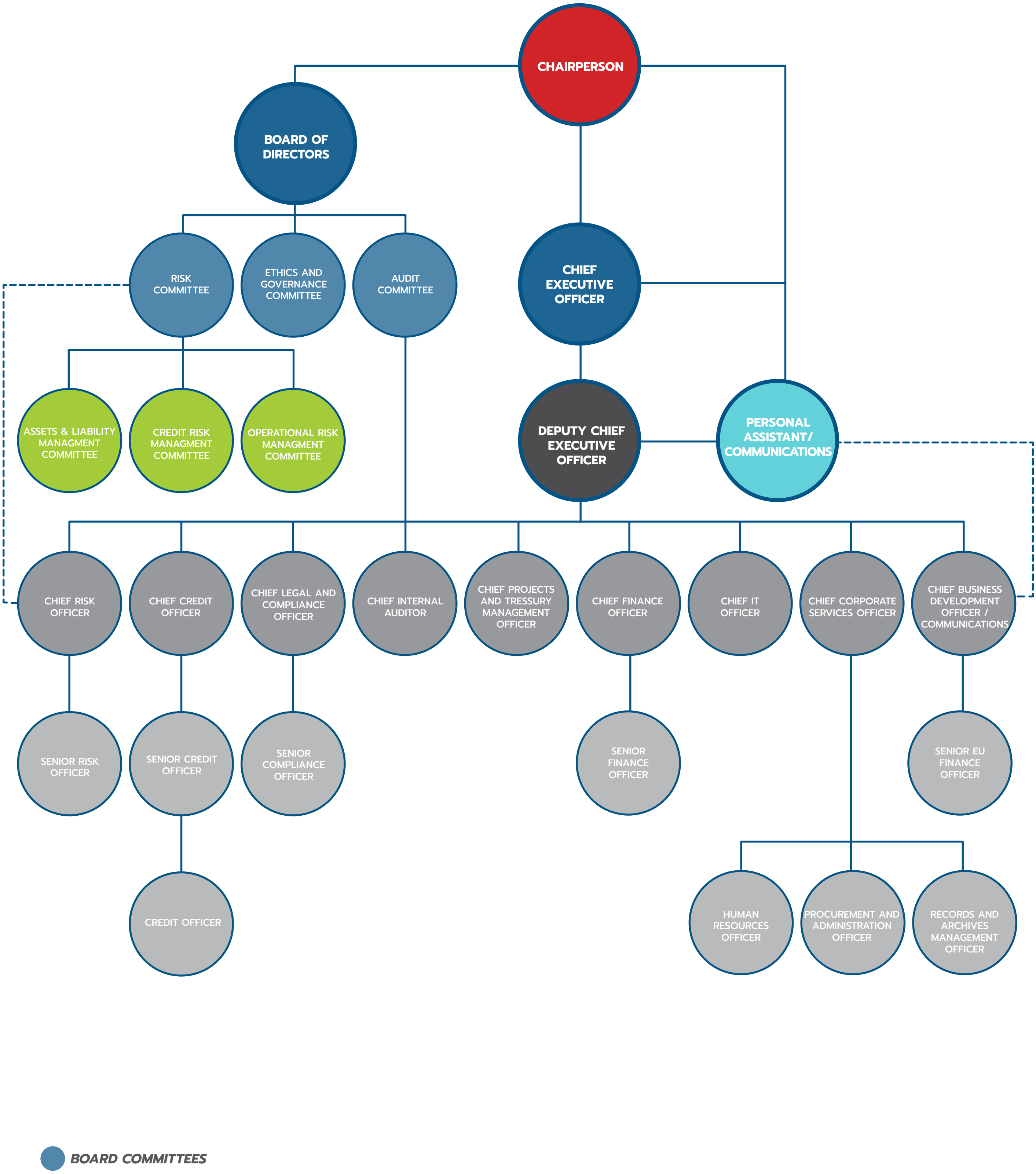
In terms of article 33 of the Malta Development Bank Act, 2016 (Cap 574), I have the honour to transmit to you a copy of the Annual Report of the Malta Development Bank for the year 2021.

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 2021.

Yours sincerely

JOSEF BONNICI
Chairperson

ORGANISATIONAL CHART



CHAIRPERSON'S STATEMENT

Setting the path towards a sustainable recovery and resilient economy

PROF. JOSEF BONNICI
Chairperson

More than two years since the COVID-19 pandemic transformed life as we know it, the global stage finally looked set to deliver a strong, post-recession economic revival.

However, the path to recovery is now expected to be more challenging, with geo-political tensions, high energy prices and continued supply-side disruptions putting a dampener on expectations. All this has vastly depleted the fiscal coffers of governments around the world, making economic injections at this crucial time even harder. Added to this, the developments in Ukraine provide a stark reminder that developments on the other side of the continent – or even the world – have a direct bearing on governments, businesses and individuals, wherever they are. Whether it is fuel prices, food and other commodities or the time needed to import goods, the interconnectedness of today's world means that we are never too far away from the next crisis.

The year 2021 was a challenging but encouraging one for our country. Despite being hard-hit by social restrictions, Malta's economic resurgence was one of the strongest amongst our European Union peers. The economy recovered significantly, inflation increased only moderately while the unemployment rate stood at historically low levels.

But, the recovery was uneven.

Data published by Malta International Airport shows that the number of passengers passing through its terminal in 2021 showed a marked improvement over 2020 but was still substantially lower than in 2019. Similarly, Malta's industrial production contracted on an annual basis for the last five months of the year, a matter of concern for Malta's manufacturing and export sector.

In such an evolving context, the Malta Development Bank, through continuous contact with the various stakeholders, adjusted its strategy on an ongoing basis to reflect the changing needs of the economy and the business community.

Although the MDB was already at an advanced stage in the process of designing new promotional schemes to support Malta's recovery through new investment and sustainable growth, it was also aware that pockets of businesses were still facing liquidity issues. Aware of such realities, the MDB sought and achieved EU's approval to extend its Covid-19 related schemes, to continue sustaining economic activity during and after the COVID-19 outbreak, thus ensuring that undertakings continue to have access to ample bank credit to finance their working capital needs.

Despite being a relatively young institution, the role of the MDB as a key enabler for the Maltese economy has grown significantly over a short-time period of time. Notwithstanding launching its first scheme only in late 2018, the MDB has already facilitated a cash flow injection of more than €550 million in loans by offering guarantee schemes to enhance access to commercial bank financing. These were taken up by close to 700 local businesses, operating across the local economic spectrum to invest in expanding their operations or to access working capital needed to ensure survival throughout the challenges of the pandemic. Micro, small or medium-sized enterprises represented the absolute majority, over 91%, of firms that secured such financing. Such loans reflect some 13.7% of the overall currently outstanding loans extended by the banking system to non-financial corporations in Malta, attesting to the fundamental role being played by the Bank in supporting economic activity.

The Covid-19 Guarantee Scheme (CGS) remained the Bank's most impactful scheme. It provided a lifeline to businesses requiring finance to cover working capital costs such as wages, rental costs and utility bills, among others. In parallel, the MDB also operated a COVID-19 Interest Rate Subsidy Scheme, whereby applicants benefited from a grant of up to 2.5 percentage points on the interest payable on the CGS loans for the first two years of the term.

Alongside the extensive crisis response measures, the Bank's core programmes continued to deliver. Indeed, in 2021 the SME Invest remained MDB's main guarantee scheme for new SME investments. As at end 2021 the allocated portfolio of €50 million has been almost entirely absorbed. The Bank also continued to support large-scale infrastructure projects, which experienced difficulties in accessing the appropriate bank or other financing, for example due to the long repayment period that is normally required to make them bankable.

Moreover, the Bank intensified its support in the upskilling of Malta's youths to strengthen the country's human capital. Thanks to the Further Studies Made Affordable (FSMA) scheme, we ensured an equality of opportunity, where students, regardless of their financial background, can develop their potential without relying on the financial possibilities of their parents or relatives. Following the successful take-up of the allocated funds, through which 277 students were able to undertake specialised studies in various disciplines, the Managing Authority of EU Funds secured new funding for the MDB to leverage a loan portfolio of up to €15 million which is being made available to students who wish to further their studies through the renewed FSMA+ scheme.

BUILDING A GREEN, DIGITAL FUTURE

We are aware that the country requires more than half-hearted measures to drive sustainable growth. In consideration of this, during the year the Bank also set the wheels in motion to develop programmes that reflect the evolving circumstances of the post-pandemic scenario.

The Bank sought to extend its risk absorption capacity by looking beyond our shores and gain access to a wider pool of resources. We did this on two fronts. First, by accessing European Commission's Technical Support Instrument to provide advisory services in the designing and eventual launching of new financial instruments focusing on equity and the more effective financing of start-ups.

Secondly, the Bank sought the support of the European Investment Fund (EIF) by way of risk sharing instruments under the Pan-European Guarantee Fund (EGF). Following months of intensive negotiations and due diligence, the Bank managed to secure and sign two important agreements with the EIF, establishing the Bank as the intermediary body of the EGF in Malta. With the backing of these agreements the Bank has developed two products which not only push the economy in its regeneration efforts but also reflect the overarching policy objectives of the European Union and national government. These include the twin challenges of a green and digital transition, two areas which are expected to transform the operations of firms. Whilst these schemes will be available to all economic sectors, the MDB will be prioritising those investment projects that aim to build a greener, more digital, modern, innovative and resilient Maltese economy.

These new programmes will offer more attractive terms and conditions, including an uncapped portfolio guarantee that provides significant and transparent capital relief for the commercial banks as well as higher credit risk coverage. These benefits shall be passed on to businesses in the form of lower interest rates, lower collateral requirements, longer loan duration and better access to more favourable financing.

Concurrently, the Bank has throughout the year continued to carry out extensive improvements in its internal governance and organisational capacity, ensuring that the Bank matures in line with its growing remit and portfolio. This will also contribute to being compliant with the requirements of the EU Pillar Assessment process and best practices. To this end, the Bank plans to leverage on the InvestEU guarantee facility as a risk-sharing instrument for new products, both through the EIB and directly.

As the Maltese economy transitions out of the pandemic phase, our mission is to support businesses during the recovery period and beyond. The MDB is closely monitoring the unfolding situation in Ukraine and its effects on the Maltese economy. In this regard, the Bank is actively considering the introduction of a number of measures to support strategic sectors in securing the supply of key commodities and to facilitate the flow of liquidity to local businesses. These measures are being formulated in line with the recently launched European Commission's Temporary Crisis Framework for State aid to support European economies in the context of Russia's invasion of Ukraine, and in consultation with local stakeholders. With this uncertain economic environment, new challenges are likely to emerge, but the MDB has never been better prepared and equipped to quickly respond to the needs of businesses as they evolve, enabling them to prosper and grow sustainably.

I am proud at the way the Bank scaled up from its start-up phase towards a more mature organisation, carving out a significant role in Malta's economic fabric. I am grateful to the team, including the Board of Directors and our highly dedicated management and employees, who have adapted to the new realities, reinforced the Bank's structures and transformed it into the important reality it is today.

JOSEF BONNICI
Chairperson

CEO'S STATEMENT

The Malta Development Bank's journey over the past five years has been an extraordinary one and intrinsically linked with the key developments underpinning Malta's financial, economic and social circumstances.

The Bank was set up at a time when the country was enjoying a protracted spell of buoyant economic growth. Initially, the focus was on facilitating access to credit to better serve smaller businesses in financing new investment projects that are so important to the Maltese economy and long-term prosperity. The pandemic created the need for the MDB to quickly become a key channel of Government's crisis-response measures intended to shore up the economy as many businesses were forced to close off their doors, international travel came to a halt and consumer patterns changed overnight.

Without departing from its raison d'etrè, the MDB rapidly shifted its focus to address the most pressing needs of businesses: that of ensuring access to finance for working capital requirements. Details of the extraordinary impact of MDB's Covid-19 Guarantee Schemes – through which more than half a billion euro in financing were accessed by more than 600 companies employing around 40,000 employees, are shared in this report. The SME Invest scheme was another important contributor to MDB's impact, with 150 facilities sanctioned across businesses, mostly micro firms, employing more than 2,000 persons, benefitting from favourable financing conditions for new investments.

However, the most tangible evidence of the impact of such measures, and which can be corroborated with data released by the Central Bank of Malta, relates to how loans supported by the MDB accounted for 13.7% of the total outstanding loans to non-financial corporations by end 2021. Another interesting finding in this year's report, that also attests the importance of MDB's countercyclical role during the pandemic, is the evident inverse relationship between the intensity of MDB's assistance and GDP growth during the past seven quarters of available data.

While the Bank's key instruments are targeted towards business operators, an important investment towards the future economic prospects of the country was carried out through the Further Studies Made Affordable Scheme (FSMA) scheme, which has now been further developed into its successor, the FSMA+. This financial instrument is targeted towards students aiming at furthering their educational attainment and once again reflects the strong social element underpinning our activity, given that it allows students, regardless of their background to invest in their desired career.

Although the international economic and geopolitical environment remains unclear, indicators point towards a sustained recovery, for the European and Maltese economy. In such a context, the MDB has been for the past months carrying out extensive research and consulting with a wide array of economic stakeholders, in order to design the instruments required by the local economy to support its regeneration and meeting the strict obligations associated with the fight against climate change and the extensive investment gap in digitalisation. On all fronts, the Bank will retain its strong social dimension which has characterised its short history.

As part of its research efforts, the MDB is also benefitting from technical assistance under the European Commission's Technical Support Instrument to better assess the evolving needs of businesses in Malta with regards to equity-based instruments and other financing support for start-ups.

The MDB also sought to extend its limited resource pool of funds through the support of the European Investment Fund (EIF) by way of risk sharing instruments under the Pan-European Guarantee Fund. The Bank signed two agreements with the EIF, recognising the MDB as the intermediary party of the EGF in Malta. The EGF financial guarantees on the two proposed financial instruments amount to close to €80 million, which will be leveraged through the intermediating commercial banks to enable an injection in excess of €150 million. Such injection of capital into the Maltese economy will strengthen the drive to push Malta into the next level of growth.

In parallel, the MDB also aims to continue to play a pivotal role in the realisation of major infrastructural projects, which are a key element of Malta's recovery plan, and will be able to provide financing solutions that are tailored to the needs of the projects which generally are more complex and require a longer gestation period.

The MDB's success in managing a growing portfolio of guarantees as well as obtaining recognition as an implementing body under the EGF was possible thanks to a significant investment over the past months in the strengthening of the Bank's internal governance procedures, particularly internal control systems, accounting and budgeting systems, the publication of information, data protection and reporting, internal auditing, and anti-money laundering safeguards.

We have devoted substantial resources to implement an extensive framework of policies and procedures which resulted in improved governance, more streamlined operations, and more effective management of risk.

RENE G. SALIBA
Chief Executive Officer

Concurrently, we have invested significantly in human capital, both through new recruitment as well as training. Our team is now made of 20 dedicated and skilled professionals, with a perfect 50:50 gender balance.

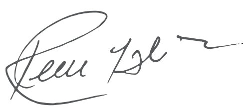
The Bank has also completed the relocation of its offices to a newly-refurbished building in Floriana which reflects its institutional growth.

The Bank has continued to optimise its IT infrastructure to cope with increasing demand, both to manage risks and improve operational efficiency. Information security remained high on the Bank's agenda and various internal controls, particularly IT protocols, were implemented and strengthened in line with international standards and best practices.

The MDB is committed to increase resilience through the development of internal policies and regular security testing activities, ensuring the reliability of our cyber-systems.

The Bank's operating income improved noticeably compared to the previous year, outpacing the increase in operating expenses. This reflected the growth in business particularly in respect of guarantee operations. The increase in operating expenses was attributable to new recruitment and a strengthening of its operational infrastructure. As MDB's balance sheet and remit of operations continue to expand through the provision of risk sharing schemes and direct project finance, the Bank strengthened significantly its credit loss provisioning processes to provide adequate safeguards in the face of the uncertainties generated by the pandemic and geo-political disruptions. These higher provisions provide an assurance that sufficient capital reserves are maintained to allow for potential losses resulting from credit risk developments of its underlying asset portfolios. Despite the uncertain international economic climate, the Bank looks forward with optimism at further enhancements in its operating performance. The Bank is still relatively in its set-up phase but it is investing strongly in business development so as to broaden its range of facilities and ensure that it can play a more active role as an agent of growth to support sustainable socio-economic development and fulfil its promotional remit more effectively.

In conclusion, I would like to extend my appreciation to all the team at the Malta Development Bank, for their commitment throughout the trying times, during which the Bank has asserted itself as a respected stakeholder in the institutional framework. These efforts were crucial in allowing the Bank to live its purpose to support the community it serves in by shielding economic players through the dark clouds while being on their side on the path to growth and success.



RENE G. SALIBA
Chief Executive Office

CORPORATE GOVERNANCE STATEMENT

GOVERNANCE

The Malta Development Bank Act was passed on 5 May 2017 (Act XXI of 2017 CAP 574) and came into force on 24 November 2017 through Legal Notice No 340 of 2017. On 11 December 2017, the Minister for Finance appointed the members of the Board of Directors and the Supervisory Board of the Malta Development Bank.

The Board is responsible for ensuring good governance and performs this task by setting strategic objectives and targets and taking strategic decisions on all key business issues. The regular day-to-day management, control and direction of the MDB are the responsibility of the Chief Executive Officer (CEO), the Deputy Chief Executive Officer (DCEO), and the senior management team. The CEO, DCEO and the senior management team follow the strategic direction set by the Board and in turn management provides the Board with the analysis needed for Board deliberations.

BOARD STRUCTURE AND RESPONSIBILITIES

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

At the end of 2021, the Board of Directors was composed of Prof. Josef Bonnici as Chairman, Dr. Rose Mary Azzopardi, Mr. Robert Borg, Ms Jackie Camilleri, Dr Michele Cardinali, the late Mr. Paul Cardona, and Mr. Anthony Valvo. Ms Jackie Camilleri and Dr Michele Cardinali were appointed Directors in 2021 to replace Mr Paul Abela and Mr Godfrey Grima respectively.

Article 21 of the MDB Act provides that the Chairperson shall be appointed after consultation with the Opposition. Article 21(5) sets the term of the Chairperson at six years. The independent Directors nominated by the Malta Council for Economic and Social Development, Ms Jackie Camilleri and Mr Robert Borg,[5] were appointed for a term of six years, in line with article 21(6). The term of the other Directors is five years in accordance with article 21(4). The differing appointment terms provides continuity. The Chairperson may be re-appointed for four years while all the other Directors may be re-appointed for three years.

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

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

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

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

5 On 11 February 2021 the Minister appointed Ms Jackie Camilleri in lieu of Mr Paul Abela pursuant to an agreement within MCESD that the term of the Board member nominated by the employers shall be shared equally between the Chamber for SMEs and the Chamber of Commerce. On 25 February 2022 Prof Philip von Brockdorff was appointed in lieu of Mr Robert Borg pursuant to an agreement within MCESD that the term of the Board member nominated by the unions shall be shared equally between the General Workers Union and the UHM Voice of the Workers. Both appointments will expire on 10 December 2023.

BOARD COMMITTEES

AUDIT COMMITTEE

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

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

The Committee comprises of three Directors appointed by the Board. The members as at 31 December 2021 were Mr. Robert Borg (Chairperson), Dr. Rose Mary Azzopardi and Mr Anthony Valvo. The Chief Internal Auditor attends Audit Committee meetings in a non-voting capacity. Other directors, Senior Management and Chief Officers may be invited to attend in an advisory capacity. An independent audit firm that contributes to the Internal Audit function under a co-sourcing arrangement is also invited to attend the meetings.

During 2021 the Committee received regular reports from the Chief Internal Auditor and the independent internal audit firm. The Committee reviewed the key findings from the outcome of the individual internal audit reviews carried out, monitored the status of implementation of agreed audit action points emanating from audit reports, and approved the risk-based internal audit plan. The Committee also reviewed the draft Financial Statements of the Bank and recommended them for the approval to the Board. The review focused on the adopted accounting policies, significant assumptions and estimates adopted in the preparation of financial statements, the appropriateness of financial reporting procedures and the accuracy and completeness of disclosures in line with international financial reporting standards as adopted by the EU.

The Committee met on four occasions in 2021.

ETHICS AND GOVERNANCE COMMITTEE

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

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

During the year 2021, to further enhance the Bank's performance and control environment and legal requirements, the Committee recommended to the Board's approval a set of policies namely the Dignity at the Workplace Policy, Grievance Policy, and Performance Management Policy.

The Committee is composed of three Directors appointed by the Board. The current members are Prof. Josef Bonnici (Chairperson), Mr Anthony Valvo, and Dr Michele Cardinali who replaced the late Mr. Godfrey Grima.

The Committee met on two occasions in 2021.

RISK COMMITTEE

The role of the Risk Committee is to assist the Board in:

- Fostering sound risk governance across the Bank's operations by assuring that Bank management is taking a forward-looking perspective and anticipating changes in business conditions.
- Ensuring that processes are in place to assure the Board that management has appropriately identified, reported, assessed, managed and controlled the risks relative to the Bank's strategy and operations.
- Promoting a culture of risk awareness within the Bank through communication and education.

The Risk Committee is chaired by Prof. Josef Bonnici, and includes Dr Rose Mary Azzopardi, Director, Mr. Anthony Valvo, Director, as well as the Chief Risk Officer and the Chief Credit Officer.

Three management committees report to the Risk Committee, namely the Asset-Liability Management Committee, the Credit Risk Management Committee, and the Operational Risk Management Committee. The roles and composition of the three management sub-committees reporting to the Risk Committee are as follows:

1. The Asset-Liability Management Committee (ALCO) is chaired by Ms Jackie Camilleri, Director, and includes as members the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Credit Officer, and the Chief of Projects and Treasury Management. All members are appointed as voting members of the Committee with meetings held at least each quarter and with additional ad hoc meetings as may be deemed necessary. The first ALCO meeting was held during the second half of 2021.

   ALCO is tasked with carrying out the functions of asset and liability management, liquidity risk, interest rate risk and capital risk. The asset and liability management function involves the evaluation of structural changes to the Bank's balance sheet and the achievement of strategic objectives in relation to the financial position of the Bank.

2. The Credit Risk Management Committee approves the credit risk assumed by the Bank and monitors the effectiveness and application of credit risk management policies and procedures.
   It is chaired by Mr. Robert Borg, Director, and includes the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Risk Officer, the Financial Controller, the Chief Credit Officer, the Head of Projects and Treasury Management and the Head of Legal and Compliance.

3. The Operational Risk Management Committee oversees the MDB's enterprise-wide risk framework that manages the operational risks to which the MDB is exposed in its conduct of business.

   It is chaired by Mr. Paul Cardona, Director, and includes the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Head of IT and the Head of Legal and Compliance.

The composition of these management sub-committees reflects the entity-wide scope and inclusive nature of the Bank's risk management strategy. The Credit Risk Sub-Committee and the Operational Risk Sub-Committee are envisaged to be fully functional during 2022. For the time, the meetings of the Risk Committee and these two management sub-committees are held jointly.

During 2021, the Risk Committee received regular reports on the MDB's risks and the controls in place to mitigate risks as well as credit proposals from management. It has also reviewed a number of policies and put forward policy recommendations to the Board. The Committee also discussed changes to the Bank's expected credit losses model and has reviewed the terms of reference of ALCO and recommended amendments to the Board.

The Risk Committee met four times and ALCO met three times in 2021.

THE INTERNAL AUDIT FUNCTION

Shortly after commencing operations in 2017, the MDB engaged a reputed auditing firm to provide internal audit services. As the Bank continues to pursue its objectives and provide various support programmes intended to sustain a diverse range of beneficiaries from businesses to students, its operations have increased significantly. In parallel with this growth, MDB embarked on strengthening its organisational capacity and investing in its human resources. One of these strategic initiatives during the past year was the recruitment of the Chief Internal Auditor to establish the Internal Audit function within the Bank.

THE ROLE OF INTERNAL AUDIT

The role of the Internal Audit function is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. In its role as the Third Line asserted in the 'Three Lines Model' which the Bank endorses, the Internal Audit function has a vital and prominent role, being responsible for an independent review of the first two lines of defence, and for promoting best practices by addressing identified weaknesses in the Bank's operational and organisational set up. This role is performed by:

- Evaluating the effectiveness and efficiency of internal control, risk management and governance systems in the context of both current and potential future risks;
- Assessing the reliability, effectiveness and integrity of management information systems and processes (including relevance, accuracy, availability, confidentiality and comprehensiveness of data);
- Monitoring of compliance with applicable laws and regulations; and
- Safeguarding of assets, including safeguarding of wider interests such as reputation.

The most important factors that shape internal audit are the function's independence, objectivity and authority, complemented with the other fundamental pillars of integrity, confidentiality and competence. In discharging its role, the Internal Audit function is guided by the International Standards for the Professional Practice of Internal Auditing.

INTERNAL AUDIT ACTIVITIES

During the initial months of the setting up of the inhouse Internal Audit function within MDB in 2021, the internal audit activities were mainly focused on ensuring a robust framework both within internal audit itself as well as within the Bank, based on best practices commensurate with the scale of operations of MDB. Internal Audit was thus involved in reviewing a suite of policies and procedures introduced to foster high standards of governance and internal control processes.

Internal Audit also conducted an independent risk analysis to identify the areas to be prioritised in the formulation of a three-year risk-based internal audit plan, following consultation with the Chief Officers, Senior Management and the Chairman of the Board of Directors. The primary focus has been on credit risk which is consistent with MDB's main line of operations and the substantial participation of the local business community in the COVID-19 Guarantee Scheme. One of the audit activities carried out in collaboration with an external audit firm included a selected sample of facilities granted as part of the COVID-19 Guarantee Scheme which have been reviewed for adherence to the eligibility criteria approved by the European Commission under the Temporary Framework for State aid measures to support the economy during the COVID pandemic.

The effectiveness of the Internal Audit function is determined to a large extent by the timely implementation of agreed actions aimed to address findings emanating from previous audits. Follow-up reviews have been performed to ascertain the status of implementation of such action points, the results of which were communicated to Senior Management and the Audit Committee. The Bank's Senior Management is committed to the implementation of Internal Audit recommendations and has proactively ensured that the implementation status of the agreed actions is reflected in the staff performance appraisals.

The Bank intends to further strengthen the Internal Audit function with additional recruitment in the coming months in order to have in place a robust Third Line capable of ensuring adequate risk coverage corresponding to the Bank's ambitious strategy in the short to medium term.

SPECIAL TOPIC I

ENHANCING MDB'S INTERNAL GOVERNANCE AND OPERATIONAL CAPACITY

As Malta's only promotional bank, the MDB is proud to adhere to the highest internal governance standards and to abide with robust and best practice policies and procedures, including a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management processes, control mechanisms and gender-neutral remuneration policies. Despite being set up only in late 2017, the MDB has invested heavily in developing its operational capacity and organisational policies to meet the required standards to govern such an institution. Moreover, the strengthening of MDB's internal structures will also be beneficial in the upcoming auditing exercise of the European Commission's Pillar Assessment process which will enable the Bank to become a direct implementing partner of the InvestEU programme.

During 2021, a number of policies and procedures were introduced to support the Bank's internal governance processes. These mainly include policies governing the risk and finance functions of the Bank, but also processes relating to human resource management, IT, treasury and the legal departments. This section will outline the objectives of 14 of these policies and frameworks. Due to their more complex nature, an additional two policies - the Enterprise Risk Management Framework and the anti-fraud policy - are explained more comprehensively in separate sections of this Report.

RISK MANAGEMENT FUNCTION

In view of MDB's public policy mandate, the MDB is exempt from the EU Capital Requirements Directive, the EU Capital Requirements Regulation and other banking regulations. Instead, the MDB Act subjects the Bank to the prudential oversight, regulation and the supervision of the Supervisory Board appointed by the Minister in terms of the MDB Act. Within this context, the Bank's risk management systems and procedures are reviewed and refined on an ongoing basis to ensure compliance with what the Bank identifies as the relevant market standards, recommendations and best practices. In 2021, the Bank adopted its ***Risk Appetite Framework***. The objectives of this Framework are mainly to provide a clear articulation of the Bank's risk-taking, risk mitigation and risk avoidance processes. Thereby, the Risk Appetite Framework creates a foundation for effective communication of risk among internal and external stakeholders.

The Bank also developed an ***Interest Rate Risk in the Banking Book*** (IRRBB) Policy which provides for the governance and measurement of IRRBB. It also provides for the management of IRRBB in a way that is consistent with MDB's relevant risk appetite statement and corresponding risk limits. In addition, the Risk Management function also sets out the Bank's ***Counterparty limits methodology***. By having clear and unambiguous counterparty limits, the MDB mitigates counterparty credit risk exposure through increased diversification.

In 2021 the MDB also formalised the ***Operational Risk Management (ORM) policy*** which governs the process to identify, assess, respond, and report operational risk. This Policy also seeks to ensure an effective and efficient ORM process by inter alia, taking account of the size and level of sophistication of the MDB as well as the nature and complexity of the activities of the Bank.

In order to ensure a healthy organic growth that fosters sustainability, the Risk Management function embarked on an intensive exercise to review the Credit Risk Policy. The amendments to the ***Credit Risk policy*** were aimed at further aligning the said Policy and related processes to the relevant international best practice, whilst acknowledging the specific business model of the Bank.

The ***Framework for External Reporting*** was also implemented in 2021 to increase the robustness, accuracy and trustworthiness of the Bank's disclosed information. Higher quality reporting is seen as more trustworthy and, ultimately, more useful for the MDB's management and decision-making process and for the information users.

FINANCE FUNCTION

Through its financial planning and resource allocation initiatives, MDB controls its operating and capital expenditure whilst seeking to optimise its revenue, taking cognisance of the Bank's public policy objective. To this end, the Bank drafted and has implemented its ***Planning, Budgeting and Forecasting policy***. This policy allows for effective planning and provides for regular monitoring of actual-budgeted performance and delivers sufficient information to management to take corrective action to steer performance in line with the agreed plan. In addition, the MDB Business Plan provides a model on the viability of the Bank based on the strategic direction approved by the Board of Directors over the medium term. The annual budget also reports the expected financial results, financial position and cashflows for the bank over the next 12 months taking into consideration the overall projected income, operational and capital expenditures.

During 2021, the Bank has implemented a system to enhance its governance practices relating to its project cost management policy. A time recording system was implemented to capture and monitor time utilisation on the key projects and other Bank activities, including existing and planned financial instruments, guarantee schemes and other activities such as policy building assignments. Time spent by staff on specific projects is recorded and monitored on a periodical basis. The accounting system is configured to allow the capturing, processing and reporting of transactional data and financial information directly relating to specific projects, activities, and financial instruments. As part of its cost management practices, the Finance function is implementing an activity-based costing system with the aim to capture cost data related to the banks' key activities and enable the allocation of such costs to projects. Through such a system, the Bank will be able to generate relevant and reliable information for the preparation of financial reporting which provides management with insight in terms of performance analysis and value-added activities.

PROJECTS AND TREASURY MANAGEMENT FUNCTION

In the year under review, the ***Treasury Management policy*** was established to govern the Bank's definition in relation to appetite on foreign exchange, interest rate, liquidity, funding and counterparty risks as well as general pricing risks. The policy outlines the goals of the Treasury Department as managing the Bank's cash flows in an efficient and economic manner such that cash outflows in the form of loan assets and related disbursements are adequately funded in a timely and effective manner. Moreover, it ensures that excess liquidity, cash inflows in the form of interest and loan repayments and cash injections arising from the Bank's funding sources, are employed at a maximised return in financial market instruments that are within the Bank's risk appetite. At the same time, the policy establishes the terms of minimising and diversifying the cost of funding.

IT FUNCTION

Incident Management policy was implemented in 2021 to ensure a consistent and effective approach to the management of IT incidents. The policy standardises the methods and procedures to be adopted for efficient and prompt detection, response, analysis, escalation, documentation, ongoing management and reporting of incidents. The objective of Incident Management is to restore normal service operations as swiftly as possible with the minimum impact on business operations, and wherever possible avoid recurrence of similar incidents based on lessons learnt, thus ensuring that the best possible levels of service quality and availability are maintained. The policy also establishes responsibilities for all MDB staff members as end-users of the Bank's IT services. The IT Incident Management policy is supplemented with detailed procedures to ensure a standardised approach to incident management and compliance with the policy.

Another policy implemented in 2021 was the IT Change Management policy. This policy aims at minimising disruptions to the MDB's business activities, as well as the risks arising from these disruptions, through use of standardised methods and procedures for handling planned and unplanned changes to IT services and underlying systems. The Change Management process ensures that all changes to IT services and systems are carried out in a controlled and secure manner, while ensuring changes are prioritised and managed according to their impact and risk.

HUMAN RESOURCES DEPARTMENT

During 2021, three different policies were drafted and implemented by the Human Resources Department. The first relates to the ***Grievance policy*** which was designed to assist the Bank in handling employees' grievances in the workplace and to give the opportunity to voice employees' personal grievance. The Policy provides a list of unfair treatments that can be covered under this Policy which include alleged cases of unfair treatment of safety in the workplace, staff development or training, leave allocation, performance appraisal, transfer or promotion and wage or salary levels.

The second policy was the ***Performance Management policy*** which was designed to guide management and employees on the objectives of fair and effective performance assessment and management, whilst incentivising effort, commitment, motivation and output quality, identifying areas of improvement, enhancing communication and increasing job satisfaction.

The last policy implemented by the Human Resources Department during 2021 was the ***Dignity at the Workplace policy***. Through this policy, the Bank regards any act of bullying, harassment or any inappropriate behaviour as an offence. Thus, this policy is intended to ensure that in the event that there are allegations of such offences at the Bank, adequate procedures are readily available to deal with the situation.

COMPLIANCE AND LEGAL ACTIVITIES

In 2021 the Legal and Compliance Department continued to strengthen MDB's anti-money laundering/combatting the funding of terrorism (AML/CFT) and data protection frameworks in order to enhance the robustness of these regimes. In the same year the Legal and Compliance Department continued to expand its Compliance Programme on different aspects of MDB's regulatory environment. Proposals have also been drafted to the Malta Development Bank Act (Cap. 574) which is due for its five-yearly revision before the end of 2022.

AML ACTIVITIES

The annual review of MDB's AML/CFT Policy was carried out in the last quarter of 2021. The 2021 review implemented a number of changes, with the main enhancements being made to the Money Laundering Reporting Officer's (MLRO) roles and responsibilities, the provisions on enhanced due diligence, ongoing monitoring obligations, sanctions screening, internal and external reporting and record-keeping procedures. In order to facilitate internal reporting by front line staff of suspicions of AML/CFT activities, two new templates have been devised, namely a Suspicious Transaction Internal Report and a Suspicious Activity Internal Report. The former relates to the reporting of a transaction or series of transactions which are deemed to be suspicious due to not being in line with the customer's known or expected transactional profile. The latter regards transactional activity which is in line with the known or expected profile, but the customer displays behaviours which raise suspicion.

Following the review of the AML/CFT Policy, discussion continued with senior management on the proposed Customer Acceptance Procedures. These Procedures set out the framework and key principles designed to protect MDB against possible use of its services for AML/CFT purposes, by (i) providing a description of the type of customers that are likely to pose a higher-than-average risk of money laundering or terrorist financing; (ii) detailing the risk indicators that will lead to a business relationship or an occasional transaction being considered as presenting a low, medium or high risk of money laundering or terrorist financing; (iii) ensuring risk management procedures that are conducive to determining whether a customer or its beneficial owner is a Politically Exposed Person (PEP) bearing in mind that Article 6(1) of the MDB Act prohibits MDB from dealing with PEPs; and (iv) outlining the customer due diligence (CDD) measures, including ongoing monitoring to be applied, and under what circumstances MDB will decline to service a customer. The proposed Customer Acceptance Procedures will be presented to the Board in early 2022.

Funding agreements entered into by MDB with international institutions or EU development banks typically impose on MDB the obligation to ensure that local partner banks with which it conducts business have in place sound AML policies and procedures. In 2021, an assessment of three local banks was conducted in this regard. The assessment is typically conducted in three phases. First, in order for MDB to obtain an understanding of the corporate structure and relevant procedures of the partner bank, the latter is requested to provide a copy of its ownership structure, its AML/CFT Policy, a duly completed Wolfsberg Questionnaire and its Foreign Account Tax Compliance Act (FATCA) statement. As a second step, the Compliance and Legal Department holds an interview with the MLRO of the partner bank during which a series of investigative questions are posed to better understand and assess the intermediary partner's AML/CFT framework. As a third step, MDB's MLRO carries out a sample review of a number of selected customer files for facilities approved under the various MDB financing schemes. The purpose of this review is to evaluate and ensure that the CDD procedures adopted by partner banks are commensurate with the CDD measures laid down under Regulation 7 of the Prevention of Money Laundering and the Funding of Terrorism Regulations (PMLFTR).

In the beginning of 2021, MDB subscribed to the Refinitiv World-Check Database which is an automated system intended to enhance the application of know-your-customer procedures and sanctions screening. This system greatly facilitates and enhances the process of protecting MDB against money laundering and terrorist funding risks and to prevent dealing with sanctioned persons. Other similar systems are used in KYC procedures.

AML/CFT training was provided to employees on the existing AML framework and recent developments in the law and implementing procedures. The training was intended to make staff aware of relevant AML/ CFT legislation requirements and policies and procedures, and to enable them to recognise, handle and report operations and transactions that may be related to proceeds of criminal activity, money laundering or the funding of terrorism.

DATA PROTECTION UPDATE

MDB's annual review of its Data Protection Policy was also carried out in 2021. The proposed amendments address mainly the finetuning of the role and responsibilities of the Data Protection Officer (DPO), the introduction of a new section detailing the roles of the three lines of defence, thus aligning this Policy with the MDB's Operational Risk Management Framework, and the enhancement of various sections such as on data subject rights and freedoms, retention of data, undertaking a Data Protection Impact Assessment and breaches of Data Protection Legislation.

A number of new Procedures were implemented, including (i) a Data Subjects Rights Request Procedure which provides a process and workflow to be guided by when identifying and/or receiving a request from an individual in relation to the exercise of the data protection rights under the EU General Data Protection Regulation (GDPR), (ii) a Data Protection Impact Assessment (DPIA) Procedure in order to assist MDB to comprehensively analyse its complex processing activities and (iii) a Data Breach Procedure which details the general principles and actions for successfully managing the response to a data breach. The DPIA Procedure was implemented in relation to the installation of a new Loan Management System.

MDB also adopted a Data Retention Policy. This Policy regulates the retention and disposal of the various types of documentation, whether held in manual or automated filing systems within MDB, in accordance with the GDPR. This Policy aims to achieve a good working balance between the retention of useful and meaningful information in line with the provisions of the relevant legislation and the disposal of data which is no longer required and is being archived unnecessarily.

In order to implement the requirements of the GDPR, a privacy notice is published on MDB's website indicating to subject persons the categories of personal data which are processed by MDB, the purpose for which it is processed, the rights of data subjects and a general indication of the applicable retention periods. The privacy notice was due for its annual review in 2021. This update took into account some finetuning of aspects of the privacy notice in particular in relation to data subject rights that may be exercised in terms of the GDPR.

MDB has compiled a Data Processing Register to record all the processing activities of MDB, the scope of such processing, the legal basis for the processing, any processing agreements that have been entered into, any transfer of data to third parties, etc. The Data Processing Register has been updated in 2021 in order to observe requirements for its yearly review. Questionnaires were distributed to staff asking for any developments in the processing of personal data (such as new processes not recorded in the previous year). The register was updated on the basis of the replies received.

In 2021 the Compliance Unit compiled MDB's first Data Retention Schedule. This involved compiling an exhaustive list of all physical and electronic documentation held by the various business Units and establishing a deadline within which data is required to be destroyed.

Employees, including new recruits, continued to receive internal training on the data protection legal framework, including recent developments in the law and amendments to MDB's data protection policy. The training was intended to ensure that MDB staff are aware of relevant data protection legislation and requirements, including, but not limited to, breaches of data protection, and that they can recognise, handle and report breaches to the DPO and fulfil statutory requirements.

REVISION OF THE MALTA DEVELOPMENT BANK ACT

The Minister responsible for MDB is obliged by article 42 of the MDB Act to undertake a review of the MDB Act five years after the MDB Act enters into force, and every five years thereafter, taking into account any State Aid reviews conducted during the period. The first review of the MDB Act is due by November 2022. A first set of proposals was formulated internally with a view to preparing a proposed Bill to amend the MDB Act.

STRATEGY

BUSINESS

Since its establishment in late 2017, the MDB has navigated through significant changes in the economic and social landscape. Market and economic conditions evolved, and policy priorities shifted. Enabled by its nimble structure, the MDB was able to quickly embark on a renewed strategic direction to ensure that it is well positioned to respond to the challenges and opportunities ahead.

The MDB is tasked to fill market gaps in the financial system and to contribute towards the sustainable economic development of Malta by promoting inclusive and environmentally sustainable growth. Since its inception, the strategy of the MDB has been to crowd-in private and public investment by complementing, rather than competing, with commercial banks.

MDB's business model is largely based on the recommendations emanating from a market failure study commissioned by the Government of Malta in 2015, which had identified two main sectors of market gaps: namely the financing of the SME and infrastructural sectors. However, as part of its ongoing operations the MDB periodically scans the market to ensure that changing circumstances are being monitored and analysed. As part of this process, over the past year the Bank carried out a detailed evaluation of its own financial instruments, to ensure the appropriateness of its response. Through this exercise, the MDB gained a better understanding of prevailing concerns and perceptions on business facilities in Malta, and to also gauge market needs in the anticipated recovery phase. By bridging financial gaps, the MDB ensures that it achieves additionality by offering forms of intermediation that cannot be provided by the market alone.

EXTENDING THE COVID-19 GUARANTEE SCHEME

MDB's intervention through the Covid-19 Guarantees Scheme (CGS) was crucial in ensuring that Maltese businesses survive the severe liquidity constraints they were facing due to restrictions brought forward by the pandemic spread. Launched in April 2020, MDB's CGS is leveraging on a Government guarantee of €350 million by mobilising commercial banks' liquidity into the flow of credit to the real economy. Through the CGS, the MDB is providing a guarantee of 90% on new working capital loans granted by commercial banks, enabling the creation of a portfolio with a potential of up to €777.8 million in new working capital loans to all businesses, regardless of size or sector. The CGS is complemented by a COVID Interest Rate Subsidy Scheme covering up to 2.5% of the interest rate payable on CGS loans during the first two years of such loans. The objective of these MDB's schemes is to preserve the continuity of economic activity during and after the COVID-19 outbreak, thus ensuring that undertakings impacted by the pandemic continue to have access to the necessary bank facilities to finance their working capital including wages, rental costs and utility bills, among others.

In the light of the unfolding Covid-19 developments which suggested that the impact of the pandemic was lingering longer than anticipated, in November 2021 the Commission adopted a limited prolongation of 6 months of the State aid Temporary Framework, until 30 June 2022. This will allow Member States, where needed, to extend their support schemes and ensure that businesses still affected by the crisis will not be cut off from the necessary support. To this end, the MDB wrote to the Commission twice to extend the Bank's Covid-19 facilities in line with the amendments of the Temporary Framework. On both occasions, the European Commission approved the prolongation of the Bank's existing Covid-19 schemes by a further three months, and six months, respectively, and the scheme is now applicable until end June 2022, in line with the expiry of the Temporary Framework. [6]

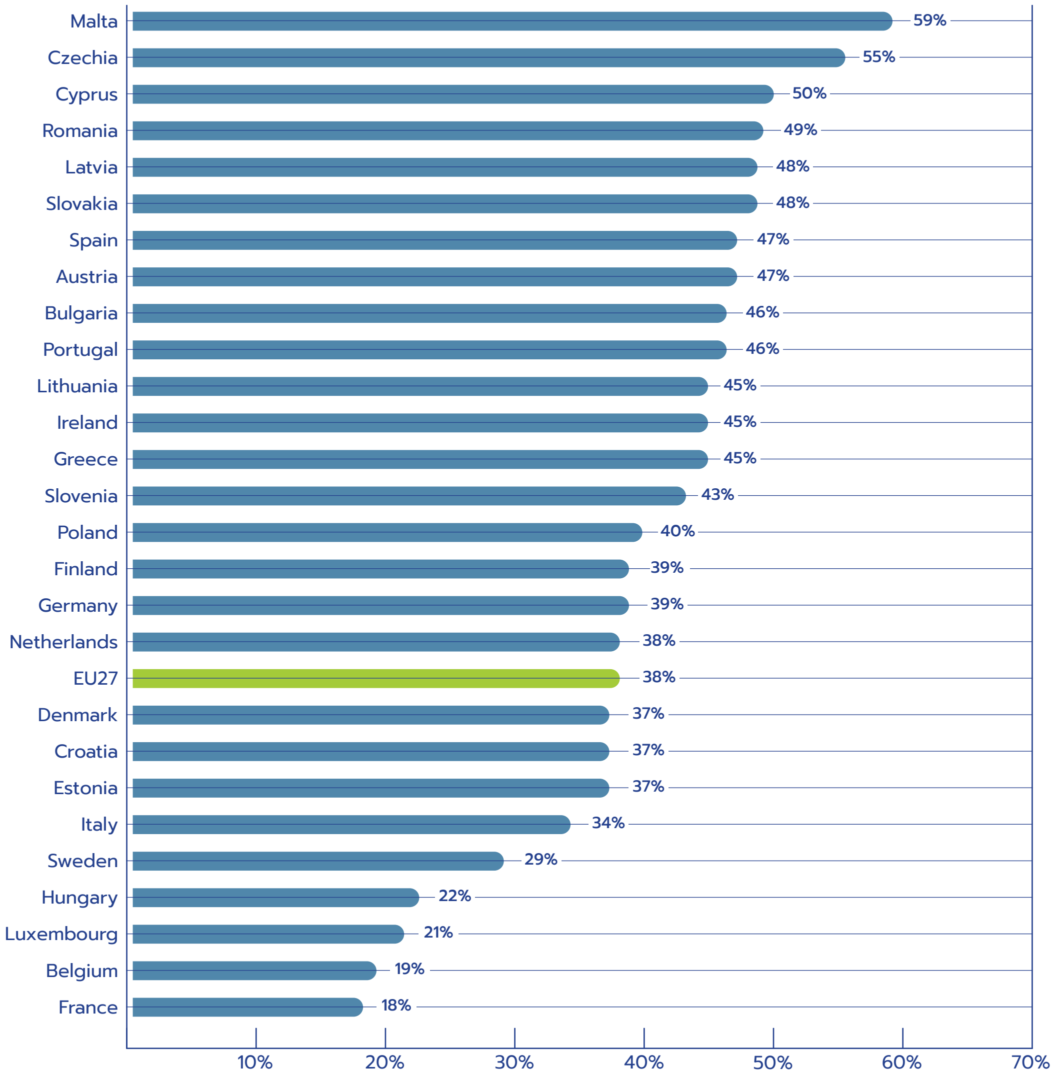
6 European Commission decisions on MDB's requests were taken on 15 October 2021 and 12 January 2022.

In addition, in the latest Temporary Framework amendment, the Commission has introduced a number of targeted adjustments, including new measures which enable further economic investment and post-pandemic solvency support. To this end, in its latest notification, the Bank requested the Commission to alter the terms of the CGS loans, both new and existing. In its decision the European Commission approved that, in exceptional cases and at the discretion of the commercial banks, the loan term can be extended from 72 months to a maximum of 96 months (inclusive of the moratorium period). This change is also reflected in the guarantee fees, which are applicable retrospectively, and subject to other terms and conditions.

Extending the CGS by a further six months was of critical importance in the context of the underlying economic and financial conditions. As evidenced by the latest Survey on the Access to Finance of Enterprises (SAFE), carried out between April and September 2021, local SMEs claimed that in net terms, the general economic situation has deteriorated when compared to a year earlier.[7] Owing to the fact that a large proportion of SMEs in Malta are linked to the tourism or entertainment industry, liquidity constraints remained pronounced. The SAFE results show that the use of external financing by local SMEs to support inventory or other working capital requirements rose from 52% in 2020 to 59%. As can be seen in Chart 1 below, this was the highest external financing utilisation rate within the EU, well above the EU average of 38%. This is to a significant extent attributable to the very strong take-up of the CGS, and a main reason why these facilities have been extended till mid-2022.

CHART 1:

EXTERNAL FINANCING USED AS INVENTORY OR OTHER WORKING CAPITAL BY SMES IN THE EU27 DURING APRIL TO SEPTEMBER 2021, BY COUNTRY



7 The SAFE exercise is conducted twice a year: once by the ECB covering euro area countries and once in cooperation with the European Commission covering all EU countries plus some neighbouring countries.

TAPPING THE PAN EUROPEAN GUARANTEE FUND

After successfully launching the Covid-19 Guarantee Facilities in 2020 to safeguard the survival and stability of businesses impacted by the pandemic, during the period under review the Bank focused on the introduction of new financial instruments that are tailored to effectively address the specific circumstances of local business undertakings in a post-Covid-19 recovery phase scenario. To this end, the MDB has developed two financial instruments aimed at facilitating SMEs access to finance for new investment and renewed sustainable growth. In view of this, and of the Bank's limited risk absorption capacity, MDB sought the support of the European Investment Fund (EIF) by way of risk sharing instruments under the Pan-European Guarantee Fund (EGF). The EGF forms part of the overall package of measures agreed by the Eurogroup on 9 April 2020 and further endorsed by the European Council on 23 April 2020. In essence, the EGF is a risk absorbing instrument enabling a higher transfer of benefit to businesses without significantly increasing the intermediary partner's risk. With a fund size of €25 billion, which were contributed from almost all EU member states, the EGF is managed by the EIB Group. Leveraging these initial resources, the EIB aims to generate up to €200 billion of additional financing.

After months of negotiations, due diligence and consultations with the EIF, the Bank on 17 December 2021 signed two agreements with the EIF; a direct guarantee agreement and a counter-guarantee agreement. These agreements recognise the MDB as the intermediary party of the EGF. The EGF financial guarantees on the two proposed financial instruments amount to close to €80 million, and thanks to these guarantees the MDB will be able to offer, for the first time, uncapped portfolio guarantees to commercial banks. In essence, through these agreements, the MDB is acting as Malta's gateway for such EGF financial guarantees, the benefit of which will be passed on to Maltese businesses in the form of lower interest rates, lower collateral requirements, higher tolerance to certain novel and potentially riskier sectors and better access to finance. These instruments will enable a higher transfer of benefit to Maltese businesses by providing more intensive credit risk coverage, and effective and transparent capital relief to the intermediating banks. As per EGF contractual terms, unless extended, the inclusion period end date under these agreements is 31 December 2022.

These uncapped guarantees, which are expected to be launched in the first half of 2022, will be of critical importance in enabling the MDB to offer instruments that truly mirror the prevailing economic situation, and the overall higher risk in the post-Covid-19 phase, whilst allowing commercial banks to engage and ensure the flow of credit to the economy.

INVESTEU AND THE PILLAR ASSESSMENT PROCESS

In 2021 the Bank continued on its ambitious mission to become a direct implementing partner of the InvestEU. As Malta's only promotional bank, the MDB aims to become the country's single direct entry point for such guarantees, but before doing so, it needs to undergo a screening process to assess its eligibility for managing EU guarantees. In the beginning of 2021, following a legal and eligibility check, the European Commission informed the Bank that they have positively considered the application of the MDB to launch a Pillar Assessment.

To reach this point the MDB had gone through an extensive exercise of organisational capacity building, partly in preparation for the Pillar Assessment. Indeed, over a period of close to a year and a half, the MDB underwent an extensive programme through which it significantly improved its internal control system, its accounting and budgeting systems, publication of information, data protection and reporting, internal auditing, and anti-money laundering safeguards in order to ensure compliance to the requirements of the EU Pillar Assessment process and good practices.

An important requirement of the Commission's Pillar Assessment process is to assess persons or entities aspiring to implement Union Funds to ensure that they have in place a number of specific systems, rules and procedures that satisfy the prescribed standards. Such assessment is required to be carried out by an external auditor on the basis of a set of terms of reference established by the Commission. Towards this end, following a Request for Quotation, the Bank in late 2021 selected a reputable firm to provide these services. This auditing exercise is expected to be completed by the end of 2022.

In the meantime, over the course of 2022, the EIB Group - which is the implementing partner responsible for the management of 75% of the budgetary capacity of the InvestEU - is expected to launch a number of instruments under all policy windows. The MDB will be closely following these developments to possibly roll-over the EGF backed financial instruments with the EIB's guaranteed products under the InvestEU. The MDB plans to start mobilising the InvestEU guarantee indirectly through the EIB, while concurrently proceeding with the ambitious process of becoming a direct implementing partner thereafter.

LAUNCHING OF FINANCIAL INSTRUMENTS

During the period under review the Bank continued to consult its stakeholders to ensure that its schemes remain relevant and are adequately filling market gaps. On the back of the Bank's experience in implementing the SME Invest and the Family Business Success as well as an extensive product review process carried out in 2021, the MDB designed two financial products aimed at facilitating SME access to finance in a post-Covid-19 recovery phase scenario.

The first of these products is the Guaranteed Co-Lending Scheme for SMEs (GCLS) to finance new investment. This is a risk-sharing facility involving co-lending between the MDB and accredited commercial banks on a 50:50 basis, plus an additional uncapped MDB guarantee on the commercial bank's part of the loan. The targeted GCLS global loan portfolio is €100 million, half funded by MDB and the other half by the participating commercial banks. Following MDB's agreement with the EIF under the EGF programme, the Bank will be able to offer larger loans under this scheme, as well as a higher guarantee rate on the commercial bank's financing. In fact, the MDB will be guaranteeing 60% of the commercial bank's part of the co-lending, up from 30% without the EGF guarantee.

The second product is the Loan Guarantee scheme for SMEs. This instrument is designed to replace the SME Invest and the Family Business Success schemes which are set to come to an end during the course of 2022, in line with the pre-set applicability terms. This product will take the form of an uncapped portfolio guarantee scheme to be intermediated by accredited commercial banks and aimed at enhancing enterprises access to bank credit for new investment, as well as other purposes, including working capital related to new investment and business transfers.

During the year under review the Bank continued to support the upskilling of Malta's youths and strengthening the country's human capital. Thanks to the Further Studies Made Affordable (FSMA) scheme, the MDB ensured an equality of opportunity, where students, regardless of their financial background, can develop their potential without relying on the financial possibilities of their parents or relatives. Following the successful take-up of the allocated funds, through which many students were able to undertake specialised studies in various disciplines, the Managing Authority of EU Funds has secured additional EU financing which were directed to the MDB to implement a new scheme, the FSMA+. The Scheme is funded from the European Social Fund (ESF) and the European Social Fund Plus (ESF+). More detailed information on this scheme is provided in the Business Review section 53.

TRANSITING TOWARDS A GREENER AND MORE DIGITALLY ORIENTED ECONOMY

Market gaps arise from the inability or unwillingness of financial intermediaries to accommodate financial requirements of their customers. 2021 was a year where on an EU level, but also locally, several initiatives were introduced to encourage the building of a greener, more digital, modern and resilient economy in the wake of COVID-19 pandemic.

During the year, the Bank participated in a number of events and initiatives which promote greener and more resilient economies which are not only prepared for today's realities but also for the future (more information on climate action and the role of the MDB is presented in the next section). Throughout 2021 the MDB worked on developing financing tools to push Malta's economic regeneration and renewal. As mentioned, the two new schemes supported by the EIF's EGF will make available more than €150 million for new investment by businesses. Whilst these schemes will be available to all economic sectors, the MDB will be prioritising those investment projects that aim to build a greener and more digitally oriented economy. The Bank is committed and strongly believes that this is the way forward to truly propel Malta into the next level of growth.

SPECIAL TOPIC II

EU CLIMATE ACTION AND THE ROLE OF THE MDB

The need to act in the fight against climate change is increasing and investors in all economic sectors are facing growing pressure from both internal and external stakeholders. Climate change presents both risks and opportunities, not only for investors but also for financiers.

In line with the political ambition behind the European Green Deal, which aims at making Europe the first climate-neutral continent by 2050, the European Investment Bank Group (EIB) and many other European National Promotional Banks (NPBs) decided to increase their level of climate and environment commitment. In fact, the EIB has effectively transformed itself from "an EU bank supporting climate" into "the EU climate bank". In practice this meant that since the end of 2020 all financing activities have been aligned to the goals and principles of the Paris Agreement. Moreover, the EIB is also committed to increase its level of support to climate action and environmental sustainability to exceed 50% of its overall lending activity by 2025, thus leveraging €1 trillion in green investments by the end of the decade.

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. To this end, promoting inclusive and environmentally sustainable economic growth, is considered a priority area for the Bank. This brief note aims to shed some light on key concepts and developments related to MDB's role in promoting green investments and which are important to embrace as part of its product offering that encourages the transition towards a greener economy.

SUSTAINABLE FINANCE

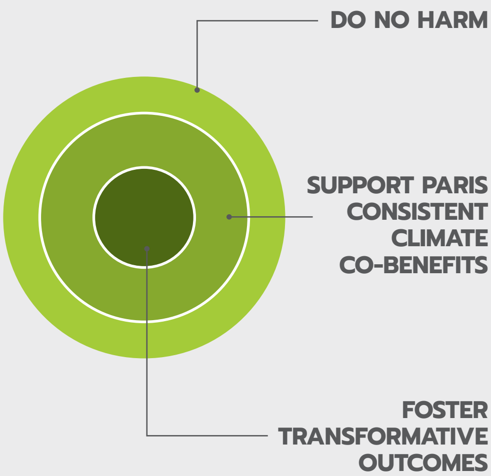
In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. In other words, sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

Sustainable finance also encompasses transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

Environmental considerations include climate change mitigation and adaptation, as well as the environment more broadly, in particular the preservation of biodiversity and, pollution prevention and the circular economy.
Social considerations refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.
Governance of public and private institutions refers to management structures, employee relations and executive remuneration. This plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

To maximise their contribution to climate goals, development banks need to focus on maximising their impact. Aligned financial institutions should, as a minimum, seek to achieve three mutually reinforcing objectives: (a) do no harm to the environment through their financing operations, (b) support as much as possible Paris consistent climate objectives and (c) foster transformative outcomes (see Figure 1). Given their limited resources, development banks, particularly small ones like the MDB, should focus on the catalytic role they can play to achieve climate goals and aim in particular to be "transformative" whenever possible.[8]

Figure 1: Climate Finance – Alignment Bull's Eye



DO NO HARM

- ***Low-GHG Development:*** scale-down and stop non-consistent operations. Avoid locking-in emissions.
- ***Adaptation:*** Avoid decreasing resilience, increase vulnerability, and contributing to maladaptation.
- ***Financial Flows:*** Stop support of non-consistent flows whether direct or through intermediation..

SUPPORT PARIS CONSISTENT CLIMATE CO-BENEFITS

- ***Low-GHG Development:*** Contribute to the decarbonization of the entire economy and society.
- ***Adaptation:*** Contribute to increasing adaptation, resilience and adaptive capacity of investments.
- ***Financial Flows:*** Foster contributions of own flows and those of partners.

FOSTER TRANSFORMATIVE OUTCOMES

- ***Low-GHG Development:*** Facilitate the transformation to low-GHG systems and value chains.
- ***Adaptation:*** Facilitate and reduce the cost of adaptation actions to long-term climate change
- ***Financial Flows:*** Support the 'consistency' of the broader financial system (regulations, norms, transparency)

Source: Institute for Climate Economics

In order to reach the national and EU climate objectives, the financial sector has a key role in re-orienting investments towards more sustainable technologies and businesses. The financing of growth needs to be fashioned in a sustainable manner and strongly oriented to contribute to the creation of a low-carbon, climate resilient and circular economy.

In recent years, Maltese financial institutions and corporations have made significant progress in addressing sustainability. Most large companies now have a statement of social purpose and some have also joined collaborative efforts to tackle environmental or societal issues. These actions are very encouraging. However, up till 2021 these initiatives were largely sporadic and uncoordinated. Moreover, few companies have tried to systematically understand the sustainability limits, vulnerabilities, and potential of their current business models and ecosystems.

8 The World Bank defines transformative climate finance as climate finance with positive spill-over effects beyond project boundaries to address systemic barriers to green development and induce additional financial flows even after public finance is exhausted.

THE EU TAXONOMY AND THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

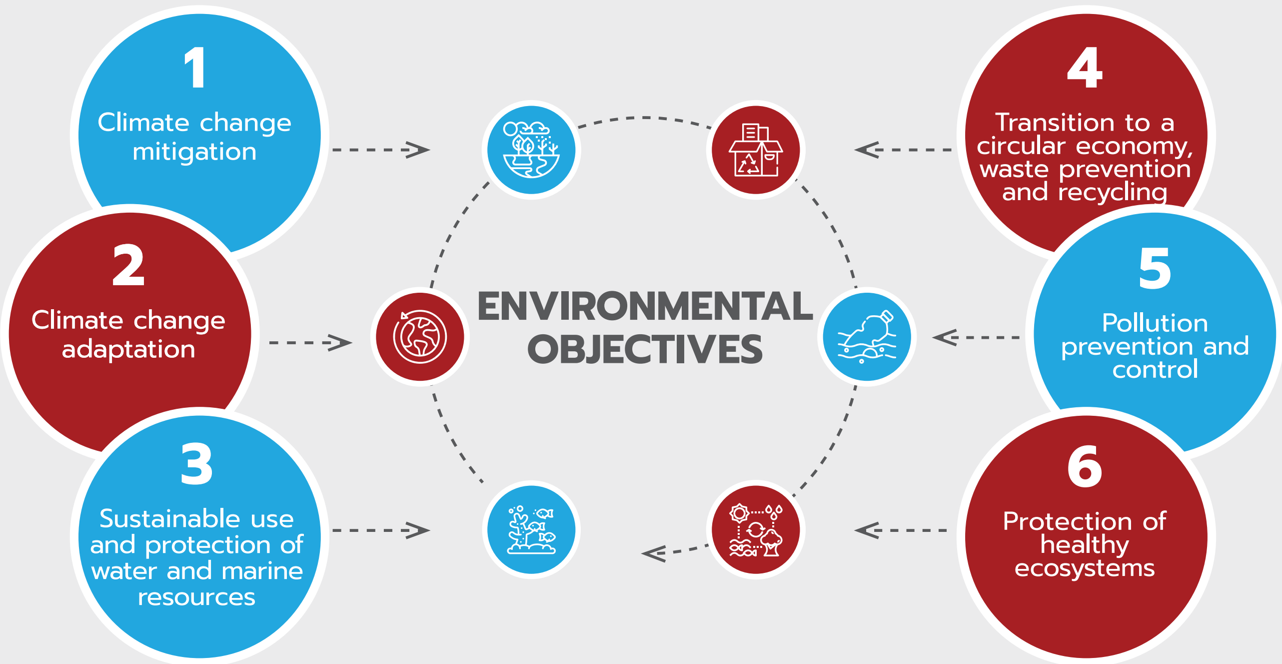
EU TAXONOMY

The current COVID-19 pandemic has reinforced the need to redirect investments towards sustainable projects in order to make our economies, businesses and societies, more resilient against climate and environmental shocks. To this end, on 21 April 2021, the European Commission adopted an ambitious and comprehensive package of measures to help improve the flow of money towards sustainable activities across the European Union, as well as harmonising the reporting standards. These measures will be instrumental in making Europe climate neutral by 2050. To achieve this, a common language and a clear definition of what is sustainable was needed. Through the "EU taxonomy" the EU plans to take concrete action on financing sustainable growth by creating a common classification system for sustainable economic activities.

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.[9] It could play an important role to help the EU scale up sustainable investment and implement the European Green Deal. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed. Therefore, the EU taxonomy is one of the cornerstones of the EU Sustainable Finance Action Plan and aims to bring clarity to the market regarding which economic activities can be considered sustainable with the aim of encouraging sustainable investing and preventing greenwashing.

In other words, the EU taxonomy will offer a common set of criteria that investors and banks can use to screen potential investments. Most companies already have their own teams and tools to measure green investments. But the lack of a shared benchmark means scorecards remain subjective and inconsistent across the industry, which confuses investors. Having a "dictionary" where they can look up whether an investment can be labelled green puts everyone on the same page.

Figure 2: EU taxonomy encompasses a standard set of definitions for sustainable activities centred around six environmental objectives



To be classified as a sustainable economic activity according to the EU taxonomy regulation, a company must not only contribute to at least one environmental objective but also must not violate the remaining ones. As an example, an activity aiming to mitigate the climate but at the same time also negatively affecting biodiversity cannot be classified as sustainable.

Through the EU Taxonomy Climate Delegated Act, the economic activities of roughly 40% of listed companies in the EU, in sectors which are responsible for almost 80% of direct greenhouse gas (GHG) emissions in Europe, are already covered, with more activities to be added in the future. Through this scope, the EU Taxonomy can significantly increase the potential that green financing offers to support transition, in particular for carbon-intensive sectors where change is urgently needed.

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9 https://eu-taxonomy.info/

The MDB is fully committed to the ongoing process of turning the EU into a sustainable, carbon-neutral economy. In this regard, the Bank acts in close collaboration with EU-based associations of national promotional banks, local authorities as well as private financial actors, joining forces for the sake of a greener economy.

Together with other fellow NPBs, the MDB welcomed the creation of the Taxonomy and deem it as a useful and powerful tool to foster the European green transition. However, given the fact that there were still many uncertainties regarding the practical implementation of the taxonomy, ELTI and NEFI members called the European Commission and the European supervisory authorities for a comprehensive consultation process with relevant stakeholders including NPBIs. Through a joint position paper in December 2020 the representative associations pointed out seven recommendations with regard to the operationalisation of the EU Taxonomy. Amongst the recommendations, the paper highlighted the need to adapt the EU taxonomy to smaller entities to help them overcome its implementation challenges, to ensure coherence and consistency between the EU Taxonomy and EU Financial Instruments requirements, notably the InvestEU, and to ensure a gradual implementation of the Taxonomy. Most of these recommendations were reflected in the first delegated act on sustainable activities for climate change adaptation and mitigation objectives which was approved in principle in April 2021, and formally adopted in June 2021. A second delegated act for the remaining objectives will be published in 2022.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

Another key aspect of the EU's sustainable finance strategy and implementation of the action plan on financing sustainable growth is the Corporate Sustainability Reporting Directive (CSRD), which links the taxonomy to disclosure. As part of the comprehensive package adopted by the Commission on 21 April 2021, the CSRD amended the existing reporting requirements of the Non-Financial Reporting Directive (NFRD).

The CSRD proposal:

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)
- requires the audit (assurance) of reported information
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards
- requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan

The CSRD will strengthen sustainability reporting rules for companies, meeting the information needs of market participants and other stakeholders. This proposal takes a comprehensive approach to the disclosure of (i) reporting on sustainability information; (ii) introduce an audit requirement, (iii) promote the digitalisation of sustainability information and (iv) make EU reporting standards mandatory.

The new reporting requirements will apply from the financial year 2023 to all large and all listed companies. The Commission will develop proportionate standards for listed SMEs (excluding micro firms) that will be obliged to start reporting in 2027 (financial year 2026). The proposed CSRD would be the foundation of a consistent flow of sustainability information through the financial value chain and for other stakeholders. Information disclosed by companies would therefore be available for analysts in banks, insurance companies, asset management companies or credit rating agencies, for end investors and for non-governmental organisations and other stakeholders that wish to better hold companies to account for their social and environmental impacts.

The proposed directive specifies in greater detail the information that companies should disclose. Compared to the existing provisions, it introduces new requirements for companies to provide information about their strategy, targets, the role of the board and management, the principal adverse impacts connected to the company and its value chain, intangibles, and how they have identified the information they report.

The Commission will ensure that reporting standards reflect not only the current Taxonomy-alignment of a company's activities, but also its forward-looking business plans, and that the standards facilitate both capital market-based and bank-based finance. These sustainability Reporting Standards are to be developed by the European Financial Reporting Advisory Group (EFRAG) and will be adopted via delegated regulation by October 2022. Qualitative and non-integrated sustainability reporting will no longer be considered compliant with the regulation.

The EU Commission suggests a transposition of the CSRD into national law by 1 December 2022, so that the amendments would be applicable for the first time for financial year beginning on or after 1 January 2023.

THE LOCAL SCENARIO

LOW CARBON DEVELOPMENT STRATEGY

In line with the EU's long-term strategy to achieve climate neutrality by 2050, in 2021 Malta presented its Low Carbon Development Strategy (LCDS). Through the LCDS, Malta has taken a further step in cementing its commitment to a sustainable, low-carbon future, with the government announcement that carbon neutrality will be one of the five main pillars of government economic policy.

The LCDS was spearheaded by the Ministry for the Environment, Climate Change and Planning and the Strategy was the result of a three-year process, whereby mitigation measures have been researched, possible abatement levels quantified through Marginal Abatement Cost Curve modelling (i.e. ratio of abatement potential against incremental cost of measure), and stakeholder consultation, leading to a list of realistic and cost-effective measures.

Over the past years, Malta reduced its carbon emissions, especially due to economy's shift towards a more service-oriented base, and also driven by the change in power generation. However, this trajectory is still not enough for Malta to reach its 2030 targets under the Effort Sharing Regulation (ESR). To this end, for Malta to reach its targets by 2030 [10], this LCDS outlines a feasible set of measures covering seven different sectors, namely: Energy, Transport, Buildings, Industry, Waste, Water and Agriculture, and land-use, land-use change and forestry (LULUCF).

In addition, it includes adaptation measures, proposing initiatives which will help the country be resilient in the face of Climate Change impacts which are already hitting our islands. The adaptation measures aim to address the specific risks and vulnerabilities which Malta faces given its nature as a small island state.

MALTA'S ESG PLATFORM

In December 2021, the Sustainable Development Directorate within the Ministry for Energy, Enterprise and Sustainable Development launched the first Maltese ESG Platform. This platform helps illustrate the ESG credentials of companies listed on the Malta Stock Exchange, allowing investors to incorporate these credentials into their investment decision-making.

The ESG Platform identifies the actual carbon footprint of these companies as they invest in renewable sources of energy. Efficient use of water and other resources employed in these companies' operations is also measured to quantify their environmental impact. Fair treatment of employees, investment in upskilling the workforce and tangible commitment to equality factors are some of the criteria that showcase the social commitment of these companies, whilst board independence and diversity are key elements that measure companies' governance structure.

Throughout 2021, the MDB built a value-laden relationship with the Ministry for Energy, Enterprise and Sustainable Development and held several meetings to discuss how the Bank can adopt these ESG principles and help in encouraging other entities to adhere to these standards. Moreover, the MDB is also discussing the design and development of joint schemes targeting green mobility and climate action.

WAY FORWARD

2021 has been an eventful year for Climate Action, with perhaps the biggest step relating to the comprehensive package of proposals that were presented by the EU in April and July to reform all aspects of Europe's climate and energy policy framework. 2022 promises to be another challenging and important year, where more must be done to continue building on the momentum gathered and reach out to our partners to ensure that we close the gap and get on track by the end of 2022 to limit average global temperature increase to 1.5C.

During 2021, the MDB, in collaboration with several local and foreign stakeholders, increased its efforts to keep abreast with a plethora of EU and national policies related to climate change, and more importantly to sustainable finance. In this regard, the Bank actively participated in various fora including in the National Climate Change Conference, in Malta's Sustainable Development Strategy for 2050 and Action Plan, and in the ESG Reporting and the Future of Maltese Enterprises conferences. On a global level, the MDB followed closely the discussions at the COP26, where of particular interest was the EU side event on "EU Sustainability Reporting Standards and the Future of Sustainability Reporting".

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10 EU negotiations in 2018 resulted in legislation relating to the Effort Sharing Regulation (ESR) that has led to Malta's bespoke targets. The ESR targets relate to emissions not covered by the scope of the EU Emissions Trading Scheme (ETS) emissions. For Malta, the target is to achieve a 19% reduction in net territorial non-ETS GHG emissions (relative to 2005) by 2030. Malta's LCDS was drafted basing on existing ESR reduction target emanating from the legislative instruments for the -40% EU reduction target (i.e. -19% for Malta).

Moving forward development banks, including the MDB, should aim to assess and prioritise activities – beyond project finance – based on the additional impact they can have as a public institution to foster transformative outcomes and impact.

The MDB will persevere in its efforts and will keep on working on the development of tools to assess the outcomes and impact of its projects The MDB is confident that these efforts will secure that in 2022 the Bank will continue reducing its exposure to emission intensive activities in its portfolio, and also help businesses to invest in greener ways. The Bank is also committed to reduce the carbon footprint from its own operations.

TECHNICAL ASSISTANCE FROM THE EUROPEAN COMMISSION

During 2021, the MDB continued to collaborate with the European Commission in terms of the Technical Support Instrument (TSI) which is the Commission's instrument to provide technical support for reforms in EU Member States. In this regard, the Bank submitted a request to the Commission for the provision of advisory services and assistance in the designing and launching of new financial instruments focusing on equity and start-ups. Through a competitive selection process, the Commission engaged a reputable advisory company to assist the MDB in this project, which commenced in September 2021.

The main objectives of the project are to assist the MDB in designing and launching two new financial instruments in the Maltese market, one being an equity based financial instrument for SMEs and the other being a financial instrument to support start-ups. Moreover, the assistance is also aimed at positioning the MDB as a key stakeholder in coordinating the various schemes and incentives in place for SMEs and start-ups, thereby improving the overall effectiveness of the current ecosystem.

In order to cater for the various financing needs along the business lifecycle, and to complement the existing credit markets in Malta, the MDB wishes to contribute to establishing a structured ecosystem to foster risk capital financing in Malta. Whilst there have been several attempts to address this gap in Malta, a lack of coordination and financing have failed to lead to tangible results. Throughout this project, the Bank aims to explore the strengths and weaknesses of existing offerings, as well as liaise with key stakeholders to build the necessary synergies.

To reach these objectives, a detailed study has been undertaken to identify and understand the gaps and reasons behind the current market failures. This is being followed by a study of six existing successful financial instruments in international markets to understand their underlying characteristics. In parallel, a stakeholder consultation is being organised to obtain feedback on these gaps from both the supply and demand side. Once this study is complete, and stakeholder comments noted, recommendations on the design of the two financial instruments shall be communicated to the various stakeholders to gather further feedback. Based on the selected instruments, the detailed design of the financial instruments shall be defined, and an implementation plan prepared for the MDB to follow to launch the two instruments. This technical assistance is expected to be finalised by August 2022.

SUSTAINING INFRASTRUCTURAL INVESTMENT

Large-scale infrastructure projects can face difficulties in accessing the appropriate financing due to the long repayment period that is normally required to make them bankable, and the required funding may also be too large for most banks, in an institutional setting where syndication is not readily available. With short-term customer deposits as the main source of funding, commercial banks are often mismatched, and not geared to provide very long-term financing. Also, such exposures may be too large for certain commercial banks to finance on their own, reducing the degree of diversification.

MDB funding sources have a longer duration and therefore allow the provision of longer-term financing. Sustainable investment, social well-being, education and the development of human capital are key priority areas for the MDB. In this regard, the MDB has been approached by a number of entities to enquire on the possible role of the Bank in facilitating the financing of new investment related to such infrastructural projects. The MDB's preference is that these investments would be financed in conjunction with commercial banks, thereby highlighting the collaborative arrangement that the MDB would like to develop with the banks and also to foster the promotion of a syndicated loan market in Malta – which so far has played a somewhat subdued role. The emphasis has mostly been on infrastructural projects related to education, health, renewable energy, digitalisation, affordable housing, and other initiatives with a social dimension, as well as projects that enhance Malta's competitiveness. Some of these projects are at an advanced discussion stage, whilst others are still at early stages and require further input from the beneficiary, which will help the Bank in its analysis. The MDB aims to play a pivotal role in the realisation of such projects and will be able to provide financial solutions that are tailored to the needs of the projects, which generally are more complex and require a longer gestation period.

OPERATIONS

CORPORATE SERVICES

The MDB institutional development and strategic direction continued to mature throughout the year. As the Bank developed business functions the Management team aligned the organisation with new dynamic demands. As certain business domains expanded and developed further the Operations Department underwent some organisational changes which were implemented to better fit the new growing demands. The newly established Corporate Services Department incorporates the Human Resources Office, the Administration and Procurement Office and a new Records and Archives Management Office. The Finance unit and the IT unit, which previously formed part of the then Operation Department, became two separate departments.

HUMAN RESOURCES

Considerable progress was registered on the implementation of policies and procedures which resulted in the optimisation of operational activities to manage more effectively operational risk. Throughout 2021, the main focus of the Human Resources Office was the further implementation of internal policies and procedures, handling recruitment and training, and dealing with the implications brought about by the COVID-19 pandemic.

POLICIES

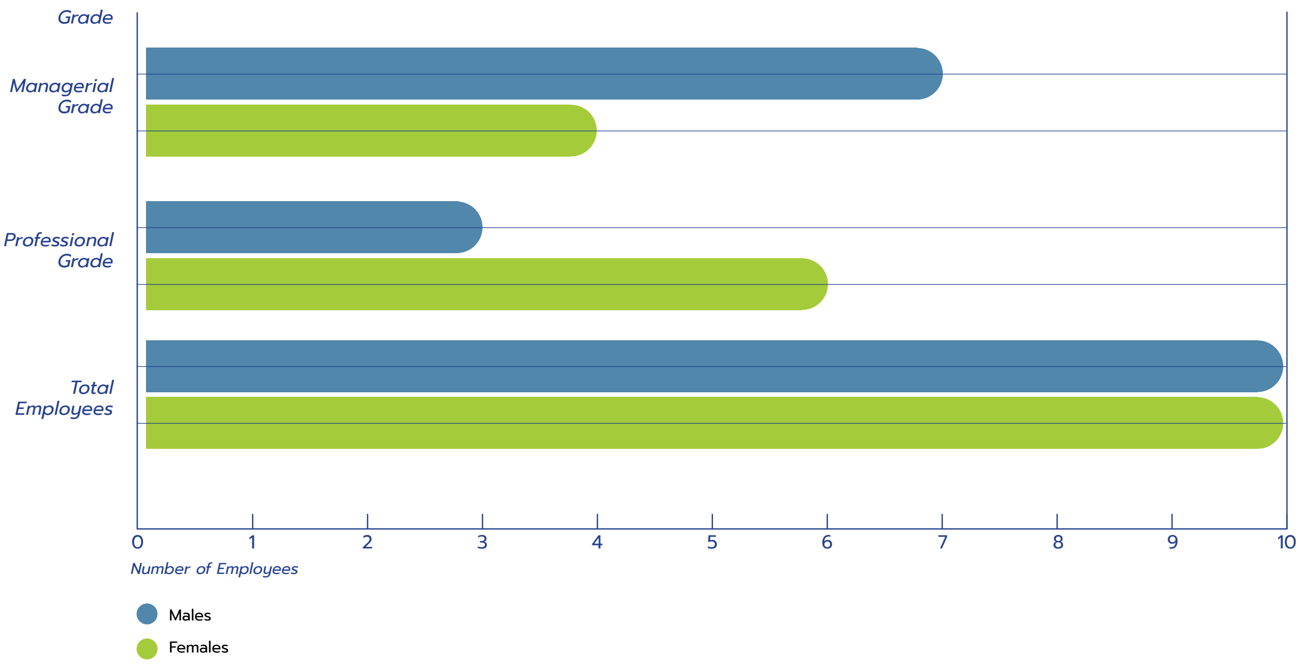
During 2021 the Performance Management Policy was implemented to complement the existing Code of Ethics and Employee Handbook. Furthermore, a number of other policies were drafted and were in reviewing stage by end of year and will be ready to be issued in the first quarter of 2022. These include the Health and Safety Policy and Procedures, the Training and Development Policy and Procedures, and the Organisational Structure Policy.

RECRUITMENT

The Bank continued to seek highly talented experts in every domain in its quest to develop and deliver relevant products to its customers. During 2021, the MDB continued to establish its workforce through the recruitment of 3 female employees and 2 male employees, 3 of whom in new positions and another 2 as replacements.

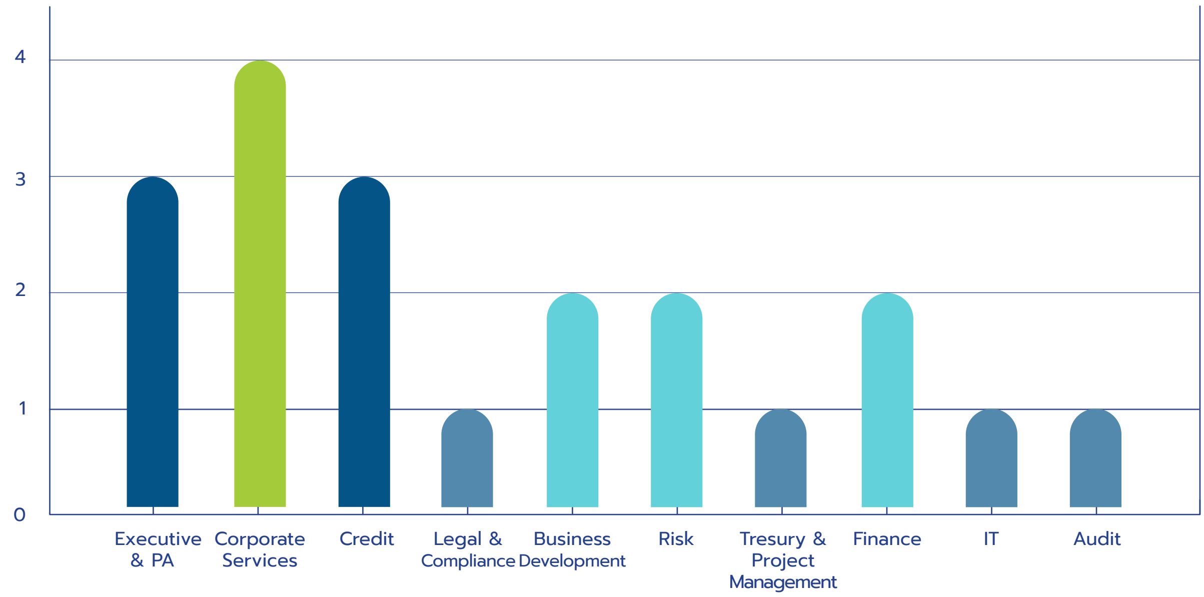
The headcount at the end of year shows an equal distribution of male and female employees. Chart 1 below provides the general distribution; furthermore, it highlights that 4 females and 7 males are in Managerial grades, and 6 females and 3 males in Professional grades.

CHART 1: TOTAL EMPLOYEES PER GRADE AND GENDER



Apart from a Records and Archives Management Officer within the Corporate Services Department, the new recruited positions were for Chief Internal Auditor within the newly established Audit Department, a Chief IT Officer as a replacement to a previously occupied position which had become vacant, a Senior Finance Officer within the Finance Department, and a Chief Corporate Services Officer replacing the Chief Operations Officer and heading the Corporate Services Department. Hence the Departments within the MDB are now as illustrated in Chart 2 below.

CHART 2 - EMPLOYEES PER DEPARTMENT



The Management team as at the end of 2021 was made up of the following:

Mr Rene G. Saliba, Chief Executive Officer
Mr Paul V. Azzopardi, Deputy Chief Executive Officer
Mr Tyrone Mizzi Navarro, Chief Risk Officer
Ms Maria Xuereb, Chief Credit Officer
Dr Bernadette Muscat, Chief Legal and Compliance Officer
Mr Kevin Vassallo, Chief Projects and Treasury Management Officer
Mr Joseph Darmanin, Chief Business Development Officer
Mr Saviour Busuttil, Chief Corporate Services Officer
Ms Joanne Dimech, Chief Finance Officer
Mr Glen Lethridge, Chief IT Officer
Ms Moira Falzon, Chief Internal Auditor

TRAINING

The key to the Bank's success rests with the ability to attract talent and develop highly technical business teams. Training has become entrenched in the corporate culture of the Bank as it develops and updates talent that contributes to a more professional and mature workforce. All staff members continue to be provided with the opportunity and tools for self-development and professional growth whilst keeping abreast of new and existing legislation through training sessions (both inhouse and from other professional sources outside the Bank), webinars and seminars, conferences and talks.

COVID-19 IMPLICATIONS

2021 was the second year dominated by the COVID-19 pandemic and all precautionary practices adopted during 2020 were still being observed, mainly working mostly remotely thus keeping physical presence at the office to a minimum as well as adhering to the safety guidelines whilst at the office. Refresher on such guidelines was given to all staff members regularly.

PREMISES

The renovation project of the Bank's new premises in Floriana registered considerable progress during the past twelve months and is nearing completion as we write. The project team, in collaboration with the Bank's architects, ensured that the works comply with the aesthetic and historical characteristics of the building whilst meeting contemporary energy saving and green strategies. Great care has been given to external apertures and façade works to maintain the character of the building. This is complemented with energy saving internal and external lights which give a unique atmosphere to the premises. Considerable thought has also been given to water recycling to reduce waste as much as possible. A large water well has been cleaned and put to use after years of neglect and mud precipitation.

The works have also concentrated on making the premises safe from any type of structural hazards. In this regard several tests were conducted on all the wooden beams as well as the existing lift structure. As a safety measure, additional reinforcement adjustments were carried out on the lift to guarantee the highest level of safety. As the premises are intended to host more offices and additional conference room space the electrical, plumbing and air-conditioning infrastructures underwent extensive upgrades and replacements. Fire doors have been installed and fire drills planned for staff safety.

All structural works have been completed and activities have now shifted to the installation of furniture and internal décor. It is expected that these premises will be ready to house MDB staff by quarter two 2022.

PROCUREMENT

As already stated, the year 2021 was characterised by work related to the renovation of the Bank's new premises. This entailed a considerable number of procurement requirements with eight Requests for Quotations issued mostly in respect of procurement calls for works or services related to the Floriana premises. Other RFQs issued during the year under review included a request for technical consultancy related to a Pillar Assessment, Videoconferencing equipment as well as a new Website for the Bank.

In each of these RFQs, the Bank always sought to obtain the most economically advantageous terms and conditions while at the same time seeking to maintain the Bank's strong commitment towards environmental efficiency.

REGISTRY AND ARCHIVES MANAGEMENT

The Registry and Archives Management Office (RAMO) was established in July 2021 to enhance the Bank's governance structure. The Office ensures that comprehensive records are maintained both in support of the organisation's daily business as well as its legal documentary retention requirements. Through the collaboration of the business areas, RAMO has compiled and categorised numerous records according to the various activities undertaken by the Bank since its inception. A Records and Archives Management Policy governing this process was also drafted.

RAMO created an extensive contract management database capturing all the Bank's contracts and agreements. Through such an information repository, this office is able to monitor all contracts and bring those due to expire to the respective business area's attention in a timely manner.

Following its establishment, RAMO took over the custody of the Bank's Policies and Procedures and set up a system to ensure that such documents are available to staff and updated periodically. It now acts as a central reference point in liaising with business areas across the Bank when updates to such policies are required.

RAMO also handles a time measurement programme used by the Bank to determine the time dedicated to specific projects. Time logs are used to enhance operational efficiencies as well as to feed into the Bank's activity-based project cost accounting system.

INFORMATION TECHNOLOGY

MDB recognises the importance of information technology as a critical enabler to achieve its corporate objectives. The Bank has continued to optimise its IT infrastructure to cope with increasing demand, manage risks and improve the efficiency and effectiveness of its operations.

In 2021, the Bank continued to reap the benefits of a stable IT infrastructure. Notwithstanding the COVID-19 pandemic and an increase in the Bank's staff complement, all services and operations continued to be provisioned seamlessly via remote solutions. The enhanced technical infrastructure setup and configuration for the Bank's new premises also progressed considerably during the year under review, thus expanding its capability to host a larger staff complement, as well as ensuring scalability for the years to come. Information security remained high on the Bank's agenda and various internal controls were implemented and strengthened in line with international standards and best practices. MDB will continue to increase resilience through development of internal policies and regular security testing activities.

FINANCE FUNCTION

The Finance function is a key function within MDB, having as its main objectives the effective, efficient, and economical internal control and financial reporting system.

During 2021, Finance has continued to upscale its resources in order to enable an improved workflow in the provision of accurate, timely and reliable day-to-day record-keeping and reporting processes. Various enhancements to its accounting system were implemented to enable the preparation of a comprehensive and timely financial reporting processes and identification of expenditure control initiatives supporting the Bank's continuous drive for operational excellence.

During the year 2021, the Planning, Budgeting and Forecasting Policy was approved by the Board of Directors and implemented. Finance prepares the annual budget which serves as a monitoring tool for steering operations in line with the agreed strategy of the Bank. The Budget Policy governs how the Bank implements and plans its budgetary processes. The implementation of the Budget policy accompanied by a performance monitoring system of budget vs actual variance analysis, further supports the Board of Directors and management in executing MDB's strategic objectives.

As MDB's initiatives to provide additional lending capacity has continued to increase through the provision of risk sharing schemes intermediated through partner banks, and the launch of direct project finance, Finance has implemented regular assessments to strengthen its credit loss provisioning processes. In line with MDB's accounting policies and Credit Risk Framework, Finance measures and recommends changes to the expected credit loss provision and ensures sufficient capital reserves are maintained to allow for potential losses resulting from credit risk developments of its underlying asset portfolios.

Finance continues to support the planned balance sheet growth through direct liaison with Treasury operations, funding and cashflow management operations. Finance is also responsible for compliance with the MDB Act and ensures the timely submission of statutory and prudential regulatory reports. The Department provides oversight of daily operational controls and procurement processes to ensure risks are properly managed.

The Finance function is adequately positioned to embrace further accounting and reporting challenges as MDB aspires to become an implementing partner of the Invest EU.

PUBLIC RELATIONS FUNCTION

In 2021 MDB has strengthened its efforts to reach out to its core target audiences, namely potential beneficiaries of its initiatives and schemes, particularly SMEs, but also to extend awareness of its activities among local institutions, authorities and the general public. The Bank has ensured a regular presence on local media, having featured on more than 50 occasions on various traditional and media channels, including television, electronic portals and print newspapers.

This presence was supported by a regular social media activity, particularly through a growing LinkedIn profile which has doubled its following throughout the year, while attracting a wider engagement with its audience following a stronger visual presence.

Moreover, representatives of the MDB have regularly accepted invitations by constituted bodies, associations and sectoral groups to deliver presentations to their members thereby disseminating information on the availability of schemes or through the provision of information for their publications.

RISK MANAGEMENT STRATEGY

The mission of the Malta Development Bank is to contribute towards sustainable economic development that benefits the Maltese people by promoting inclusive and environmentally sustainable economic growth and infrastructure development. The mission reflects the statutory purpose provided for in Article 4 of the Malta Development Bank Act, Chapter 574 of the Laws of Malta.

The MDB fulfils its mission inter alia, by providing promotional investment and financing. Through this activity the MDB extends credit and/or guarantees third party loans extended by the MDB implementing partner banks. This activity exposes the MDB to financial and non-financial risks. Accordingly, the MDB recognises that effective risk management is imperative to sustaining a sound risk culture, which is characterised, among others, by a high level of awareness concerning risk and risk management in the organisation.

The MDB manages its financial and non-financial risks effectively by employing the three lines of defence model, in line with industry best practice. This model allocates responsibility for risk management across all units and all levels of staff within the organisation, while ownership and accountability are retained by top management. The second line of defence is supported by a fully functional Risk Management Function which analyses, assesses, measures risks, develops risk-management related policies, procedures and methodologies, as well as supervises and monitors their implementation. It also recommends exposure limits and monitors the adherence to the adopted exposure limits, gives recommendations and suggestions for adequate risk-management as well as reports risk to the Board and relevant committees.

ENTERPRISE RISK MANAGEMENT

The MDB's enterprise risk management framework is designed to manage the Bank's risk-taking in the context of its mission and strategy. The enterprise risk framework takes into account the Bank's risk-bearing capacity, its risk appetite, and minimum quantitative requirements for capital and liquidity.

The willingness to take risks is described in the Bank's Risk Appetite Framework with the purpose of aligning the Bank's risk-taking with the statutory requirements, strategic business objectives and capital planning. The Risk Appetite Framework provides a clear articulation of the high-level principles for the Bank's risk-taking, risk mitigation and risk avoidance.

The Risk Appetite Framework is reflected in the Bank's risk management policies which set out the principles for the management of MDB's key risks, covering credit risk, interest rate risk, operational risk and liquidity risk.

SPECIAL TOPIC III

MDB'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

Sound risk management is crucial for successfully achieving the MDB's public mission and policy objectives in a manner that ensures long-term adequacy and soundness of the Bank. In order to ensure a robust risk governance structure and effective risk management practices, the MDB takes a holistic approach to risk management, as opposed to addressing risks independently of each other.

Within this context, the MDB developed and implemented an Enterprise Risk Management Framework ("ERM Framework") to ensure a proactive, adaptive and ongoing risk management. A fundamental part of the ERM Framework regards the development of the MDB's risk appetite. By adopting a top-down approach, the MDB's risk appetite was defined to determine how much risk the Bank is prepared to take in pursuit of its public policy objectives.

The MDB's Risk Appetite Framework ("RAF") provides general principles for the MDB's risk-taking, raise risk awareness across the organisation, and guides its employees on accepted risk and unacceptable risk. The RAF is aligned with the Bank's risk-bearing capacity, statutory requirements, and strategic objectives. The RAF is implemented through the Bank's policies and procedures, monitoring metrics, limit system and internal controls. The RAF is thereby embedded in the Bank's risk management policies, core processes and affects the operations of the Bank in a holistic way.

The risk management policies, which are commensurate with the MDB's status and activities, set out the principles for the management of the Bank's key risks. The main risks identified by the Bank are (i) credit risk, addressed through the Credit Risk Management Framework, (ii) funding and liquidity risk, addressed in the Treasury Management Policy, (iii) interest rate risk arising from non-trading activities, also addressed in a specific policy, and (iv) operational risk, covered in an Operational Risk Framework.

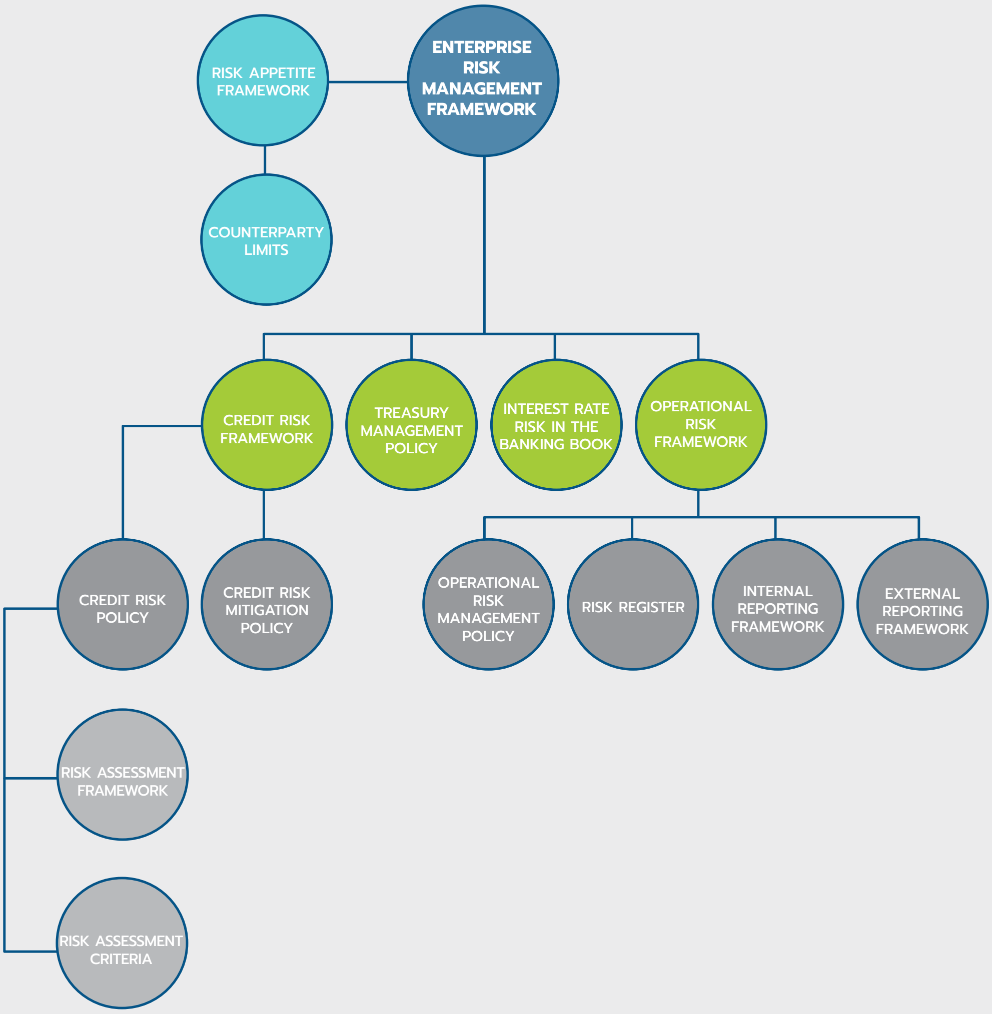
In addition, the ERM Framework comprises of detailed risk category-specific methodological notes and procedures to properly measure and monitor the Bank's risks. The ERM Framework also includes risk management controls, aimed at ensuring that the MDB's risk inherent in its activities are managed in line with the principles, policies and limits defined in the RAF.

The ERM Framework is supported by each function within the MDB, which effectively identifies, assesses, measures, monitors, mitigates and report risks inherent to the Bank's activities. The different functions of the MDB are therefore an essential part of an integrated, strategic, and enterprise-wide risk management system.

The MDB is committed to promote a culture of integrity, high ethical standards, and strong risk awareness. All Bank employees are expected to contribute to and promote a sound risk culture to maintain a strong internal control environment and facilitate the operation of the Bank's enterprise risk management framework.

Figure 1 is a visual representation of the Enterprise Risk Management Framework of the MDB.

FIGURE 1: MDB ENTERPRISE RISK MANAGEMENT FRAMEWORK



CREDIT RISK

The MDB controls credit risk through the Credit Risk Framework, which covers all phases of the credit processes from the development of new products, to request for new loans, monitoring of borrowers and final loan repayments. The Credit Risk Framework comprises of the following comprehensive documents:

- The Credit Risk Policy that is designed to achieve satisfactory and sustainable long-term performance, combining a growing credit exposure with an acceptable level of credit quality resulting in a low incidence of bad debts. The Credit Risk Policy provides clear guidelines to the process of extending credit commensurate to the Bank's credit risk appetite and thereby provides a clear statement of the parameters within which most of the Bank's lending decisions will fall. The Credit Risk Policy was amended in 2021 to further align the policy and related processes to the relevant international best practice.

- A Risk Assessment Framework that prescribes a structured risk assessment process that is practical, sustainable and easy to understand. This ensures that the risk levels of the borrowers are within the defined tolerance thresholds without being overcontrolled or forgoing desirable opportunities.

- The Risk Assessment Criteria (RAC) for Guarantee-only schemes, SMEs and Large Enterprises, and Infrastructure Project Finance. The purpose of the RACs is to have an internal rating system that identifies the level of risk associated with the credit exposure in order to facilitate the management of each relationship.

- The Credit Risk Mitigation Policy supports effective and intelligent risk decisions such that the Bank's credit risk management objectives are achieved. Accordingly, this policy sets the Bank's credit risk mitigation measures which are ancillary to, and complement, core credit risk considerations to ensure good and responsible lending.

INTEREST RATE RISK ARISING FROM NON-TRADING ACTIVITIES

The principles for managing the Bank's interest rate risk are defined in the Interest Rate Risk Policy and in the decisions and conclusions made by the Board of Directors, Risk Committee, and Asset and Liability Management Sub-Committee.

The Interest Rate Risk Policy provides for the governance and measurement of interest rate risk arising from non-trading activities. It also provides for the management of interest rate risk in a way that is consistent with MDB's relevant risk appetite statement and corresponding risk limits. For the purpose of measuring and monitoring interest rate risk, the MDB analyses the current or prospective risk to the Bank's capital and to its earnings, arising from the impact of adverse movements in interest rates. In addition to harmonisation of interest rates applied on sources and placements, current market conditions and development projections for basic market indicators are also monitored.

OPERATIONAL RISK

The Operational Risk Management Framework establishes the principles for operational risk management. The system structure of management and responsibility has been set up, the approach to the calculation of the capital requirement for operational risk has been defined and the reporting system has been established.

During 2021, the Risk Management Function developed a Risk Register in line with the Operational Risk Management Policy. The Risk Register comprises of a list of identified risks, linked to the business objectives whose success would be threatened if the risk materialised. A systematic process was carried out to identify risks and assess their expected impact and likelihood. The events were then mapped onto a two-dimensional impact-likelihood matrix to rank these risks. The overall risk score is used to sort the risks so that the list runs from the most significant to the least significant.

LIQUIDITY RISK

The principles for the management of the MDB's liquidity are articulated in the Treasury Management Policy with decisions sanctioned by the Board of Directors or the Risk Committee as appropriate and in line with the provisions of the said policy. For the purpose of managing liquidity risk, the MDB retains callable balances with reputable financial institutions as well as a maturity ladder of short-term deposits.

The MDB monitors planned and forecast financial commitments closely and ensures that funds are available for the timely settlement of these obligations as well as capital and operational expenditure. The Bank does not take retail deposits and is therefore not exposed to wide daily fluctuations in liquidity.

BUSINESS REVIEW

MDB continued to address the challenges of the COVID-19 pandemic and its economic consequences on local businesses. Although the economic scenario improved markedly when compared to 2020, certain pockets of the economy were still facing difficulties. In view of this, the MDB extended the Covid-19 support schemes twice and these will be available till the end of June 2022. In addition, the Bank also worked on various fronts to ensure that the portfolio of schemes and instruments offered are mirroring the changing needs of the economy and hence the market gaps they are meant to address.

During the period under review, the MDB continued to work closely with the Managing Authority for EU Funds in connection with the Bank's role as implementing body for leveraging EU resources. This important strategic collaboration led to the creation of a second financial instrument focusing on higher educational attainment, the FSMA+. Moreover, in 2021 the MDB worked on the introduction of new financial instruments tailored to the specific circumstances of local business and prioritising those investment projects that aim to build a greener and more digitally oriented economy. These instruments are being backed by European Investment Fund (EIF) guarantees by way of risk sharing instruments under the Pan-European Guarantee Fund (EGF) (more detailed information on these products is available in the Business Strategy section on page 30 and in the section on MDB Facilities for SMEs in page 57).

The on-going consultation process with stakeholders has also revealed further gaps in the provision of financing for infrastructure projects and green investments. Moreover, to meet the EU's 2030 climate target, substantial investment is needed, and this will require the unlocking of private capital. On these fronts, the focus remains on projects with a strong social dimension, as well as those that contribute to the climate and digital transition, particularly green mobility.

In 2021, the MDB managed to secure the collaboration of the European Commission in terms of the Technical Support Instrument (TSI) which is the Commission's instrument to provide technical support for reforms in EU Member States. This is the second time that the MDB is benefitting from such technical assistance. The main objective of this assistance relates to the design and eventually the potential launch of two new financial instruments in the Maltese market, one being an equity based financial instrument for SMEs and the other being a financial instrument to support start-ups. This assistance is expected to come to fruition later in 2022.

This section of the report will provide an overview of the Bank's funding sources and provide an outline of all current financial instruments facilitated by the MDB. Furthermore, the analysis in this section attempts to shed light on the economic implications of three of the Bank's products in the prevailing macroeconomic scenario. Special attention is devoted to the impacts of the Covid-19 Guarantee Facilities, the guarantee facility for loans to SMEs (SME Invest), and the Further Studies Made Affordable (FSMA) schemes.

FUNDING SOURCES AND GOVERNMENT GUARANTEE

FUNDING

The MDB's operations have been funded from the paid-up capital provided by the Government in terms of Article 10 of the MDB Act.[11] After being launched in 2017 with an initial paid -up equity of €30 million, the Bank's paid-up capital was increased by €10 million annually in 2019, 2020 and 2021 to reach €60 million in line with the Bank's business plan.

Together with its paid-up capital, the MDB's funding model also includes bilateral borrowing as a result of agreements entered into 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. To this effect, the MDB is party to a loan agreement of €45 million with the KfW Group and another loan agreement of €60 million with the European Investment Bank under the Multiple Beneficiary Intermediated Loan (MBIL) programme. These funds are utilised by the MDB to finance the facilities to support SMEs, mid-caps and infrastructure projects by private and public-sector entities.

11 The MDB has an authorised share capital of €200 million. This stems from Article 10(1) of the MDB Act. In terms of the First Schedule to the Act, €60 million were subscribed by Government as initial capital. The Board of Directors is empowered by Article 10(3)(b) of the MDB Act to determine the paid-up capital of the Bank. The issued and subscribed share capital of €100 million by 2025 is a projection based on the Bank's business plan and accordingly is a function of its forecast economic activity.

GOVERNMENT GUARANTEE

Article 5 of the MDB Act provides that the Government shall guarantee up to 100% of all the obligations of the Bank and up to 100% of the loans, facilities or guarantees issued by the Bank. According to the MDB's Business Plan, the Bank will rely on the Government guarantee for less than half of its overall operations.

In line with the indicative targets specified in the MOU 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 2021, 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 KfW, while the balance is intended for other prospective operations which the MDB shall be carrying out for its own account.

In addition to the above guarantees, in April 2020 the Government issued another guarantee of €350 million specifically for the Covid-19 response facilities which the MDB is carrying out as agent of the Government.

MDB FACILITIES FOR SMES AND STUDENTS

The products outline below summarises the key features of all the schemes being offered by the MDB up to end-2021, namely:

- Guarantee Facility for Loans to SMEs
- Family Business Transfer Facility
- Further Studies Made Affordable (FSMA) Facility
- Covid-19 Guarantee facilities
- Tailored Facility for SMEs

In the light of the gradual moderation in the impact of the pandemic during the course of 2021, and in preparation for the economic recovery phase, the MDB focused on the development of two new financial instruments to facilitate access to finance to businesses for new investment, particularly in support of a greener and more digitally oriented economy. Both these instruments benefit from the support of a guarantee under the Pan-European Guarantee Fund (EGF) which shall enable the MDB to offer significantly enhanced facilities in the form of:

- SME Guarantee Scheme (SGS)
- Guaranteed Co-Lending Scheme for SMEs (GCLS)

These two new schemes are scheduled to be launched in the first half of 2022.

Moreover, the loan portfolio available for the FSMA facility was taken up much faster than anticipated and it was extended by a further €1.2 million in August 2021, from €8.25 million to €9.45 million. In view of the remarkable success of the FSMA scheme, the Managing Authority for EU Funds agreed to allocate an additional amount of funds for a follow-up to this scheme and mandated the MDB to manage the implementation of a similar but larger facility, the FSMA+ Scheme, which will make available a study loan portfolio of up to €15 million. The FSMA+ facility is expected to be launched in early 2022.

The key features of the products which the MDB is planning to offer in 2022 are also summarised below.

PRODUCT NAME	GUARANTEE FACILITY FOR LOANS TO SMES
PRODUCT OUTLINE	This facility was launched in May 2019 with an applicability period of three years or until full portfolio utilisation. This scheme is aimed at assisting SMEs in enhancing their access to finance. The facility enables commercial banks to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows these businesses to fulfil their growth ambitions.
OBJECTIVE	To provide better access and more affordable finance to smaller businesses that are viable but unable to obtain the required amount of finance for their investment needs from a commercial bank. This may be due to such factors as; collateral offered by the borrower fails to meet the bank's normal requirements; the novelty or nature of the business venture falls outside the commercial bank's risk tolerance and the required repayment period proposed by the borrower exceeds what the bank may be willing or able to accept.
STRUCTURE	The MDB provides a First Loss Guarantee covering 80% of the individual loans under the scheme, with a cap rate of 25% at the portfolio level, generating a multiplier of 5. Thereby, a guarantee of €10 million by the MDB enables an implementing partner to generate a portfolio of up to €50 million new loans to SMEs.
BANKING FACILITY	The size of eligible loans guaranteed under the facility ranges from a minimum of €10,000 up to a maximum of €750,000. The minimum loan size may vary from one implementing partner to another. A twelve-month moratorium on capital repayments is possible at the discretion of the commercial bank. The maximum term of loans is 10 years including the moratorium period, if any. The minimum contribution by the SME is normally 10% of the project costs, at the discretion of the commercial bank. The commercial bank may require collateral in addition to MDB's guarantee to cover the exposure.
Eligibility criteria	
Loan eligibility	The project must be supported by a viable business plan and considered bankable by the commercial bank, meaning that the business is reasonably expected to generate sufficient cash flow to enable timely repayments. The project is not physically completed or fully implemented on the approval date of the facility. The purpose of the financing covers a wide spectrum of possible activities including: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise; (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises, (e) investment-related working capital.
Eligible applicants	Applicants must be viable SMEs, established and operating in Malta. The activities of the SME should not be in the exclusion criteria of the EU. Moreover, an SME cannot apply for the facility if it is in financial difficulty; has suspended its business activities; is bankrupt/insolvent or being wound up; in the last 5 years has entered into an arrangement with its creditors; and in case of a sole trader or of the individuals managing a corporate entity, has been convicted of an offence concerning professional misconduct by judgment, fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity.
State Aid	The scheme is subject to de minimis regulation of the EU, which allows aid up to €200,000 over three consecutive fiscal years, to a single undertaking for a wide range of purposes.
Benefits	Eligible SMEs benefit from: enhanced access to credit availability; better terms and conditions, including a longer repayment period; and lower interest rates as a result of the credit risk protection from the MDB's guarantee.
Application process	The scheme is available through commercial banks. SMEs are to apply for the facility through the commercial banks by providing their borrowing proposal and any other necessary documentation. Bank of Valletta was the first implementing partner of the MDB Guarantee facility for loans to SMEs through the launch of SME Invest. More information on the SME Invest scheme can be obtained from BOV Branches or Business Centre, or by sending an email to smefinance@bov.com. MDB is in discussions with additional possible implementing partners to start offering this facility.

PRODUCT NAME	FAMILY BUSINESS TRANSFER FACILITY – FAMILY BUSINESS SUCCESS
Product Outline	The scheme enhances access to bank credit to family businesses wishing to transfer their businesses to the next generation within the family. This financial instrument was launched in October 2018, with an applicability period of three years or until the portfolio is fully utilised.
Objective	Banks in Malta have been very reluctant to finance such operations because these are perceived to add debt rather than value to the business. The facility addresses a significant market gap and complements the fiscal incentives introduced by the Government in recent years to promote family business transfers on a sounder basis. Such transfers foster greater continuity, stability, and further growth of such family businesses – which in Malta constitute a significant segment of the SME sector.
Structure	The MDB provides a First Loss Guarantee covering 80% of the individual loans under a scheme which is capped at 50% of the commercial bank's portfolio earmarked for this scheme, generating a multiplier of 2.5. Thus, on the basis of a Risk Sharing Agreement between the MDB and Bank of Valletta, the MDB created a guarantee fund of €4 million which will enable BOV to generate a loan portfolio of up to €10 million.
Banking Facility	The maximum loan size is of €750,000, spread over a repayment period of 10 years. The scheme allows for the possibility of up to 6 months moratorium on capital repayments at the discretion of the commercial bank.
Eligibility criteria	
Loan eligibility	The facility supports business ownership transfer related to: (i) a takeover of the relevant family business through the transfer of the business from one family member to another; (ii) a reduction in the Issued Share Capital; (iii) the payment and distribution of a dividend and (iv) the repayment of any shareholder loans due by the family business.
Eligible applicants	To be eligible, a business must meet the following criteria: (i) applicants must be viable SMEs as defined by the European Commission, established and operating in Malta, and (ii) applicants must also be certified as family businesses with the Family Business Office under the Family Business Act.
State Aid	The scheme is subject to de minimis regulation of the EU, which allows aid of up to €200,000 over three consecutive fiscal years, to a single undertaking for a wide range of purposes.
Benefits	The main benefits are in the form of lower interest rates, reduced collateral obligations, longer term of loan
Application process	The scheme is available through MDB's implementing partner – Bank of Valletta. Information on loan applications this scheme can be obtained from BOV Branches or Business Centre, or by sending an email to smefinance@bov.com. Information about registering under the Family Business Act and other initiatives for family businesses can be found at www.familybusiness.org.mt.

PRODUCT NAME	FURTHER STUDIES MADE AFFORDABLE (FSMA) SCHEME - BOV'S STUDIES PLUS+
Product Outline	This financial instrument is targeted towards students aiming at furthering their educational attainment. This scheme was launched in October 2019 for a period of three years or until the portfolio is fully utilised. This instrument is financed under the Operational Programme II, co-funded by the European Social Fund (ESF) Programme 2014-2020.
Objective	The FSMA scheme seeks to support students in pursuing higher level of studies at internationally recognised institutions. FSMA is available to students through MDB's intermediating partner Bank of Valletta, under the BOV's Studies Plus+ scheme.

Structure	The MDB provides a First Loss Guarantee covering 80% of the individual loans under the scheme which is capped at 25% of the commercial bank's portfolio earmarked for such loans, generating a multiplier of 5. Thus, a fund of €1.65 million financed from the ESF stimulates up to €8.25 million of new eligible loans. The financial instrument is divided into two elements: (i) Guarantee element: portfolio capped financial guarantee providing credit risk coverage on a loan by loan basis; and (ii) Interest rate subsidy element to cover all the interest incurred during the moratorium period of each student loan.
Banking Facility	The maximum size of eligible loans guaranteed under the facility is €100,000, with a loan term of up to 15 years, including the moratorium period. The maximum term of capital moratorium covers the term of the course plus an additional twelve months, subject to a maximum moratorium period of five years.
Eligibility criteria	
Loan eligibility	Students pursuing a study programme which is an accredited course in MQF levels 5, 6, 7 and 8, as well as internationally recognised certificates. The loans are available for full time and part time studies. The loan can finance tuition fees, living expenses, accommodation fees, transport expenses, textbooks and related expenses.
Eligible applicants	The applicant has to be a Maltese citizen; or national of an EU/EEA Member State provided that such person has obtained permanent residence in Malta or is in Malta exercising his/her EU Treaty rights as an employee, self-employed person or person retaining such status. The applicant can also be a third country national that has been granted long-term residence status in Malta.
State Aid	No state aid rules apply for this scheme.
Benefits	No payment obligations to the beneficiary during the period of study plus one year. A maximum term of capital moratorium that covers the term of the course plus an additional twelve months, subject to a maximum moratorium period of five years. Attractive interest rate. No interest burden on the borrower during the moratorium period. The interest due during the moratorium period is fully covered by an interest rate subsidy funded by the ESF. No collateral or upfront contribution shall be requested from the borrower by the partnering commercial bank.
Application process	The scheme is available through MDB's implementing partner – Bank of Valletta under the name of BOV Studies Plus+ (https://www.bov.com/news/bov-studies-plus).

PRODUCT NAME	**COVID-19 GUARANTEE FACILITIES**
Product Outline	Since the onset of the pandemic, the Bank has been supporting businesses impacted by COVID-19 with a portfolio of three complementary instruments. The **COVID-19 Guarantee Scheme (CGS)** was launched in April 2020 with the purpose of guaranteeing loans granted by commercial banks in Malta to meet new working capital requirements of businesses facing cashflow disruptions due to the effects of the COVID-19. The second complementary facility is the **COVID-19 Interest Rate Subsidy scheme (CIRSS)** which further softens the terms of working capital loans extended by banks under the CGS. The third component is the **COVID-19 Small Loans Guarantee Scheme (SLGS)** intended to support smaller businesses by reducing the soft collateral in the form of personal guarantees for loans up to €250,000.
Objective	The purpose of the COVID-19 facilities is to support businesses, regardless of size or sector, impacted by COVID-19. The schemes provide guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.

Structure	The MDB provides a First Loss Guarantee covering 90% of the individual loans under the CGS, with a cap rate of 50% at the portfolio level, generating a multiplier of 2.22. Thus, the MDB mobilised the government guarantee of €350 million to enable implementing partners to generate a portfolio of up to €777.8 million in new working capital loans. An additional amount of up to €40 million was made available to all beneficiaries under the CGS in the form of a grant of up to 2.5 percentage points on the interest rate paid on the loan for the initial two years of the term.
Banking Facility	Loan amount: The maximum individual loan amounts for SMEs is of €10 million, and up to €25 million for large enterprises. Amounts higher than €2 million for SMEs and €5 million for large enterprises require the prior ad-hoc approval of MDB. These limits are subject to the condition that amounts must not exceed double the annual wage bill of the beneficiary or 25% of total turnover of the beneficiary in 2019. The eligible amount will be based on the projected working capital requirements of 18 months for SMEs and 12 months for large enterprises. Loan Term: Minimum 18 months to maximum of 48 months. The term can increase to 72 months, subject to additional terms and conditions. Loan terms longer than 72 months will not be covered by the CGS. Moratorium: Minimum period of 6 months with the possibility to extend to one year on a case-by-case basis. The moratorium applies to both interest and capital repayments.
Eligibility criteria	
Loan eligibility	The CGS covers new working capital loans. Eligible costs under these loans mainly include, but are not limited to: salaries of employees, lease and rental costs, utility bills, unpaid invoices due to a decrease in business revenues, acquisition of material and stock for continuation of business, expenses directly related to contracts which were cancelled or postponed because of the COVID-19 outbreak, maintenance costs and bond coupons on listed securities.
Eligible applicants	With the exception of undertakings that were already in financial difficulties by end of December 2019 (based on the GBER definition of undertaking in difficulties), and entities which are within the restricted sectors, all businesses established and operating in Malta are eligible under this scheme.
State Aid	The CGS, CIRSS and the SLGS were approved by the European Commission under the Temporary Framework for State aid measures to support the economy in the prevailing COVID-19 outbreak.
Benefits	In view of the credit enhancement and substantially reduced credit risk exposure provided by Government guarantee, the benefits to commercial banks are passed on to the largest extent possible to the final beneficiaries, mainly in the form of: higher volume of finance, moratorium period, low interest rate and reduced collateral requirement.
Application process	The following are the accredited commercial banks offering facilities under the CGS: o APS Bank (https://www.apsbank.com.mt/aps-jet-pack) o Bank of Valletta (https://www.bov.com/content/bov-mdb-covid19-assist) o BNF Bank (https://www.bnf.bank/mdbcovid-19guaranteescheme) o FCM Bank (https://fcmbank.com.mt/news/fcm-mdb-covid-19-working-capital-support) o FIMBank plc (https://www.fimbank.com/en/covid19-rapid-response-loans) o HSBC Bank Malta (https://www.business.hsbc.com.mt/en-gb/important-announcement) o Izola Bank (https://www.izolabank.com/mt-en/izola-boost#izola-boost-about) o Lombard Bank (https://www.lombardmalta.com/covid19-assistance-to-borrowing-customers) o MeDirect (https://www.medirect.com.mt/business/meassist)

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

SCHEMES IN THE PIPELINE

In addition to the FSMA+ facility for study loans whose key features have been summarised above, the MDB is also planning to launch two new schemes in 2022 that will benefit from the support of the Pan-European Guarantee Fund (EGF), namely the SME Guarantee Scheme (SGS) and the Guaranteed Co-lending Scheme (GCLS). These two schemes are outlined below:

PRODUCT NAME	SME GUARANTEE SCHEME
Product Outline	The SME Guarantee Scheme is an uncapped portfolio guarantee scheme to be intermediated by accredited commercial banks in 2022. It is a scheme that aims at enhancing enterprises access to bank credit for new investment as well as other purposes; including for working capital related to new investment and business transfers. The facility enables commercial banks to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows these businesses to fulfil their growth ambitions.
Objective	The scheme aims to assist viable SMEs accessing finance not otherwise available. The scheme will address 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 current credit risk evaluation practices.
Structure	The MDB provides an uncapped guarantee of 80% on each and every loan in the portfolio of the financial intermediary. The scheme will be open to all accredited commercial banks. Thanks to an EGF counter-guarantee, the MDB is able to generate a portfolio of up to €80,000,000.
Banking Facility	Facilities of €10,000 up to €750,000, with a term of loan of up to 10 years. The minimum loan size may vary from one implementing partner to another. The MDB restricts the take up of collateral to a maximum of 20% of the facility amount. The loan term is up to 10 years and the last date for inclusion of loans is end 2024.
Eligibility criteria	
Loan eligibility	The purpose of the financing covers a wide spectrum of possible activities including: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise; (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises, (e) investment-related working capital and (f) business ownership transfers.
Eligible applicants	The scheme is open to all SMEs in all economic sectors save for the excluded and prohibited activities. Priority will be given to projects related to green and digital investments.
State Aid Regime	Simplified De Minimis
Benefits	Besides accessing finance not otherwise available, eligible enterprises benefit from: enhanced access to credit availability; better terms and conditions, including a longer repayment period, lower collateral requirements; and lower interest rates as a result of the credit risk protection from the MDB's guarantee.
Application process	The scheme is available through intermediary partners accredited by the MDB.

PRODUCT NAME	GUARANTEED CO-LENDING SCHEME FOR SMES (GCLS)
Product Outline	The GCLS is a risk-sharing facility involving co-lending between the MDB and the accredited Bank on a 50:50 basis. In addition, the MDB provides an uncapped guarantee of 60% on the Bank's part of the lending.
Objective	The objective of the GCLS is to enhance access to finance to SMEs that face financial and other constraints and do not fit under the SME Guarantee Scheme.
Structure	The total portfolio can reach up to €100 million, of which €50 million originated by MDB and €50 million by the participating Banks. MDB provides an additional guarantee of €30 million on the €50 million loans by the participating Banks. The global loan portfolio is apportioned by the MDB between the accredited banks participating in the GCLS.
Banking Facility	The maximum loan is capped at €10 million - €5 million by MDB and €5 million by the Bank. The maximum term of the loans under the GCLS shall be 15 years. Both maximum loan size and term are subject to State Aid considerations. The MDB loans will have the same terms and conditions as the Banks' loans except for the: a) Interest rate on the loan, which will be lower than that of the Banks: and b) Partial Guarantee – the MDB will cover 60% of the Banks' portion of the loan.
State Aid Regime	GCLS is notified under (i)De Minimis (ii) General Block Exemption Regulation and (iii) State Aid Temporary Framework
Eligibility criteria	
Loan eligibility	The purpose of the financing covers: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise or (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises.
Eligible applicants	The scheme is open to all SMEs in all economic sectors. In order to be eligible SMEs have to: run a commercial activity in the non-excluded activities sector; are a sole trader, partnership, co-operative or limited company; in the commercial bank's opinion have a viable business proposal; and prove that they are able to repay the facility. Investments related to green and digital technologies will be prioritised.
Benefits	Lower interest rates; Lower front contribution; Longer duration; Lower collateral requirement; Enhanced access to more finance
Application process	The scheme will be made available through accredited commercial banks.

MDB'S FACILITIES IN MALTA'S ECONOMIC CONTEXT

MACROECONOMIC BACKDROP

Malta has sustained several years of strong economic performance and entered the COVID-19 pandemic with strong and sound economic fundamentals. In fact, during the decade preceding Covid-19, Malta's economic performance was among the best in the EU. Fast economic growth, a buoyant labour market, improved public finances and higher spending power have supported Malta's economic and social development.

In 2020, as a consequence of the pandemic, the Malta's economy contracted at a faster pace than the EU average, reflecting the disproportionately high exposure to tourism and related services sector. GDP growth estimates for 2021 indicate that the economy reversed the 2020 contraction and grew by over 9%. However, the overall landscape remained fragile and extensively impacted by the rising cases of Covid-19 and, more recently, with the uncertainties of the unfolding conflict in Ukraine.

An amelioration in the public health situation towards the end of the first quarter of 2021 allowed for a significant relaxation of restrictive measures, and this led to improved business and consumer sentiment, as well as a recovery in the tourism sector in the second and third quarters of the year. However, mainly owing to the fast transmission of the Omicron variant, output growth slowed somewhat in the last quarter of 2021 and remained muted in the first quarter of 2022. The surge in infections, the re-tightening of restrictions, low tourist numbers, the continued disruptions in global value chains and negative effects of price increases in shipping and transport were all important factors affecting local business in 2021 and 2022.

As an open economy, international trade is not only an important contributor to economic performance but also to employment. Malta's ability to export goods and services, and its relative competitiveness, are critical to sustaining the labour market and the broader economy. Output in most EU countries, including Malta, has already surpassed its late-2019 level and are now converging on its pre-pandemic path. However, in Malta, the two-speed recovery persists, with sectors dependent on interpersonal contact such as travel, tourism and leisure continuing to underperform, while other sectors generally faring much better.

The European Commission is projecting that in the course of 2022, growth will pick up again as domestic demand recovers further, supported also by the implementation of the Recovery and Resilience Plan.[12] Malta is expected to reach pre-pandemic levels of economic activity around mid-2022. Indeed, real GDP is forecast to grow by 6.0% in 2022 and 5.0% in 2023. Overall risks of these projections remain tilted on the downside, reflecting risk related to possible consequences of the June 2021 decision of the Financial Action Task Force to add Malta to the list of jurisdictions under increased monitoring. Moreover, persistent logistic and supply bottlenecks keep weighing on production, as do the elevated prices of energy. Prolonged geopolitical tension and stronger than expected inflationary pressures can also weigh on households' purchasing power.

ECONOMIC IMPACT OF MDB'S INTERVENTION

COUNTERCYCLICAL ROLE

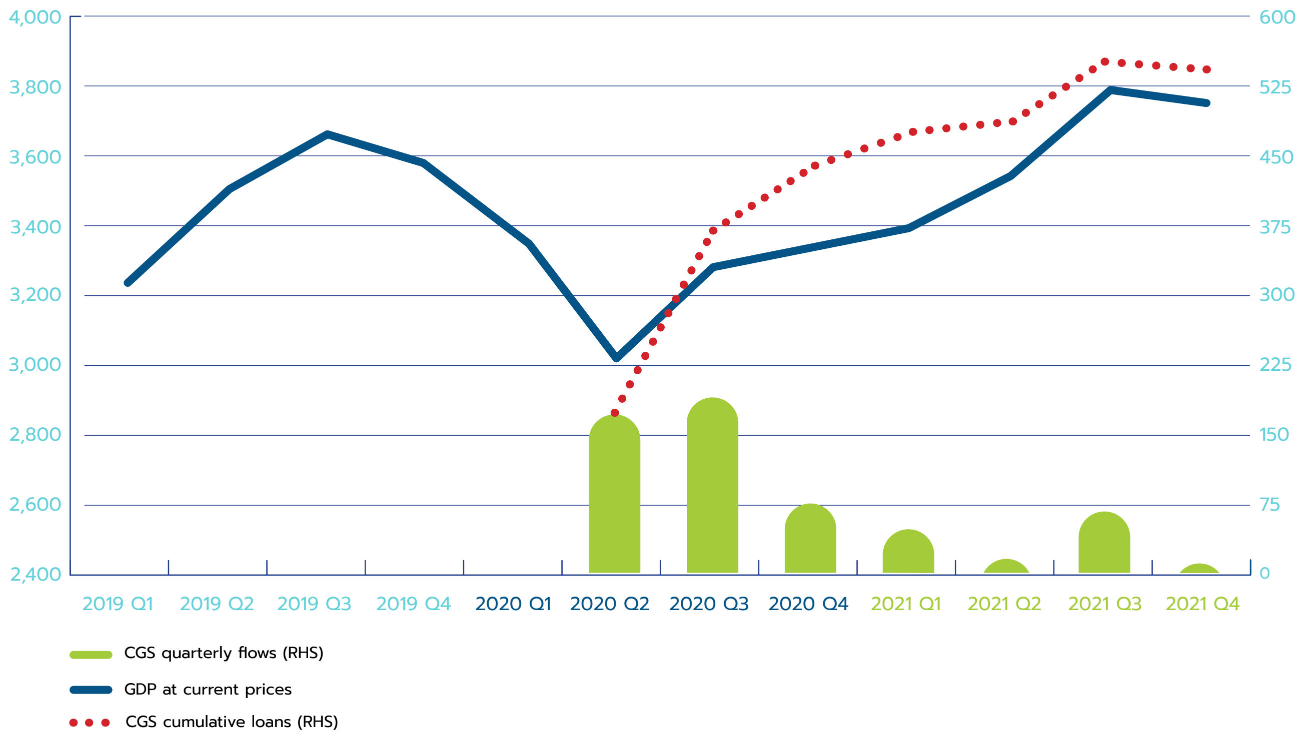
With the global pandemic, the MDB like many other promotional banks in Europe, took on a critical role in implementing countercyclical instruments, shifting its focus on emergency support measures to address the economic repercussions from COVID-19. In March 2020 the MDB was entrusted with a guarantee fund of €350 million. This pot was efficiently mobilised through the intermediation of commercial banks to leverage it up to a portfolio of up to €777.8 million in new loans to meet new working capital requirements of businesses facing cashflow disruptions. As can be seen in Chart 1, MDB's Covid-19 facilities were in place when our local businesses were most in need. As at end 2021, a total of €505.9 million in loans were intermediated by MDB's partnering commercial banks. Over €340 million of this amount was sanctioned in the first two quarters of the CGS launch, that is, in the second and third quarter of 2020, coinciding with marked contractions in nominal GDP, estimated at 14.9% and 10.9%, respectively.

Over the first seven quarters since the launch of the schemes, the negative correlation coefficient between GDP and quarterly CGS flows reaches 0.73, indicating a strong negative correlation, or movements in opposite direction, between the two variables. This negative correlation, which illustrates MDB's countercyclical role, is also evident in 2021 as economic activity started to rebound from the initial shock of the pandemic, coinciding with a dwindling demand for CGS loans.

Working capital shortage may severely affect the supply side of the economy as it represents the operating liquidity necessary for business operations. The impact of these instruments cannot be assessed in isolation, but as part of broader government economic regeneration measures targeted towards local businesses, which amongst others included wage supplements and subsidies on utility bills. Nevertheless, the rebound in economic output in 2021 augurs well, and indicates that MDB's role in supporting businesses allowed entrepreneurs to keep their focus on their longer-term objectives without compromising their short-term strategic commitments.

12 https://ec.europa.eu/economy_finance/forecasts/2022/winter/ecfin_forecast_winter_2022_mt_en.pdf

CHART 1: COUNTERCYCLICAL ROLE DURING THE PANDEMIC



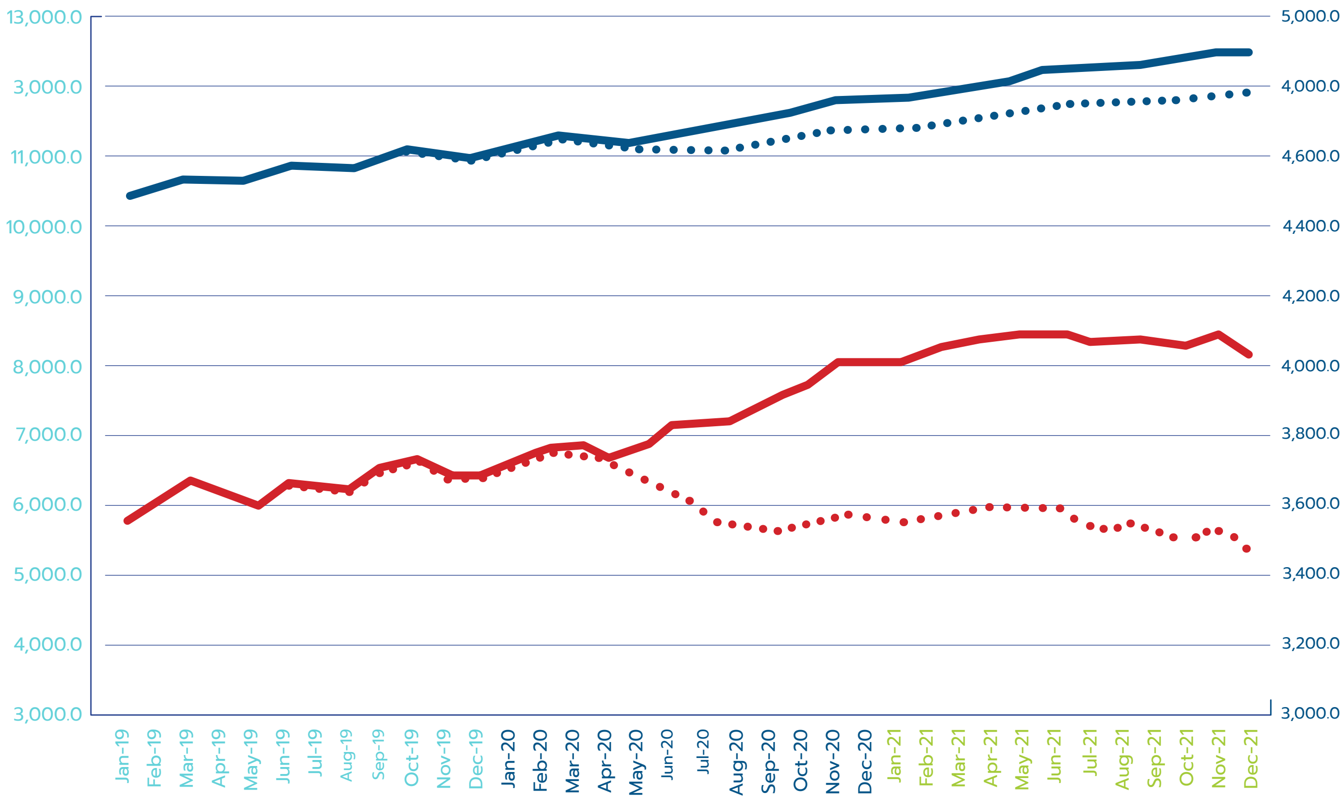
MDB'S ROLE IN DEBT FINANCING TO NON-FINANCIAL CORPORATIONS (NFCS)

As at end 2021, the Bank's total financing volumes, including all guarantees and loans to local undertakings, stood at €560.6 million, predominantly spurred by the €505.9 million related to Covid-19 Guarantee Scheme (CGS), and to a lesser extent, by the almost €45.3 million related to the SME Invest facility. As can be seen in Charts 2 and 3, the impact of the latter two schemes is also substantial on a national level. Data published by the Central Bank of Malta show that outstanding loans to NFCs residing in Malta reached €4 billion by the end of 2021, practically unchanged from a year earlier, with loans covered by MDB guarantee schemes accounting for 13.7% of this sum. Moreover, when looking at the bigger picture, over the same period, MDB's support to local businesses has reached close to 4.4% of total lending in Malta.[13]

Unsurprisingly, the impact of MDB's intervention became more pronounced with the introduction of the CGS in April 2020. Indeed, as can be seen in Chart 3, lending to NFCs (including loans supported by MDB) expanded by an annual rate of 9.0% by end 2020. Without MDB's intervention, such lending to NFCs would have contracted by 2.5%. A year later, MDB's intervention continued to be crucial in keeping the overall lending to local NFCs in an expanding mode, albeit at lower rates in the latter part of the year. Indeed, without MDB's intervention, lending to NFCs would have contracted in 11 out of the 12 months of 2021. This marked role is also noticeable when looking at the headline total lending in the country, with MDB-guaranteed loans contributing 0.8 percentage points, or 17%, of the overall credit growth of 5.7% recorded by end 2021.

13 Total lending comprises credit to the general government, financial and non-financial corporations, insurance & pension funds, and households & non-profit institutions.

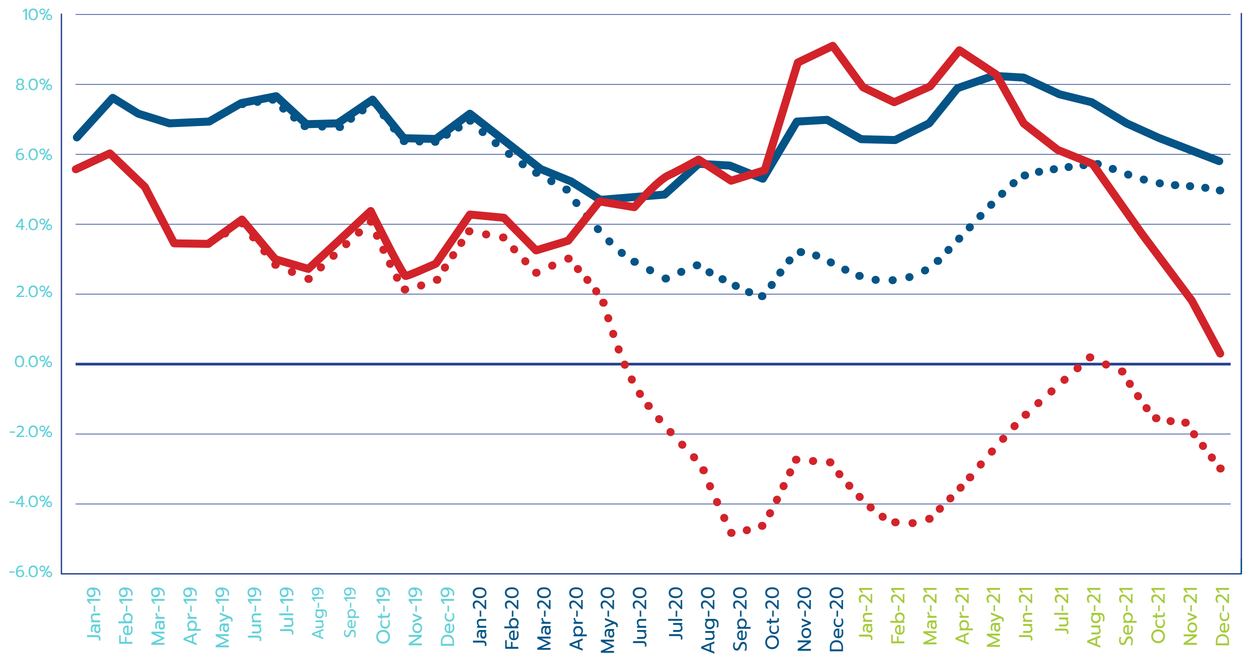
CHART 2: OUTSTANDING LOANS TO RESIDENTS OF MALTA (€ MILLIONS)



Sources: Central Bank of Malta and Malta Development Bank

Total lending in Malta
Total lending in Malta excluding MDB schemes
Total credit to NFCs (RHS)
Total credit to NFCs excluding MDB schemes (RHS)

CHART 3: ANNUAL GROWTH RATES IN OUTSTANDING LOANS TO RESIDENTS OF MALTA



Sources: Central Bank of Malta and Malta Development Bank

Total lending in Malta
Total lending in Malta excluding MDB assitance
Total credit to NFCs
Total credit to NFCs excluding MDB

OUTREACH OF MDB'S SCHEMES

Whilst it is difficult to estimate the economic impact of financial products, particularly those offered by promotional banks, this section will try to shed some light on the outreach of the schemes, including key performance indicators, and where possible provide a qualitative assessment of the three most successful schemes offered by the MDB.

GUARANTEE FACILITY FOR LOANS TO SMES

SMEs constitute more than 99% of all firms in Malta, with the vast majority, over 97%, being micro firms employing less than 10 persons. The MDB plays a key role in reducing lending costs and collateral requirements for SMEs through risk sharing instruments in conjunction with commercial banks. These products are instrumental in supporting the banks to engage more with smaller and innovative firms.

The SME Invest, was launched in 2019 through Bank of Valletta, and in 2021 remained MDB's main guarantee scheme for new SME investments. This scheme is open to SMEs operating in all economic sectors and targets those SMEs planning new capital investment projects, providing easier access to finance through reduced collateral requirements and finance costs. Enterprises may seek bank financing up to a maximum of €750,000, at attractive interest rates and better credit terms. Throughout 2021, despite the prolongation of the pandemic, the SME Invest has supported 54 projects undertaken by local SMEs, injecting €15.8 million into the local economy. As can be seen in Table 1 the majority of enterprises supported were micro firms.

Reflecting the relatively higher uptake by micro enterprises during the period under review, the average sanctioned loan size under this financial product stood at around €293,000, marginally less than the €294,100 recorded in 2020.

TABLE 1: FACILITIES UNDER THE SME INVEST

Year	*Number of facilities by type of enterprise*			
	MICRO	SMALL	MEDIUM	TOTAL
2019	17	15	3	35
2020	38	19	4	61
2021	33	19	2	54
Totals	88	53	9	150

	Sanctioned loans (Euro millions)	Average loan size (Euro)	Number of employees
2019	11.5	329,143	510
2020	17.9	294,098	900
2021	15.8	292,963	647
Totals	45.3	301,867	2057

** Figures refer to active facilities and exclude a small number of facilities that were sanctioned between 2019 and 2021 but were later withdrawn by applicants.*

By end of 2021, the SME Invest scheme had injected a cumulative €45.3 million in new credit to the local economy, supporting 150 projects undertaken by local SMEs. The average loan duration under this scheme stood at close to 10 years, and in total, these beneficiaries employ over 2,000 persons. The projects supported by this scheme include a wide array of capital investments, including projects related to building and refurbishing of retail outlets, warehousing and guest houses, dental clinic and childcare centres, but also digitalisation and investments in renewable energy sources.

COVID-19 GUARANTEE FACILITIES

Throughout 2020 the Maltese government announced a series of stimulus measures to mitigate the pandemic's impact and help companies stay afloat. As explained in the product table above, as part of the first set of measures announced by the government the Bank was entrusted with a guarantee fund of €350 million which the MDB leveraged up through the intermediation of commercial banks to €777.8 million in new loans to meet new working capital requirements of businesses facing cashflow disruptions due to the effects of the COVID-19. This scheme is open to all types of businesses, in Malta, regardless of size or sector.

Originally, applicability of the MDB's Covid-19 measures was in respect of eligible facilities that were to be approved by 31 December 2020, in line with the provisions of the European Commission's Temporary Framework of State aid measures. Following the Commission's decision in October 2020 to extend the applicability period to 30 June 2021, the MDB obtained the Commission's clearance to likewise prolong the CGS to applications approved by this period. In line with subsequent amendments of the Temporary Framework, in its decision of 12 January 2022, the European Commission approved MDB's request to prolong the MDB's existing Covid-19 schemes until 30 June 2022, along with calibrations to the loan terms and respective guarantee fees. These amendments are aimed to provide flexibility where needed, and at the discretion of commercial banks.

By the end of 2021, around 20 months from its launch, the nine partnering commercial banks intermediating the CGS, have sanctioned a total of €505.9 million in working capital loans, up from €408.1 million in end 2020. The CGS loans have supported 616 businesses, that collectively employ around 40,000 persons. The supported businesses range from hotels to large retail outlets, but also to smaller firms from all economic sectors (see Charts 4 and 5). As can be noted from the charts, firms in the tourism-related sectors (accommodation & food services activities, and wholesale & retail activities), which were the most adversely impacted by the pandemic, have collectively been granted close to €222.5 million, or 44.0%, of total loans sanctioned under the CGS.

CHART 4: COVID-19 GUARANTEE SCHEME - SANCTIONED LOANS BY ECONOMIC SECTOR

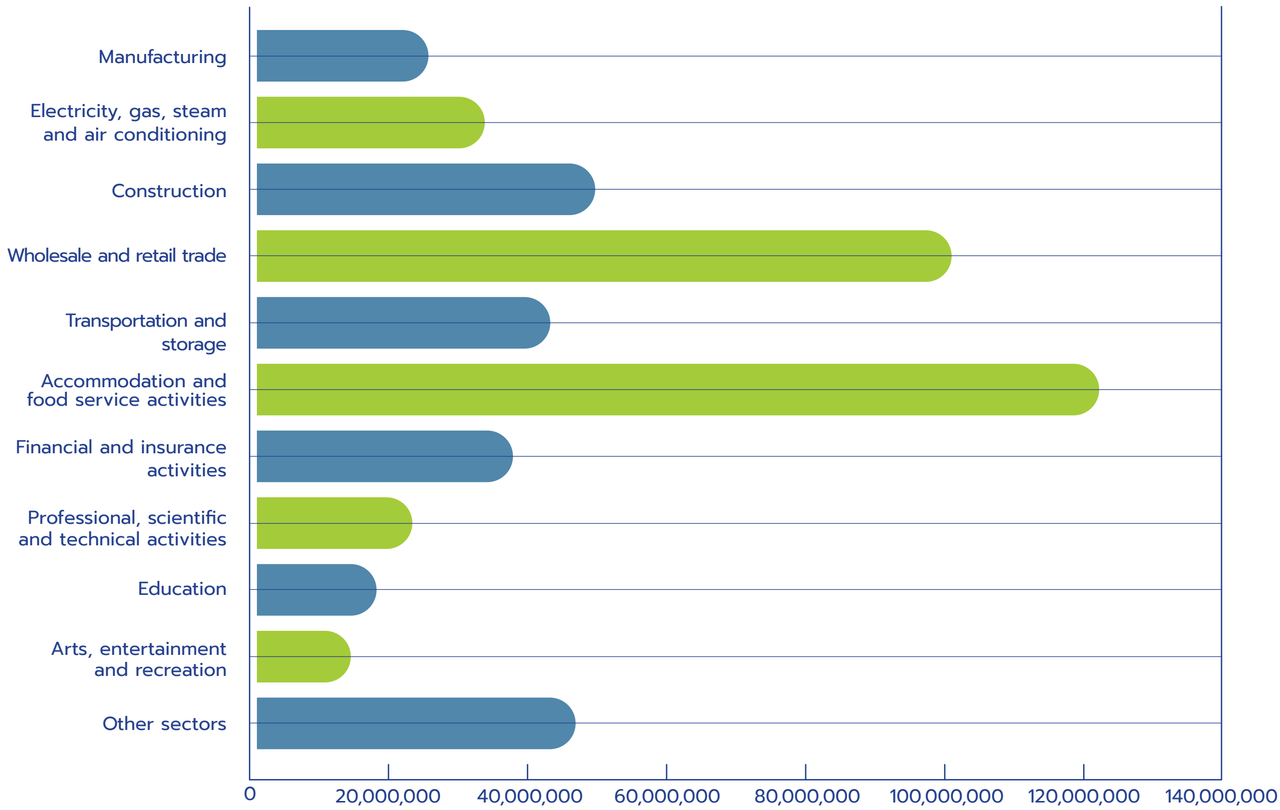
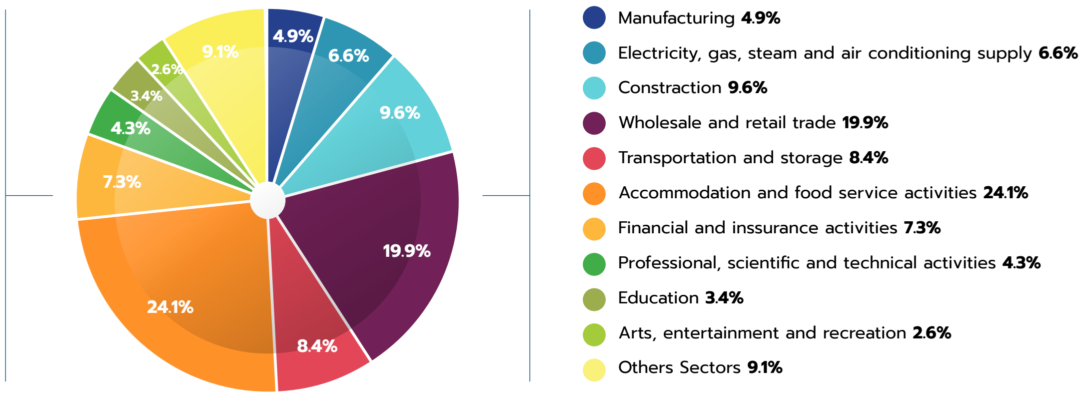
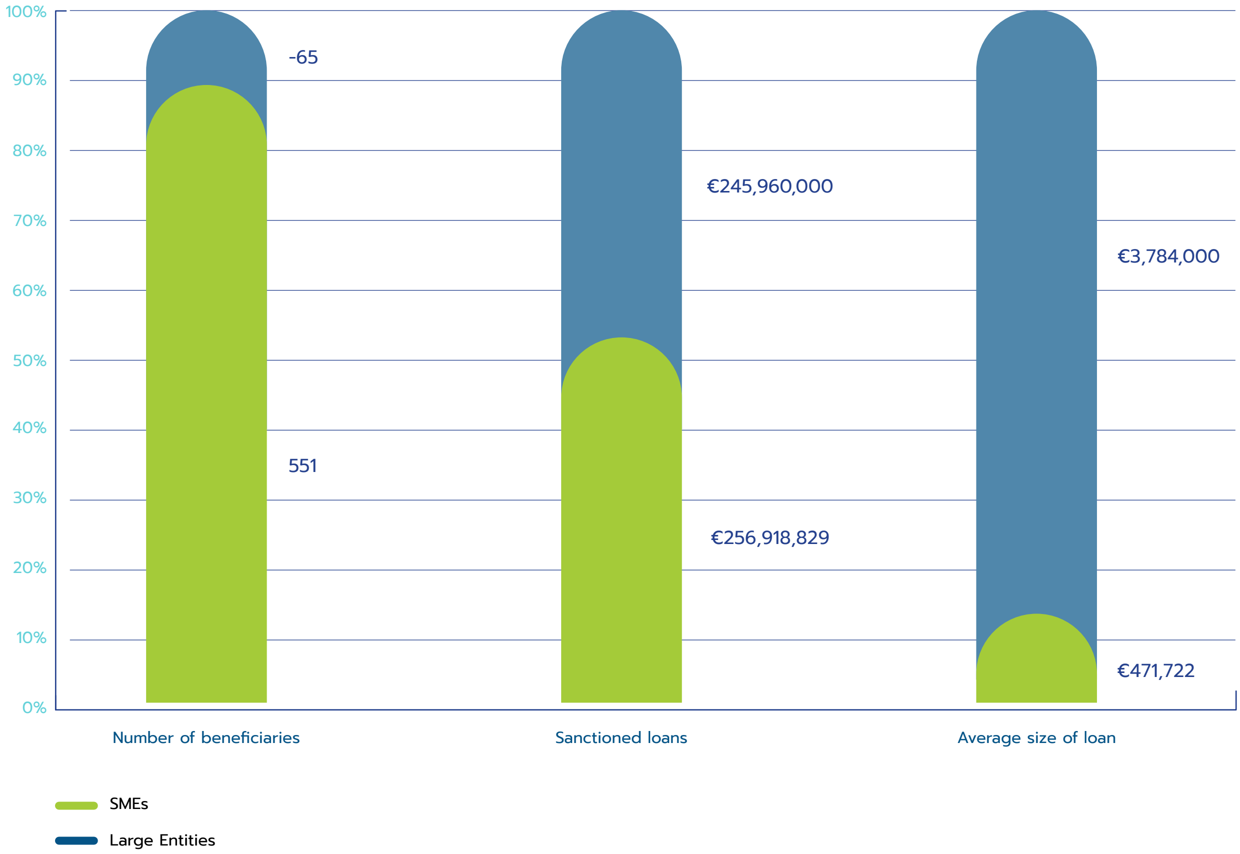


CHART 5: COVID-19 GUARANTEE SCHEME - PERCENTAGE DISTRIBUTION ACROSS ECONOMIC SECTORS (%)



The average loan per facility of the 616 beneficiaries stood at around €821,231. Out of these beneficiaries, 551 firms, almost 90% of the total, are SMEs, whereas 65 are large entities (see Chart 6). As larger firms require larger amounts of working capital, the requested loans of these enterprises were as expected markedly higher than those requested by smaller firms. Indeed, the average loan size of SMEs amounted to €471,722, whereas that of large entities the average loan size was €3.8 million.

CHART 6: DISTRIBUTION ACROSS BENEFICIARIES BY SIZE



FURTHER STUDIES MADE AFFORDABLE

As a small open economy, human capital has always been a critical resource in Malta. The MDB is mandated to contribute to inclusive and sustainable economic growth and considers education as a major pillar in reaching this overarching objective.

In collaboration with the Managing Authority of EU funds, the MDB had launched the Further Studies Made Affordable (FSMA) financial instrument in October 2019. To date this is the only MDB scheme directed to individuals and not business undertakings. Moreover, it was also MDB's first blended instrument, combining a grant in the form of an interest rate subsidy with a guarantee to generate favourable lending terms. A total portfolio of €8.25 million was made available through the intermediation of Bank of Valletta (marketed as BOV's Studies Plus+) which was the intermediating partner selected by the MDB after a public call in 2019. The portfolio was extended by a further €1.2 million, to €9.45 million in August 2021. This was possible as it was evident that the buffer amount dedicated to the interest rate subsidy component would not be fully utilised and this sum could be added to the guaranteed fund, hence increasing the overall portfolio available to beneficiaries.

The purpose of the FSMA is to facilitate the financing of cost of students' studies in Malta and overseas, including tuition, accommodation, subsistence, and related expenses. The scheme covers full time, part time or distance learning study courses, at MQF levels 5 – 8, and other internationally recognised certificates. The maximum loan value can reach up to €100,000 for a term of up to 15 years.

Besides offering a significantly reduced interest rate, the FSMA facility offers a moratorium on both capital repayments and interest for the period of study plus 12 months. The interest accumulated during this period is fully covered by the interest rate subsidy, which means that the student is not required to make any payments during the period of study and will also have an additional year to seek employment. No additional fees and processing fees are charged and no collateral, life insurance and up-front contribution are requested. It is a scheme designed to fit the requirements of students at a stage in life where they lack financial resources and require peace of mind during their studies, without the anxiety of having to cope with loan repayments.

By the end of 2021, 277 students have been supported under the FSMA scheme, an increase of 101 students when compared to end 2020. Out of these beneficiaries, 175 are males, whereas 102 are females. Total loans under this scheme reached €9.2 million by end 2021. 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 almost two and half times more than that of female beneficiaries. The latter is also resulting in notable differences in the average loan size, loan repayment and the associated moratoria periods by gender (see Chart 7).

Under the FSMA scheme, the overall average loan size reached €33,350, which is much higher than what commercial banks are willing to offer in absence of such a guaranteed scheme. The beneficiaries are aged between 19 and 50 years (see Chart 8). However, over 80% of all beneficiaries are in the 19-30 age cohort, with a median age of 25 years old.

CHART 7: FSMA CHARACTERSTICS BY GENDER

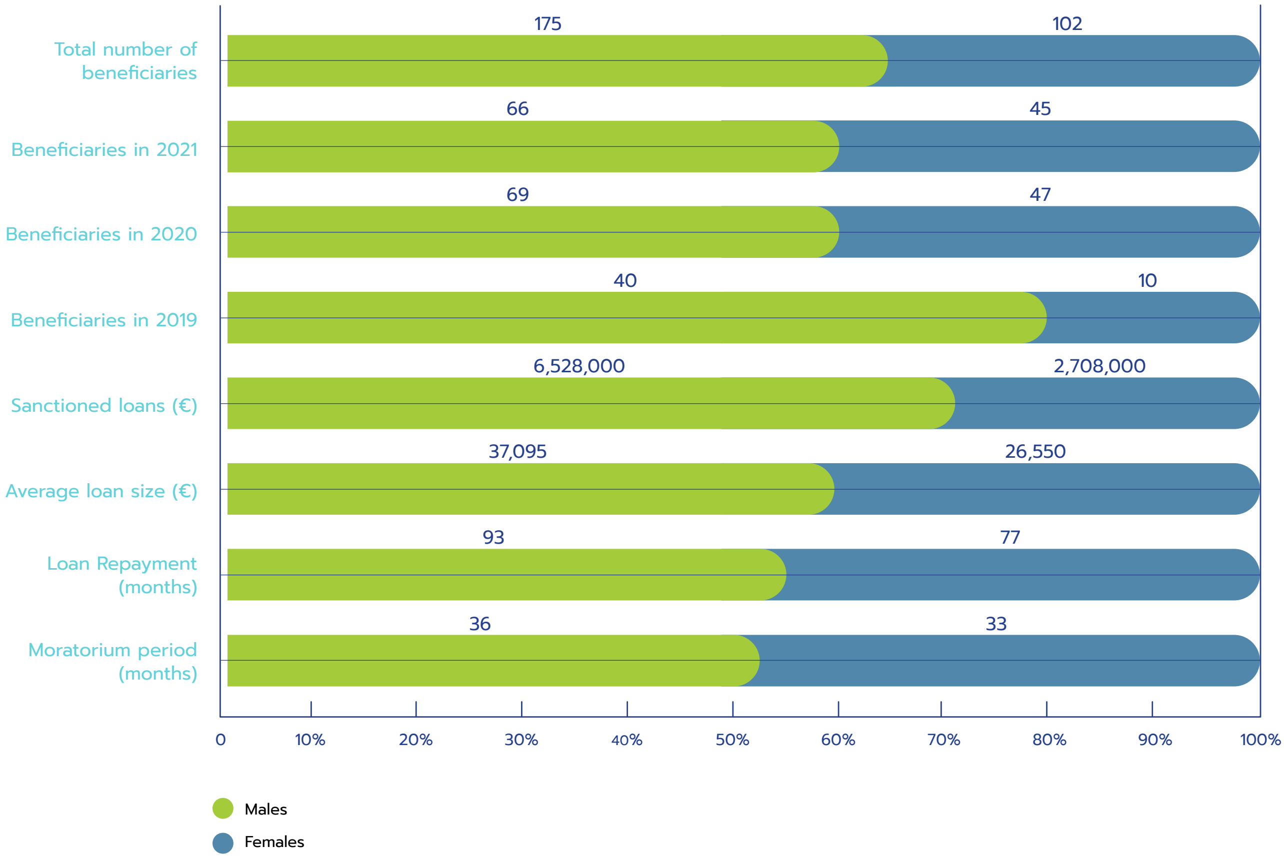
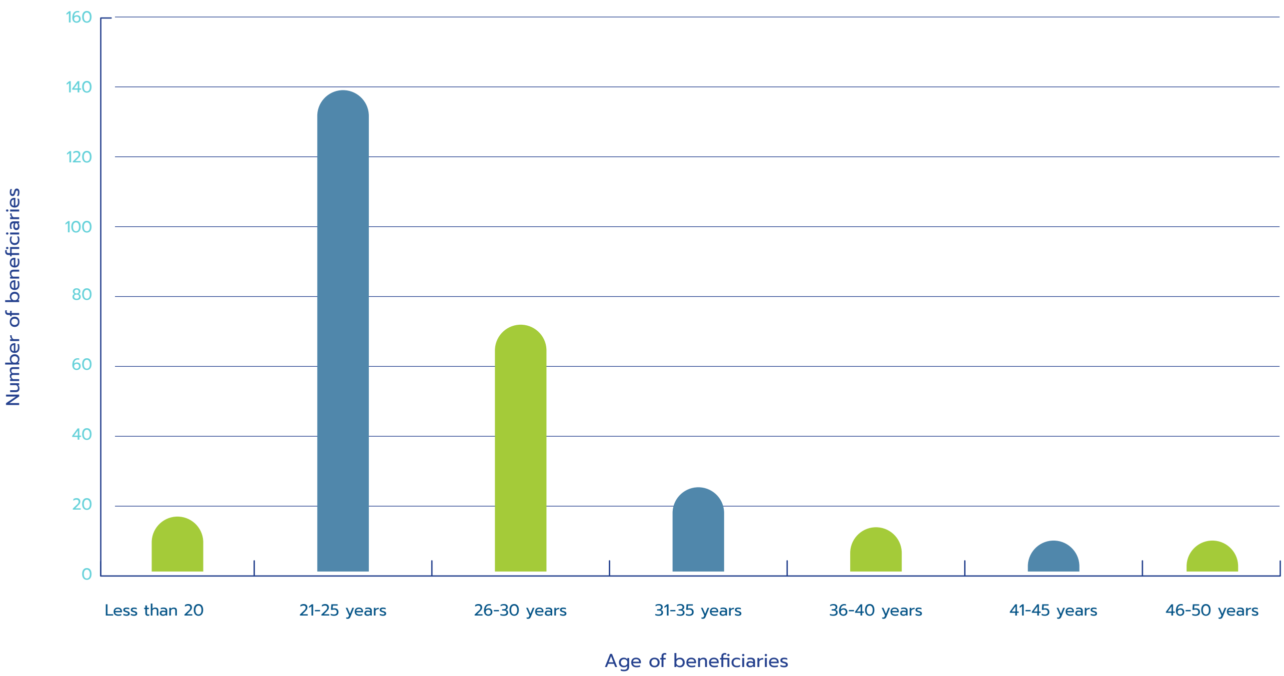


CHART 8: FSMA BENEFICIARIES BY AGE



As can be seen in the Chart 9, the most popular courses undertaken by the beneficiaries of the FSMA scheme were for MQF 7 level of education, which is equivalent to a master's degree, with 142 students, or 51.1% of the total, followed by 89 beneficiaries opting for internationally recognised certificates, predominantly including courses for aircraft pilots. Reflecting the substantial costs related to the latter professional courses, the total amount sanctioned for international recognised certificates accounted for close to 52.3% of the total funds (see Chart 10). At the same time, MQF 6 level courses were taken by 35 beneficiaries, whilst loans to students pursuing MQF levels 5 (diploma) and 8 (PhD) were both taken by 6 beneficiaries.

CHART 9: BENEFICIARIES SUPPORTED ACROSS QUALIFICATION LEVELS

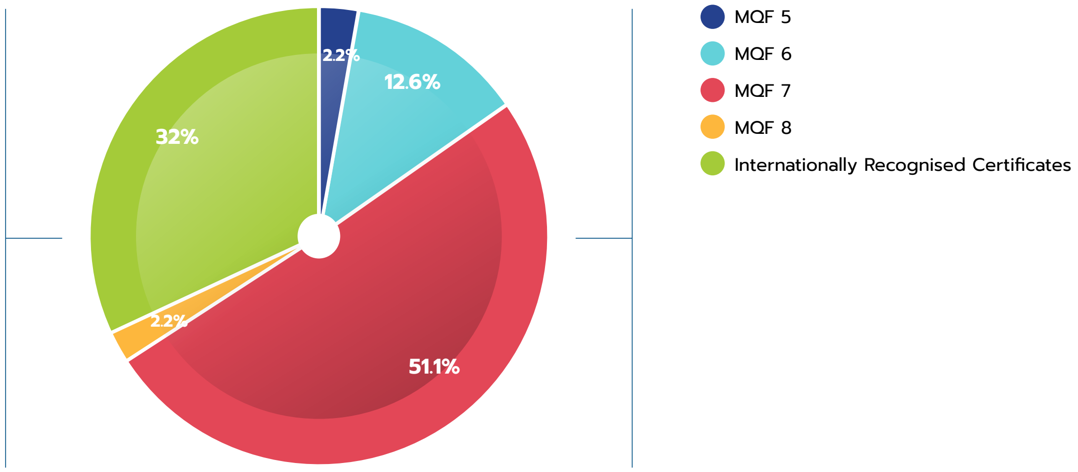
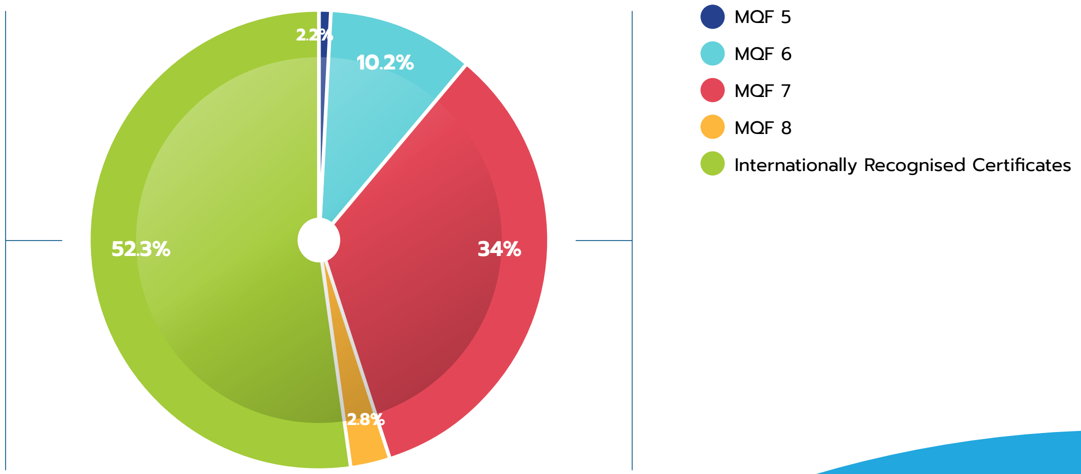


CHART 10: DISTRIBUTION OF SANCTIONED LOANS BY VALUE



MDB firmly believes that investment in human capital is crucial to expand Malta's growth potential and to ensure its long-term macroeconomic competitiveness. At the same time, investment in education is key to promote equal opportunities for women in the labour market. The take-up of the FSMA was significantly higher than expected, and to this end, the Managing Authority in 2021 has secured more EU financing, including from the new programming period, which was directed to the MDB to implement a new scheme, the FSMA+. The new Scheme is expected to be launched in early 2022 with a funding allocation of €5 million from the European Social Fund (ESF) and the European Social Fund Plus (ESF+). Close to half of this amount will be in the form of a grant subsidising the interest payments during the moratorium period, whilst the MDB is once again providing a guarantee covering 80% of individual loans, capped at 25% of the commercial bank›s portfolio, generating a multiplier on the guarantee of 5, meaning that a total portfolio of circa €15 million is being made available.

FINANCING OF INFRASTRUCTURE PROJECTS

During the year the MDB continued to address market gaps in the context of large infrastructure projects. The MDB engaged in dialogue with a range of both public and private entities on a diverse selection of projects that face financing difficulties mainly due to the size of the financing required and the repayment period necessary to make the investment bankable. The MDB sought to promote investment in such projects by crowding-in private and public sector investment and facilitating credit operations which otherwise would not have occurred in the absence of support from the MDB. As a result, the Bank is acting as catalyst to create economic value to investors while promoting activities in pursuance of national social and economic priorities.

During 2021, the MDB sought to converge such projects with its own values. As part of its ethos, the MDB continued prioritising Environmental, Social, and Corporate Governance (ESG) criteria, as three central factors in measuring the sustainability and societal impact of an infrastructure investment. At the intermediation stage, the MDB gives priority to projects that have a strong social dimension and projects that contribute to the transition towards a greener economy.

An important infrastructure investment where the MDB bridged the financing gap is the Campus Hub at Malta's University at Tal-Qroqq. This project combines both the social and environmental dimension as it involves the development of a university residence, ancillary commercial space, and other student community and sport amenities, whilst employing innovative and greener methods in the process. The signing of the loan agreement with Campus Residence Malta Ltd took place in May 2021. This project shall contribute towards the enhancement of students' quality of life, whilst also contributing towards the sustainable economic development of the country.

FACILITIES IN THE PIPELINE

The MDB is committed to provide a counterbalance to the decline in commercial banking activity during a downturn in economic activity or during periods of higher risk aversion in the banking sector, and to lay the fundamentals for higher long-run growth. Investment in green infrastructure projects, innovation and digitalisation provides further support to sustainable growth while also contributing to climate change mitigation and targets.

During 2021 the MDB worked on a number of potential financial instruments, three of which are scheduled to be launched in the first months of 2022. These are the Further Studies Made Affordable Plus scheme and the two EGF backed financial instruments, the SME Guarantee Scheme and the Guaranteed Co-Lending Scheme for SMEs. More details on these pipeline schemes are found in the section on MDB Facilities for SMEs and Students.

Moreover, during the year under review, the MDB closely monitored the developing market gaps in the form of sub-optimal investment situations in the transition to carbon neutrality, particularly in urban mobility. To this end, in order to facilitate market access and ensure an increased diffusion of electric vehicles in Malta, the MDB, with the help of other stakeholders, is considering the launch of a blended financial instrument in the form of promotional lending complemented with highly subsidised interest rates. This will provide an opportunity to access the needed financing to purchase electric vehicles at minimal interest costs which would make the repayments affordable and the investment decision more financially feasible. Such a facility could also cover other related investment such as the installation of the necessary electricity/charging points and battery replacement.

The MDB is also in discussion with Malta Enterprise and the Ministry for Transport, Infrastructure and Capital Projects on identifying potential markets gaps related to the blue economy. Albeit discussions are still at an early stage, the MDB is adamant to put sustainable development at the fore of its agenda.

Another core area where the Bank devoted notable energy during 2021 relates to the digitalisation and innovation sectors. In this regard, the MDB, in collaboration with the Malta Council for Science and Technology, conducted research on the financing gaps faced by technology-oriented innovative start-ups. The main outcomes from this field and desk research are currently being analysed to ensure that MDB's response is indeed impactful.
To date, the MDB has been successful in launching a number of products targeted to provide broad, as well as specific, financing gaps within the Maltese market, focusing on guarantee schemes supporting debt financing. However, to augment the Bank's reach and impact, the Bank managed to secure the support of the European Commission under the Technical Support Instrument to assist the MDB in designing two new financial instruments in the Maltese market, one being an equity based financial instrument for SMEs and the other being a financial instrument to support start-ups. The technical assistance is currently being conducted by one of Malta's most reputable advisory firms and is expected to be concluded later in 2022.

SIGNIFICANT EVENTS

MEMORANDUM OF UNDERSTANDING WITH THE MALTA EMPLOYERS ASSOCIATION

In March of 2021 the MDB and the Malta Employers Association (MEA) signed a Memorandum of Understanding strengthening the relationship between the two institutions and allowing the two sides to intensify their collaboration, exchange of information and mutual promotion through their respective fora. The agreement was signed by MEA's Director General Joseph Farrugia and MDB Deputy Chief Executive Officer Paul V. Azzopardi. In particular, the agreement will ensure increased awareness among MEA members of the various schemes available through the MDB. Moreover, through the digital tool MEAINDEX platform, MDB joined 12 other institutions which are collaborating on this project. This platform serves as an effective communication tool between those institutions which form part of the commercial ecosystem and around 56,000 employers which are responsible for some 200,000 jobs in Malta.

PARTICIPATION IN CONFERENCES ON GREEN AND SUSTAINABLE FINANCING

In August and September, MDB's Senior EU Affairs Officer Mr Silvio Attard represented the Bank in two inter-governmental and key stakeholders' seminars on Malta's transition towards a greener economy. The MDB representative participated in panel discussions on "Financing the Transition: Different Financial Mechanisms towards One Goal". The focus of this seminar was to raise more awareness on the ESG framework and the EU Taxonomy Regulation which will be a turning point in affecting the operations of our services-based economy, to encourage the provision of sustainable financing for capital markets and how to unlock the private financial sector's potential.

In October the MDB was invited to participate in the first "National Climate Change Conference". During the panel discussion on how to finance the green transition, the Bank's Senior EU Affairs Officer Mr Silvio Attard highlighted the Bank's drive in promoting environmentally sustainable growth and the ongoing developments relating to ESG matters and the design of potential financial instruments encouraging sustainable mobility.

In November during a conference organised by the Malta Employers Association, MDB's Deputy CEO Mr Paul V Azzopardi participated in a panel discussion where he described the role of the Bank in facilitating the financing of the green transition including through the MDB's upcoming schemes that will be supported by the Pan-European Guarantee Fund. During the same month, the Bank participated in a conference organised by the European Commission Representation in Malta and the Ministry for Energy, Enterprise and Sustainable Development on "Enterprises for a Sustainable Maltese Economy". During this conference the MDB representatives highlighted the role of the MDB in promoting sustainable growth.

In the year under review, the Bank was also asked to participate in a stakeholders' consultation conference on "Malta's Sustainable Development Strategy 2050 and Action Plan: Multi-Stakeholder Formulation Process and Next Steps". This project is being financed by the European Commission's Technical Support Instrument programme and the OECD were asked to assist with the design and methodological approach for Malta's roadmap. During a bilateral meeting with the OECD, Mr Silvio Attard gave an overview of the MDB, and highlighted the Bank's role in promoting environmentally sustainable growth.

During the 2021 IFS Annual Conference, MDB's Chief Business Development Officer Mr Joseph Darmanin, delivered a presentation and shared some thoughts on the practical ways the MDB can support the green transition, including through the upcoming schemes supported by the Pan-European Guarantee Fund.

PARTICIPATION IN OTHER CONFERENCES AND EVENTS

In May, MDB's Chairperson Prof Bonnici, was invited as a panel discussant in a joint conference organised by the European Investment Bank and the Central Bank of Malta which focused on investment in the post COVID-19 era, digitalisation and climate change. In his intervention Prof Bonnici outlined MDB's role in the local financial investment market, particularly in providing access to finance during the pandemic, but also highlighted the Bank's plans in assisting local undertakings a post-Covid-19 recovery phase.

In July, the Bank's Chief Business Development Officer Mr Joseph Darmanin, represented the MDB as a panel discussant in the session on "financialisation of housing" during the conference "Adequate Housing as a Human Right" organised by the Ministry for Social Accommodation and the office of MEP Alex Agius Saliba. Emphasis was made on the role of MDB in supporting the provision of affordable housing, particularly on the basis of the Third sector model.

During two networking events hosted by Tech.mt in October, MDB's Chief Business Development Officer, Mr Joseph Darmanin joined representatives from the Malta Council For Science & Technology, Malta Enterprise and the ICT Faculty within the University of Malta and shared details of MDB's upcoming schemes to facilitate access to finance to SMEs, particularly for investment in innovation, digitalisation and the enhancement of competitiveness.

SIGNING OF LOAN AGREEMENT WITH CAMPUS RESIDENCE MALTA LTD

In May, the MDB and Campus Residence Malta Ltd signed the loan agreement in connection with the Campus Hub project. This project shall contribute towards the enhancement of the quality of life of students who wish to live on campus while conducting their studies. It shall also contribute towards sustainable economic development that not only provides benefits for Maltese students, but also to students from other countries who wish to come to Malta and study in a safe environment.

EUROPEAN SME WEEK

In November, the Malta Chamber of SMEs, Malta Enterprise and Business First jointly hosted the National SME Conference, "Being one Step Ahead, the Opportunities for SMEs", during the European SME week. The overall theme of the conference was sustainability and the new economy focusing on opportunities in digitalisation and sustainable environmental initiatives. The MDB, represented by Mr Darmanin, participated as panel discussant in the 4th workshop on sustainable finances. Mr Darmanin gave an overview of MDB's current and upcoming products with the aim to help improve access to financing and help companies invest in greener and more digital ways of doing business. The conference also included networking activities where the MDB set-up an information stand, which included a dedicated leaflet with relevant information as well as members of the MDB staff where available to answer the queries of businesses.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INTERNATIONAL AFFILIATIONS AND COOPERATION

MDB'S MEMBERSHIP WITH EUROPEAN ASSOCIATIONS AND NETWORKS

During 2021, the MDB continued to build a value-laden relationship, and collaborated with a number of international associations, multinational development institutions and foreign development banks. The MDB is a member of the European Association of Public Banks (EAPB), the European Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI) and the European Association of Guarantee Institutions (AECM). Membership in these associations provides the MDB with various benefits, including exchange of information, interfacing and sharing of technical experiences and best practices; being part of a strong lobby group representing their Members at a European level; participating in consultations and discussions with EU institutions on financial instruments, regulations and legislative proposals, as well as facilitating dialogue and strategic alliances with other development banks and institutions. To this end, during the year under review, membership in these associations was important to help MDB to keep abreast with the latest EU discussions in particular regarding technical dialogues on state aid developments, the Pillar Assessment process, the InvestEU, EU taxonomy and climate action amongst others.

During the peak of the pandemic all meetings of these associations were held remotely; however, in the second half of 2021 MDB representatives attended a number of meetings in person. The meetings attended were the permanent working group meeting of the NEFI, ELTI's General Assembly and CEOs meetings and EAPB's Annual members' dinner and CEO conference.

ELTI General Assembly 2021

EUROPEAN COMMISSION'S TECHNICAL SUPPORT INSTRUMENT

Following the first engagement on capacity building in preparation for the Pillar Assessment supported by the European Commission's Structural Reform Support Programme between September 2019 and November 2020. During the year, the MDB managed to secure the Commissions assistance in terms of the Technical Support Instrument. The main objective of this assistance relates to the design and potential launch of two new financial instruments in the Maltese market, one being an equity based financial instrument for SMEs and the other being a financial instrument to support start-ups. This assistance is expected to come to fruition later in 2022.

OTHER INTERNATIONAL COOPERATION

In April 2021, MDB's Senior EU Affairs Officer Mr Silvio Attard was invited to participate in the Interreg Webinar on Tourism in Malta and Sicily post-Covid-19, which was organised by the Italia-Malta cooperation project I KNOW, an acronym for Interregional Key Networking for Open innovation empoWerment. The latter is funded by the European Regional Development Fund. During this seminar he gave an overview of the tourism industry in Malta and how the MDB helped operators in this sector through the Covid-19 Guarantee Schemes during the pandemic.

Moreover, during 2021, MDB's Senior EU Affairs Officer also delivered a presentation on MDB's role in helping the tourism industry to a group of university students from the University of Greenwich, United Kingdom.

RISK AND CAPITAL MANAGEMENT

Pursuant to the Act No XXI of 2017 (the "Act") on the Malta Development Bank, the Bank takes risks consciously by applying the principles of banking operations to support the entrepreneurship and socio-economic development in Malta.

The MDB aims to manage risks in an informed and proactive manner, in accordance with its Risk Management Framework, such that the level of accepted risk is consistent with its underlying business activity, and that the MDB understands and is able to manage or absorb the impact of any risks that may materialise.

The MDB built an organisational structure based on a framework that promotes a transparent and efficient, enterprise-wide risk management culture wherein the behaviour, attitude and decisions reflect risk awareness and mitigation of the Bank. Special Topic III covers the Enterprise Risk Management Framework of the MDB. Great importance is given to the risk governance structure, which includes socioeconomic value statements, codes of conduct and ethics, policies, procedures and risk assessments. Moreover, the Risk Management function continuously strives to instil a cultural awareness that helps to establish a robust risk management framework and risk control processes across the Bank.

RISK GOVERNANCE

The risk governance structure is envisaged to allow for the proper understanding of existing and emerging risks through cooperation between the Supervisory Board, the Board of Directors and the three lines of defence to effectively execute the risk management controls. This collective effort shall ensure that MDB's risk culture is recognised as an essential factor to achieve its entrepreneurship and socio-economic objectives.

SUPERVISORY BOARD

The Act provides that the MDB is subject to the prudential oversight, regulation and supervision of a Supervisory Board appointed in terms of article 37(1) of the Act. In view of the MDB's public policy mandate, the MDB is exempt from the EU Capital Requirements Directive (CRD), the EU Capital Requirements Regulation (CRR) and other banking regulations, in terms of article 2(5) of the CRD as amended by Directive (EU) 2019/878 of the European Parliament and of the Council. The MDB is instead subject to supervision under ad hoc local regulation which should enable the MDB to fulfil its promotional role and public policy mission more effectively, while ensuring proper and sound banking conduct.

In terms of article 40 of the Act, the Supervisory Board is composed of officials from the Malta Financial Services Authority, the Central Bank of Malta, the Ministry for Finance, and two independent professionals with banking or regulatory experience. The Chairperson is appointed by the Minister from among the two independent professionals after consultation with the Opposition. The Supervisory Board is chaired by Mr John Cassar White and includes Mr Oliver Bonello, Deputy Governor Central Bank of Malta, Dr Christopher Buttigieg, Chief Officer Supervision, Malta Financial Services Authority, Mr Alfred Camilleri, Permanent Secretary, Ministry for Finance, and Dr Chris Cilia, as independent professional. These appointments are for a period of five years with effect from 11 December 2017.

In terms of article 37 of the Act, the role of the Supervisory Board is to oversee the policy pursued by the Bank and its implementation, to review the general state of affairs of the Bank, and to issue directives relating to the prudential conduct of business, capital adequacy, and risk strategy of the Bank. It shall exercise monitoring, advisory and regulatory powers to ensure sound governance and best practices by the MDB. It has the right to request any information it deems necessary. It supervises the MDB's corporate governance, as well as the MDB's compliance with regulations, the effectiveness of the Bank's management systems and internal controls, the business performance, asset-liability management, remuneration, and other aspects as specified in Part III of the Act.

The Supervisory Board also has the power to submit analysis and recommendations to the MDB Board of Directors and to the Minister responsible for the Bank. The Supervisory Board Regulations are prescribed in the Second Schedule of the Act.

BOARD OF DIRECTORS

The Board of the MDB is responsible for setting the risk appetite and overseeing and guiding risk management activity across the MDB. The Board has mandated that risk management be integrated and embedded into the tone and culture of the MDB, with the management team of MDB responsible for regularly reviewing the risk register and individually confirming that the stated controls are in place. In order to effectively accomplish its tasks, the Board is assisted by three committees (viz. Audit Committee, Ethics and Governance Committee and Risk Committee) that are responsible for a wide range of activities as defined in the Corporate Governance Statement of this Annual Report.

THREE LINES OF DEFENCE

The MDB is committed to promote a culture of integrity, high ethical standards and strong risk awareness. All individuals in the Bank are expected to contribute to and promote a sound risk culture to maintain a strong internal control environment and facilitate the operation of the Bank's enterprise risk management framework. The MDB has adopted clear governance structure, policies and procedures to support the presence of a sound risk culture.

MDB embraces a sound risk culture by following the three-lines-of-defence model where the first line of defence consists of risk-taking business functions. The business functions are responsible for day-to-day risk management within their remit and are required to comply with the relevant internal policies, regulations and procedures. The second line (Risk and Legal & Compliance functions) and the third line (Internal Audit function) provide oversight, monitoring and audit activities and provide independent evaluations and reporting to the senior leadership team on the effectiveness of the Bank's internal control environment.

PRINCIPAL RISKS

The MDB is exposed to a variety of risks which have the potential to affect its financial and operational performance. The Enterprise Risk Management Framework establishes the processes to identify, assess, report and mitigate risk. The MDB has identified the following principal risks which may adversely affect the achievements of its objectives.

RISK	DESCRIPTION OF THE RISK	RISK MITIGATION MEASURE
Strategic risk	The MDB relies on demand from the local businesses to meet its key strategic objective of providing credit to enterprises in Malta to address failures in the Maltese credit market. Should the MDB fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that businesses will not participate as envisaged and will not have an appetite for products offered by the MDB.	The MDB consults prospective partner banks at an early stage of a product offering design. The MDB also conducts soft-market testing.

Credit risk	The MDB is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the MDB. The MDB is exposed to credit risk (i) due to its loans to the borrowers and (ii) in respect of its risk sharing schemes, due to loans made to final beneficiaries which have been guaranteed by the MDB.	The MDB controls credit risk through its credit risk policies, ordinances and prescribed procedures that determine the internal control system with an objective to act preventively. The credit risk management framework represents the most important part of the MDB's business policy and an important factor of its business strategy. Therefore, this area is regulated by separate documents, namely: (a) the Credit Risk Policy that applies to all phases of the credit process (from the development of schemes and borrowing proposals, to risk assessments, monitoring of obligor and loan repayments) and (b) the Credit Risk Mitigation Policy, which sets the Bank's credit risk mitigation measures which are ancillary to, and complement, core credit risk considerations to ensure good and responsible lending. Other measures include the monitoring of key risk indicators and assessment of credit risk by the Risk Committee, and the Board.
Liquidity risk and interest rate risk	Liquidity risk is the risk that the MDB cannot meet its short-term debt obligations without incurring material losses arising from the pricing of wide liquidity premia. It is the risk of loss arising from a situation where there will not be enough cash to fund day-to-day operations and that the MDB will be unable to convert assets into cash in a timely manner without incurring material losses. The MDB is also exposed to interest rate risk on its interest rate sensitive receivables (example securities) and interest rate sensitive payables (example 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.	The MDB maintains the necessary level of liquidity reserves, continuously monitors current and planned liquidity, and provides sufficient funds necessary for the timely settlement of obligations and disbursements under committed loans and planned commitments. The Bank monitors and strives to achieve compatibility of the existing and planned funding sources in terms of liquidity. The MDB Act precludes the Bank from raising retail deposits or deposits that are covered by the local Depositor Compensation Scheme, thus facilitating the management of liquidity. The MDB's seeks, to the extent possible, to reflect in its lending facilities the interest rate risk profile of the underlying funding agreements to minimize material interest rate mismatches. Liquidity and interest rate risks are managed by the ALCO, a sub-committee of the Risk Committee, and the Board of Directors.
Operational risk	The MDB is exposed to the risk of a loss 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 financials or, at the extreme, its ability to meet its statutory purpose and strategic objectives.	The MDB has developed an Operational Risk Policy in 2020 and a Risk Register in 2021. The Policy establishes the basic principles for operational risk management. The Risk Register comprises of a list of identified risks, linked to the Bank's various processes. These operational risk events are ranked in terms of expected impact and likelihood. The Risk Committee and Board of Directors approve responses that mitigate the residual risks of the MDB's main processes.

CAPITAL MANAGEMENT

Capital management is a fundamental process of the Bank's risk management function. The aim is to create a common framework of action that addresses and manages all types of risks with a view to ensure that adequate mitigating actions are taken to reduce the negative impacts of adverse movements on the operations of the Bank and on the financial statements. The MDB is not subject to externally imposed capital requirements. Nonetheless, the Bank is committed to ensuring it is adequately capitalised to accommodate for eventual balance sheet growth and to provide a buffer for potential credit and other losses, both in the current as well as in more severe but plausible economic scenarios.

In order to ensure that the MDB is adequately capitalised to absorb any potential losses, the Bank applies the following structured approach:

- Complement the current and future business planning with adequate capital planning to meet the minimum level of capital as internally determined by the MDB, while maintaining the risk profile set by the Board of Directors within the Bank's public policy objectives.

- Ensure that sufficient capital is maintained to cover extreme but plausible shocks due to volatilities inherent in the financial markets and cyclical macroeconomic downturns.

- Ensure efficient use of capital and in return, to the extent possible, maximise the delivery of the Bank's public policy objectives.

This structured approach ensures that the MDB adheres 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.

OWN FUNDS

Even though the MDB falls outside of the scope of the CRR and CRD, the MDB is committed to ensure it is adequately capitalised. The MDB is committed to holding a capital buffer that accommodates eventual balance sheet growth and provides an adequate buffer for potential losses in the current and in more severe but plausible scenarios. The paid-up share capital of the MDB as at 31 December 2021 stood at €60 million, up from €50 million as at end 2020. The share capital was provided by the MDB's sole shareholder, the Government of Malta.

Financial Statements

31 DECEMBER 2021

MDB BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

CONTENTS

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Malta Development Bank ("the Bank") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Bank was set up by the Act which was passed on 5 May 2017 and came into effect on 24 November 2017 in terms of Legal Notice No. 340 of 2017. The Bank is fully owned by the Government of Malta.

The Bank's primary objective is to contribute towards sustainable economic development by promoting inclusive and environmentally sustainable economic growth and infrastructure development. It is principally engaged in addressing market failures 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 Bank's operations in support of SMEs are mainly intermediated through the local credit institutions and are focused on the provision of guarantee or co-financing facilities. The Bank also provides facilities for infrastructure investment which can take the form of first-tier operations through direct lending and co-financing. Such funding can be directed to national social and economic infrastructure by public and private sector entities. The Bank acts as co-financier with the commercial banks or may also finance certain projects directly.

REVIEW OF BUSINESS DEVELOPMENTS

During its fourth year of operation, the Bank continued to expand its organisational capacity in line with the Bank's growing remit and portfolio. Throughout the second year into the COVID-19 pandemic, the Bank continued to prioritise the most pressing needs of businesses through the provision of working capital financing via the Covid-19 Guarantee Scheme ("CGS"). The SME Invest scheme remained the Bank's main guarantee scheme for new Small and Medium sized Enterprises ("SME") investments representing a risk sharing arrangement in conjunction with commercial banks, with the aim to support SMEs through reduced lending costs and collateral requirements. In addition, the Further Studies made Affordable ("FSMA") which was set up in collaboration with the Managing Authority of EU funds, has remained a popular financial instrument aimed at reducing the financing cost of students' studies locally and overseas. During the year under review, the Bank has approved the financing of the Campus Hub at the University of Malta, which represents an important infrastructure investment combining a strong social and environmental dimension.

MDB sustained its consultation process with the various stakeholders including local financial intermediaries, government entities, SMEs, and international financial institutions with the aim of providing solutions to identified and eligible financing needs. Concurrently, the Bank intensified its negotiations with private and public sector entities with the aim to bridge the financing gap. During 2021, the Bank has performed extensive research and consulted with various economic stakeholders to design the instruments required for the regeneration of the local economy, addressing at mitigating climate change and the extensive investment gap in digitalisation.

FINANCIAL PERFORMANCE

In response to the COVID-19 pandemic, the Bank has been entrusted to develop, administer and implement the CGS, on behalf of the Government of Malta, to assist entities in financing working capital at a subsidised interest rate with the aim to alleviate the negative effects of the COVID-19 pandemic on the economy. The scheme was launched on 2 April 2020. As of 31 December 2021, it reached a portfolio of €505.9 million in sanctioned facilities through the intermediation of nine commercial banks. In its administrative capacity, the Bank generated guarantee fee income from the CGS during 2021 of €1,533,275 (2020: €229,152).

The Bank continued to attract financing of new investment through its SME Loan Guarantee Scheme which is intermediated through a commercial bank. Sanctioned facilities covered by this scheme increased substantially during the year from €29.4million in 2020 to €45.4 million by the end of 2021. During 2021, guarantee fee income from the SME Invest amounted to €86,335 (2020: €53,569).

The Bank incurred a net interest expense of €105,374 (2020: net interest income of €136,845) as part of its deployment of excess liquidity through money market placements with local banks in line with the credit risk appetite of the bank.

The Bank generated additional income of €33,676 (2020: €71,940) from ad-hoc projects and rental income.

The Bank reported a loss of €1,072,683 (2020: €1,282,271) for the period under review. Expected credit loss ("ECL") allowances increased by €709,679 (2020: €391,488) during the year to allow for elevated credit risks as a result of the subdued economic performance driven by the COVID-19 pandemic and the higher volume of outstanding guarantees.

In this respect, the increase in ECLs during the financial year ended 31 December 2021 is primarily driven from a number of downward migrations of exposures to Stage 3 in respect of the SME Invest and the Business Family Transfer schemes, as well as significant increases in forward-looking risk parameters reflecting a higher probability of default being forecasted in the modelling of credit loss allowances for Stage 2 exposures. This is described in more detail in Note 2.4.3.4 – Forward-looking information incorporated in the ECL model.

During 2021, the Bank registered a growth in its balance sheet by €3.8 million. Total assets stood at €81m (2020: €77m) as at the period end. The Bank' share capital increased by €10 million in December 2021, representing proceeds from the portion of the initial share capital subscribed by the Government. During the year under review, partial repayments of the fixed term loan with KfW (see Note 12) amounted to €5.3 million (2020: nil). As of the end of the year, such funding was partially deployed through infrastructure investment. The remaining balance will be deployed through various planned projects including direct lending to SMEs and large cap infrastructure.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Bank are:

- **Strategic Risk** – The Bank relies on demand from the local businesses to meet its key strategic objective of providing credit to enterprises in Malta to address failures in the Maltese credit market. Should the Bank fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that businesses will not participate as envisaged and will not have an appetite for products offered by the Bank.

- **Credit Risk** – The MDB is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the MDB. The MDB is exposed to credit risk (i) due to its loans to the borrowers and (ii) in respect of its risk sharing schemes, due to loans made to final beneficiaries which have been guaranteed by the MDB.

- **Liquidity risk and Interest rate risk** - Liquidity risk is the risk that the MDB cannot meet its short-term debt obligations without incurring material losses arising from the pricing of wide liquidity premia. It is the risk of loss arising from a situation where there will not be enough cash to fund day-to-day operations and that the MDB will be unable to convert assets into cash in a timely manner without incurring material losses. The MDB is also exposed to interest rate risk on its interest rate sensitive receivables (example securities) and interest rate sensitive payables (example 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 financials or, at the extreme, its ability to meet its statutory purpose and strategic objectives. As part of operational risk, the Bank considers compliance and legal risks. The Bank's activities are subject to EU State aid and other regulations. Therefore, there is a risk that the Bank fails to comply with these regulations, resulting in reputational or financial damage to the Bank.

Further details on risks faced by the Bank are explained in Note 2 to the financial statements.

BOARD OF DIRECTORS

In exercise of the powers conferred by Article 21 of the Act, the Minister for Finance appointed the following Directors who held office during the period:

Prof. Josef Bonnici - Chairman
Dr Rose Marie Azzopardi
Mr Robert Borg ***(resigned with effect from 25 February 2022)***
the late Mr. Paul Cardona ***(demised on 4 March 2022)***
Mr Anthony Valvo
Ms Jackie Camilleri ***(appointed with effect from 11 February 2021)***
Dr Michele Cardinali ***(appointed with effect from 14 April 2021)***
Mr Paul Abela ***(resigned with effect from 11 February 2021)***
the late Mr Godfrey Grima ***(demised on 29 March 2021)***

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

In exercise of the powers conferred by Article 21(2)(c) of the Act, Cap. 574, the Minister for Finance and Employment has appointed Ms Jackie Camilleri, as Director in lieu of Mr Paul Abela on 11 February 2021 and Prof. Philip von Brockdorff, as Director in lieu of Mr Robert Borg on 25 February 2022. These appointments are valid up to 10 December 2023.

In exercise of the powers conferred by Article 21(2)(b) of the Act, Cap. 574, the Minister for Finance and Employment has appointed Dr Michele Cardinali, as Director in lieu of the late Mr Godfrey Grima on 14 April 2021. This appointment is valid for a period of five years with effect from 14 April 2021

Dr Bernadette Muscat, Chief Legal and Compliance Officer served as Secretary to the Board during the period ending 31 December 2021.

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 going concern.

The Directors are also responsible for designing, implementing and maintaining such internal controls as the directors 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 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and may be made available on the Bank's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

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

AUDITORS

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

Approved by the Board of Directors on 29 March 2022 and signed on its behalf by:

PROF. JOSEF BONNICI
Chairperson

MR ANTHONY VALVO
Director

Registered Address

Malta Development Bank
5 Market Street,
Floriana, Malta

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 2021, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Development Bank Act (Cap. 574).

What we have audited

Malta Development Bank's financial statements, set out on pages 9 to 60, comprise:

- the statement of financial position as at 31 December 2021
- 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, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

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

Independent auditor's report - *continued*

To the Shareholders of Malta Development Bank

Other information

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

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Malta Development Bank's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standard on Auditing.

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.

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.

Independent auditor's report *- continued*

To the Shareholders of Malta Development Bank

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's assets and liabilities, and the disruption to its business and the overall economy.
- 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.

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Independent auditor's report - *continued*

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 the Malta Development Act (Cap. 574) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Fabio Axisa
Partner

29 March 2022

STATEMENT OF FINANCIAL POSITION

	NOTES	AS AT 31 DECEMBER	
		2021	2020
		€	€
ASSETS			
Balances with Central Bank of Malta	3	**355,352**	13,966,827
Loans and advances to banks	3	**54,860,397**	56,607,707
Financial investments	4	**17,093,955**	-
Loans and advances to customers	5	**3,203,951**	-
Investment property	6	**623,519**	632,089
Property and equipment	7	**3,555,591**	3,251,738
Right-of-use assets	8	**25,703**	36,695
Intangible assets	9	**24,212**	18,403
Other assets	10	**856,735**	2,260,693
Total assets		**80,599,415**	76,774,152
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	**60,000,000**	50,000,000
Accumulated losses		**(3,647,953)**	(2,575,270)
Total equity		**56,352,047**	47,424,730
LIABILITIES			
Amounts owed to banks	12	**19,705,883**	25,000,000
Amounts owed to other entities	13	**2,934,768**	3,671,863
Other liabilities	14	**1,606,717**	677,559
Total liabilities		**24,247,368**	29,349,422
Total liabilities and equity		**80,599,415**	76,774,152
MEMORANDUM ITEMS			
Commitments	15	**14,451,671**	5,753,045

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

The financial statements on pages 92 to 136 were approved by the Board of Directors on 29 March 2022 and signed on its behalf by:

PROF. JOSEF BONNICI
Chairperson

MR ANTHONY VALVO
Director

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	YEAR ENDED 31 DECEMBER	
		2021	2020
		€	€
Interest receivable and similar income	16	**171,491**	298,569
Interest payable and similar expense	17	**(276,865)**	(161,724)
Net interest (expense)/income		**(105,374)**	136,845
Income from financial guarantees	18	**86,671**	54,447
Administrative fee income	19	**1,582,585**	303,411
Other income	20	**33,676**	71,940
Net operating income		**1,597,558**	566,643
Administrative expenses	22	**(462,555)**	(367,612)
Employee compensation and benefits	23	**(1,413,575)**	(1,049,602)
Depreciation of investment property, property and equipment and right-of-use assets	6, 7, 8	**(78,335)**	(36,287)
Amortisation of intangible assets	9	**(6,097)**	(3,925)
Total operating expenses		**(1,960,562)**	(1,457,426)
Loss for the year before changes in expected credit losses		**(363,004)**	(890,783)
Changes in expected credit losses	21	**(709,679)**	(391,488)
Loss for the year - total comprehensive income		**(1,072,683)**	(1,282,271)

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

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL	ACCUMULATED LOSSES	TOTAL EQUITY
		€	€	€
Balance as at 1 January 2020		40,000,000	(1,292,999)	38,707,001
Transactions with owners				
Capital contributed by the Government of Malta - total transactions with owners	11	10,000,000	-	10,000,000
Comprehensive income				
Loss for the year - total comprehensive income		-	(1,282,271)	(1,282,271)
Balance at 31 December 2020		**50,000,000**	**(2,575,270)**	**47,424,730**
Balance as at 1 January 2021		50,000,000	(2,575,270)	47,424,730
Transactions with owners				
Capital contributed by the Government of Malta - total transactions with owners	11	10,000,000	-	10,000,000
Comprehensive income				
Loss for the year - total comprehensive income		-	(1,072,683)	(1,072,683)
Balance at 31 December 2021		**60,000,000**	**(3,647,953)**	**56,352,047**

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

STATEMENT OF CASH FLOWS

	NOTES	YEAR ENDED 31 DECEMBER	
		2021	**2020**
		€	**€**
Cash flows from operating activities			
Net cash (used in)/generated from operating activities	24	**(6,815,162)**	4,753,768
Cash flows from investing activities			
Purchase of financial investments	4	**(17,183,700)**	-
Purchase of property and equipment and right-of-use assets	7,8	**(362,627)**	(3,202,469)
Purchase of intangible assets	9	**(11,906)**	(8,467)
Net cash used in investing activities		**(17,558,233)**	(3,210,936)
Cash flow from financing activities			
Proceeds from issue of share capital	11	**10,000,000**	10,000,000
(Repayments of)/proceeds from long term borrowing	12	**(5,294,117)**	25,000,000
Payments for the principal portion of lease liabilities	8	**(11,796)**	(13,701)
Net cash generated from financing activities		**4,694,087**	34,986,299
Net (decrease)/increase in cash and cash equivalents		**(19,679,308)**	27,021,595
Cash and cash equivalents at beginning of year		**44,979,613**	17,958,018
Cash and cash equivalents at end year	25	**25,300,305**	44,979,613

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

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

Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2021. 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.

Interest Rate Benchmark Reform

The IASB published the 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' in August 2020, which became effective from 1 January 2021 and was also endorsed for use by the EU during 2021. These amendments represent the second phase of the IASB's project on the effects of the interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows as a result of the reform.

These amendments had no effect on the Bank's financial statements since the Bank is not exposed to IBOR related financial instruments.

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 2022 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.

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. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

At initial recognition, an expected credit loss ('ECL') allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ('FVOCI'), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories:

- FVTPL;
- FVOCI; or
- Amortised cost

As of 31 December 2021, all Bank's financial assets are 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 loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

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 one of the following three measurement categories:

- ***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 2.4.2. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

- ***FVOCI:*** Financial assets that are held for the collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount of debt instruments are taken through other comprehensive income (OCI), except for the recognition of impairment losses or impairment loss reversals, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises. Interest income from these financial assets is included in 'Interest receivable and similar interest' 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.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

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.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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 agreement. '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).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective i.e. instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. This election is made on an investment by investment basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the income statement.

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.

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

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, revision of interest rate and changing the timing of interest payments.

When modification happens, the Bank assesses whether or not 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 FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses 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 2.4.3.3 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;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Financial instruments with both a drawn and undrawn component, whereby the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position against the carrying amount of the asset because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented within other comprehensive income.

1.5 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.6 INTANGIBLE ASSETS

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. These costs are amortised over their estimated useful lives of six years. Costs associated with maintaining computer software programme are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.9).

1.7 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.

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 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

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 (Note 1.9).

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

1.8 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
Property	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 (Note 1.9).

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 the asset is derecognised.

1.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit ('CGU') exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.10 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 duty on documents and transfers that may apply to the Bank's assets,property, income, operations and transactions.

1.11 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.

1.12 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 as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments (Note 1.14).

Financial liabilities measured at amortised cost comprise principally of amounts owed to other entities together with other 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.

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and changes in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.13 TRADE AND OTHER PAYABLES

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 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. Such financial guarantees are issued by the Bank to credit institutions to facilitate the provision of credit facilities to customers, which are eligible under one of the Bank's credit schemes.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 1.4); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

'Loan commitments' are the Bank's commitments to provide credit under pre-specified terms and conditions.

The loss allowance on financial guarantee contracts and loan commitments is recognised as a provision.

1.15 CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

1.16 PROVISIONS FOR LEGAL AND OTHER CLAIMS

Provisions for legal and other claims are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.17 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.

1.18 REVENUE RECOGNITION

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

Interest income and expense

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

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

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

Income on financial guarantees

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

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

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'.

Net trading income

The line item includes fair value changes, interest, dividends and foreign exchange differences attributable to financial instruments measured at FVTPL.

1.19 LEASES

A right-of-use asset ('ROU') is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. The ROU asset is depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the ROU asset reflects that the Bank will exercise a purchase option. In that case the ROU asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, adjusted for certain remeasurements of the lease liability.

In determining the lease term, the bank considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. In general, it is not expected that the discount rate implicit in the lease is available, so the Bank's incremental borrowing rate is used. This is the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each term by adjusting swap rates with funding spreads (own credit spread).

Lease payments are allocated between the liability and finance costs. The finance costs are charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

1.20 EMPLOYEE BENEFITS

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

1.21 PROVISIONS FOR PENSION OBLIGATIONS

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

2. FINANCIAL RISK MANAGEMENT

2.1 ORGANISATION

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit and Risk Committees, which are responsible for the monitoring of risk in specified areas and are chaired by a non-executive director. Non-executive directors sit on these Committees, with the Chief Executive Officer and the Deputy Chief Executive Officer also attending Board meetings. The Audit and Risk Committees report to the Board of Directors.

The Asset and Liability Committee ('ALCO') is a sub-committee of the Risk Committee and provides oversight on the asset and liability management in respect of the Bank's financial position. The ALCO recommends new products and treasury instruments to the Risk Committee, whilst also monitoring and reviewing the Bank's liquidity risk, interest rate risk and capital adequacy.

The Bank's Enterprise Risk Management ('ERM') Framework defines the risk appetite set by the Board and ensures proactive, adaptive and ongoing risk management. The framework addresses:

i. credit risk addressed through the Credit Risk Management Framework;
ii. funding and liquidity risk addressed through the Treasury Management Policy;
iii. interest rate risk arising from non-trading activities; and
iv. operational risk addressed through the Operational Risk Framework.

The risk management policies and systems of the Bank are reviewed by the Board on a regular basis to reflect changes in market conditions, products and services offered.

2.2 RISK EXPOSURE

The Bank is exposed to the following risks:

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

2.3 CAPITAL MANAGEMENT

The Bank is not subject to externally imposed capital requirements. As at 31 December 2021, the Bank's paid-up share capital stood at €60 million (2020: €50 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 Malta Development Bank ('MDB') Act.

	2021	2020
	€	€
Capital		
Paid up share capital	**60,000,000**	50,000,000
Accumulated loss	**(3,647,953)**	(2,575,270)
Total capital	**56,352,047**	47,424,730

2.4.1 CREDIT RISK MANAGEMENT

The Bank's seeks to maintain credit risk levels that are relative to the Bank's capital base and to ensure that lending decisions achieve a reasonable balance between the risks and returns of extending credit to a customer.

Credit risk is addressed in the Bank's Credit Policy Framework and is managed and controlled through established credit processes, and appropriate delegation of authorities and responsibilities assigned to the Bank's management. The credit risk policies and procedures of the Bank are reviewed periodically to reflect changes in market conditions, products and services offered.

Facilities are generally reviewed periodically. In a facility review, the Bank analyses factors such as the customer profile, credit quality and other non-financial considerations.

The Bank, in line with the 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.

As of the end of the reporting period, the Bank offered two guarantee schemes:

- Family Business Transfer Facility: to provide financial guarantees to commercial banks to assist and facilitate family businesses to transfer their business from one generation to the next.
- SME Invest: to provide financial guarantees for loans to Small and Medium Enterprises facilitating lending to smaller businesses that are viable but unable to obtain the required amount of finance from a commercial bank.

The Bank was also entrusted to implement and manage the following guarantee schemes on behalf of the Government of Malta:

- Further Studies Made Affordable (FSMA): to provide financial guarantees and interest subsidies on loans sanctioned by third party commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent.
- COVID-19 Guarantee Scheme (CGS): to provide financial guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.

The FSMA and CGS schemes are backed-up 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, arising from these schemes, under the IFRS 9 framework of accounting. The impacts of these financial guarantees therefore result in a nil loss given default (LGD) and therefore a nil ECL.

As of 31 December 2021, the Bank had issued an amount of financial guarantee contracts amounting to €45.4 million (2020: €29.4million) with respect to the Family Business Transfer Facility and the SME Invest schemes, which are considered as off-balance sheet instruments but on which the Bank carries the credit risk. The Bank needs to honour the guarantee in the event that the borrower defaults on the obligation to the credit institution. The Bank has earmarked a pre-determined amount of own capital to fund this credit facility and has arrangements with the counterparty credit institutions to issue guarantees which cover a defined percentage of the total exposure issued to customers. The risk sharing agreement entered into with the counterparty commercial bank, guarantees 80% of each eligible loan granted, subject to a capping of 25% under the SME Invest and a capping of 50% under the Family Business Transfer Facility which effectively limit the credit risk exposure of the Bank to €8.4 million (2020: €5.8 million) (see Note 15).

(ii) Loans and advances to customers

The MDB plays a strategic financing role in major infrastructure and social policy projects in the Maltese economy. To this effect, the MDB offers direct loans to private or public borrowers, without crowding out financing from private banks or other investors, to finance a predefined investment or a group of related investments.

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 to be presented to the Credit Risk Committee. The Credit Risk Committee analyses the financing arrangement and recommends this to the Board of Directors for their approval. This approach ascertains a clear and unequivocal process in the credit approval process.

During 2021, the Bank originated the first project loan of €9.3million. As of 31 December, the carrying amount of this loan amounted to €3.2million (Note 5).

(iii) Other financial assets

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

As at 31 December 2021, the Bank's financial assets consist of balances held with the Central Bank of Malta, amounts placed with local banks, and local sovereign debt securities. All financial assets were placed with high quality counterparties and all exposures were held with local counterparties in Malta.

	2021	2020
	€	€
Balances with Central Bank of Malta	**355,352**	13,966,827
Loans and advances to banks	**54,860,397**	56,607,707
Financial investments	**17,093,955**	-
Total capital	**72,309,704**	70,574,534

These financial assets are neither past due nor impaired; and the credit quality grading attributable to these assets is of a high grade.

The COVID-19 pandemic continues to give rise to changes in the behaviour of economic agents. This has impacted the performance of the Bank's ECL models, requiring enhanced monitoring of model outputs and use of alternative mechanisms or controls. As detailed in Note 2.4.10, the ECL charge for the financial year ended 31 December 2021 was significantly higher compared to the prior financial year charge, driven by charges relating to the impact of the outbreak of the COVID-19 pandemic on economic conditions and the higher volume of outstanding guarantees.

The notable increase in credit loss allowances estimated in respect of exposures underlying the Bank's schemes classified in Stage 2 and Stage 3 reflect the higher economic risk, as well as a significant deterioration in the forward economic outlook as a result of the pandemic.

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 credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD').

(a) Financial guarantee contracts and loans and advances to customers

The Bank uses internal credit gradings to reflect its assessment of the probability of default of individual counterparties or facilities. The Bank assigns a grading of Stage 1, Stage 2 or Stage 3 (credit-impaired), in line with the requirements of IFRS 9, on the basis of qualitative and quantitative assessments.

The internal credit risk gradings are calibrated such that they reflect the increased risk of default at each higher risk grade.

Information considered by the Bank when determining the internal credit risk grades includes the payment behaviour of the borrower, other information which impacts the creditworthiness of the borrower including level of income and/or financial performance and expert judgement.

(b) Other financial assets

The Bank uses external risk grades to reflect its assessment of the probability of default of individual counterparties underlying loans and advances to banks and financial investments. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates, as published by rating agencies.

In determining the PD of individual counterparties, the Bank distinguishes between exposures considered 'investment-grade' defined by recognized external rating agencies as a rating between AAA and BBB- (Standard & Poor's) and Aaa and Baa3 (Moody's), and 'non-investment grade' exposures.

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;
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on ECL on a lifetime basis;
- The measurement of ECL considers forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

The ECL requirements are applicable to financial assets measured at amortised cost and FVTOCI, and certain 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'.

When determining whether the risk of default on a financial instrument has increased significantly, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, credit assessment and forward-looking information.

Credit risk grades are defined and calibrated such that the risk of default occurring increases as the credit risk deteriorates.

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

Exposures are allocated to a credit risk grade at initial recognition based on available information about the borrower.

2.4.3.1 SIGNIFICANT INCREASE IN CREDIT RISK

To determine whether the credit risk on 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 for an exposure within the loans and advances to customers and financial guarantee contracts, through the Bank's internal risk gradings. The Bank allocates each exposure to an internal rating 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 monitoring.

As referred to previously, the COVID-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty, particularly with respect to the identification of customers that would have experienced a SICR. This is also attributable to limitations in credit information available on customers, particularly where these customers were granted a moratorium. In this respect, the Bank continued to increase the depth of its monitoring activities on the basis of information made available by partner banks in respect of the SME Invest and Family Business Transfer schemes. As part of these 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, and as required by IFRS 9, 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 elapsed due date in respect of which full payment has not been received.

In the case of other financial assets (including loans and advances to banks and financial investments), the Bank applies the low credit risk simplification to all its exposures considered 'investment-grade', thus they are not subject to the SICR assessment. Moving from 'investment-grade' to 'non-investment grade' does not automatically mean that there has been a SICR.

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 in respect of financial guarantee contracts;
- The counterparty is unlikely to pay its credit obligations to the Bank in full or to another credit institution in respect of financial guarantee contracts, 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 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. As referred to previously, the COVID-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty, particularly with respect to the identification of customers that would have showed signs of unlikeliness to pay ('UTP'). The Bank performed assessments to determine whether the short-term economic shock as a result of the pandemic 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.

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

The ECL is measured on either a 12-month (12M) 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 are the discounted product of the PD, EAD, and LGD. These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the originated effective interest rate or an approximation thereof.

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

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

Due to the lack of internal history of defaults, the Bank utilises publicly available PD matrices published by Standard & Poor's and on the basis of market data, maps external credit grades to internal credit gradings taking cognisance of the relationship between external and internal credit risk grades. If a counterparty or exposure migrates between internal rating grades or external credit ratings, this will then lead to a change in the associated PD.

The conditional PD is adjusted to consider forward-looking information through local macroeconomic modelling. EAD is based on the 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 EAD of a financial asset is the gross carrying amount at default.

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 LGD are determined based on the factors which impact the recoveries made post default.

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.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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 respect, during 2021, the Bank has assessed the (i) change in domestic real Gross Domestic Product ('GDP') and (ii) change in domestic net exports, to be good predictors of the domestic non-financial corporate default rate. The impact of these economic variables on the PD is determined by performing statistical regression analysis to understand the historical impact that changes in these variables had on the local lending market.

The most significant period-end assumptions used for the ECL estimate are set out below:

	AS AT 31 DECEMBER 2021	
	2022	**2023**
Change in domestic real GDP	**5.9%**	4.7%
Change in domestic net exports	**1.2%**	-0.3%

	AS AT 31 DECEMBER 2020	
	2021	**2020**
EU-wide real GDP Growth	**1.4%**	1.4%
EU-wide terms of trade of goods and services	**0.1%**	-0.0%

As with any macro-economic 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.

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 were 50% (2020: 50%) for the 'Base' scenario, 35% (2020: 35%) for the 'Downside' scenario and 15% (2020: 15%) for the 'Upside' scenario. The number of scenarios and their attributes are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle.

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 baseline, downside and upside scenario respectively. The Bank's credit loss allowances would decrease by €33,756 (2020: €32,693) if the provisions had to be calculated solely on the baseline scenario; ECLs would increase by €148,149 (2020: €138,609) if these had to be estimated using only the downside scenario and would reduce by €233,158 (2020: €214,442) if the upside scenario only were to be taken into consideration. In 2020 and 2021, 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 off-balance sheet items. The Bank's maximum credit risk with respect to on- and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet 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. Such exposures are deemed to carry the same credit risk as loans and advances to customers, unless the exposure is backed-up by a government guarantee as detailed in Note 2.4.1. 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.

- Lending commitments and other credit related commitments that are irrevocable over the life of the respective facilities and are off-balance sheet items. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused lending commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored similarly to on-balance sheet loans and advances.

The Bank's credit risk exposures relating to on-balance sheet assets and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements include the following:

	2021		2020	
	GROSS EXPOSURE	**ECL ALLOWANCE**	**GROSS EXPOSURE**	**ECL ALLOWANCE**
	€000	**€000**	€000	€000
Credit risk exposures relating to on-balance sheet assets:				
Financial assets measured at amortised cost Balances with Central Bank of Malta			-	
and other banks	**55,235**	**(19)**	70,583	(8)
Financial investments	**17,094**	**-**	-	-
Loans and advances to customers	**3,204**	**-**	-	-
Credit risk exposure	**75,533**	**(19)**	70,583	(8)
Credit risk exposures relating to off-balance sheet instruments				
Financial guarantees	**8,356**	**(1,153)**	5,753	(454)
Undrawn commitments to lend	**6,096**	**-**	-	-
Credit risk exposure	**12,452**	**(1,153)**	5,753	(454)

As at 31 December 2021, expected credit losses arising on financial investments are considered to be insignificant in view of the nature of the counterparty, being the Government of Malta. Similarly, expected credit losses in respect of loans and advances to customers as at 31 December 2021 are also considered to be insignificant in view of the high value of collateral securing the exposure.

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 a regular and ongoing basis the risk concentration levels against reasonable thresholds for counterparties and products.

As at 31 December 2021, 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 Credit Risk Framework.

Within its daily operations, 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 subject to pre-established limits approved by the Risk Committee.

As at 31 December 2021, the Bank's loans and advances to customers comprised of one loan to a single borrower (2020: nil) within the accommodation sector. During 2021, the Bank acquired financial investments which represent debt securities issued by the Maltese Government (2020: nil). All financial assets were held with local counterparties in Malta.

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

During 2021, the Bank acquired debt securities issued by investment grade sovereign counterparties and which are listed on the Malta Stock Exchange. Loans and advances to banks included money market placements and balances held with counterparty banks. External ratings such as Moody's rating or their equivalents are used for monitoring these credit risk exposures. At the end of the reporting period, none of these financial assets mentioned were past due or impaired.

The following table sets out information about the credit quality of the Bank's financial assets measured at amortised cost analysed by staging:

	2021			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	**€000**	**€000**	**€000**
Balances with Central Bank of Malta and other banks at amortised cost				
Gross carrying amount	55,235	-	-	55,235
Loss allowance	(19)	-	-	(19)
Carrying amount	**55,216**	-	-	**55,216**

	2020			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
Gross carrying amount	70,583	-	-	70,583
Loss allowance	(8)	-	-	(8)
Carrying amount	70,575	-	-	70,575

The credit rating of Malta was graded A by external rating agencies as at 31 December 2021 and 2020.

There were no purchased credit-impaired assets as at 31 December 2021 and 2020.

	2021			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	**€000**	**€000**	**€000**
Financial investments measured at amortised cost				
Gross carrying amount	17,094	-	-	17,094
Loss allowance	-	-	-	-
Carrying amount	**17,094**	-	-	**17,094**

As at 31 December 2020, the carrying amount of financial investments was nil.

2.4.7 INFORMATION ON 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 ratings. The Bank assigns a grading of Stage 1, Stage 2 or Stage 3 (credit-impaired), in line with the requirements of IFRS 9, 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.

	2021			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Loans and advances to customers				
Gross carrying amount	3,204	-	-	3,204
Loss allowance	-	-	-	-
Carrying amount	**3,204**	-	-	**3,204**

As at 31 December 2020, the carrying amount of loans and advances to customers was nil.

As at 31 December 2021, the Bank's loans and advances to customers comprised of one loan to a single borrower (2020: nil) which was neither past due nor impaired.

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

The credit quality of loans and advances to customers is managed by the Bank using internal credit ratings. The Bank assigns a grading of Stage 1, Stage 2 or Stage 3 (credit-impaired), in line with the requirements of IFRS 9, on the basis of qualitative and quantitative assessments.

The following table sets out information about the credit quality of financial guarantee contracts measured at amortised cost and undrawn commitments to lend.

	2021			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial guarantees				
Guaranteed amounts	30,361	1,793	1,200	33,354
Loss allowance	**(150)**	**(541)**	**(462)**	**(1,153)**

	2020			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Financial guarantees				
Guaranteed amounts	21,541	1,396	-	22,937
Loss allowance	(292)	(162)	-	(454)

The guaranteed amounts are subject to a further total capping of 25% under the SME Invest portfolio and a capping of 50% under the Family Business Transfer Facility portfolio which effectively limit the credit risk exposure of the Bank to €8.4 million (2020: €5.8 million) (refer to Note 15).

	2021			
	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	€000	€000	€000	€000
Undrawn commitments to lend				
Guaranteed amounts	6,096	-	-	6,096
Loss allowance	-	-	-	-

As at 31 December 2020, the Bank was not exposed to undrawn commitments to lend in respect of loans and advances to customers.

2.4.9 MODIFICATION OF FINANCIAL ASSETS

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 in response to a customer's financial difficulties. The Bank categorises loans on which concessions have been granted under conditions of financial difficulties as 'forborne loans' when their contractual payment terms have been revised, because of significant concerns about the customer's ability to meet contractual payments when due.

For the purposes of determining whether changes to a customer's agreement should be treated as forbearance the following types of modification could be regarded as concessionary in cases where the customer is in financial difficulty:

- reduction of the stated interest rate for the remaining original life of the debt;
- extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- reduction of the face amount or maturity amount of the debt; and
- reduction of accrued interest.

As at 31 December 2021 and 2021, none of the Bank's loans and advances to customers were classified as forborne.

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 refreshing of inputs to models;
- 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:

	2021			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
At 1 January 2021	70,583	8	70,583	8
Net increase in balances held with Central Bank of Malta and other banks	47,142	18	47,142	18
Repayments and disposals	(62,490)	(7)	(62,490)	(7)
At 31 December 2021	**55,235**	**19**	**55,235**	**19**
Total net income statement charge for the year				11

	2020			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Balances with Central Bank of Malta and other banks at amortised cost				
At 1 January 2020	39,566	8	39,566	8
Net increase in balances held with Central Bank of Malta and other banks	31,017	-	31,017	-
At 31 December 2020	70,583	8	70,583	8
Total net income statement charge for the year				-

	2021			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Financial investments at amortised cost				
At 1 January 2021	-	-	-	-
New financial assets purchased	17,094	-	17,094	-
At 31 December 2021	**17,094**	**-**	**17,094**	**-**
Total net income statement charge for the year				-

As at 31 December 2021, expected credit losses arising on financial investments are considered to be insignificant in view of the nature of the counterparty, being the Government of Malta.

	2021			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Loans and advances to customers at amortised cost				
At 1 January 2021	-	-	-	-
New financial assets purchased	3,204	-	3,204	-
At 31 December 2021	**3,204**	**-**	**3,204**	**-**
Total net income statement charge for the year				-

Expected credit losses in respect of loans and advances to customers as at 31 December 2021 are considered to be insignificant in view of the high value of collateral securing the exposure.

	2021			
	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES	GROSS CARRYING AMOUNT	EXPECTED CREDIT LOSSES
	€000	€000	€000	€000
Undrawn commitments to lend				
At 1 January 2021	-	-	-	-
New lending	6,096	-	6,096	-
At 31 December 2021	**6,096**	**-**	**6,096**	**-**
Total net income statement charge for the year				-

Expected credit losses in respect of undrawn commitments to lend as at 31 December 2021 are considered to be insignificant in view of the high value of collateral securing the exposure.

	2021							
	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
At 1 January 2020	**21,541**	**292**	**1,396**	**162**	**-**	**-**	**22,937**	**454**
New financial guarantees originated	13,807	81	112	-	-	-	13,917	81
Repayments and withdrawals	(2,668)	(18)	(665)	-	(169)	-	(3,502)	(18)
Transfers of financial instruments								
Stage 1 to Stage 2	(1,746)	(6)	1,746	6		-		-
Stage 1 to Stage 3	(573)	(18)			573	18		-
Stage 2 to Stage 3			(796)	(161)	796	161		
Net remeasurement of ECL arising from stage transfers and changes in risk parameters		(181)		534		283		636
At 31 December 2021	**30,361**	**150**	**1,793**	**541**	**1,200**	**462**	**33,354**	**1,153**
Total net income statement charge for the year								**699**

The guaranteed amounts are subject to a further portfolio capping of 25% in respect of the SME Invest portfolio and a portfolio capping of 50% in respect of the Family Business Transfer Facility which effectively limit the credit risk exposure of the Bank to €8.4 million (2020: €5.8 million) (refer to Note 15).

	2020							
	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
At 1 January 2020	11,642	63	-	-	-	-	11,642	63
New financial guarantees originated	13,566	31	-	-	-	-	13,566	31
Repayments and withdrawals	(2,263)	(19)	(8)	-	-	-	(2,271)	(19)
Transfers of financial instruments								
Stage 1 to Stage 2	(1,404)	(1)	1,404	1	-	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters		218		161	-	-		379
At 31 December 2021	21,541	292	1,396	162	-	-	22,937	454
Total net income statement charge for the year								391

2.4.11 WRITE-OFF POLICY

The Bank writes off a loan, and/or a receivable balance (and any related allowance for impairment losses) when management determines that the loan, security and/or receivable is uncollectible, and it has exhausted all practical recovery efforts and has 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.

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.

In respect of loans and advances to customers, collateral obtained 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 the partner bank (refer to Note 15).

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

The extendible value of the collateral represented in the tables below is the lower of the fair value of a pledged asset for lending purposes and the exposure amount of the secured loans.

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

	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXTENDIBLE VALUE OF COLLATERAL
	€000	€000	€000
Financial guarantee contracts			
Credit-impaired	472	(47)	472
At 31 December 2021	**472**	**(47)**	**472**

The Loan-to-Value ('LTV') ratio for the Bank's credit impaired financial guarantee contracts, of which are secured by immovable property, is 98%.

Financial guarantees that are credit-impaired and in respect of which no collateral is held are shown below:

	EXPOSURE AMOUNT	EXPECTED CREDIT LOSSES	EXTENDIBLE VALUE OF COLLATERAL
	€000	€000	€000
Financial guarantee contracts			
Credit-impaired	728	(415)	-
At 31 December 2021	**728**	**(415)**	**-**

2.5 MARKET RISK

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest rates, equity prices, foreign exchange rates and credit spreads) before the affected positions can be closed out or hedged. Market risk for the Bank consists entirely of interest rate risk, which is the risk of losses because of adverse changes in interest rates.

2.5.1 INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to 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. The Bank also places funds in short-term quality assets, namely term deposits with local banks, for the purpose of mitigating exposures to fluctuations in interest rates.

The following table summarises the re-pricing of financial instruments at reporting date together with the effective interest rates where applicable.

	CARRYING AMOUNT	EFFECTIVE INTEREST RATE	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
	€000	€000	€000	€000	€000	€000
As at 31 December 2021						
Financial assets						
Balances with Central Bank of Malta	355	-0.50%	355	-	-	-
Loans and advances to banks	54,860	0.33%	27,926	12,934	14,000	-
Financial investments	17,094	0.05%	-	-	10,102	6,992
Loans and advances to customers	3,204	2.75%	-	-	-	3,204
Total financial assets	**75,513**		**28,281**	**12,934**	**24,102**	**10,195**
Financial liabilities						
Amounts owed to banks	19,706	0.60%	-	-	19,706	-
Total financial liabilities	**19,706**		-	-	**19,706**	-
Interest repricing gap			**28,281**	**12,934**	**4,396**	**10,195**
Cumulative gap			**28,281**	**41,215**	**45,611**	**55,806**

	EFFECTIVE INTEREST RATE	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
	€000	€000	€000	€000	€000
As at 31 December 2020					
Financial assets					
Balances with Central Bank of Malta	13,967	-0.50%	13,967	-	-
Loans and advances to banks	56,608	0.33%	32,934	23,674	-
Total financial assets	70,575		46,901	23,674	-
Financial liabilities					
Amounts owed to banks	25,000	0.60%	-	-	25,000
Total financial liabilities	25,000		-	-	25,000
Interest repricing gap			46,901	23,674	(25,000)
Cumulative gap			46,901	70,575	45,575

Interest rate profile

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

	2021		2020	
	FIXED	VARIABLE	FIXED	VARIABLE
	€000	€000	€000	€000
Interest-earning assets				
Balances with Central Bank of Malta	-	355	-	13,967
Loans and advances to banks	50,638	4,222	39,610	16,998
Financial investments	17,094	-		
Loans and advances to customers	3,204	-		
	70,936	**4,577**	**39,610**	**30,965**
Interest-bearing liabilities				
Amounts owed to banks	19,706	-	25,000	-
	19,706	-		

Fair value sensitivity analysis for fixed rate instruments

The Bank does not hold any fixed rate financial assets or liabilities at fair value and is 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 financial assets which are subject to floating interest rates. A sensitivity analysis in respect of interest rate changes is not required since the Bank is not exposed to variable interest rate risk on financial liabilities.

2.5.2 CURRENCY RISK

At the reporting date, the Bank's financial assets were all denominated in Euro and therefore the Bank is 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 balances 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.

Debt securities
The fair value of debt securities measured at amortised cost on the Statement of Financial Position amounted to €16,917,500 (2020: nil) as at 31 December 2021.

2.6 LIQUIDITY RISK

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

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when 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 both the asset and liability portfolio so as to maintain diversity of funding sources and a spread of asset and liability maturities, as much as practicable.

At 31 December 2021 and 2020, the Bank's capital has been primarily deployed in loans and advances to banks with a residual maturity of less than two years. The Bank's liquidity risk during 2021 and 2020 is insignificant in view of the margin of liquidity available to manage repayment on the refinancing of liabilities.

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

	CARRYING AMOUNT	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	OVER 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000	€000
As at 31 December 2021						
Financial assets						
Balances with Central Bank of Malta	355	-	-	-	-	355
Loans and advances to banks	54,860	23,722	12,934	14,000	-	4,204
Financial investments	17,094	-	-	10,102	6,992	-
Loans and advances to customers	3,204	-	-	400	2,804	-
Other assets	857	660	101	86	10	-
Total financial assets	**76,370**	**24,382**	**13,035**	**24,588**	**9,806**	**4,559**
Financial liabilities						
Amounts owed to banks	19,706	2,647	2,647	14,412	-	-
Amounts owed to other	2,935	-	-	-	-	2,935
Other liabilities	1,463	1,415	11	16	13	8
Total financial liabilities	**24,104**	**4,062**	**2,658**	**14,428**	**13**	**2,943**
Maturity gap		**20,320**	**10,377**	**10,160**	**9,793**	**1,616**
Cumulative gap		**20,320**	**30,697**	**40,857**	**50,650**	**52,266**

	CARRYING AMOUNT	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	OVER 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000	€000
As at 31 December 2020						
Financial assets						
Balances with Central Bank of Malta	13,967	-	-	-	-	13,967
Loans and advances to banks	56,608	14,017	25,593	-	-	16,998
Other assets	2,261	2,145	29	69	18	-
Total financial assets	72,836	16,162	25,622	69	18	30,965
Financial liabilities						
Amounts owed to banks	25,000	2,647	2,647	19,706	-	-
Amounts owed to other	3,672	680	-	-	-	2,992
Other liabilities	223	191	10	22	-	-
Total financial liabilities	28,895	3,518	2,657	19,728	-	2,992
Maturity gap		12,644	22,965	(19,659)	18	27,973
Cumulative gap		12,644	35,609	15,950	15,968	43,941

3. BALANCES WITH CENTRAL BANK OF MALTA AND OTHER BANKS

	2021	2020
	€	€
Current		
Repayable on call and at short notice	**25,300,305**	44,979,615
Term loans and advances	**29,934,479**	25,603,124
Gross carrying amount	**55,234,784**	70,582,739
Less allowances for expected credit losses	**(19,035)**	(8,205)
Net carrying amount	**55,215,749**	70,574,534

By virtue of an agreement entered into between the Ministry for European Affairs and Equality (the 'Managing Authority') and the Bank, as the entity entrusted with the implementation of the Further Studies Made Affordable ('FSMA') programme, an amount of €3 million (2020: €2 million) was held in favour of, and for the ultimate benefit of the Managing Authority as part of the implementation of the FSMA programme. The said amount will be used to provide financial guarantees and interest subsidies on loans sanctioned by a third party commercial bank in favour of individuals seeking to further their studies at a tertiary education institution or equivalent.

4. FINANCIAL INVESTMENTS

The Bank's debt and other fixed income securities consist of listed securities and are analysed as follows:

	2021	2020
	€	€
Current		
Debt securities measured at amortised cost	**17,093,955**	-
Net carrying amount	**17,093,955**	-

As at 31 December 2021, the Bank held Government debt securities issued by the Maltese Government and listed on the Malta Stock Exchange (2020: nil). The fair value of these debt securities as at 31 December 2021 amounted to €16,917,500 (2020: nil).

As at 31 December 2021, expected credit losses arising on financial investments are considered to be insignificant in view of the nature of the counterparty, being the Government of Malta.

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

	2021	2020
	€	€
Current		
At 1 January	**-**	-
Acquisitions	**17,183,700**	-
Amortisation	**(89,745)**	-
At 31 December	**17,093,955**	-

5. LOANS AND ADVANCES TO CUSTOMERS

	2021	2020
	€	€
Term loans and advances	**3,203,951**	-
Net carrying amount	**3,203,951**	-

Expected credit losses in respect of loans and advances to customers as at 31 December 2021 are considered to be insignificant in view of the high value of collateral securing the exposure.

6. INVESTMENT PROPERTY

	2021	2020
	€	€
Year ended 31 December		
Opening net book amount	**632,089**	640,708
Depreciation charge	**(8,570)**	(8,619)
Closing net book amount	**623,519**	632,089
At 31 December		
Cost	**642,851**	642,851
Accumulated depreciation	**(19,332)**	(10,762)
Net book amount	**623,519**	632,089

Investment property is located outside of Malta and comprises of an office building which is currently being leased to a third party. As at 31 December 2021 and 2020, the Board considers the carrying amount of the investment property to be a reasonable estimate of its fair value.

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

	FAIR VALUE AT 31 DECEMBER 2021 AND 2020	VALUATION TECHNIQUE	VALUE PER SQUARE RENTAL METRE
	€		€
Office Building	**640,000**	Equivalent value per square metre	**4,100**

7. PROPERTY AND EQUIPMENT

	PROPERTY	IMPROVEMENTS TO PROPERTY	FURNITURE	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000	€000	€000
Year ended 31 December 2021						
Opening net book amount	3,135,806	47,783	24,975	42,304	869	3,251,737
Additions	-	228,987	64,335	45,227	21,763	360,312
Depreciation charge	(31,622)	(5,620)	(3,093)	(14,486)	(1,637)	(56,458)
Closing net book amount	**3,104,184**	**271,150**	**86,217**	**73,045**	**20,995**	**3,555,591**
At 31 December 2021						
Cost	3,135,806	276,770	95,552	111,913	22,893	3,642,934
Accumulated depreciation	(31,622)	(5,620)	(9,335)	(38,868)	(1,898)	(87,343)
Net book amount	3,104,184	**271,150**	**86,217**	**73,045**	**20,995**	**3,555,591**

	PROPERTY	IMPROVEMENTS TO PROPERTY	FURNITURE	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000	€000	€000
Year ended 31 December 2020						
Opening net book amount	-	-	22,037	40,920	939	63,896
Additions	3,135,806	47,783	5,483	13,309	88	3,202,469
Depreciation charge	-	-	(2,545)	(11,925)	(157)	(14,627)
Closing net book amount	3,135,806	47,783	24,975	42,304	870	3,251,738
At 31 December 2020						
Cost	3,135,806	47,783	31,217	66,686	1,131	3,282,623
Accumulated depreciation	-	-	(6,242)	(24,382)	(261)	(30,885)
Net book amount	3,135,806	47,783	24,975	42,304	870	3,251,738

During 2020, the Bank acquired two immovable properties by virtue of deeds of purchase on 17 March 2020 and 14 December 2020. The properties are intended to be used as the headquarters of the Bank and were consolidated into one office block.

As at 31 December 2021, capital expenditure authorised and contracted for amounted to €117,000 (2020: €117,000) and is mainly related to the acquisition of immovable property.

8. RIGHT-OF-USE ASSETS

The Bank leases motor vehicles for the use of its executives. Rental contracts are typically made for fixed periods but may have extension options. The extension options held are generally exercisable by both the Bank and the respective lessor, and hence the lease terms exclude the impact of the extension options.

RIGHT-OF-USE-ASSETS

	2021	2020
	€	€
Opening net book amount	**36,695**	49,736
Additions	**2,315**	-
Depreciations	**(13,307)**	(13,041)
At 31 December	**25,703**	36,695

LEASE LIABILITIES

	2021	2020
	€	€
Current	**13,715**	11,796
Non-current	**11,745**	24,782
At 31 December	**25,460**	36,578

The key movements in lease liabilities principally comprise of payments and interest expenses.

The total cash payments for leases in 2021 amounted to €11,796 (2020: €13,701).

The income statement reflects the following amounts relating to leases:

	2021	2020
	€	€
Depreciation charge of right-of-use asset	**13,307**	13,041
Interest expense on lease liabilities	**681**	926
	13,988	13,967

9. INTANGIBLE ASSETS

	COMPUTER SOFTWARE	
	2021	2020
	€	€
Year ended 31 December		
Opening net book amount	18,403	13,861
Additions	11,906	8,467
Amortisation charge	(6,097)	(3,925)
Closing net book amount	**24,212**	18,403
At 31 December		
Cost	34,523	22,617
Accumulated amortisation	(10,311)	(4,214)
Net book amount	**24,212**	18,403

10. OTHER ASSETS

	2021	2020
	€	€
Accrued interest	**84,693**	95,067
Prepayments and deferred costs	**164,053**	143,323
Income from financial guarantees (Note 18)	**61,930**	36,748
Administrative fee income (Note 19)	**541,963**	229,152
Amounts receivable from the Government of Malta	**-**	1,754,103
Other receivables	**4,096**	2,300
	856,735	2,260,693

Prepayments and deferred costs include a funding fee of €120,000 which was paid by the Bank in 2019 to secure financing of a particular programme (Note 12) and which has been deferred and is being amortised over the 10-year term of the funding programme. During 2021, the deferred element of this fee recognised under 'Prepayments and deferred costs' amounted to €94,734 (2020: €110,538).

Amounts receivable from the Government of Malta as at 31 December 2020 represent:

- €1 million in virtue of the Addendum no.1 to the Agreement between the Managing Authority and the Bank (Notes 3 and 13) whereby the FSMA fund was increased by €1 million to reach the maximum of €3 million in accordance with Article 2.2 of the Funding Agreement. The €1 million represents €550,000 allocated to the portfolio guarantee and €450,000 allocated to the interest rate subsidy element of the FSMA scheme;

- €70,860 administrative fees representing the Bank's services provided in connection with the preparation and implementation of the FSMA scheme (Note 19);

- €679,844 in relation to the Bank's mandate by the Government of Malta issued on 16 April 2020 to set up and manage the COVID-19 Interest Rate Subsidy Scheme providing an interest rate subsidy of up to 2.5% on the interest payable by all eligible business in respect of working capital loans extended to such business which are covered under the CGS. By virtue of the Government Letter of Comfort in favour of the Bank dated 4 February 2021, the Government of Malta was due to pay the Bank the interest rate subsidy of €679,844 in relation to loans sanctioned by accredited banks under the CGS for the period to 31 December 2020 (Note 13); and

- €3,399 administrative fees representing the Bank's services provided in connection with the preparation and implementation of the interest rate subsidy in respect of the FSMA scheme. (Note 19).

11. SHARE CAPITAL

	2021	2020
	€	€
Authorised		
2,000,000 shares of €100 each	**200,000,000**	200,000,000
Issued and fully paid up		
600,000 (2020: 500,000) shares of €100 each	**60,000,000**	50,000,000

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 2 million shares having a par value of €100 each.

During 2020, the Bank issued 100,000 shares at par value of €100 each which were fully subscribed by the Government of Malta. In 2021, the Bank also issued another 100,000 shares at par value of €100 each, which were also fully subscribed by the Government of Malta.

The Government may subscribe up to thirty per cent of the authorised and paid-up capital in the form of moveable and, or immoveable property that is free and clear of all encumbrances, hypothecs or other attachments.

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 or guarantees issued by the Bank. A Government guarantee was issued on 16 February 2018 in favour of the Bank. The amount of the guarantee stood at €150 million as at 31 December 2021 (2020: €150 million).

12. AMOUNTS OWED TO BANKS

	2021	2020
	€	€
Current	**5,294,117**	5,294,117
Non-current	**14,411,766**	19,705,883
At 31 December	**19,705,883**	25,000,000

On 24 June 2019, the Bank entered into a loan agreement with KfW, for the amount of €45 million. This amount is made up of four separate loan disbursements each carrying a different interest rate which is fixed under the agreement four days before disbursement on the basis of the swap offer rate in the Euro capital market at the time of disbursement for maturities matching as closely as possible the term of the loan to be disbursed plus an interest margin. As at the end of the financial year two loan disbursements of €10 million and €15 million have been executed. Accordingly, as at 31 December 2021, a balance of €20 million from the total loan facility of €45 million remained undrawn and subject to pricing risk at the time of disbursement. The loan is for a period of 10 years. During 2021, capital repayments amounted to €5,294,117 (2020: nil).

The Bank is also party to a loan agreement with the EIB for an amount of €60 million. This loan amount is made up of fixed and floating rate tranches. As at the reporting date, no amounts under this agreement have been disbursed.

13. AMOUNTS OWED TO ENTITIES

By virtue of an agreement entered into between the Managing Authority and the Bank, as the entity entrusted with the implementation of the FSMA programme, an amount of €3 million (2020: €3 million) was held in favour of, and for the ultimate benefit of the Managing Authority as part of the implementation of the FSMA programme. The said amount is being used to provide financial guarantees and interest subsidies on loans sanctioned by a third-party commercial bank in favour of individuals seeking to further their studies at a tertiary education institution or equivalent.

Similarly, as at 31 December 2020, €679,844 represent interest rate subsidies payable to participating banks in the Bank's capacity as the implementing partner of the COVID-19 Interest Rate Subsidy Scheme. The amounts due were paid in full during 2021.

14. OTHER LIABILITIES

	2021	2020
	€	€
Accounts payable	**132,530**	116,435
Lease liabilities (Note 8)	**25,460**	36,578
Accrued interest	**34,600**	43,895
Accruals and deferred income	**260,859**	26,232
Expected credit losses on financial guarantees (Note 15)	**1,153,268**	454,419
	1,606,717	677,559

15. COMMITMENTS

As at the end of the reporting period, total outstanding commitments were as follows:

	2021	2020
	€	€
Loans and advances to customers		
Undrawn commitments to lend	**6,096,049**	-
Financial guarantees		
Maximum exposure guaranteed by the MDB	**8,355,622**	5,753,045
Total commitments	**14,451,671**	5,753,045

Financial guarantees are further explained below:

	2021			2020		
	DRAWN COMMITMENTS €	UNDRAWN COMMITMENTS €	TOTAL €	DRAWN COMMITMENTS €	UNDRAWN COMMITMENTS €	TOTAL €
Financial guarantees						
Total sanctioned loans (net of repayments)	**25,291,163**	**16,401,514**	**41,692,677**	13,190,916	15,480,862	28,671,778
Guaranteed amount by the MDB per individual exposure	**20,232,930**	**13,121,211**	**33,354,142**	10,552,733	12,384,690	22,937,422
Maximum exposure guaranteed by the MDB (portfolio capping)			**8,355,622**			5,753,045

The Bank facilitates lending to smaller businesses that are viable but unable to obtain the required amount of finance from commercial banks due to insufficient or inadequate collateral to meet the commercial bank's normal security requirements or in view of the potential novelty or nature of the business venture that may fall outside the risk appetite and tolerance of commercial banks. Other factors include the required repayment period for which commercial banks may not be willing or able to provide the required financing in whole or part.

The Bank seeks collaboration with commercial banks to facilitate more active lending by offering the opportunity for commercial banks to act as the Bank's implementing partners for its guarantee products. In this respect, the Bank issues financial guarantee contracts in respect of loans originated by other third party commercial banks.

Financial guarantee contracts issued, which represent irrevocable assurances that the Bank will make payments in favour of a third party commercial bank in the event that a borrower of the third party commercial bank fails to meet its obligations to the said commercial bank, carry the same credit risk as loans. At the end of each reporting period, these commitments are measured at the higher of (i) the amount of the loss allowance, and (ii) the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Note 2.4 - 'Credit risk' describes the process of how the Bank measures, accounts and manages credit risk in respect of credit related commitments.

The maximum exposure guaranteed by the Bank is calculated by reference to a portfolio capping on the maximum credit losses, as stipulated in the risk-sharing agreements entered into between the MDB and the commercial banks.

In the event of default by a borrower of the third party commercial bank, the guarantee on the undrawn balance is revocable as stipulated in the loan agreements between the third party commercial bank and its borrowers.

As at 31 December 2021, the expected credit losses arising on financial guarantees amounted to €1,153,268 (2020: €454,419) (Note 14).

Expected credit losses in respect of loans and advances to customers as at 31 December 2021 are considered to be insignificant in view of the high value of collateral securing the exposure.

16. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021	2020
	€	€
On loans and advances to banks	**152,940**	280,079
On loans and advances to customers	**13,697**	-
Other interest income	**327**	18,490
	166,964	298,569
On debt and other fixed income instruments	**94,272**	-
Net amortisation of discounts and premiums	**(89,745)**	-
	4,527	-
Total interest receivable and similar income	**171,491**	298,569

17. INTEREST PAYABLE AND SIMILAR EXPENSE

	2021	2020
	€	€
On balances with Central Bank of Malta	**47,979**	57,584
On amounts owed to banks	**228,206**	103,214
On lease liabilities	**680**	926
Total interest payable and similar expense	**276,865**	161,724

18. INCOME FROM FINANCIAL GUARANTEES

	2021	2020
	€	€
SME Invest Scheme	**86,335**	53,569
Family Business Success Scheme	**336**	878
Total income from financial guarantees	**86,671**	54,447

In line with its principal activities and business model, the Bank issues financial guarantees to credit institutions (Note 15), with the aim of facilitating the provision of credit facilities to customers of the same credit institutions who are eligible under one of the Bank's four 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 the guarantee on such exposures.

19. ADMINISTRATIVE FEE INCOME

	2021	2020
	€	€
COVID-19 Guarantee Scheme	**1,533,275**	229,152
Further Studies Made Affordable	**49,310**	74,259
	1,582,585	303,411

The Bank has been entrusted by the Ministry of Finance with the administration and implementation of the COVID-19 Guarantee Scheme and the FSMA scheme which are available through MDB's intermediating partners. The Bank receives fee income as a consideration for the implementation and ongoing administration of these schemes.

20. OTHER INCOME

	2021	2020
	€	€
Rental income	**32,315**	31,940
Other income	**1,361**	40,000
	33,676	71,940

21. CHANGES IN EXPECTED CREDIT LOSSES

	2021	2020
	€	€
On balances with Central Bank of Malta and other banks	**10,830**	228
On financial guarantee contracts	**698,849**	391,260
	709,679	391,488

22. ADMINISTRATIVE EXPENSES

	2021	2020
	€	€
Rent	**55,425**	61,700
Legal and professional fees	**156,936**	140,150
Supervisory fees	**19,500**	19,500
Travelling and accommodation	**2,973**	1,130
Memberships of international associations	**41,797**	20,893
Insurance costs	**48,584**	24,329
Advertising and public awareness	**41,271**	28,077
Repairs and maintenance	**52,764**	32,808
Other	**43,305**	39,025
	462,555	367,612

Auditor's remuneration

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

	2021	2020
	€	€
Annual statutory audit	**35,000**	20,000

23. EMPLOYEE COMPENSATION AND BENEFITS

	2021	2020
	€	€
Staff costs		
- Wages, salaries and allowances	**1,274,385**	898,706
- Social security costs	**42,515**	32,070
- Other costs	**7,063**	18,937
Directors' fees	**89,612**	99,889
	1,413,575	1,049,602

Total fees payable to non-executive directors amounted to €89,612 during 2021 (2020: €99,889).

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

	2021	2020
	€	€
Senior management	**10**	10
Middle management	**9**	4
	19	14

24. NET CASH USED IN OPERATING ACTIVITIES

	2021	2020
	€	€
Loss for the year	**(1,072,683)**	(1,282,271)
Adjustments for:		
Depreciation of investment property, property and equipment and right-of-use assets (Notes 6, 7, 8)	**78,335**	36,287
Amortisation of intangible assts (Note 9)	**6,097**	3,925
Net amortisation of discounts and premiums on financial investments (Note 16)	**89,745**	-
Interest receivable	**(84,693)**	(95,067)
Interest payable	**34,600**	43,895
Change in expected credit losses (Note 21)	**709,679**	391,488
Interest expense on lease liabilities (Note 8)	**681**	926
	(238,239)	(900,817)
Changes in operating assets and liabilities:		
Increase in loans and advances to banks (Note 3)	**(4,331,355)**	(3,995,194)
Increase in loans and advances to customers (Note 5)	**(3,203,951)**	-
(Decrease)/increase in amounts owed to entities (Note 13)	**(737,095)**	1,671,858
Decrease/(increase) in receivables and prepayments and deferred costs (Note 10)	**1,488,651**	(1,596,487)
Increase in accounts payable and accruals and deferred income (Note 14)	**206,827**	66,872
Net cash used in operating activities	**(6,815,162)**	(4,753,768)

25. CASH AND CASH EQUIVALENTS

The table below shows an analysis of the Bank's balances of cash and cash equivalents as shown in the Statement of Cash Flows. Cash and cash equivalents comprise of demand deposits and balances with a contractual maturity of less than three months.

	2021	2020
	€	€
Balances with Central Bank of Malta and other banks		
Repayable on call and at short notice (Note 3)	**25,300,305**	44,979,613

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 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 executives and senior management.

26.2 TRANSACTIONS WITH THE SHAREHOLDER

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

	2021	2020
	€	€
Income from related parties		
Interest receivable and similar income	**80,994**	207,389
Income from financial guarantees	**1,178,656**	264,555
Other income	**126,298**	106,199
Expenses charged by related parties		
Interest payable and similar expense	**47,979**	57,584
Administrative expenses	**104,508**	94,884

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

During the year, the following balances were held by the Bank in favour of its shareholder and other entities controlled by the shareholder:

	2021	2020
	€	€
Amounts owed by related parties		
Balances with Central Bank of Malta	**355,352**	13,966,827
Loans and advances to banks	**770,210**	32,182,312
Financial investments	**17,093,955**	-
Other assets	**24,000**	2,113,752
Amounts owed to related parties		
Amounts owed to other entities	**2,934,768**	3,671,862
Other liabilities	**13,610**	30,649

26.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

	2021	2020
	€	€
Compensation to key management personnel	**815,154**	786,481

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 a registered address at 5 Market Street, Floriana, Malta.

NOTES

NOTES

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