BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

# 2023
# ANNUAL REPORT
## & FINANCIAL STATEMENTS


GATEWAY TO FINANCE

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The Malta Development Bank (MDB) has made every effort to ensure that the information, data, and all content of this annual report is accurate at the time of publication. The information presented, unless otherwise indicated, covers the period 1 January to 31 December 2023.

BANK MALTI GĦALL-IŻVILUPP
MALTA DEVELOPMENT BANK

# GATEWAY
## TO FINANCE


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# ABOUT THE MALTA DEVELOPMENT BANK

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

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

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

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

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

# OUR
# VISION

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

OUR
# MISSION

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

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

# BOARD OF **DIRECTORS**

Mr Leo Brincat

Mr Victor Carachi

Prof. Rose Mary Azzopardi

Mr Norbert Grixti



In exercise of the powers conferred by Article 21 of the Malta Development Bank Act, the Minister responsible for the Bank appoints the Bank's Directors. As at end 2023 the Board is composed of:

Chairperson
Mr Leo Brincat [1]

Directors
Prof. Rose Mary Azzopardi
Mr Victor Carachi [2]
Dr Michele Cardinali
Mr Steve Ellul
Mr Norbert Grixti [3]
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.

1 Mr Leo Brincat was appointed Chairperson on 20 December 2023 in lieu of Prof. Josef Bonnici.
2 Mr Victor Carachi was appointed in lieu of Prof. Philip von Brockdorff on 20 December 2023.
3 Mr Norbert Grixti was appointed in lieu of Mr William Spiteri Bailey on 20 December 2023.

Dr Michele Cardinali

Mr Anthony Valvo

Mr Steve Ellul

Dr Bernadette Muscat

# LETTER OF **TRANSMITTAL**

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**22 April 2024**

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

Dear Minister,
In terms of article 33 of the Malta Development Bank Act, 2017 (Cap 574), I have the honour to transmit to you a copy of the Annual Report of the Malta Development Bank for the year 2023.

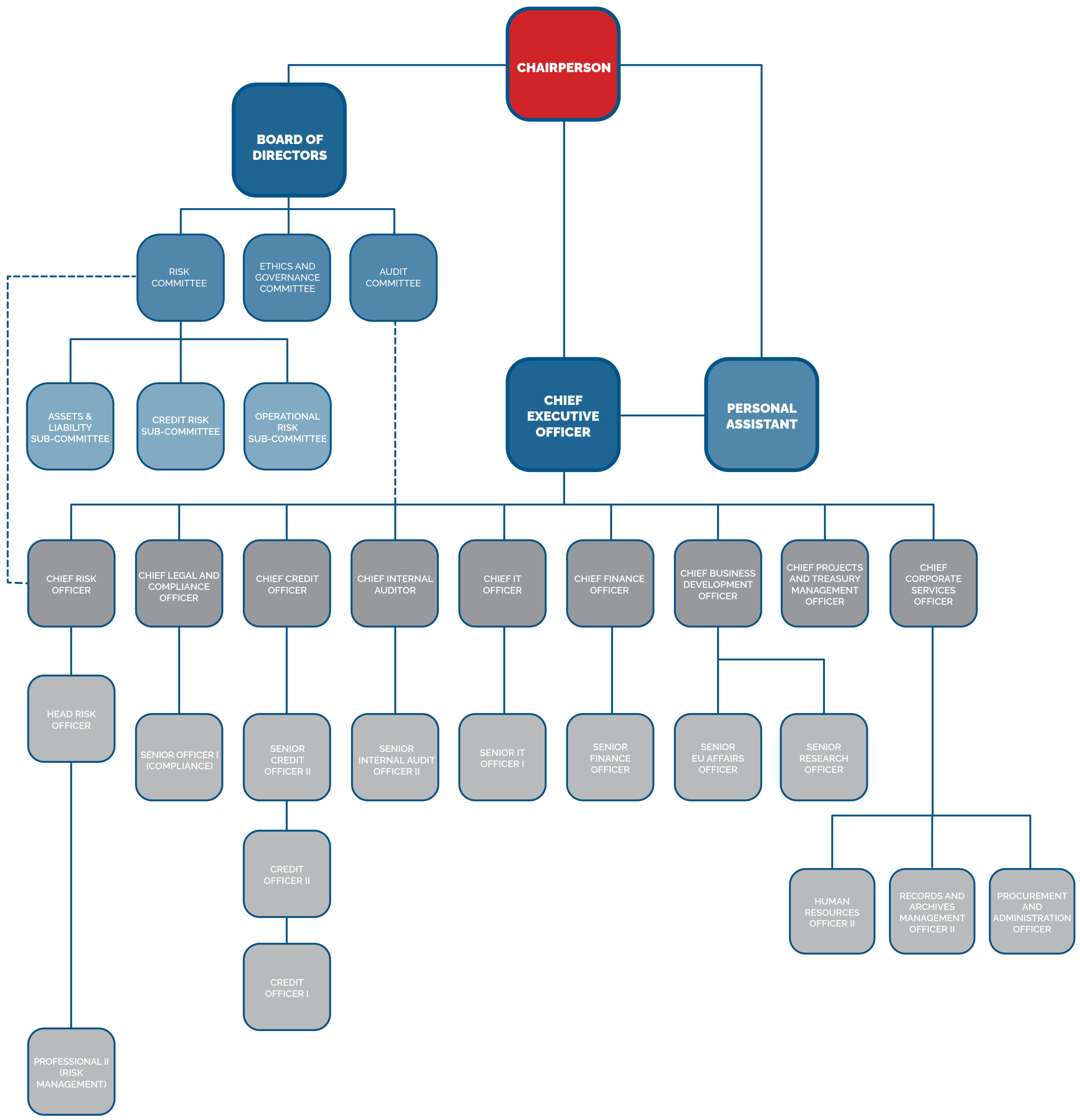
In terms of article 33 of the Malta Development Bank Act, I am also transmitting a copy of the audited accounts of the Bank for the financial year ended 31 December 2023.

Yours sincerely

**LEO BRINCAT**
Chairperson



# MALTA DEVELOPMENT BANK **ORGANISATIONAL CHART**



# CHAIRPERSON'S **STATEMENT**

## 'THE KEY STRATEGIC OBJECTIVES: RESILIENCE, RESULTS, GROWTH'

Assuming the Chairmanship of the Malta Development Bank as the financial year 2023 neared its end, we have to set our key strategic objectives clearly. We have to put resilience, results and growth centre stage. This would ensure we have a future-proof development bank.

In true keeping with other national development banks we must evolve and adapt to emerging trends and challenges, playing a crucial role in supporting economic recovery, fostering sustainable development and advancing strategic priorities as an active EU member state and key regional player in the Mediterranean in spite of our size and resource limitations.

It is not a coincidence that we timed the launch of our strategy document with the publication of this annual report.

We need to convey the key message that while showing our appreciation of the efforts and legacy of the founding Chairperson Prof Josef Bonnici who I would like to thank personally and on behalf of the staff for his strong endeavours, we have new and important hurdles ahead. In the same spirit I would like to thank the board of directors and the staff for their dedicated efforts and cooperation throughout the year.

That of overcoming the challenge of building on our undoubted strengths without becoming complacent or stagnant or adopting a 'business as usual' approach.

To succeed we must not shirk from thinking outside the box.

We must continuously evaluate our strengths, weaknesses, opportunities and threats. This ongoing assessment must help us identify areas where we have excelled and areas needing improvement.

We must focus on viability, visibility and sustainability by being robust where necessary but also by mitigating risks and adhering to regulations and good governance best practices.

We must create an environment that constantly fosters creativity and innovation by encouraging one and all to explore new ideas, experiment with different approaches and challenge the status quo.

We must be ready to embrace diversity of thought by welcoming contrasting perspectives and encourage stepped-up collaboration vertically and horizontally.

Different viewpoints can spark innovation and generate fresh ideas.

This can only be done if we recognise that adaptability and flexibility are of the essence. Recognising that strategies may need to evolve in response to changing internal and external factors.

We need to put in place mechanisms to monitor progress and evaluate the effectiveness of our strategy. To foster a culture of continuous improvement we need to solicit feedback, learn from successes and failures, and make necessary adjustments to optimise our performance and achieve long term success.

It is by following these steps and actively nurturing our new strategy through effective execution and adaptation, that we can give life to our strategic vision and drive meaningful results.

While I leave it to our CEO to set out in detail the key initiatives taken by the Bank throughout the last financial year, I cannot but underline the importance of:

- Stepping up our efforts to finance projects that contribute to truly sustainable economic development
- Insisting that our key objective must remain that of allocating our resources in a way that maximises sustainable output, promote balanced economic growth and foster social cohesion
- Broadening our client and service portfolio by offering competitive terms and risk sharing mechanisms without undermining our financial viability
- Supporting bankable initiatives with long-term horizons, especially in digitalisation, carbon-neutral technology projects and climate related initiatives rather than speculative and mainstream proposals
- Ensuring that any infrastructural projects are truly and effectively sustainable not mere lip service and window dressing
- Raising our game by realising that while COVID-19 has abated, economic uncertainties have continued to grow since the war in Ukraine and the violent spike in the Middle East have not only fuelled geo-political tensions but also disrupted trade routes, supply chains and investment flows, impacting on our region and on our islands too.
- Collaborating more intensively and building strategic partnerships with agencies or authorities to blend grants with MDB guarantees
- Ensuring that our ESG Policy now in place is developed further and implemented.
- And most importantly.....to ensure that the process started in 2020 will be brought to its conclusion by the MDB becoming an implementing Partner of InvestEU, with direct access to EU guarantees.

Our multi-faceted commitment should remain steadfast. That of :

- Addressing market inefficiencies while advancing public policy goals
- Remaining steadfast more than ever in serving as catalysts to help meet the islands' main socio-economic and environmental challenges
- Offering bespoke financial arrangements and meticulous due diligence and risk evaluation processes
- Reinforcing our focus by supporting high-calibre investments that drive the islands' economic viability and job creation within a competitive and sustainable framework

None of this will be possible unless we constantly strive to improve the existing synergy between our bank, the commercial banks and other stakeholders.

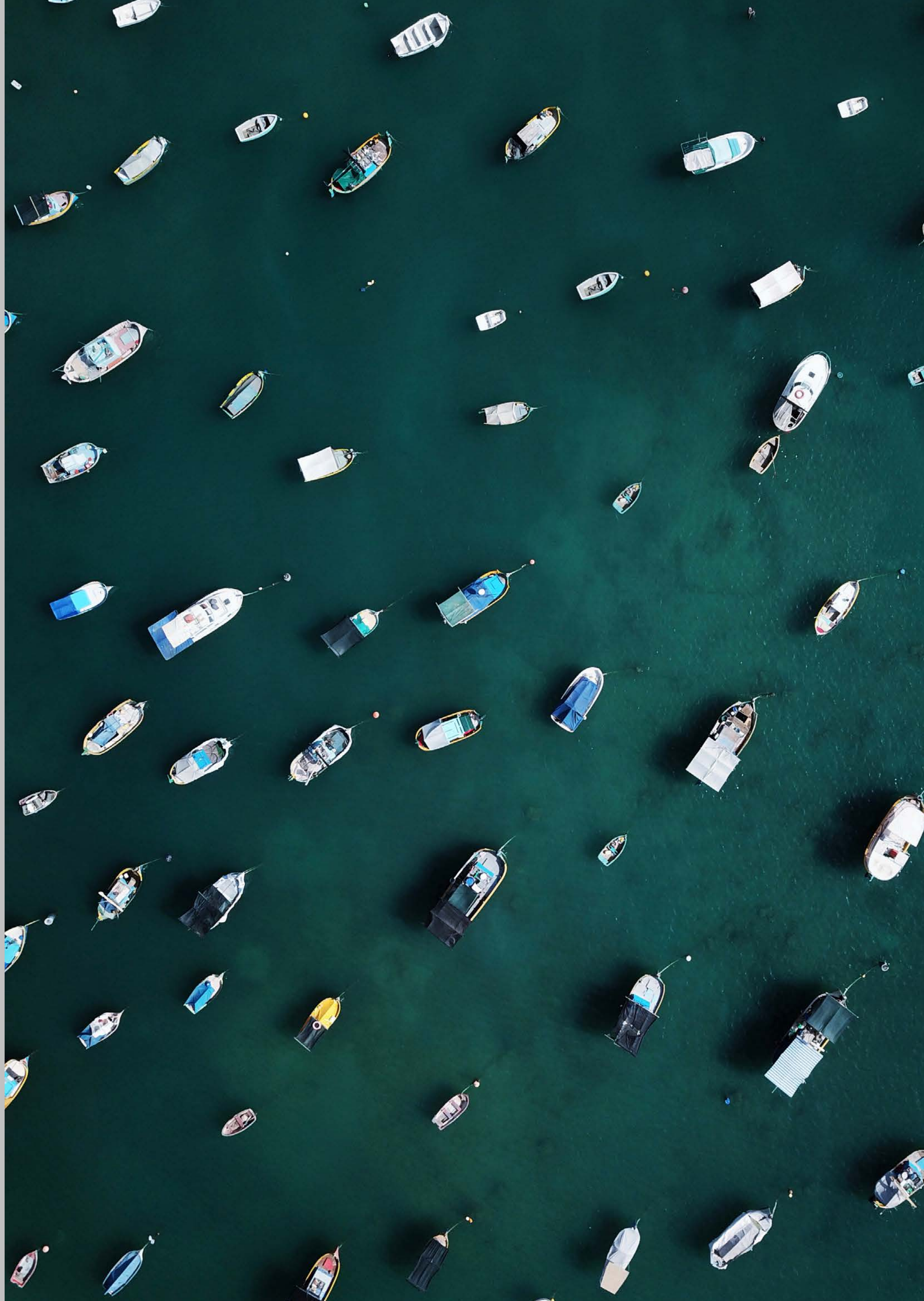
For this to succeed we must have clear objectives, delineate roles in order to avoid overlap and, most importantly, engage in information sharing through regular institutional communication.

This should prove to be a win-win scenario since co-financing arrangements and joint risk sharing mechanisms should help us use such joint initiatives to leverage the strengths of each institution.

Rather than relying on traditional stakeholders we must widen the level and extent of our stakeholder engagement. Such discussions and decision-making processes should ultimately foster support for stronger collaborative efforts.

Adaptation and responsiveness could ultimately prove to be a key for a better future.

**Leo Brincat**
March 2024.



# CEO'S **STATEMENT**

## WHAT WE DO

**First**, we provide guarantee schemes to commercial banks, usually to facilitate finance to SMEs and other entities, sometimes combined with interest rate subsidies.

**Second**, we lend the Bank's own money if a project is large and of benefit to Malta but cannot find financing.

**Third**, we devise crisis response measures when invited by Government to consider doing so.

Some of the projects we support fall outside commercial banks' risk appetite but if they are of clear socio-economic benefit and bankable they whet our appetite.

Our aim is not profit-maximisation but, as stewards of the capital provided by Government, neither do we seek losses.

Our main partners are the commercial banks with whom we seek a symbiotic relationship.

The MDB is not an underwriter of all types of banking risks but of certain risks worth taking to stimulate Malta's economic growth. Partner banks can compensate us for taking these higher risks on certain projects by sharing good projects with us.

Our preferred habitats are SMEs, technology projects (especially digitalisation), sustainable infrastructure including renewable energy production and energy efficiency, waste management and waste re-circulation, and blue economy projects.

***Strategy***

Our choice of priority areas is the result of thorough work analysing national policies and priorities, Malta's business and trade situation, national strengths and constraints – all these factors in the context of the Bank's resources.

Going forward, our goal is to continue building on the strong momentum we gained so far and to focus on work in our strategic priority areas.

In the coming week we shall be sharing our strategy with the public for the first time after it went through various stages of discussion through the levels of the Bank in prior years.

***Financial results***

The Bank's total assets have now grown to €100 million, mostly thanks to the Government's share capital as well as the persistently good work by our team of professionals.

For the second time we are reporting a profit before provisions for 2023 of €3.8 million compared to €1.2 million in 2022.

After provisions for expected credit losses our bottom line for 2023 was €3.2 million.

This means that in a few years, by 2023 we had wiped off all the Bank's set-up costs, had a small overall surplus, and, further, conscious of the MDB's risk carrying role, we had additionally provided a total of €2.2 million in provisions for expected credit losses, representing a substantial portion of the Bank's present credit exposure.

This financial self-sufficiency is critical to buttress the MDB autonomy and independence as laid down in article 9 of the Malta Development Bank Act, 2017.

***Our flagship schemes***

During 2023, we did not start any new financial stability programmes – thankfully, the COVID-19 pandemic had abated to insignificance and the first impacts of the Ukraine war were mitigated.

In fact, a few months before, during the second half of 2022, we eagerly dusted off our pre-pandemic plans and launched two new products on 23rd November 2022, coinciding with the Prime Minister's, the Hon. Dr. Robert Abela, inauguration of our new premises in Market Street, Floriana.

These two products are our two flagship schemes, the ***SME Guarantee Scheme***, and the ***Guaranteed Co-Lending Scheme***.

As I write, we are very pleased to have signed agreements covering these two schemes with Malta's major banks, APS Bank, Bank of Valletta, and HSBC Bank Malta. We look forward to concluding similar arrangements with other local banks. The benefits of these schemes, with MDB carrying 80% of the risks of loans granted by banks to SMEs, via uncapped guarantees, are difficult to surpass and provide among the very best SME guarantee schemes in Europe.

Although these schemes have just started, through our bank partners we have already taken on the major risks on innovative projects in car-hailing software and communication software based on artificial intelligence. Both projects are at the vanguard of technology. We are currently assessing other technology projects and welcome more approaches by entrepreneurs.

### *Digital projects*

Digital projects are very difficult to assess for bankability. We place substantial reliance on the track record of the promoters and the product. The product must be well beyond proof-of-concept stage. It should be out there, competing successfully in the market, preferably internationally.

We do not provide venture capital but repayable loans for further commercialisation or the further development of already successful products. We would require the eventual valuation of the IP and we take collateral whenever available to reduce our risks.

We thoroughly examine the business model, not just the financials, but also the marketing, sales, legal, HR, and other key management functions. Management must be strong and focused and have a clear vision of what it wants to accomplish.

If you have a project that meets these criteria, let us know because we could be interested.

### *Venture capital*

During 2022 we had participated rather intensively in a thorough study of the venture capital market and its stakeholders supported by the Technical Assistance Instrument (TSI) of the European Commission. The study was concluded in the first months of 2023.

The TSI study supported MDB's significant role in the development of a national equity ecosystem but the MDB does not yet have the resources to implement the two equity financial instruments proposed in the TSI study. These instruments were modelled on products offered by much larger development banks.

Moreover, during the year under review, the MDB participated in meetings with Malta Government Investments (MGI) and other players, and contributed to the discussions, also by sharing the findings of the TSI study.

Partly reflecting these developments, in September 2023 the Government launched a €10 million venture capital fund for investments in innovative technology start-ups.

### *Tailored facilities*

For larger loans which fall outside a scheme the MDB would be willing to grant a direct and bespoke facility and do so alone or in partnership with a commercial bank.

The project must have clear and substantial socio-economic benefits for Malta. However, since the MDB's remit precludes competing with commercial banks, as well as because the Bank operates within a strict State Aid regime, there would have to be unequivocal reasons why a loan is not at least partly financed by a commercial bank.

During 2023 we continued to promote the Tailored Facility for Business.

### *Scope of our activities*

The MDB is focused on encouraging sustainable growth by addressing market gaps, through financing initiatives and projects which commercial banks might not be able to support on their own.

By the end of last year, the cumulative assistance - encompassing both direct and guaranteed loans - amounted to €623.3 million, with the COVID-19 Guarantee Scheme (CGS) being the prime contributor to this figure. The CGS was intermediated by nine local banks and created an awareness and appreciation that the MDB is there to complement and enhance the wider banking sector, rather than to compete with it.

In spite of its short life, the MDB has already reached over 1,270 businesses and students, which is a significant feat.

By end-2023, the MDB had facilitated just short of €81.0 million in loans towards new investment, representing an increase of €10.7 million when compared with a year earlier.

**1,270+** businesses and students

**+€10.7** million in new investment loans

**€623.3** million in cumulative assistance



We have also facilitated €38.7 million in support measures to assist businesses whose liquidity was negatively impacted by the war in Ukraine through three different schemes: one for grain importers, another for fuel, as well as a general business one.

### *Collaborating and incentivising*

Collaboration with various entities is a key aspect of the MDB's efforts, as we seek to enhance our role in providing financing facilities to support viable operations, while serving as a conduit for leveraging EU resources.

The continuous consultation process with diverse stakeholders brought to light additional market gaps, particularly in the provision of financing for infrastructure projects and green investment.

Engaging in discussions and collaborations is a major part of our role. We are actively working on a blended financial instrument targeting green mobility, and other initiatives focusing on the blue economy. Additionally, ongoing talks with the Managing Authority for EU funds aim to introduce a new financial instrument supporting energy-efficient initiatives.

The MDB today, after five years of intensive work to build institutional capacity, has the ability to get involved in investments that are large-scale, or with a longer gestation, and we look forward to engage in the development process of offshore renewable energy in Malta's Exclusive Economic Zone on the basis of expert evaluations and thorough assessments by the Bank.

I feel certain that the decision to develop Malta's extensive Exclusive Economic Zone is of historic importance to our economy.

To enhance our capacity-building, we have continued to strengthen our relationship with similar promotional banks around Europe, which allows for exchange of best practices and knowledge transfer.

We have continued to build on the momentum of hosting the annual General Assembly of the European Long-Term Investors Association in 2022, by maintaining regular contact and taking part at its annual assembly, this time in Madrid. Being part of this and other associations such as the Network of European Financial Institutions for SMEs, and the European Association of Guarantee Institutions adds a crucial international dimension to our role.

### *Funding our activities*

On the funding side, the Bank has recently secured €30 million from the European Investment Bank (EIB), our main international banking partners, to accelerate Malta's green transition. Through this agreement, the MDB is now able to extend credit access to SMEs, mid-caps and local public sector entities interested in undertaking projects that combat adverse climate change. This loan complements a general loan from the EIB of €60 million.

In parallel, we have continued negotiations on a European Investment Fund sustainability guarantee and became an accredited Implementing Partner under the EU's Alternative Fuels Infrastructure Facility (AFIF) to finance charging stations for electric buses.

For the first time, as at the time of writing, we are in the final stages of arranging funding facilities from a local bank thus further developing our mutually-supportive, symbiotic relationship.

### *ESG*

Over the last five years, as we drafted our business policies, we made sure that our social and governance practices were up to the best standards.

We are now increasingly weaving the theme of climate-friendly investment into MDB's strategic planning. Sustainable development was always part of our mission.

Our Environmental, Social and Governance (ESG) policy provides a clear roadmap to enhance MDB's ESG performance in all business areas. This strategy is of a dual nature: one aspect focuses externally on a review of guidelines covering credit and risk assessments of the Bank's promotional schemes which shall henceforth lay greater emphasis to ESG considerations; the other aspect concerns the way we work, focusing on internal measures aiming to embrace ESG principles, including in the way we manage our building, our waste management efforts and in ensuring equality at all levels of our operations. We began addressing this latter aspect immediately we commenced refurbishing work on our premises in Floriana.

Addressing Malta's ambitious climate targets will require substantial investments. This implies the need to unlock more private capital, and signals a major role for the MDB.

I believe the Malta Development Bank is strategically positioned to take a leading role and again act as a gateway to finance and facilitate Malta's green transition.

### *Human resources*

We have continued to support investment in the nation's human capital which we see as fundamental in the drive towards enhanced productivity and competitiveness.

Our study-loan schemes, the FSMA and its successor the FSMA+, have been around for five years, covering students' studies in Malta and abroad. Through these schemes more than 550 individuals have so far been able to continue their studies in Malta and abroad, benefiting from over €21 million in soft loans.

We take pride in stating that this initiative has fostered equal opportunities, ensuring that access to higher education is available to all, regardless of parental income and resources.

*InvestEU and the Pillar assessment*

Our conscientious preparation to get the Bank to be fully prepared, capacity-wise, to apply to be accredited as an implementing partner for the InvestEU programme – an ambitious target - has been making steady progress since 2019. I am now pleased to report that we are in the concluding phases of the audit which is a prerequisite for applying to the Commission.

As Malta's national promotional bank, the MDB aims to become the country's single direct entry point for the EU guarantees available under InvestEU.

To be able to manage directly and safeguard this InvestEU Guarantee, the MDB must prove that it meets the requirements regarding nine institutional 'pillars', namely: the internal control system; the accounting system, including project costing and EPSAS reporting; an independent external audit; procurement; rules and procedures for providing financing from EU funds through grants and financial instruments; exclusion from access to funding; publication of information on recipients; as well as protection of personal data.

In particular, the Pillar Assessment focuses on the appropriateness and effectiveness of the internal controls, credit risk management, risk governance, systematic due diligence, and risk analysis, assessment and measurement of credit risk from all transactions. Such an Assessment is required to be carried out by an external auditor based on a set of terms of reference established by the European Commission.

During 2023, the MDB reached the final stages of the Pillar Assessment process. The final exit meeting with the European Commission is expected to take place in the first part of 2024. Once this is concluded, the Bank will initiate negotiations with the European Commission on the first guarantee agreement under the InvestEU as a direct Implementing Partner.

*The Gateway*

It would be unwise for us to rely on past successes.

As a gateway to finance for the economic development and sustainable progress in Malta, the MDB continues to clearly demonstrate its value to the economy. We shall continue to strive to make a meaningful impact on improving the quality of life by prioritising the funding of projects that support sustainable economic development.

At the MDB, we strive towards operational excellence, and throughout the year, we have strengthened governance, risk management and compliance.

This Annual Report details our strategic initiatives, products, and key accomplishments in critical areas, highlighting our commitment to operational resilience and sound governance, grounded in transparency, pragmatism, and fairness.

In conclusion, I would like to express my heartfelt gratitude to every single member of our MDB team of professionals for their constant and unstinting commitment to our common goals. The team's efforts have been instrumental in the dynamism and success of the Bank.

While we look ahead to fresh challenges for 2024, I must first thank Prof. Josef Bonnici for his efforts and contribution to the Bank since its inception. It has been a privilege to serve with him at the MDB. Likewise, I am glad to extend my welcome to Mr Leo Brincat, who took up the role of Chairman towards the end of 2023 and who joins us at a very interesting juncture in our organisation's development, bringing with him a wealth of institutional experience.

I would also like to thank the directors on our Board, the new directors as well as those who retired, for their much appreciated guidance and support.

The Ministry for Finance has been an invaluable source of constant, albeit arms'-length, encouragement and support.

Too many to identify individually are our various other stakeholders and partners, government ministries, commercial banks, consultants, entities, authorities, commercial firms and other organisations, that have been part of our journey so far.

The year 2023 reflected the final stage of the nation's normalisation and post-pandemic phase, as the Maltese economy continued to deliver sustained growth, eclipsing euro area growth rates, and continued high levels of employment. We are pleased to have played a small though important part in supporting the country, businesses, social partners, and workers to overcome such challenging times and to take the first decisive leaps of the recovery.

**Paul V. Azzopardi**
March 2024.

# CORPORATE GOVERNANCE STATEMENT

## GOVERNANCE

The Malta Development Bank Act (Cap. 574) was adopted by Parliament on 5 May 2017 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 making 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 CEO 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 its deliberations.

## BOARD STRUCTURE AND RESPONSIBILITIES

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

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

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

At the end of 2023, the Board of Directors was composed of Mr Leo Brincat as Chairman, and Prof. Rose Mary Azzopardi, Mr Victor Carachi, Dr Michele Cardinali, Mr Steve Ellul, Mr Norbert Grixti and Mr Anthony Valvo as Directors.

Following the expiration of Prof. Bonnici's term as Chair, Mr Leo Brincat took on the role of Chairperson on 22 December 2023. Prof. Azzopardi and Mr Valvo have been reappointed for an additional three-year term, commencing on 11 December 2022. Dr Michele Cardinali and Mr Steve Ellul were appointed as Directors on 14 April 2021 and 22 June 2022, respectively, for a five-year term each. Mr Victor Carachi and Mr Norbert Grixti were appointed as independent Directors on 22 December 2023, succeeding Prof. Philip von Brockdorff and Mr William Spiteri Bailey, and will serve a six-year term. The differing appointment terms provide continuity.

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

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

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

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



# BOARD COMMITTEES

## AUDIT COMMITTEE

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

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

The Audit Committee comprises of three Directors appointed by the Board. The members during 2023 were Prof. Philip von Brockdorff (Chairperson), Prof. 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. The external auditors and an independent audit firm that contributes to the Internal Audit function under a co-sourcing arrangement are invited to attend specific meetings.

During 2023, the Committee received regular reports from the Chief Internal Auditor, the Chief Finance Officer and the Chief Risk Officer. The Committee reviewed the key findings from the outcome of individual internal audit reviews carried out, monitored the status of implementation of agreed audit action points emanating from audit reports, and approved the risk-based internal audit plan. The Committee also reviewed the Financial Statements of the Bank and recommended them for the approval to the Board. The review focused on the adopted accounting policies, significant assumptions and estimates adopted in the preparation of financial statements, the appropriateness of financial reporting procedures and the accuracy and completeness of disclosures in line with international financial reporting standards as adopted by the EU.

The Committee met on five occasions in 2023.

## 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.

During the year 2023, the Committee recommended for the Board's approval the Records Retention Policy and an update to the Remuneration Policy.

Prof. Josef Bonnici served as the Chairman of the Ethics and Governance Committee during 2023. He was succeeded by the new MDB Chairman, Mr Leo Brincat. The Committee is composed of three Directors appointed by the Board. The current members are Mr Leo Brincat, Chairman, Mr Anthony Valvo, Director, Dr Michele Cardinali, Director, and Mr Paul V. Azzopardi, MDB's Chief Executive Officer.

The Committee met on two occasions in 2023.

## RISK COMMITTEE

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

- Cultivating robust risk governance across the Bank's operations, proactively anticipating changes in business conditions.
- Establishing and overseeing processes to ensure that management identifies, reports, assesses, manages, and controls risks aligned with the Bank's strategy and operations.
- Ensuring adherence to the overarching risk appetite and strategy, aligning with the Board-approved business strategy, objectives, corporate culture, and values.
- Promoting a culture of risk awareness within the Bank through communication and education.

In 2023, Prof. Josef Bonnici served as the chair of the Risk Committee, and the position is currently held by the new chair, Mr Leo Brincat. Other members include Prof. Rose Mary Azzopardi, Director, Mr Anthony Valvo, Director, along with MDB's Chief Executive Officer, Mr Paul V. Azzopardi, and the Chief Risk Officer, Mr Tyrone Mizzi Navarro.

Throughout 2023, the Risk Committee received reports on the MDB's risk exposure and the implemented risk mitigation controls. It actively engaged in discussions regarding initiatives undertaken by the Bank to enhance its processes, thoroughly reviewed various policies, and presented policy recommendations to the Board. The Risk Committee met four times in 2023, meeting the minimum requirement of four meetings per year.

The Risk Committee is supported by three management sub-committees: the Asset and Liability Committee (ALCO), the Credit Committee, and the Operational Risk Committee. The roles and composition of these three management committees are as follows:

1. ALCO is responsible for executing asset and liability management functions and evaluating liquidity risk, interest rate risk, and capital risk. The asset and liability management function entails assessing structural changes to the Bank's balance sheet and achieving strategic objectives related to the Bank's financial position. ALCO was previously chaired by Mr William Spiteri Bailey, Director. The current chair is Mr Norbert Grixti, and the Committee includes the Chief Executive Officer, the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer, and the Chief Projects and Treasury Management Officer as members. ALCO convened four times in 2023, meeting the minimum requirement of four meetings per year.

2. The Credit Committee approves or recommends approval of credit requests and guarantees, oversees the credit risk framework, ensures effective loan portfolio management, and reports policy deviations to the Board.

   The Credit Committee, previously chaired by Prof. Josef Bonnici, is now Chaired by Mr Leo Brincat, the Bank's new Chairman. The Committee includes the Chief Executive Officer, the Chief Credit Officer, the Chief Risk Officer, the Chief Finance Officer, the Chief Legal and Compliance Officer, and the Chief Projects and Treasury Management Officer.

   The Credit Committee convened seven times in 2023, meeting the minimum requirement of four meetings per year.

3. The Operational Risk Committee oversees the MDB's operational risks to which the Bank is exposed in its business operations. It reviews processes for operational risk, manages reputation risk, and monitors the Bank's Risk Register. The Operational Risk Committee, previously chaired by Prof. Rose Marie Azzopardi, Director, is now chaired by Mr Victor Carachi, Director. Its members include the Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Chief Information Officer and the Chief Legal and Compliance.

The Operational Committee convened twice in 2023, meeting the minimum requirement of two meetings per year.

The composition of these three management sub-committees reflects the entity-wide scope and inclusive nature of the Bank's risk management strategy.



# THE INTERNAL AUDIT FUNCTION

The primary role of the Internal Audit function is to provide the Bank's management, the Audit Committee and the Board of Directors, with independent objective assurance, advice, and insight designed to add value and improve the Bank's operations. In its role as the Third Line within the 'Three Lines Model' which the Bank endorses, the Internal Audit function has a crucial and vital role, being responsible for the independent review of the first two lines of defence, and for promoting best practices with a view to strengthening the effectiveness of the Bank's governance, risk management and control frameworks and mechanisms.

The most important factors that shape internal audit are its 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 including the Institute of Internal Auditors' Code of Ethics.

## INTERNAL AUDIT ACTIVITIES

In accordance with the risk-based Internal Audit Plan for 2023, which was developed following a thorough risk assessment to identify potential risk areas, the Bank's internal auditors provided assurance through the conduct of a number of audits spanning key focus areas across Bank processes. These areas included data quality and integrity, reporting, Information Technology (IT) security, internal control processes and operational efficiency, and compliance with applicable regulations and internal policies; with significant focus on the provision of assurance relating to the Bank's credit risk in consonance with the Bank's main line of operations.

As in previous years, the work of Internal Audit was also complemented with specific audit services by a reputable external audit firm. The co-sourcing agreement with this firm has been extended to 2024 to carry out credit file reviews to ensure compliance by the Bank's authorised financial intermediaries with the eligibility criteria approved by the European Commission under the Temporary Framework for State aid measures for facilities granted as part of the COVID-19 Guarantee Scheme. A similar review was also undertaken by the Internal Audit function to ensure compliance by the implementing partner with the eligibility criteria set for the two Further Studies made Affordable schemes and for the Bank's Guarantee Facility for Loans to SMEs.

The auditors contribute to enhancing the Bank's processes and control practices by making suitable recommendations to address their findings and mitigate associated risks in a timely manner. In this respect, the auditors continued to undertake ongoing follow-up activities to assess the status of implementation of the pending recommendations resulting from previous audits. Significant progress towards satisfactory risk mitigation was reported through regular follow-up reports presented to senior management and to the Audit Committee.

As part of its consulting role, the Internal Audit function provided support to other business areas within the Bank, particularly regarding the cost-effective implementation of control and oversight activities, issues related to policy deployment, and reviews of agreements entered into with partner banks. The auditors also reviewed a number of new policies forming part of the Bank's Policy and Procedures Framework. In addition, the auditors engaged with external auditors and key stakeholders to ensure a streamlined, comprehensive and aligned approach to risk management and compliance.

The Internal Audit function's work underscores its commitment to promoting a culture of governance, responsibility and accountability, through the support and cooperation of the Bank's management and staff. The function's aim is to continue to strengthen its contribution towards developing a robust oversight and monitoring framework aligned to the Bank's operational and risk profile.

# COMPLIANCE AND LEGAL ACTIVITIES

During 2023, the Legal and Compliance Department continued to implement and strengthen the compliance framework of the Bank, and to provide its legal services in relation to MDB's contractual, legislative and operational aspects.

## COMPLIANCE

### *AML Activities*

In 2023, the Board of Directors approved the annual review of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Policy and the Customer Acceptance Procedures. The main Policy amendments regarded the updates to the procedures of the AML/CFT Committee and to the timeframes for the ongoing monitoring of customers.

The Customer Acceptance Procedures were amended twice in 2023. The principal amendment regarded the incorporation of the Client Risk Assessment and Jurisdictional Risk Assessment methodologies.

Amendments were drafted to the AML/CFT Business Risk Assessment (BRA) on the adoption of a new scoring system for both the inherent and residual risk components of the BRA methodology. The ML/FT risks pertaining to the nature of business and customers of the MDB listed in the AML Risk Register have also been reviewed.

The MDB continued to carry out due diligence procedures in respect of both its direct clients and on its intermediary partners that are accredited under the MDB's schemes. In 2023, the AML/CFT procedures of three banks participating in the MDB's COVID-19 Guarantee Scheme (CGS) were reviewed, one of which was triggered by an FIAU penalty imposed on this bank. Going forward, the review of intermediary partners will focus on the banks accredited under MDB's flagship schemes, namely the Guaranteed Co-lending Scheme (GCLS), the SME Guarantee Scheme and the students' loans schemes (currently the Further Studies Made Affordable plus).

In line with regulatory requirements, the MLRO provided all MDB employees with the annual AML/CFT training.

### *Data Protection Update*

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

A staff privacy notice was distributed to all members of staff to inform them how the MDB collects, uses and protects their personal data in accordance with the GDPR. The Data Processing Register, which records all the data processing activities of the MDB has been reviewed and updated.

Amendments were proposed to the MDB's Procurement Policy to provide for a data protection due diligence assessment.

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

### *Other Compliance activities*

In line with the MDB's compliance programme, questionnaires were sent out to the business units to monitor compliance with the MDB Act. All staff provided a declaration that they abide by the requirement in article 43 of the MDB Act to retain the confidentiality of customer information. The compilation of data was completed in November and the risk dashboard will be presented to the Board in early 2024.

A collateral compliance check in relation to MDB's direct loans was undertaken and all was found in order.

In terms of the Pillar Assessment required for the accreditation of the MDB as an implementing partner for the InvestEU Programme, the MDB is expected to have in place Policies and Procedures which aim to ensure that InvestEU funds are not utilised in projects linked to tax avoidance practices. To this effect, the Legal and Compliance Department drafted the Tax Avoidance Surveillance Policy and Procedures which were adopted by the Board.

The Freedom of Information Policy was due for its periodic review in 2023. The adopted amendments were mainly of a fine-tuning nature. One important amendment regarded the internal complaints procedure. In line with the Complaints Mechanism Policy, internal complaints are investigated by the Complaints Committee.

The Freedom of Information (FOI) Notice published on the MDB's website was reviewed and revised. One main amendment to the FOI Notice in 2023 is the launch of the new internal complaints procedure as per Complaints Mechanism Policy.

In November 2021, the Board adopted the Anti-Fraud Policy and the Procedures for the Investigation of Suspected Fraudulent Activities. In March 2023, training was provided to staff as a reminder of their obligations under this Policy.

***Legal services activities***

The legal function undertook a review and prepared a set of proposed amendments to the MDB Act. Following two Board consultations, the finalised amendments were presented to the Minister responsible for the MDB in early 2023. The Legal and Compliance Department presented to the Board new Procedures in relation to increases in MDB's Subscribed and Paid-up Share Capital.

A new Complaints Mechanism Policy which sets out the procedures for the handling of complaints from members of the public was presented to the Board. A service complaints form was published on the MDB's website.

During 2023 the Legal and Compliance Department continued work on a number of risk sharing agreements and other agreements required to regulate relations with intermediary partners under the MDB's new schemes.

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

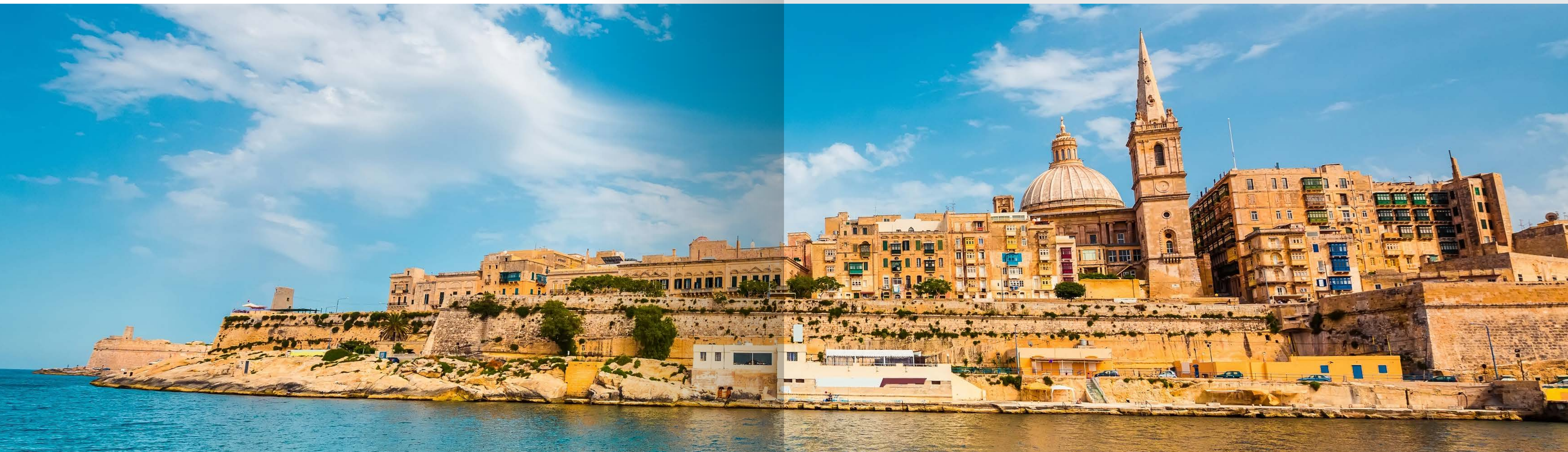
# BUSINESS STRATEGY

## BUSINESS STRATEGY

MDB's business model stems from the recommendations of a 2015 market failure study commissioned by the Government of Malta, focusing on addressing the financing gaps for SMEs and infrastructural projects. MDB's strategy and business model have evolved in line with changing economic and financial conditions, as well as public policy priorities. Through periodic reviews, MDB ensures its adaptability to changing market circumstances. The MDB continued working on its business strategy framework, to incorporate its vision, mission, and strategic objectives. These are combined with the Bank's experience and progress, as well as projected macro-economic changes, to enhance its mandate delivery.

The Strategy framework evaluates MDB's role in supporting the local economy, providing a detailed assessment of the economic environment and identifying key financial gaps. The Strategy delves into MDB's tools, assets, enablers and constraints, facilitating a better understanding of its capacity to pursue its mission. From these insights, MDB formulates strategic objectives to guide its future path effectively.

During 2024, the MDB revamped its business strategy. The Strategy document is accessible for download via the provided link / QR code.



# SPECIAL TOPIC I – ASSESSING DEVELOPMENTS IN ACCESS TO FINANCE

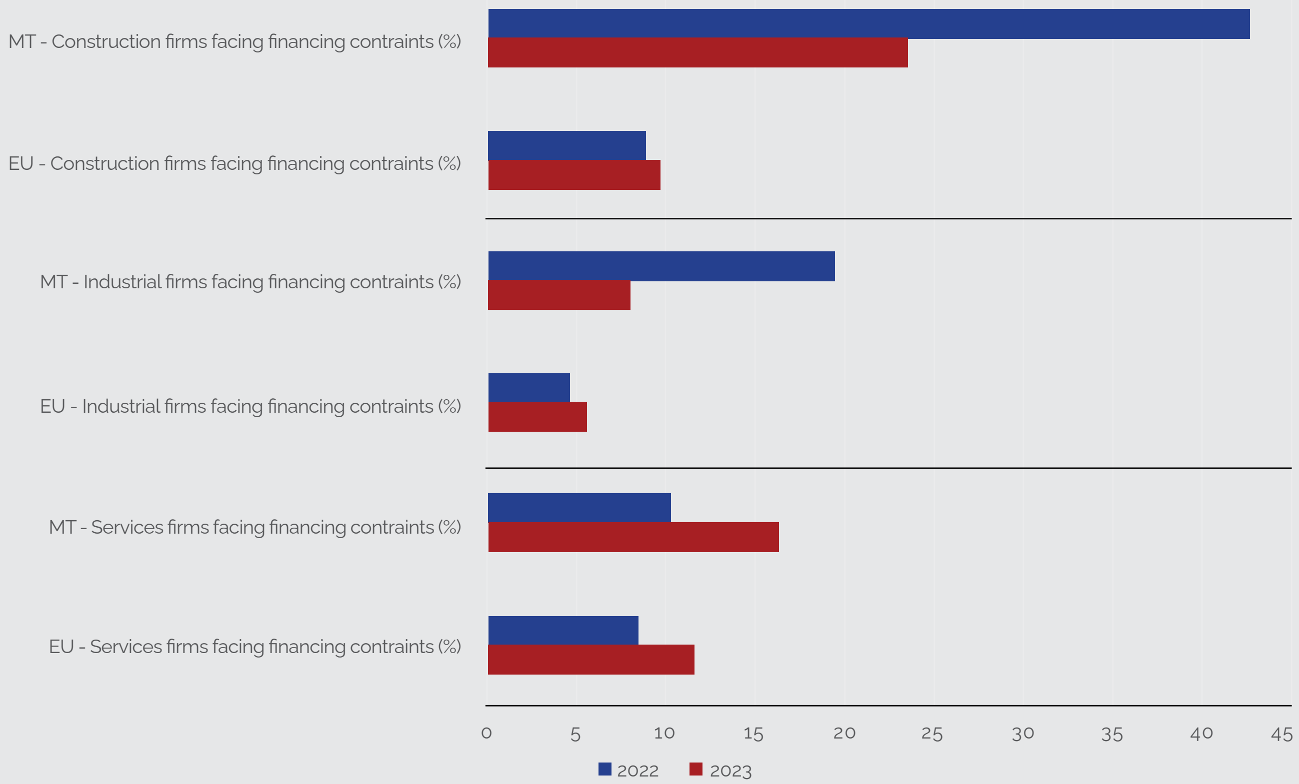
Bank credit in Malta continued to grow steadily, along with the economic recovery from the COVID-19 Pandemic. In fact, the outstanding stock of loans to non-financial corporations in Malta rose by more than 8.0% in annual terms, for both 2022 and 2023. Non-financial corporate credit growth in Malta remained strong, against a backdrop of limited interest rate pass-through from the European Central Bank's monetary policy tightening.[4] Access to finance for Maltese firms, however, remains persistently more restricted when compared to their European peers. This view is confirmed consistently in successive surveys, both from the European Commission (EC), and the European Investment Bank (EIB).

*EC monthly business and consumer surveys*

Every month, the Directorate-General for Economic and Financial Affairs (DG ECFIN) within the EC carries out surveys with firms across European Union (EU) Member States. These questions are directed towards companies operating within three key economic sectors that represent the economy: industrial, services, and construction businesses. In its monthly and quarterly questions, the Commission asks respondents the main factors limiting firms' operations in Malta.[5] The replies indicate that when compared with 2022 the proportion of respondent firms facing financing constraints in 2023 increased for services firms in Malta but improved for those operating in the industrial and construction sectors.

However, when comparing these annual averages with overall EU replies, a higher proportion of Maltese firms reported that financing constraints are limiting their businesses compared to their EU peers (see Chart 1). This may reflect the financing conditions faced by key sectors in Malta, or peculiarities of the sectors' business models compared to businesses in the EU.[6]

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




*Source: DG ECFIN, MDB calculations.*

4 International Monetary Fund (2024), Country Report No. 2024/033 – "Malta: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Malta," 2024-01-29.

5 The monthly sample sizes reported in the Survey's meta data for the industrial, services and construction sectors are 50, 72 and 23, respectively.

6 For example, the International Monetary Fund notes how companies operating in the building sector in Malta repay their loans by selling property only upon completion of the construction projects. (IMF Country Report No. 19/347, December 2019).

*EIB Investment Survey (EIBIS)*

The European Investment Bank's Investment Survey (EIBIS) focuses on corporate investment, constraints, and financing decisions of firms in Malta in 2023.[7] The Survey's findings offer a comprehensive overview of investment dynamics and other valuable insights for the Malta Development Bank.

Investment in Malta, as captured in National Accounts statistics, is particularly susceptible to the impact of one-offs. Such singular investment flows are typically linked with large-scale projects, or from the registration of highly specialised and valuable assets in Malta. These are usually linked to either the aviation or the maritime sectors, and attributable to single companies. This means that the overall figures for investment measured in national accounts may not necessarily represent what most Maltese firms are facing when it comes to their investment plans.

In that sense, the EIBIS' results appear to be more in line with what the typical Maltese firm is facing, rather than the outliers discussed above. In the 2023 EIBIS, 85% of Maltese firms believe that their investment activities over the last three years were adequate for their needs. Firms in Malta are seen to be more optimistic about the investment conditions for the next year compared to EU firms. Investment by Maltese firms in 2023 was carried out for replacement purposes (38%), which was lower than the EU average (47%). Capacity expansion accounted for around a quarter of investment (24%). This is consistent with the levels seen in 2022 (22%) and equals the current EU average, with investment in new products and services standing at 15%, which is unchanged from a year earlier, and equals the EU average.

Focusing on the Survey's responses related to access to finance, internal funding sources remained the largest contributor to finance investments in Malta (74%), followed by external finance (19%). The Survey's EU average indicate that 66% of businesses rely more on internal funding, whereas 26% seek external financing.

Financing sources change across firm size, with micro and small enterprises financing a higher fraction of their investment through internal funding, when compared to medium or large enterprises (83% against 69%). Manufacturing firms tend to use external funding to a larger degree, while also relying more on intra-group financing.

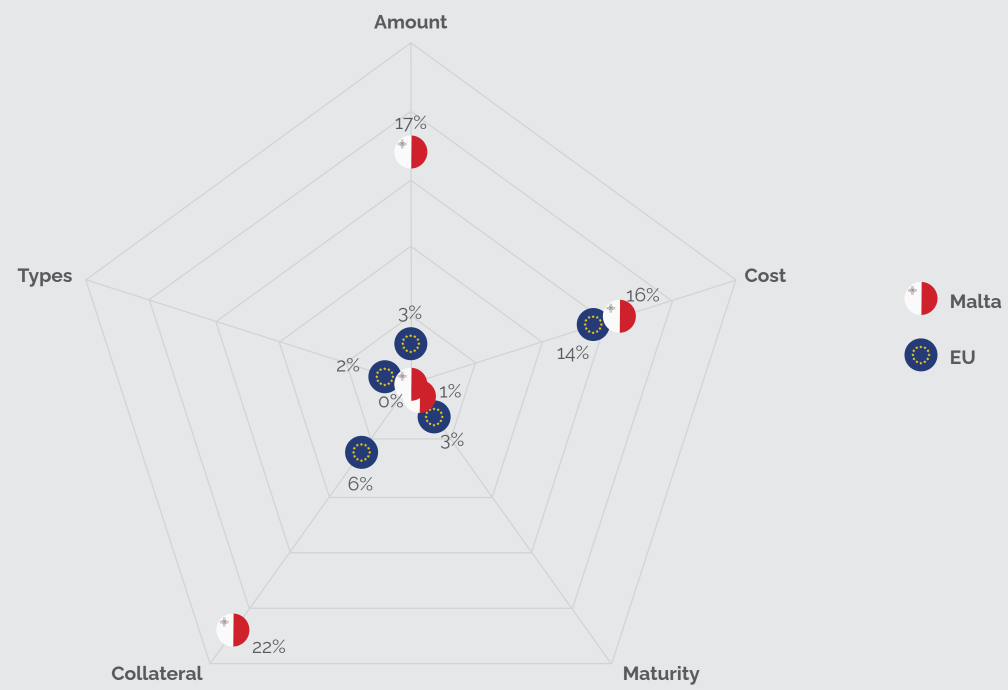
**Chart 2: Financing constraints over time**


*Source: EIB*

Moreover, as shown in Chart 2, the share of financially constrained firms in Malta (11.2%) during 2023, was almost double the EU average (6.1%). The main restriction in Malta relates to rejections (6.3%), followed by insufficient financing amounts (4.9%) that are offered by banks. The sector with the largest share of financing constrained firms in Malta is the construction and infrastructure sector (17.5%).

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

**Chart 3: Dissatisfaction with external finance received**




*Source: EIB*

When asked about the external financing received, Maltese businesses are most dissatisfied with collateral requirements (22%), the amount sanctioned (17%) and cost (16%) (see Chart 3). Dissatisfaction levels are comparable to the EU average – with two notable differences – collateral requirements (22% in Malta compared with 6% in the EU), and amount (17% in Malta, and 3% in the EU).

The Malta Development Bank plays a vital role in bridging the financing divide for businesses by designing innovative financial products. It functions as a strategic partner, addressing gaps in traditional lending channels. Businesses are most dissatisfied in areas where the MDB can provide its support, particularly those related to lower collateral and adequate volume requirements. In addition, MDB's guarantees are important in easing the risk burden for commercial banks, which in turn is lessening the overall credit costs to end beneficiaries.

Through various initiatives such as loan guarantees, direct lending, and co-lending schemes, the MDB provides accessible capital to businesses at favourable terms. By fostering a supportive financial ecosystem, the MDB is adamant to continue contributing towards the development and sustainability of a diverse range of enterprises, acting as a gateway to finance, driving economic progress and resilience in Malta.

## MOBILISING RISK-SHARING INSTRUMENTS AT EU LEVEL

*EIF's InvestEU*

The European Investment Fund (EIF), in its role of a guarantor, provides credit risk protection through portfolio (direct and counter) guarantees to selected financial intermediaries. These are provided in the form of capped or uncapped guarantees, and partly cover the credit risk of eligible debt financing transactions granted to predefined categories of final recipients. During 2023, the MDB closely followed developments of the EIF's InvestEU products, mainly to roll-over the European Guarantee Fund backed financial instruments which expired on 31 December 2022.

To this end, in December 2022 the MDB sent an expression of interest to the EIF for a mix of direct guarantees and counter-guarantees under the InvestEU programme, specifically for the SME Competitiveness, Innovation and Digitalisation, and Sustainability guarantee. Through this indirect approach, the MDB plans to start mobilising the InvestEU guarantee, while concurrently proceeding with the ambitious process of becoming a direct implementing partner thereafter (see next section).

Following the EIF's on-site visit as part of the due diligence process, in 2023 the MDB was allocated €15 million under the Sustainability InvestEU Guarantee which is intended to be mobilised mainly through the SME Guarantee Scheme (SGS) and Guaranteed Co-Lending Scheme (GCLS). The MDB also applied for the EIF's InvestEU Guarantee under the Cultural and Creative Sector, to be able to better support this sector. The final agreement is expected to be signed in the first quarter of 2024. The MDB is considering various of options for mobilising such guarantees including through the SGS and GCLS.

*InvestEU and the Pillar Assessment process*

As Malta's only promotional bank, the MDB aims to become the country's single direct entry point for the InvestEU guarantees, but before doing so, the Bank underwent a thorough process to assess its eligibility and capability for managing EU guarantees. In 2023, the MDB reached the final stages of the Pillar Assessment process. The final exit meeting with the European Commission is expected to take place in the first part of 2024. Once this is concluded, the Bank will initiate negotiations with the European Commission on the first guarantee agreement under the InvestEU as a direct Implementing Partner.

The MDB is hopeful that the process will be finalised in time for its application to the call for expression for direct implementing partners, foreseen to be issued in 2024.

## GATEWAY TO GREEN FINANCING

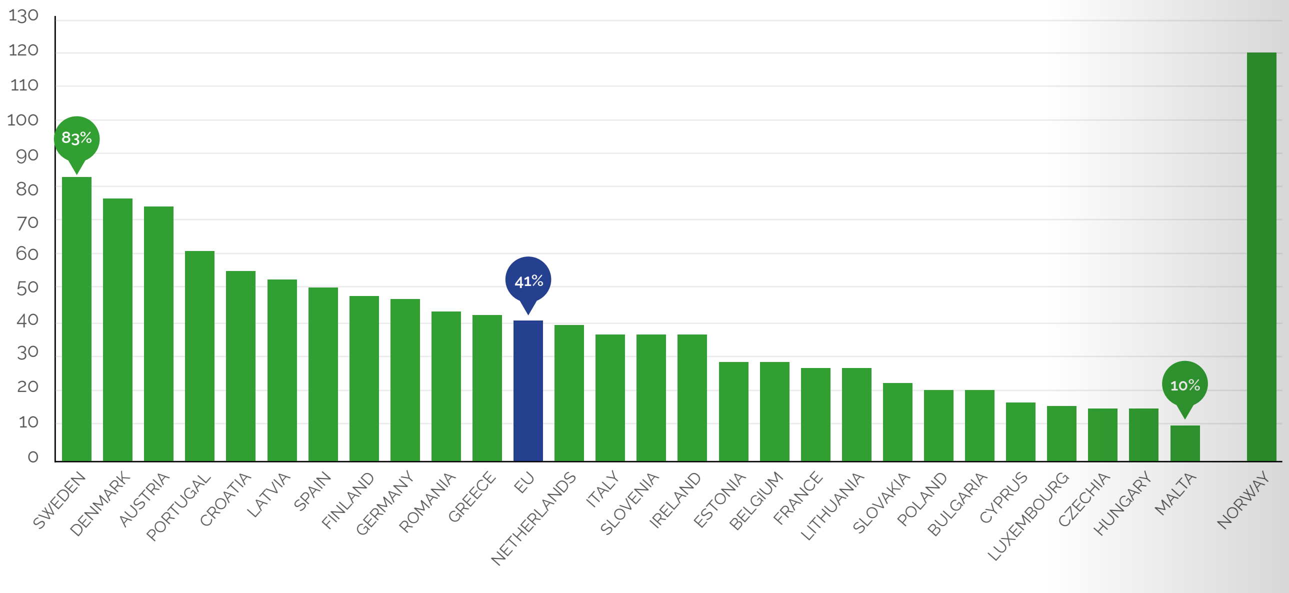
During the year under review, the Bank's business development strategy focused on enhancing collaborations aimed at promoting greener investments. Throughout this period the MDB worked further on developing financing tools to push Malta's economic regeneration and renewal.

In 2023, an internal task force was set up, and a consultant engaged to help develop an ESG Strategy for the Bank. Following a series of internal meetings, in November 2023, MDB's ESG strategy was presented to the Board of Directors (see more on page 53 and 54).

Moreover, during the year, the MDB has been looking very closely at market gaps in the form of sub-optimal investment situations in the transition to carbon neutrality. To this end, in the final quarter of 2023 the MDB signed an agreement with the European Investment Bank (EIB) through which the Bank will access €30 million in financing under the Multi-Beneficiary Intermediated Loan (MBIL) Climate Action Facility, which will be directed to the local private and public sector for projects that promote sustainable mobility, renewable energy production, energy efficiency and recycling. The Bank has also signed a separate Green Gateway agreement through which the EIB will provide the MDB with advisory services to identify and implement eligible green projects. This complementary advisory service will help the MDB in the identification, preparation, development, structuring, procuring and implementation of investment projects, and for enhancing the capacity to implement financing and investment operations in climate action.

Furthermore, the Bank continued with discussions with Malta Enterprise and Transport Malta in view of developing a financial instrument to support the green transition. The collaboration on this green financial instrument will specifically support procurement, installation, and commissioning of private recharging infrastructure required by businesses to recharge industrial vehicles owned by the same undertakings.

**Chart 1: Share of energy from renewable sources in gross electricity consumption, 2022 (%)**




*Source: Eurostat*

Official cross-country data shows that Malta remains Europe's laggard in the consumption of renewable energy sources. Latest available data (for 2022) indicates that Malta's share of renewable energy sources in total electricity consumption stood at only 10.1%, significantly lower than the EU's average of 41.2% (see Chart1). To this end, following the success of the Energy Efficiency and Renewable Energy Financial Instrument in Malta (EERE), the MDB and the Managing Authority for EU Funds have engaged in discussions on how the Bank can play an important role in facilitating a new version of the financial instrument under the new programming period.

*Connect Europe Facility - Alternative Fuels Investment Facility (AFIF)*

An important development during 2023 related to the MDB becoming an implementing partner under AFIF to support a project involving investment in recharging stations for the transition of public buses from internal combustion engines to fully electric vehicles. The project promoter is Malta Public Transport (MPT), the operator of public transport in Malta under a concession agreement. The project is estimated to cost €22 million, out of which €11 million will be financed through a grant from AFIF, and the remaining amount to be financed by MPT through various sources, including an MDB loan of €5 million. The project is expected to be approved by the European Commission by the end of the first quarter of 2024.

# SPECIAL TOPIC II – SUPPORTING INVESTMENT IN DIGITALISATION

In November 2022, the Bank launched two flagship schemes offering favourable financing to businesses with the potential of facilitating investment of up to €180 million in the Maltese economy. The main benefits of the schemes are in the form of lower interest rates, lower collateral requirements, and higher tolerance to certain novel and potentially riskier sectors.

The first scheme, the SME Guarantee Scheme (SGS) facilitates small and medium-sized enterprises' (SME) access to bank loans of up to €750,000, with the MDB providing a guarantee of 80% on each loan in the portfolio. The second scheme is the Guaranteed Co-Lending Scheme (GCLS), where the MDB provides directly half of the requested loan, with the commercial banks covering the other half. At the same time, the Bank covers 60% of the risk carried by the commercial bank. This scheme is targeted to support larger projects exceeding €750,000. Both schemes offer favourable financing terms for bankable investments to all economic sectors; nonetheless, the MDB has been prioritising initiatives that aim to build a greener and more digitally oriented economy.

Projects relating to investment in intangibles, such as technology and digitalisation may at times be considered by commercial banks to be too large, complex or risky. The MDB's involvement can assist such projects with the appropriate financing solution. Indeed, the MDB sanctioned a total of €12.1 million to two beneficiaries operating in the artificial intelligence (AI) and digital economic sectors.

### LOGISTICS AND MOBILITY TECHNOLOGY COMPANY

The first beneficiary is a start-up that disrupted the local taxi industry, over the years this client evolved into a mobility technology company and managed to build proprietary technology from the ground to serve Malta's dense and challenging road network, to compete with global brands.

This MDB loan beneficiary transitioned from a market leading round the clock dial-a-cab operation, to a digital platform-based taxi service built with the conviction that the future of sustainable transport must be based on a digital solution. As the local market reached a quasi-saturation point with competing providers, the company started to look beyond Malta's shores, by teaming up with strategic players. This beneficiary's ambition was to take their technology out of the sandbox and into the rest of the world; however, such internationalisation requires a deep understanding of international markets and cutting-edge technologies, but most importantly financing.

After an in-depth credit assessment and intellectual property evaluations from internationally recognised legal and technology experts, MDB approved the required co-financing of the company's internationalisation project. During the year under review, the new ride-hailing platforms powered by this technology were successfully launched in two countries, whilst also signing a strategic partnership with Google. The latter is expected to lead to more precise expected time of arrivals, optimise route selection, and a suite of new user tools that will take the company to the next level of user experience.



## AI CUSTOMER ENGAGEMENT COMPANY

The second beneficiary is a relatively small local company with the ambitious vision to become a leader in customer engagement automation, particularly in highly regulated industries. The company helps enterprises master customer engagement through artificial intelligence (AI) technologies, big data and machine learning. They combine the power of AI with the flexibility of language, and the scalability of the cloud, and all at a fraction of the cost of traditional customer engagement solutions.

The MDB approved a co-lending facility to this beneficiary to finance new investment for the development of an AI platform applied to healthcare systems. The company managed to deliver highly customisable Virtual Assistants (VA) with a dedicated focus in the healthcare setting. The VA is an AI software application that simulates a conversation between a healthcare professional service provider and a patient to deliver meaningful information (e.g., via SMS, live chat, on messaging platforms and mobile apps). Through the collection of information, the system has the added advantage of storing all information and transforming it, to enhance the AI platform's performance.

MDB's co-financing and guarantee helped the company reach a landmark milestone in its journey towards revolutionising healthcare technology with the launch of its newest product, the Intelligent Patient Portal (IPP). This product, that seeks to redefine patient engagement, makes healthcare more accessible, intuitive and supportive, leading to better patient experiences and outcomes.



## THE WAY FORWARD

The speed at which SMEs can digitalise, along with the level of digitalisation they can achieve, will have far-reaching effects on Malta's competitiveness in European and global markets. Digital technologies are disrupting market dynamics at increasing speeds and can create unprecedented opportunities for local SMEs. In terms of gross value added, the technology industry in Europe is growing five times faster than the rest of the European economy, and this growth has accelerated in recent years.[8] The rapid pace of technological growth enables SMEs to scale, compete, and disrupt markets in ways that were not possible before.

Innovation of products and services plays a crucial role for economies and societies, enhances progress and improves efficiency, leading to a better quality of life for everyone. At the same time, the development and adoption of new technologies and production processes are critical success factors for economic resilience.

At the MDB, we are proud to support and assist such businesses. We are committed that in the near future the Bank will be in a position to roll out schemes and instruments that will continue to facilitate investment, with the best possible terms for local digitally oriented businesses.

8 Financing the digitalisation of small and medium sized enterprises: The enabling role of digital innovation hubs – The European Investment Bank, 2019.

### TECHNICAL ASSISTANCE FROM THE EUROPEAN COMMISSION ON EQUITY AND START-UP FINANCIAL INSTRUMENTS

During the first months of 2023, a study on equity and start-up instruments, supported by the Technical Assistance Instrument (TSI) of the European Commission, was completed. In line with the study's recommendations, the MDB is postponing equity participation to a later stage, when sufficient capacity to engage in such activities will be built by the Bank. The MDB does not yet have the resources to implement the two equity Financial Instruments proposed in the TSI study through its existing structure. However, the study supports MDB's significant role in the development of a national equity ecosystem. Indeed, during the year under review, the MDB participated in meetings with Malta Government Investments (MGI) and other players, and contributed to the discussions, also by sharing the findings of the TSI study. Partly reflecting these developments, in September 2023 the Government launched a €10 million venture capital fund for investments in innovative technology start-ups. MDB's CEO Mr Paul V. Azzopardi was appointed on the Board governing the fund.

### OTHER FACILITIES IN THE PIPELINE

During 2023, the Bank held advanced discussions with the Ministry for Agriculture for the appointment of MDB as an implementing body of a possible financial instrument funded by the Common Agricultural Policy Strategic Plan to support young Maltese farmers acquire agricultural land. The latter was mentioned in the Budget 2024 speech. The Ministry is currently working on the tender process for an ex-ante assessment of the instrument, and is projecting that the contractual work will be conducted between April and August 2024. The Ministry's representatives affirmed that the assessment's outcomes will be discussed with the MDB once these are available.

While still at inception stage, during 2023 the MDB started collaborating with Malta Enterprise to develop a blended financial instrument to support investment in the blue economy.

The MDB also continued discussions with Malta Council for Science and Technology (MCST) in view of widening the eligibility of the Go-to-Market loan scheme to all SMEs in Malta, and not just to those that have completed MCST's Technology Development Programme.

# RISK MANAGEMENT STRATEGY

The mission of the MDB 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.

The MDB fulfils its mission, inter alia, by providing promotional investment and financing. In this pursuit, the MDB extends credit and/or guarantees third-party loans, which are extended by the MDB's implementing partner banks. This activity exposes the MDB to financial and non-financial risks. Therefore, 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 effectively manages its financial and non-financial risks through the implementation of the three lines of defence model, aligning with industry best practices. This model allocates responsibility and accountability for risk management across all units and staff levels within the organisation, while ultimate ownership remains with top management. The second line of defence is supported by a fully functional Risk Management function. This function analyses, assesses, and measures risks, develops policies, procedures, and methodologies related to risk management, and oversees their implementation. It recommends exposure limits, monitors adherence to the adopted exposure limits, provides suggestions for adequate risk management, and reports risks 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. This framework serves as a clear articulation of the overarching principles governing the Bank's approach to 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, operational risk and liquidity risk. During the year the Risk Appetite Framework was reviewed to calibrate the metrics used.

#### *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 defines the internal control systems to control credit risk with an objective to act preventively. As the management of credit risk is an important factor of the MDB's business strategy, the MDB developed a comprehensive Credit Risk Framework which includes the following documents:

- The *Credit Risk Policy* is designed to achieve satisfactory and sustainable long-term performance, combining a growing credit exposure with an acceptable level of credit quality so as to seek to result in a low incidence of bad debts. The Credit Risk Policy provides clear guidelines for 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.

- 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 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. During 2023, the criteria for assessing the risks associated with SMEs and large enterprises were revised. With this revision, credit risk is more accurately represented while maintaining consistency across different borrowers. The overall credit score resulting from the scoring of the respective criteria informed the analysis of new and existing borrowers included under the various MDB schemes.

- 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 indicators.

## 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.

The Risk Management Function maintains a bespoke 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 undertaken to identify risks and assess their expected impact and likelihood. The events were subsequently 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. Operational risk incidents are reported on an ongoing basis and management information is presented to the Operational Risk Committee.

## 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 the Central Bank of Malta and reputable financial institutions as well as a maturity ladder of short-term deposits and other money market instruments such as Malta Government Treasury Bills.

The MDB monitors planned and forecasted financial commitments closely and ensures that funds are available for the timely settlement of these obligations as well as capital and operational expenditure. To ensure effective management of liquidity, the MDB operates a liquidity ratio that is defined as the ratio of the projected net cash position as at the end of the month, to the sum of the 12-month projected net cash outflows. The Bank is prohibited by the MDB Act from taking retail deposits.

# OPERATIONAL STRATEGY

## CORPORATE SERVICES

Corporate Services is committed to provide efficient, effective, and compliant corporate services that support MDB's strategic objectives and enhance its operational excellence while integrating Environmental, Social, and Governance (ESG) principles. This commitment ensures that the MDB's operations are environmentally sustainable, socially responsible, transparent, and accountable. These key objectives are delivered through continued stakeholder involvement and collaboration with the other business functions at the MDB.

The MDB continued to expand its business operations in 2023, leading to a growing demand for specialised talent. To meet this demand, the Human Resources (HR) department focused on recruiting qualified individuals, while continuing to ensure the well-being of existing staff. HR played a pivotal role in attracting, onboarding, and training new employees, while also fostering a supportive and engaging work environment.

The relocation to the new Floriana premises in 2022 marked a significant milestone for the Bank. Improvements and enhancements continued during 2023 in order to accommodate the growing workforce and enhance operational efficiency. Administration and Procurement played a crucial role in managing these developments, ensuring that services and products met the demands of the new office setup.

Records and Archives Management remained committed to safeguard the Bank's institutional knowledge, ensuring that key decisions, processes, and historical records were meticulously documented, secured, and easily accessible. These efforts ensured that the Bank's legacy of excellence is preserved, and documents are available when needed.

### *Policies*

The policy development process at the MDB supports the Bank's capacity expansion by documenting policies and procedures making them predictable, transparent, and accountable. In 2023, a number of policies were reviewed, and new policies were approved by the Board of Directors.

The Remuneration Policy was updated to ensure that MDB's salary scales are competitive and appropriate in attracting talented candidates for key business areas. The process also benchmarked salaries against peer organisations, whilst aligning with market trends. The review emphasised the importance of performance-based compensation, ensuring that employees are rewarded for their contributions and achievements. To enhance the consistency and effectiveness of probationary periods, the Remuneration Policy was revised to provide clear guidelines on managing employees during this crucial stage of employment.

The Travel Policy also underwent a considerable review in 2023. The review provides additional clarity on processes and controls and is earmarked for approval from the Board of Directors in early 2024.

The Records and Archives Management Policy was also complemented with the Records Retention Policy. This Policy ensures that organisational documents are appropriately retained for future reference while also introducing critical housekeeping routines to ensure that certain data are not unnecessarily retained whilst complying with legal obligations.

In recognition of the growing importance of Environmental, Social, and Governance (ESG) practices, the MDB has adopted an ESG Policy to guide its operations and ensure that ESG principles are embedded into its organisational fabric. This Policy outlines the key principles that the MDB will adhere to in its pursuit of sustainability and long-term success (see more on pages 53 and 54).

### *Human Resources*

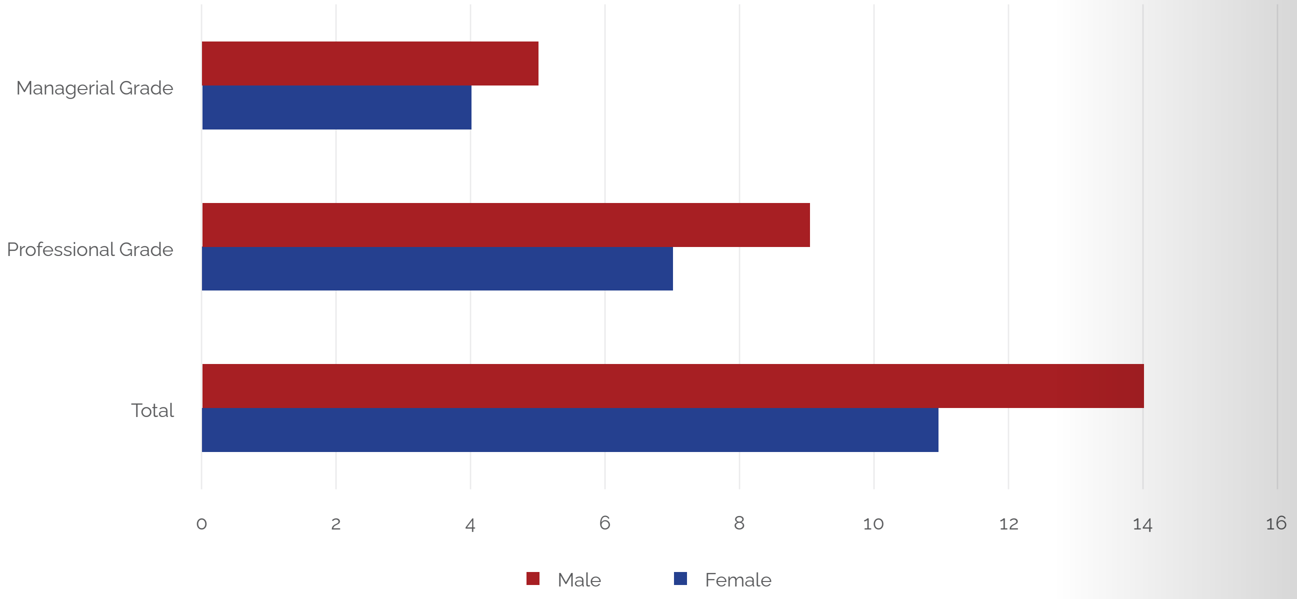
In 2023, the HR Department focused on enhancing internal processes and recruitment efforts. Throughout the year, HR actively engaged in organising employee training programs and managing performance management procedures and appraisals. Additionally, HR played a pivotal role in planning and organising events that promote employee well-being initiatives and corporate social responsibility, fostering collaboration, participation, and engagement among staff members.

### *Recruitment*

Recruitment has always been a crucial function of the HR Department, as MDB consistently seeks to attract and retain the most skilled individuals to support its expanding operations. In 2023, MDB expanded its IT, Risk Management, Legal and Compliance, and Business Development departments, necessitating the recruitment of four new employees. Three of the newly recruited employees filled newly created positions, while one filled a position vacated by a previous employee who resigned.

As at end 2023, MDB's total headcount stood at 25, with a gender distribution of 11 females and 14 males. Chart 1 provides a detailed breakdown of the gender composition across each grade.

**Chart 1: Total Employees per Grade and Gender**




The age distribution at the MDB shows that half of the workforce fall in the 40-55 age range, this is followed by over one-third of the workforce that are within the 20-39 age range. The remaining fifth of the workforce are over the age of 55. The age distribution of the MDB workforce is quite diverse as is represented in Chart 2. The staff complement in each department as at end of 2023 is highlighted in Chart 3.

**Chart 2: Employee Age Distribution**

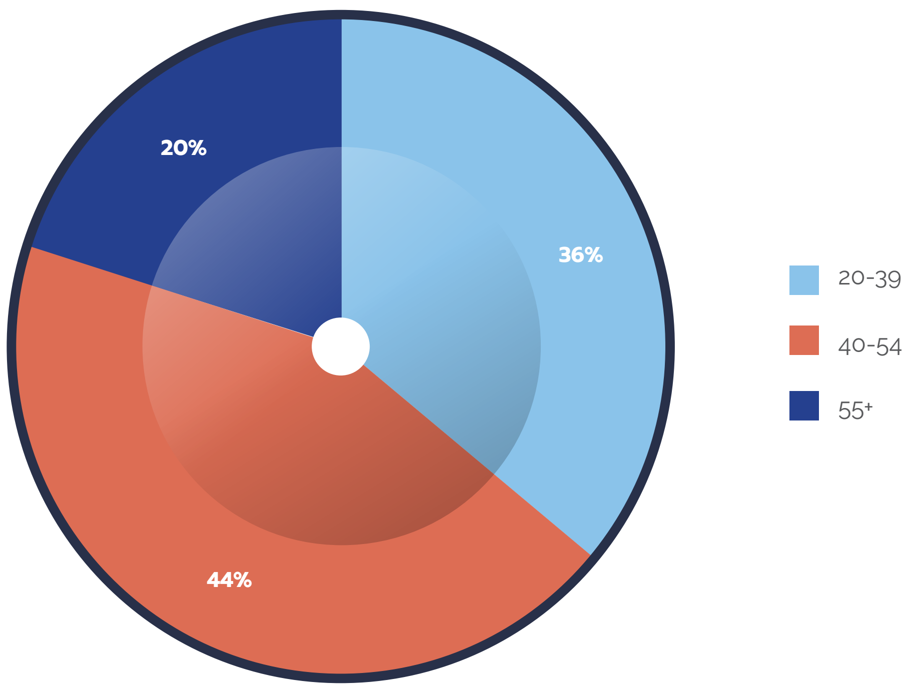
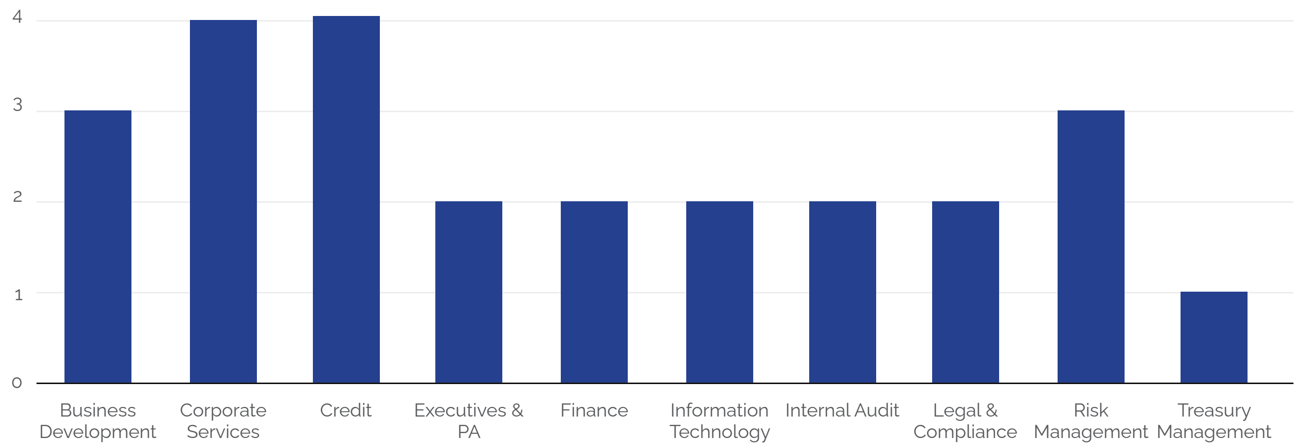





**Chart 3: Employees per Department**




The Management team as at the end of 2023 was made up of the following:
Mr Paul V. Azzopardi, Chief Executive Officer
Mr Saviour Busuttil, Chief Corporate Services Officer
Mr Joseph Darmanin, Chief Business Development Officer
Ms Joanne Dimech, Chief Finance Officer
Ms Moira Falzon, Chief Internal Auditor
Mr Glen Lethridge, Chief Information Technology Officer
Mr Tyrone Mizzi Navarro, Chief Risk Officer
Dr Bernadette Muscat, Chief Legal and Compliance Officer
Mr Kevin Vassallo, Chief Projects and Treasury Management Officer
Ms Maria Xuereb, Chief Credit Officer

### *Training*

The MDB recognises the pivotal role of its workforce in achieving its strategic objectives. Accordingly, the Bank has implemented a comprehensive training and development programme supported through a formal policy. This programme focuses on human capital development and is driven by the Bank's commitment to cultivating a highly skilled and professionally mature workforce.

Training has become an integral aspect of the MDB's corporate culture, with regular training sessions conducted both internally and through partnerships with external professional organisations. These sessions encompass webinars, seminars, conferences, and talks, covering a wide range of topics relevant to the Bank's operations, including Finance, Anti-Money Laundering, General Data Protection Regulation, State Aid Procedures, ESG, leadership and risk amongst other matters. In 2023, MDB staff collectively participated in approximately 400 hours of training, averaging 16 hours of training per employee. This commitment to continuous learning reflects the Bank's dedication to providing its staff with the necessary tools and resources to enhance their professional expertise and contribute to the Bank's continued success. The Bank's training and development extends beyond mandatory obligation and the continuing professional education courses, it encompasses a broader range of initiatives fostering self-development and employee personal growth. These initiatives encourage staff to embrace new challenges, enhance their problem-solving abilities, and expand their knowledge base, thereby contributing to the overall professionalism and effectiveness of the Bank's operations.

*Premises*

In the second year of operating from the Bank's new premises, the Administration Office's efforts were primarily focused on consolidating its operations and addressing the challenges associated with moving into an old building. One of the most significant issues was the insufficient power supply to the building, which was unable to meet the peak power demands during the summer and winter months. This problem was successfully resolved in July 2023 with an upgraded power service that now adequately meets the Bank's current and foreseeable future needs.

The Bank continued to enhance its health and safety measures by implementing a variety of initiatives to create a safer environment for staff members and visitors. These measures included the installation of safety railings, proper signage for evacuation purposes, hoarding, skid strips, a removable ramp for improved accessibility, glass and transparent, acrylic protection for low windows and balustrades, solar film on skylights, and other minor enhancements.

*Procurement*

During the year under review, the Bank's Procurement Section issued six Requests for Quotations to support the Bank's operations. In a bid to provide a cleaner energy supply, the Bank will be assessing the feasibility of installing solar panels on the roof of the building.

The Bank is committed to continuous improvement and is always looking for ways to make its facilities even better. The projects planned for 2024 will further enhance the Bank's new premises and make them more sustainable and comfortable.

*Records and Archives Management*

The Records and Archives Management Office (RAMO) played a critical role in managing and maintaining a centralised repository of the Bank's records, thus ensuring organisational and statutory obligations. Here, importance was also given to establishing a robust Records Retention Policy to govern the retention, maintenance, archival and disposal of personal and official records and documentation across the Bank.

Following the introduction of an electronic document management system across the Bank in 2022, RAMO continued to assist business areas in migrating their records from network drives onto this system. By year end 2023, all business area documents were successfully migrated enabling employees to collaborate more efficiently on shared documents and projects whilst also allowing for records to be saved in a more dynamic manner. More than 85 thousand items were migrated to the document management system, the distribution of which is highlighted in Chart 4.

**Chart 4: Document Distribution by Business Function**


RAMO has continued to develop a database for contracts which is now being used as a central component to contract management also including notifications of contracts which are about to expire, providing concerned business areas with sufficient time to consider their renewal.

RAMO is also responsible for the central retention of Policies and Procedures which are a key component of the Bank's governance system. The library of Policies and Procedures is available to all staff through an electronic management system, to provide them with the latest version of all policies approved by the Board of Directors.

RAMO also administers the project time logs to be able to determine the amount of time dedicated to each initiative. Apart from being a key efficiency metric, such a practice is also used to enhance operational efficiencies as well as to feed into its activity-based project cost accounting system.

# SPECIAL TOPIC III - ESG STRATEGY

In 2023, the MDB made significant strides in its commitment to environmental, social, and governance (ESG) principles. A key milestone was the development of an ESG Policy, approved by the Board of Directors towards the end of the year, which outlines the MDB's unwavering support for Malta's transition to a greener economy. This policy provides a solid foundation for the MDB to empower sustainable initiatives and projects, while also adhering to ESG principles.

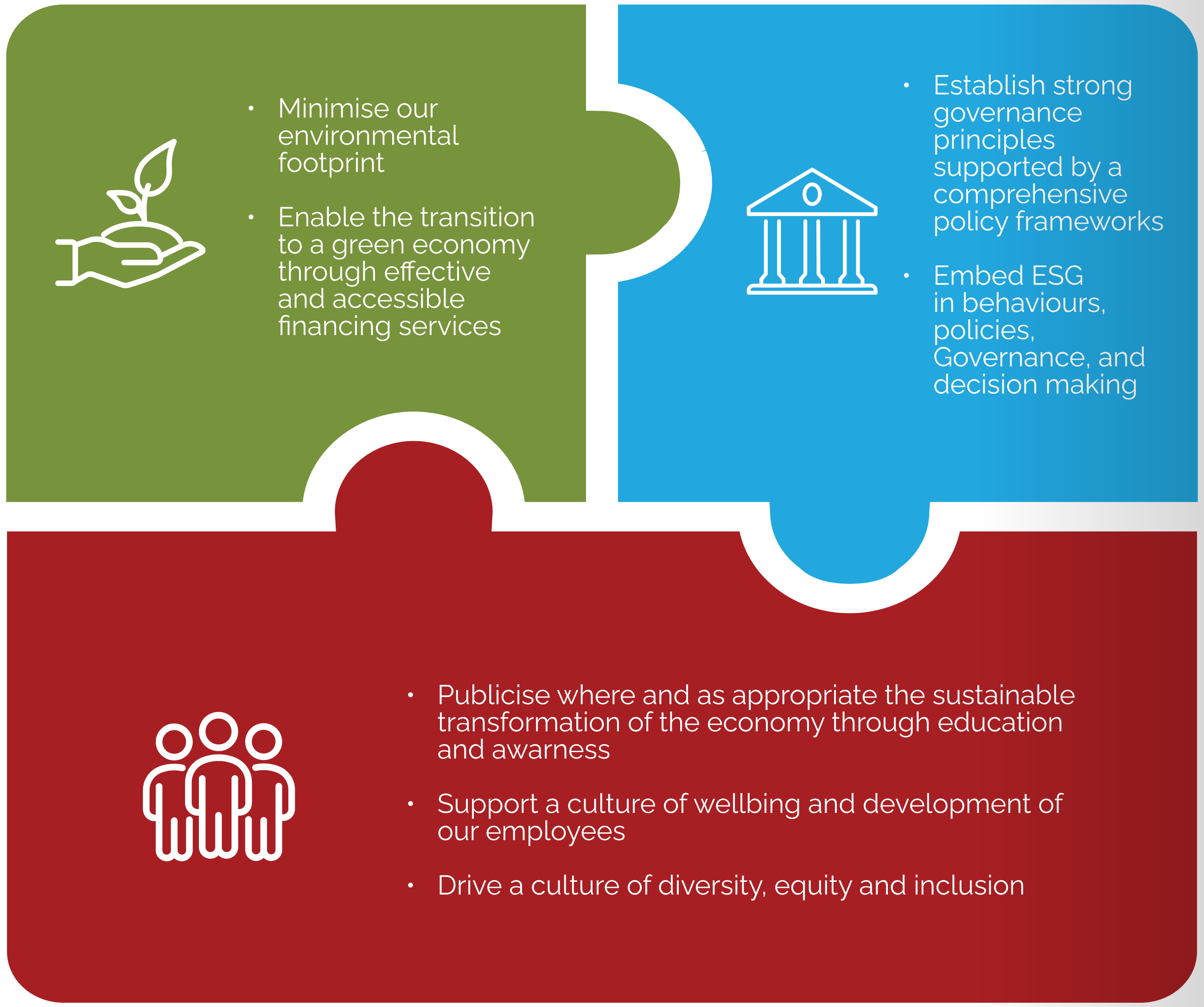
**Figure 1: Integrated ESG**


The Bank is resolute in reducing its environmental and greenhouse gas (GHG) footprint, upholding high standards of social responsibility, and adhering to sound governance principles. The endorsed ESG policy comprises high-level statements and goals that establish a clear roadmap for enhancing MDB's ESG performance across all business areas. Furthermore, it aligns with global ESG principles while considering the unique context of the Maltese economy and society.

Integration of ESG considerations into decision-making processes is a core focus for the MDB. The MDB recognises that ESG factors represent not just risks to be managed but also opportunities to be seized. By adopting a proactive ESG approach, the MDB can contribute to the sustainable development of the Maltese economy. Collaboration with stakeholders, including clients, employees, and the community, will be crucial in achieving the MDB's ESG goals. Regular monitoring of ESG performance will be facilitated by establishing relevant indicators. This will empower the bank to identify areas for improvement and demonstrate its commitment to ESG principles.

The MDB's ESG stance will be further embedded by incorporating ESG considerations into all aspects of its operations, from investment decisions to procurement practices (see Figure 2). A comprehensive energy audit has been commissioned to promote sustainability by reducing the carbon footprint of our processes. This initiative will also explore energy-efficient technologies and practices to mitigate the Bank's environmental impact.

**Figure 2: Strategy focus**




In alignment with ESG principles, the MDB's portfolio offerings will reflect a commitment to support the transition to a low-carbon, climate-resilient economy. Collaboration with other international multilateral banks, like the European Investment Bank, will help in expanding MDB's portfolio in providing loans to businesses that prioritise sustainable practices. Additionally, the MDB will continue to support investments in social infrastructure projects that enhance the lives of communities.

MDB's human resources policies and practices have long aligned with principles of equality, diversity, and well-being, fostering a workplace that values social responsibility. Furthermore, the bank is actively engaged in initiatives that support local charities and community groups, demonstrating its commitment to social impact.

The Bank's robust governance policy framework further underscores its dedication to good governance and transparency. The bank recognises that climate change and other ESG risks can pose significant challenges to its business operations. To address these risks effectively, a comprehensive risk management methodology will be developed which identifies, assesses, and manages ESG-related risks.



## INFORMATION TECHNOLOGY

The MDB strives to ensure flexible, reliable, and secure information technology services to support its business functions and achieve its corporate objectives. In this regard, the Bank continued to assess its information security stance by conducting a fully-fledged independent penetration testing exercise on its core applications and hardware infrastructure. The objective of these tests was to identify, and subsequently rectify, any security vulnerabilities or misconfigurations. These security activities were complemented with upgrading of end-user devices to the latest technology platforms and a strengthening of the Bank's offline backup capabilities for improved IT business continuity operations in crisis scenarios.

The Bank continued to build its internal governance standards with the introduction of more policies and procedures in line with best practices. Of particular importance is the Information Classification policy, which was refreshed to ensure adequate controls are in place to safeguard the integrity of sensitive information being handled by Bank personnel. The policy aims to reach a suitable balance between protecting confidentiality of sensitive information and the operational requirements for business functions to share and process information effectively and efficiently. This review exercise also introduced new automated tools allowing staff to tag information with MDB-specific classification markings that facilitate the proper handling and protection of Bank data.

## FINANCE FUNCTION

Finance serves as a critical function in the implementation of the Bank's effective financial control and reporting systems. During 2023, the Finance function has particularly focused on further enhancements to its control and process workflows with the aim to drive further operational and economic efficiencies.

An activity-based costing methodology was developed to determine the true cost of the MDB's projects considering the direct project costs and an appropriate share of the overheads which are matched against revenues. This enables management to improve its costing and product pricing analysis and gauge the project contribution towards the value added to the Bank, within the context of MDB's public policy objectives.

The Finance function supports lending operations through the timely settlement of loan disbursements and other payments, monitoring of credit and collections and expected credit loss provisioning analysis.

The Finance function measures the Expected Credit Loss (ECL) provisions and presents recommendations to the Audit Committee regarding changes to the expected credit loss provision including material judgements, decisions and management overlays. It ensures that sufficient capital reserves are maintained to allow for potential losses resulting from credit risk.

The ECL policy sets out the accounting practices and policy choices with respect to the recognition and measurement of impairment allowances for the Bank's portfolios of financial instruments in line with IFRS 9. During the year, credit exposures and borrowers' delinquency status were continuously monitored and assessed to determine the appropriate staging for ECL provisioning as required by IFRS 9. Further enhancement to the Probability of Default (PD) model were implemented by Risk which map PDs to internal credit grading based on domestic non-financial corporate borrowers' delinquency stages.

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 performance monitoring system of budget versus actual variance analysis further supports the Board of Directors and management in executing MDB's strategic objectives.

The Finance Department is also responsible for the timely submission of statutory and prudential regulatory reports in compliance with the MDB Act. Moreover, the Finance Department provides oversight of daily operational controls and procurement processes to ensure risks are properly managed.

## TREASURY MANAGEMENT FUNCTION

In the year under review short-term money markets rates rose significantly. This allowed the Treasury Department to employ the Bank's excess liquidity in an exceptionally profitable manner in eligible financial instruments as defined in the Bank's Treasury Management Policy, mainly Malta Government Treasury Bills. These instruments are highly liquid and simultaneously offer an optimal risk-return trade-off. In addition, the Treasury function also manages a portfolio of financial assets with a longer-term duration that yields a return which is the major contributor to the Bank's financial performance. The department was also involved in the liability side of the Bank's balance sheet with respect to new funding agreements entered into with local and international institutions as well as the servicing of existing agreements currently in force.

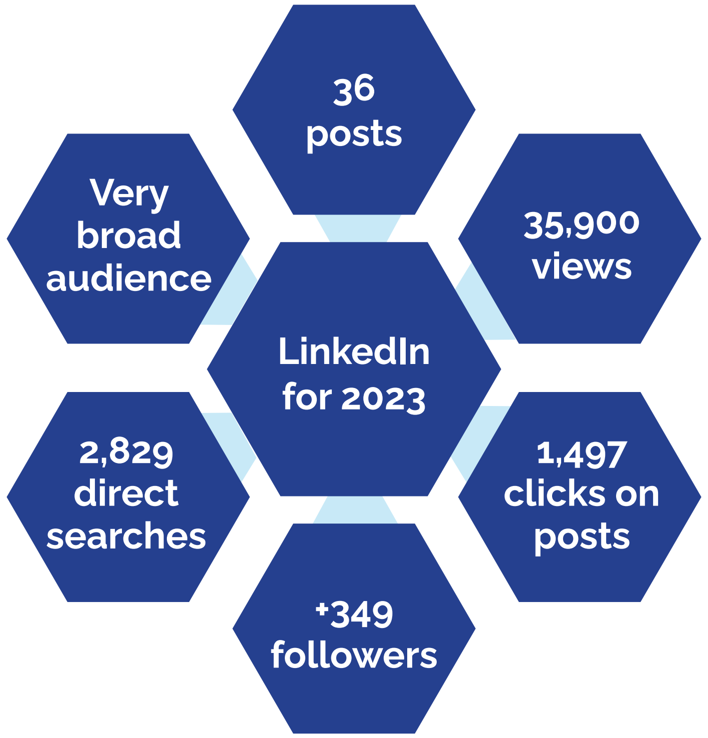
## PUBLIC RELATIONS FUNCTION

Throughout the year under review, the Bank continued in its efforts to raise awareness and visibility of its role, the products it offers through the intermediary banks, its position as a workplace of choice, as well as on its stream of activities. Over 2023, MDB issued six press statements, in English and Maltese, detailing noteworthy information, or updates relating to its schemes.

In September 2023, the MDB launched a newly designed website. The revamped website offers a comprehensive platform highlighting the Bank's various financial instruments and initiatives, catering to a wide array of beneficiaries including large and small enterprises, self-employed and students. The website serves as an interactive hub, presenting a range of initiatives aimed at fostering economic growth, supporting innovation, digitalisation and environmental sustainability. The Bank continued to maintain its presence on LinkedIn throughout 2023, with a regular stream of posts attracting almost 36,000 impressions, with increasing levels of engagement (see Chart 5). In the three years since the creation of this page, the MDB attracted a regular following, consisting mostly of financial service practitioners, lawyers, officials from authorities and other similar stakeholders.

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

**Chart 5: Professional social media reach**




# BUSINESS REVIEW

During 2023, the MDB worked on several fronts to ensure that the portfolio of schemes and instruments offered continue mirroring the changing needs of the economy and hence the markets they are meant to address. Indeed, the MDB worked closely with different entities in connection with its role of offering financing facilities that support productive and viable operations, as well as a vehicle for leveraging EU resources.

The on-going consultation process with various stakeholders continued to reveal further gaps in the provision of financing for infrastructure projects and green investments. To meet Malta's ambitious climate targets, substantial investment is needed, and this will require more private capital to be unlocked. In this regard, the Bank's focus remains on projects with a strong social dimension, as well as those that contribute to the climate and digital transition.

This section of the report will offer an overview of the Bank's funding sources, outline the financial instruments facilitated by the MDB and provide an ex-post assessment of the COVID-19 Guarantee Scheme (CGS). Furthermore, the analysis in this section sheds light on the economic importance and implications of the Bank's products in the prevailing macroeconomic scenario.

## FUNDING SOURCES AND GOVERNMENT GUARANTEE

### *Funding*

The MDB's operations have been partly funded by the paid-up capital provided by the Government in terms of Article 10 of the MDB Act.[9] After being launched in 2017 with an initial paid-up equity of €30 million, the Bank's paid-up capital was increased in line with its business plan by €10 million annually in 2019, 2020 and 2021 and by €20 million in 2022 to reach €80 million.

Together with its paid-up capital, the MDB's funding model also includes bilateral borrowing from 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, and a climate action loan agreement also with the EIB of €30 million. These funds are utilised by the MDB to support SMEs, mid-caps and infrastructure projects by private and public-sector entities, particularly those promoting investment in sustainable mobility, renewable energy production, energy efficiency and recycling.

### *Government guarantee*

In line with the indicative targets specified in the memorandum of understanding signed between the MDB and the Ministry for Finance on 16 February 2018 as per Article 5(2) of the MDB Act, the Government Guarantee in favour of the Bank has been increased gradually in line with the Bank's business growth. At the end of 2023, it stood at €150 million. Some 70% of these guarantees have been earmarked to cover the three main international borrowing operations with the EIB and the KfW Group, while the balance is intended for other prospective operations which the MDB shall be carrying out on its own account. In addition to the above guarantees, in April 2020 the Government had issued another guarantee of €350 million specifically for the COVID-19 response facilities which the MDB is managing as agent on behalf of the Government. As this guarantee was not fully utilised, part of it was reallotted towards the Ukraine crisis response financial instruments launched in 2022.

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

## PRODUCT OUTLINE OF SCHEMES AVAILABLE FOR BUSINESSES AND STUDENTS

The products outline below summarises the key features of all the schemes offered by the MDB during 2023.

| **PRODUCT NAME** | **SME GUARANTEE SCHEME (SGS)** |
|---|---|
| **Product Outline** | Launched in 2022, the SGS is an uncapped portfolio guarantee scheme intermediated by accredited commercial banks. It enhances enterprises access to bank credit for new investment as well as other purposes; including for working capital related to new investment and business transfers. The facility enables commercial banks to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows these businesses to fulfil their growth ambitions. |
| **Objective** | The scheme addresses the following barriers to lending: (i) inadequate collateral; (ii) lack of credit history; and (iii) novel business market, sector or technology that is perceived by finance providers as higher risk. |
| **Structure** | The MDB provides an uncapped guarantee of 80% on the loan portfolio of the financial intermediary. The scheme is open to all accredited commercial banks. A covered loan portfolio of up to €80,000,000 is being made available. |
| **Banking Facility** | Facilities of €10,000 up to €750,000, with a term of loan of up to 10 years. The minimum loan size may vary from one intermediary partner to another. The MDB restricts the take up of collateral to a maximum of 20% of the facility amount. The loan term is up to 10 years and the last date for inclusion of loans is end 2024. |
| ***Eligibility criteria*** | |
| **Loan eligibility** | The purpose of the financing under SGS covers a wide spectrum of possible activities including: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise; (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises, (e) investment-related working capital, (f) business ownership transfers, in whole or in part, as long as this does not create or enhance a position of significant market dominance, conforming with applicable legislation (including but not limited to S.L 379.08). |
| **Eligible applicants** | The scheme is open to all SMEs in all economic sectors save for the excluded and prohibited activities of the MDB. Priority will be given to projects related to green and digital investments. Applications shall be assessed by both the MDB and the intermediary partners in terms of viability. |
| **State Aid** | The SGS is notified under de minimis regulations. |
| **Benefits** | Eligible enterprises benefit from: enhanced access to credit availability; better terms and conditions, including a longer repayment period, lower collateral requirements; and lower interest rates as a result of the credit risk protection from the MDB's guarantee. |
| **Application process** | The scheme is available through intermediary partners accredited by the MDB until 31 December 2024. Three leading banks have signed as intermediary partners of the SGS – BOV, HSBC, APS. |



| **PRODUCT NAME** | **GUARANTEED CO-LENDING SCHEME FOR SMES (GCLS)** |
|---|---|
| **Product Outline** | The GCLS is a risk-sharing facility involving co-lending between the MDB and the accredited commercial bank on a 50:50 basis. In addition, the MDB provides a guarantee of 60% on the commercial bank's part of the lending. This scheme was launched in the last quarter of 2022. |
| **Objective** | The objective of the GCLS is to enhance access to finance to SMEs that face financial and other constraints and do not fit under the SME Guarantee Scheme due to the size of the loan required. |
| **Structure** | The targeted GCLS global loan portfolio can reach up to €100 million, of which €50 million will be originated by MDB and €50 million by the participating commercial banks. MDB shall provide an additional guarantee of €30 million (60%) on the €50 million loans by the participating banks. |
| **Banking Facility** | The maximum loan amount under the GCLS is €10 million - €5 million by MDB and €5 million by the participating bank. The maximum term of the loans is 15 years, subject to State Aid considerations. The MDB loans will have the same terms and conditions as the commercial banks' loans except for the:<br><br>a) Interest rate on the loan, which will be up to a maximum of 25 bps lower than that of the commercial banks: and b) Partial Guarantee – the MDB will cover 60% of the commercial banks' portion of the loan. |
| ***Eligibility criteria*** | |
| **Loan eligibility** | Loans shall target: (a) the establishment of new enterprises, (b) expansion capital, (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise or (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises.<br><br>The investment to be supported under GCLS: (a) shall be an investment in tangible and/or intangible assets relating to the setting-up of a new establishment, the extension of an existing establishment, diversification of the output of an establishment into new additional products or a fundamental change in the overall production process of an existing establishment; and (b) the investment shall be new and has not yet been started at time of approval of the loan; and (c) the minimum cash contribution to be put forward by the borrower is 20% of the total investment; and (d) shall be expected to be financially viable as assessed by the commercial bank and the MDB. |
| **Eligible applicants** | The scheme is open to all SMEs in all economic sectors. To be eligible, SMEs have to: run a commercial activity in the non-excluded activities sector; are a sole trader, partnership, co-operative or limited company; have a viable business proposal in the opinion of the MDB and the partner commercial bank; and prove that they are able to repay the facility. Any investments related to green and digital technologies will be prioritised. |
| **Benefits** | Lower interest rates; Longer duration; Lower collateral requirement; Enhanced access to more finance |
| **Application process** | The scheme is available through accredited commercial banks until end-2024. Three leading banks have signed as intermediary partners of the GCLS – APS, BOV and HSBC. |

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



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

## UKRAINE CRISIS RESPONSE MEASURES

| PRODUCT NAME | SUBSIDISED LOANS SCHEME |
|---|---|
| **Product Outline** | In the wake of the war in Ukraine, the MDB launched the Subsidised Loans Scheme (SLS) in May 2022 to provide urgent liquidity support in the form of a direct subsidised loan for working capital purposes to finance the bulk importation of eligible grain commodities. |
| **Objective** | To offer temporary urgent liquidity support to ensure national security of strategic supply to undertakings engaged in the importation and wholesale of grains, including but not limited to soya, barley, alfalfa, maize, wheat and other pre-mixes utilised in the manufacturing of feeds for various types of animals as well as wheat and flour for the production of bread, pasta and other basic foodstuff, affected by Russia's war in Ukraine and the consequent economic impact. |
| **Structure** | A maximum portfolio of €30 million in direct subsidised loans for a maximum term of two years. |
| **Banking Facility** | The loans shall be covered by a maximum interest rate subsidy of 2.0% subject to a minimum interest payment by the borrower of 0.1%. Each loan under this scheme shall be covered by a guarantee of 90% issued by the Government of Malta. A maximum moratorium of 6 months with the possibility to extend to one year on a case-by-case basis. The moratorium period applies to capital repayments. During the moratorium period the interest on the loan is to be paid on a monthly or quarterly basis, as may be agreed between the MDB and the borrower. |
| ***Eligibility criteria*** | |
| **Loan eligibility** | Urgent liquidity needs for working capital purposes related to the importation of strategic reserves of grains including but not limited to soya, barley, alfalfa, maize, wheat and other pre-mixes utilised in the manufacturing of feeds for various types of animals as well as wheat and flour for the production of bread, pasta and other basic foodstuff.<br>The scheme shall not cover restructuring or rescheduling of existing facilities held with the commercial banks or with other related parties to the undertaking. The scheme shall not cover overdue creditors whose overdue amounts are not related to the current crisis. |
| **Eligible applicants** | All business undertakings established and operating in Malta that are:<br>1. SMEs (within the meaning of Commission Regulation (EU) N°651/2014 of 17 June 2014 as amended, restated, supplemented and/or substituted from time to time) and<br>2. large enterprises<br>Aid under this scheme shall not be granted to undertakings under sanctions adopted by the EU, including but not limited to:<br>• persons, entities or bodies specifically named in the legal acts imposing those sanctions;<br>• undertakings owned or controlled by persons, entities or bodies targeted by sanctions adopted by the EU; or<br>• undertakings active in industries targeted by sanctions adopted by the EU, insofar as the aid would undermine the objectives of the relevant sanctions. |
| **State Aid** | The SLS was implemented in line with the provisions of the European Commission's Temporary Crisis Framework to support the economy in context of Russia's invasion of Ukraine (OJ C 131 I/1, 24.3.2022). |
| **Benefits** | Eligible firms benefit from: enhanced access to finance for working capital needs; better terms and conditions, subsidised interest rates and a moratorium period for capital repayments. |
| **Application process** | The MDB provided the loans directly to the beneficiary for the purpose stated until end 2023.<br>Proposals were assessed by the MDB in line with the Bank's credit policy and procedures criteria. |



| PRODUCT NAME | LIQUIDITY SUPPORT GUARANTEE SCHEME – MEASURE A (LSGS-A) |
|---|---|
| **Product Outline** | In June 2022, the MDB launched the Liquidity Support Guarantee Scheme – Measure A (LSGS-A) as part of a package of measures in response to the Ukraine crisis. The LSGS-A is open to all types of undertakings operating in all economic sectors that have been adversely impacted by the repercussions of the Ukraine crisis. |
| **Objective** | To offer temporary liquidity support to undertakings affected by the current Ukraine-Russia crisis. Through this guarantee, the MDB aims to provide better access and more affordable working capital loans to businesses. |
| **Structure** | The MDB provides liquidity support in the form of a portfolio capped guarantee which will be intermediated through accredited commercial banks. The guarantee covers 90% of each loan in the portfolio, capped at 50% of the total portfolio. Loans under the LSGS also benefit from an Interest Rate Subsidy. |
| **Banking Facility** | Guaranteed working capital loans with a portfolio of €100 million at subsidised interest rates, for loan terms up to six years.<br>The interest rate subsidy applicable on LSGS-A loans is up to 2.5% of the outstanding amount of the working capital loan, subject that the borrower shall pay a minimum amount of 0.1% of the interest rate charge during the interest rate subsidy period, provided that the maximum aid per undertaking granted under section 2.1 of the TCF does not exceed:<br>• €35,000 for undertakings operating in the primary production sector of agricultural products, or for undertakings operating in the fisheries and aquaculture sector, or<br>• €400,000 for other undertakings. This interest rate subsidy excludes the payment of the guarantee premium payable on loans approved under the LSGS. |
| ***Eligibility criteria*** | |
| **Loan eligibility** | LSGS-A covers urgent liquidity needs for working capital purposes, including:<br>• Higher prices of imported raw materials and primary goods due to disruption in supply chains; and/or<br>• Higher costs related to electricity and gas; and/or<br>• An increase in other working capital costs incurred by the undertaking through a direct or indirect effect of the crisis. |
| **Eligible applicants** | All business undertakings established and operating in Malta consisting of:<br>1. SMEs (within the meaning of Commission Regulation (EU) N°651/2014 of 17 June 2014 as amended, and<br>2. large enterprises. |
| **State Aid** | The LSGS-A measure is implemented in line with the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia (TCF). |
| **Benefits** | Credit institutions shall provide an interest rate reduction on the average interest rate to beneficiaries as compared to similar facilities prior to the introduction of the guaranteed scheme. Hence, eligible firms benefit from: enhanced access to finance for working capital needs, subsidised interest rates and better terms and conditions. |
| **Application process** | The scheme was available through MDB's partnering financial intermediary - Bank of Valletta - until end 2023. |

| PRODUCT NAME | LIQUIDITY SUPPORT GUARANTEE SCHEME – MEASURE B (LSGS-B) |
|---|---|
| **Product Outline** | In June 2022, the MDB also launched the Liquidity Support Guarantee Scheme – Measure B (LSGS-B), the third scheme as part of a package of measures in response to the Ukraine crisis. LSGS-B provides short term liquidity support for importers of fuel and oil, which were impacted by the current crisis, in order to ensure security of supply and more stable prices. |
| **Objective** | To provide temporary short term liquidity support for importers of fuel and oil, which were impacted by the current crisis, in order to ensure security of supply and more stable prices. |
| **Structure** | The MDB provides liquidity support in the form of an uncapped portfolio guarantee which will be intermediated through accredited commercial banks. The guarantee covers 80% of each loan in the portfolio. Loans under the LSGS-B also benefit from an Interest Rate Subsidy. |
| **Banking Facility** | Guaranteed working capital loans with a portfolio of €50 million at subsidised interest rates, for loan terms up to six years.<br><br>An interest rate subsidy is applicable on LSGS-B loans up to 2.5% of the outstanding amount of the working capital loan, subject that the borrower shall pay a minimum amount of 0.1% of the interest rate charge during the interest rate subsidy period, provided that the maximum aid per undertaking granted under section 2.1 of the TCF does not exceed:<br><br>• €35,000 for undertakings operating in the primary production sector of agricultural products, or for undertakings operating in the fisheries and aquaculture sector, or<br>• €400,000 for other undertakings. This interest rate subsidy excludes the payment of the guarantee premium payable on loans approved under the LSGS. |
| ***Eligibility criteria*** | |
| **Loan eligibility** | LSGS-B covers the temporary increase in liquidity needs resulting from increased prices and higher amounts of fuel and oil purchases, to ensure the continuous supply of these strategically important commodities. |
| **Eligible applicants** | Importers of fuels and oil, established and operating in Malta. |
| **State Aid** | The LSGS-B measure is implemented in line with the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia (TCF). |
| **Benefits** | Credit institutions shall provide an interest rate reduction on the average interest rate to beneficiaries as compared to similar facilities prior to the introduction of the guaranteed scheme. Hence, eligible firms benefit from: enhanced access to finance for working capital needs, subsidised interest rates and better terms and conditions. |
| **Application process** | The scheme was available through MDB's partnering financial intermediaries - Bank of Valletta and HSBC – until end 2023. |

# SPECIAL TOPIC IV – EX-POST ASSESSMENT OF MDB'S CGS

The COVID-19 outbreak, and the ensuing period of heightened uncertainty and economic volatility, precipitated a sudden and acute liquidity shortage for businesses in Malta. The MDB's swift response through the COVID-19 Guarantee Scheme (CGS) provided guarantees to commercial banks to help businesses in Malta access bank financing for working capital requirements.

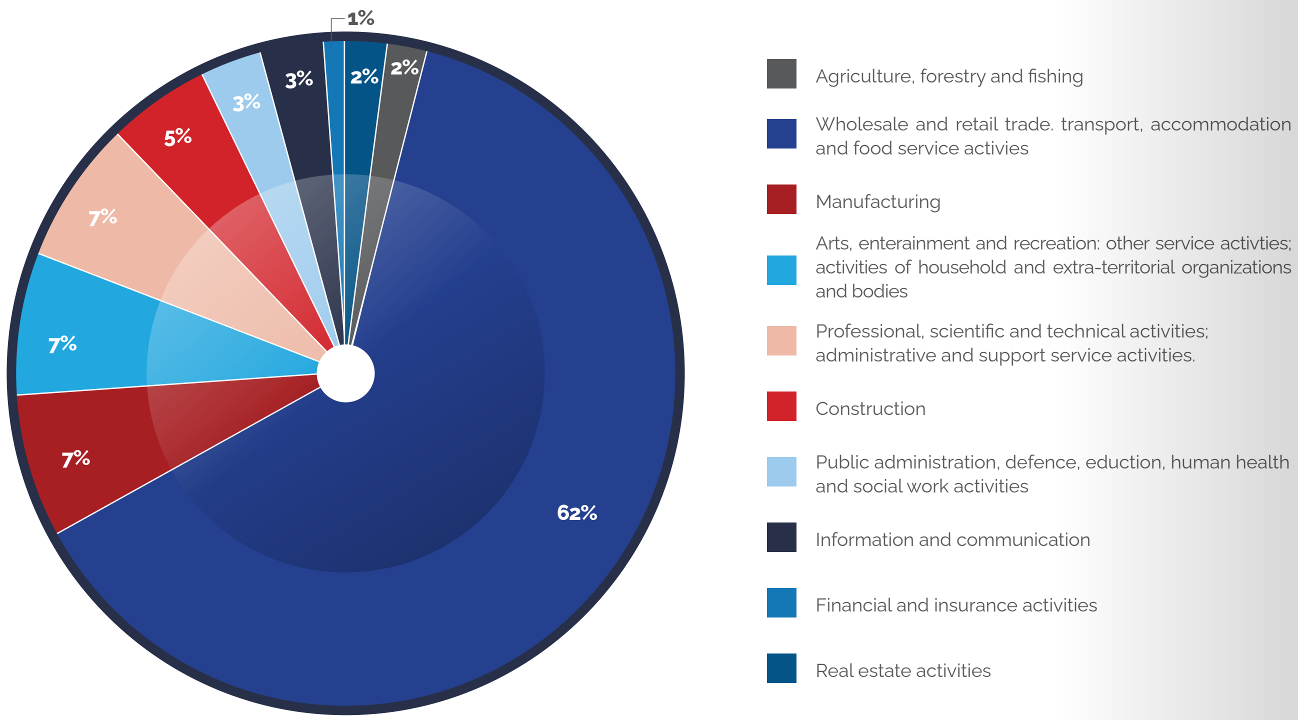
The CGS was approved by the European Commission in April 2020 under the Temporary Framework for State aid measures, as part of the wider package of the Government of Malta's COVID-19 Response Support Programme. A Guarantee Fund of €350 million was allocated by Government for the purpose of guaranteeing loans by commercial banks. The CGS addressed working capital needs for hundreds of businesses and was rolled out in record time by the MDB. The CGS peaked at more than half a billion euro in sanctioned working capital loans and remains MDB's largest scheme to date.

Following the conclusion of the Scheme's inclusion period in June 2022, the MDB conducted an ex-post assessment in the subsequent months. This assessment aims to identify lessons learned, providing valuable insights to enhance future decision-making by pinpointing areas for improvement in both scheme design and implementation. By conducting ex-post analyses, the MDB ensures accountability, transparency, and evidence-based decision-making, fostering a culture of continuous learning and optimisation of its initiatives.

***CGS Survey Analysis***

The MDB carried out a survey to assess the success of the CGS, and to identify areas for improvement of future schemes. The survey was carried out in December 2023 through a collaboration with the Malta Chamber of SMEs. The questionnaire, tailored specifically for beneficiaries of the CGS scheme, garnered 60 complete responses, representing 11.7% of all beneficiaries.

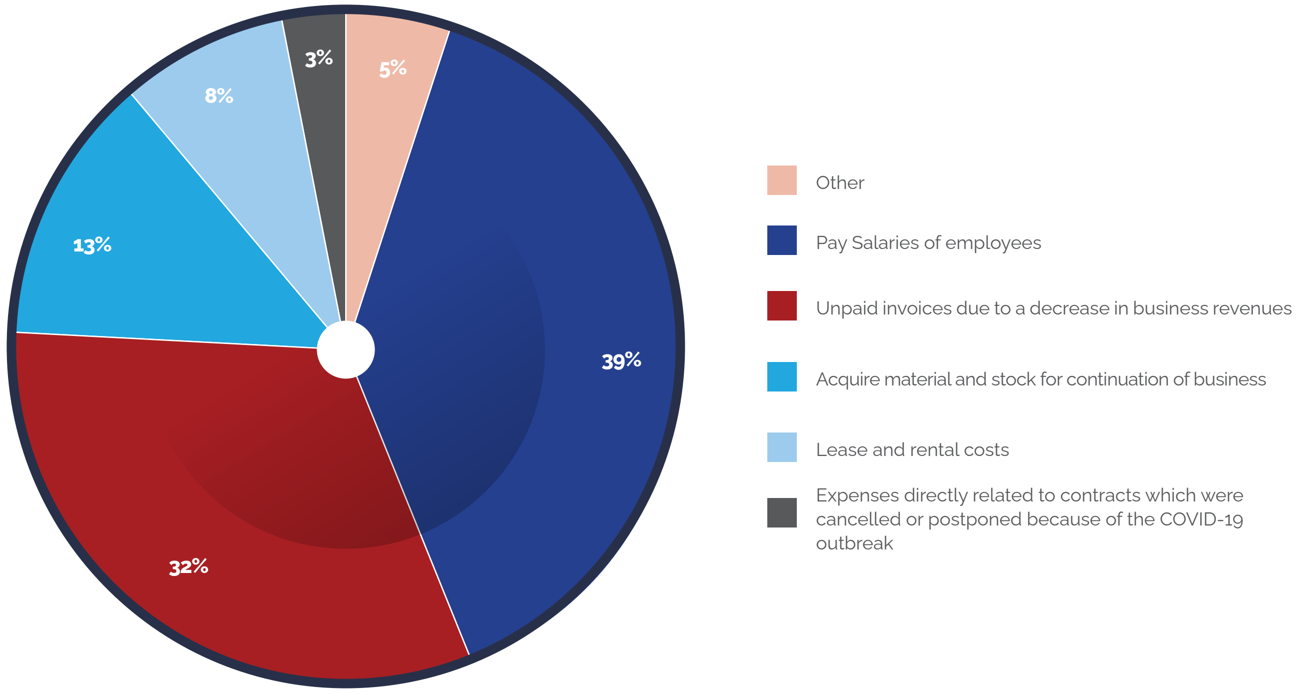
**Chart 1: Distribution of beneficiary respondents, by broad economic sector**






The line of business most popular with beneficiaries was Wholesale and retail trade, transport, accommodation and food service activities, accounting for 62.3% of respondents. This sector, typically linked with the tourism industry in Malta, was particularly hard hit during the COVID-19 Pandemic and the successive economic environment. Respondents from other sectors were broadly balanced (see Chart 1), with the overall distribution being similar – although not necessarily fully representative – of the list of CGS beneficiaries. As a result, the information gathered in this analysis can only be considered conjunctural and anecdotal, but not empirical evidence.

**Chart 2: Critical reasons behind beneficiaries' take-up of CGS funds**



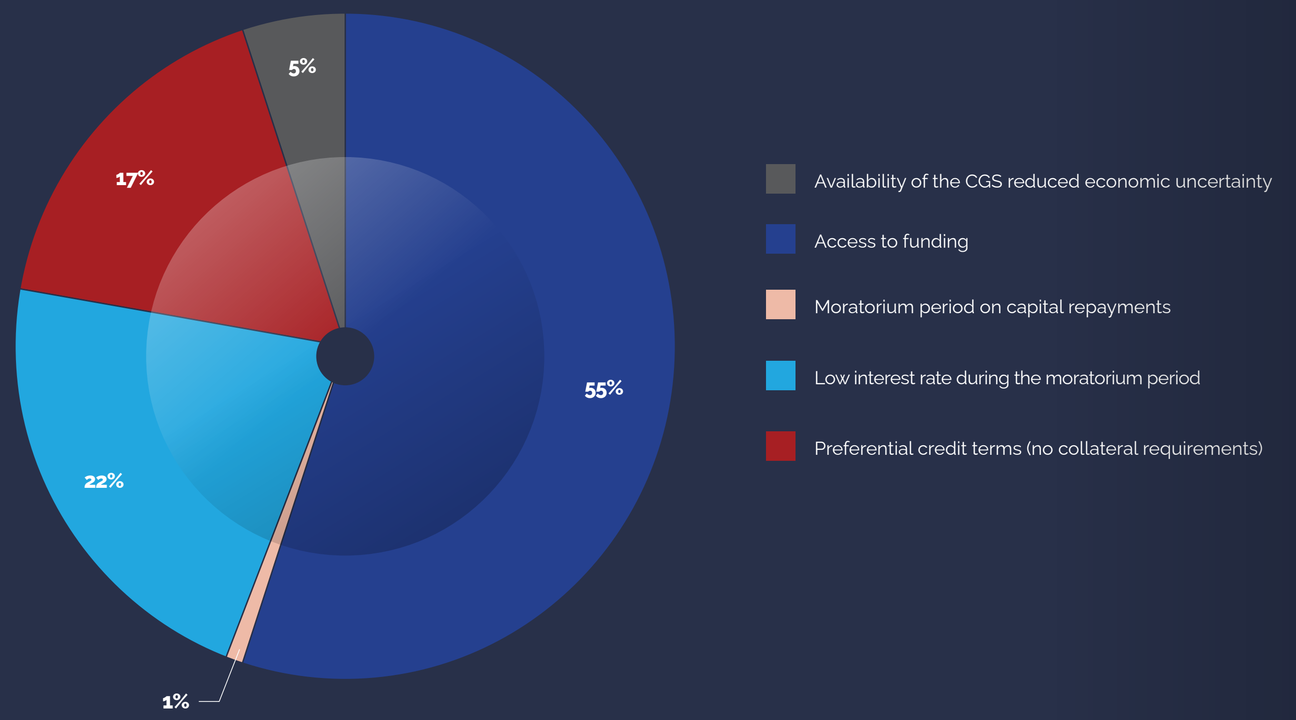

The distribution for loan amounts reported by the surveyed firms resembles that of beneficiaries' population.

Moreover, firms were asked for the critical reasons behind their take-up of CGS loans (see Chart 2). The two main reasons were to pay employees' salaries (38.3%), and to support liquidity, either because of unpaid invoices (31.7%), or for firms to acquire stock or materials (13.3%).

When asked for other non-critical reasons that led to the loan take up, beneficiaries focused on lease and rental costs (16.7%), to pay utility bills (9.9%), or to offset losses due to postponed or cancelled contracts (8.3%).

78.3% of respondents were either very satisfied or satisfied with the time taken for the loan to be approved, reflecting MDB's swift support as well as the cooperation of commercial banks (see Chart 3). 55.0% of respondents indicated how access to finance was the main advantage of the CGS, followed by the low interest rate during the moratorium period (21.7%), and preferential credit terms (16.7%).

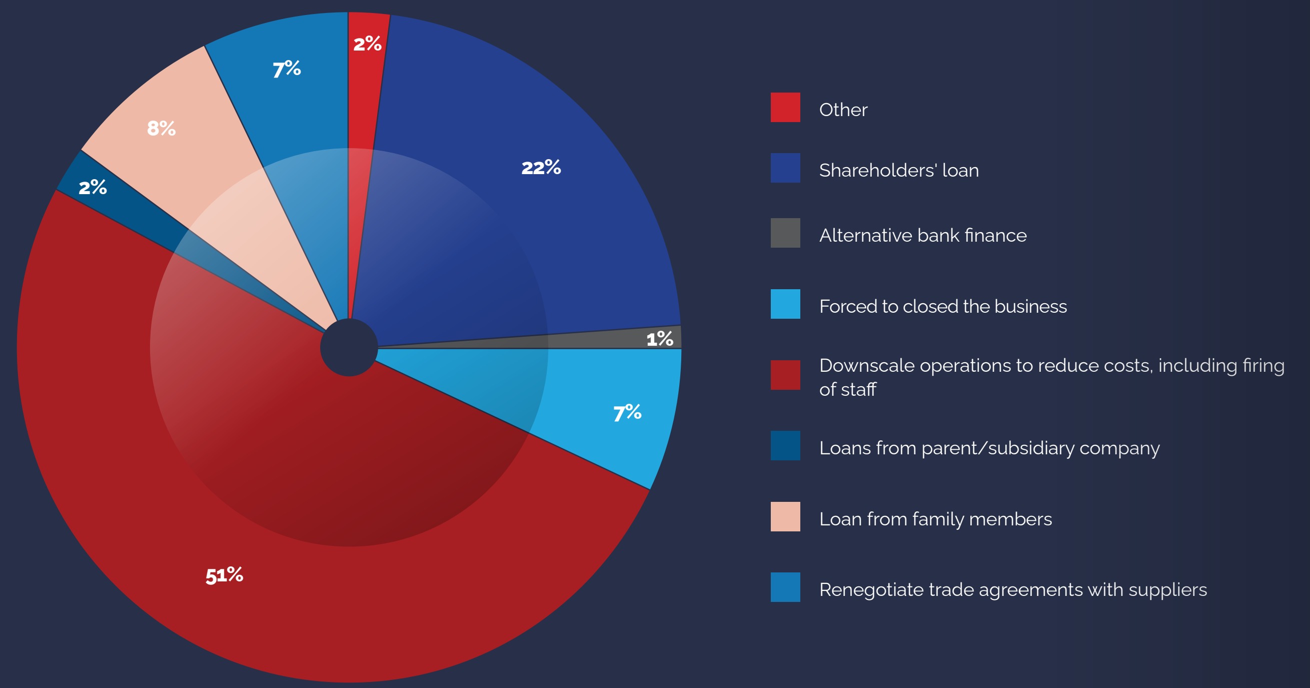
**Chart 3: Main advantages of the CGS**




The loan amounts met businesses' requirements, with 71.7% of respondents reporting that they were very satisfied or satisfied with the sanctioned amounts. 51.7% were either very satisfied or satisfied with the interest rates charged on their sanctioned facilities, or the repayment terms. It is worth mentioning that, while interest rates were low due to the risk absorbed by the 90% MDB guarantee, the charged guarantee fees were obligatory as set out by the EU state aid rules.

More than two-thirds of respondents said that the CGS was highly beneficial, or beneficial, in ensuring the continuation of their business operations once restrictions were lifted. Interestingly, 28.3% of respondents stated that the CGS was highly beneficial in enhancing their businesses' competitiveness after the COVID-19 Pandemic.

**Chart 4: Alternative to financing the gap caused by COVID-19**




Finally, in the absence of the CGS, more than half of respondents (51.7%) would have been forced to either downscale their operations to reduce overall costs (see Chart 4). This would have included the firing of staff. Moreover, without the support provided through the CGS, around 22% of respondents would have needed fund injections from shareholders' loans, or from family members (8%). Some respondents indicated that they would have had to close their business down completely without the Scheme (7%), with a further 7% saying they would have had to renegotiate payment terms and agreements with their suppliers. The above replies are a testament of the depth with which the CGS supported the Maltese economy in the uncertainty precipitated during the COVID-19 Pandemic.

### *Assessing the extent of MDB's schemes in terms of Malta's Gross Value Added*

During the COVID-19 Pandemic, the MDB's efforts were instrumental in supporting businesses across the Maltese economy. It is, however, difficult to assess the impact this support had on the broad economy in Malta.

While Input-Output (I-O) methodology can be applied to assess impact, relying on I-O methodology may lead to very large and implausible effects, that may not be credible, or prudent to report. I-O approaches to measuring impacts assume, among other points, that there are no supply side constraints.[10] One could compute multipliers from I-O figures, and then discount these estimates to allow for the effects mentioned above. However, such assumptions – unless backed by studies on the behaviour of firms and households – would not be transparent.

A more transparent and prudent way of estimating the level of support provided by MDB schemes is to use gross value added (GVA) and employment data from the National Accounts dataset. Every quarter, generally with a lag of one quarter, the National Statistics Office (NSO) publishes its gross domestic product (GDP) figures for Malta. This publication includes, from the production side approach, an estimate for GVA per broad sectoral definition.

The methodology suggested in this Special Topic is based on approaches used by other development banks or regional development authorities.[11] Using NSO data, the GVA per employee per sector is computed [A] (see Table). To calculate the extent of the support in GVA terms, we look at the number of workers directly employed by the business receiving an MDB loan by broad economic sector [B], using NACE categories.[12] The GVA per employee figure [A] is then multiplied by the number of employees employed by beneficiaries of the CGS scheme [B], resulting in [C]. The proportion of total GVA supported by MDB's facilities [E] is computed by dividing [C] by the overall sectoral GVA [D], ([E] = 100* [C]/[D]). This approach gives a more informative estimate of the Scheme's role in supporting the economy than a simple look at the distribution of loans by NACE categories (see [G] in Table 1).

Table 1 shows these estimates of support to total GVA in 2019, which is the final full-year before COVID-19, using Eurostat data based on NSO News Release NR214/2023.

10 For a full discussion on the problems associated with multipliers in I-O methods, refer to Department of Treasury and Finance Western Australia, March 2002, Economic Research Articles: "The Use and Abuse of Input-Output Multipliers" and Fjelsted, B.L. (1990).

11 See Appendix 1: GVA estimation methodology, Economic Intelligence Wales, Annual Report, September 2023, or Methodologies for Assessing Social and Economic Performance in JESSICA, European Commission, European Investment Bank, Final report, December 2013.

12 NACE is the "statistical classification of economic activities in the European Community" and is the subject of legislation at the European Union level, which imposes the use of the classification uniformly within all the Member States. For further details, see Regulation (EC) No 1893/2006 of the European Parliament and of the Council.

**Table 1: Estimate for GVA supported by MDB COVID-19 Guarantee Scheme (CGS).**

| INDUSTRY IN 2019 (NACE) | TOTAL [ BEING SUMMATION OF I TO XI, EXCEPT III] | AGRICULTURE, FORESTRY, AND FISHING [I] | INDUSTRY (EXCEPT CONSTR-UCTION) [II] | INDUSTRY OF WHICH MANUFA-CTURING [ III] | CONSTR-UCTION [IV] | WHOLESALE AND RETAIL TRADE, TRANSPORT, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES [V] | INFORMATION AND COMMUNICATION [VI] | FINANCIAL AND INSURANCE ACTIVITIES [VII] | REAL ESTATE ACTIVITIES [VIII] | PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES; ADMINISTRATIVE AND SUPPORT SERVICE [IX] ACTIVITIES | PUBLIC ADMINISTRATION, DEFENCE, EDUCATION, HUMAN HEALTH AND SOCIAL WORK ACTIVITIES [X] | ARTS, ENTERTAINMENT, AND RECREATION; OTHER SERVICE ACTIVITIES; ACTIVITIES OF HOUSEHOLD AND EXTRA-TERRITORIAL ORGANISATIONS AND BODIES [XI] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GVA per employee per sector (€) [A]** | - | 26,388.9 | 44,662.3 | 39,937.1 | 42,207.0 | 36,902.3 | 99,858.0 | 86,325.6 | 261,220.3 | 50,848.9 | 36,920.1 | 77,913.0 |
| **CGS sanctioned loans by NACE (€ million) [G]** | 482.6 | 1.3 | 59.7 | 24.5 | 46.8 | 250.5 | 3.6 | 36.9 | 7.3 | 34.1 | 27.8 | 14.5 |
| **No. of employees of CGS beneficiaries [B]** | **39,768** | **105** | **3,494** | **2,329** | **2,508** | **23,024** | **236** | **580** | **166** | **3,216** | **4,951** | **1,488** |
| **GVA supported by the MDB: GVA per capita * jobs [C] = [A] * [B] (€ million)** | 1,693.6* | 2.8 | 156.1 | 93.0 | 105.9 | 849.6 | 23.6 | 50.1 | 43.4 | 163.5 | 182.8 | 115.9 |
| Total sectoral GVA in 2019 **[D]** (€ million) | 12,798.1 | 66.5 | 1,163.9 | 952.9 | 615.8 | 2,474.3 | 1,054.5 | 1,113.6 | 770.6 | 2,096.5 | 2,117 | 1,325.3 |
| **Share of total 2019 GVA supported by CGS [E] = 100* ([C]/[D])** | **13.2%** | **4.2%** | **13.4%** | **9.8%** | **17.2%** | **34.3%** | **2.2%** | **4.5%** | **5.6%** | **7.8%** | **8.6%** | **8.7%** |

*Being the summation of [C] for economic sectors i to xi, except iii.

Source: MDB, NSO & Eurostat.



Using the above methodology, after summing the sectoral GVAs [denoted by C], it is concluded that the MDB scheme supported €1.7 billion in GVA equivalent terms.[13] When taken as a share of total 2019 GVA, this €1.7 billion in GVA figures means that around 13.0% of Malta's 2019 GVA was supported by the MDB's CGS.[14] From a sectoral point of view, the level of GVA supported for "Wholesale and retail trade, transport, accommodation and food service activities" by the CGS at 2019 levels (nominal) was €849.6 million. This represented 34.3% of nominal sectoral GVA in Malta at 2019 levels. This sector is typically associated with tourism related activities such as restaurants and hotels.

### *Assumptions and limitations*

GVA impact estimates of MDB's CGS are based on average GVA per employee in the different economic sectors. Businesses where jobs are created or safeguarded, are assumed to have the same productivity and other characteristics as the industrial sector's average. Therefore, one must stress that these figures should serve as an indication and not as a comprehensive estimate. The approach assumes that the job figures indicated when businesses availed themselves of the MDB CGS facility are retained.[15]

Finally, these figures are estimates of support to overall GVA, and are not economic indicators linked with investment, or broader macroeconomic variables. To arrive to the "true" impacts on the economy or Malta's GDP, one would need to refine the above estimates to include – among others – jobs displaced by the supported investment, leakages, substitutions, deadweight, and then consider the multiplier effects of the respective industries.

### *Way forward and conclusions*

The approach presented in this Special Topic is easily understandable, transparent and serves as a good indicator of the impact of MDB's support to the Maltese economy. By linking sanctioned MDB CGS loans with NSO GVA data, one can obtain an indicative estimate of MDB's reach and impact during the pandemic – the emerging results, together with the survey's responses, show that the MDB CGS was an effective and impactful scheme which supported value-added in Malta.

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13 This is calculated by summing the respective sectoral values in the row marked [C], that is industries i to xi, except iii, as manufacturing is a part of Industry (ii). Manufacturing is excluded to avoid double counting.

14 The figure may be higher when compared to the GVA originally published in 2020 for 2019, but national accounts figures for GDP, and therefore GVA, have since been revised upward significantly (see NSO NR158/2023).

15 Data shows that unemployment did not rise during COVID-19.

## OUTREACH OF MDB'S SCHEMES

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

### *Macroeconomic backdrop*

The Maltese economy was characterised by strong growth for most of the past decade, mainly reflecting a strong labour market, improved public finances and higher consumer spending power that have supported Malta's continued economic and social development. Malta's economy rebounded strongly from the decline in activity caused by COVID-19 pandemic, with GDP growth measured in volumes averaging 8.7% in the three years to 2023. In fact, GDP growth in 2023 was estimated at 5.6% - significantly higher than Malta's European peers. The economy showed growth in both private and public consumption, which were partially countered by a drop in investment (gross fixed capital formation). In addition to the strong performance by the services sectors in general, the export of tourism services peaked in 2023, both in terms of total number of visitors and expenditures, contributing to overall positive economic results.

Headwinds, however, continued to affect the Maltese economy. Consumers and businesses faced higher costs, with core inflation (headline inflation excluding energy and unprocessed food) remaining elevated, further eroding households' purchasing power. Overall HICP inflation, however, decelerated in 2023 easing to 5.6%, half a percentage point lower than a year earlier. These inflationary concerns spurred the Government to announce measures to promote stability in food prices, complementing schemes that controlled inflation in energy prices in previous years. With inflationary pressures persisting in Europe, a monetary tight stance continued in 2023. This weighed on business activity and typically exerts a drag on investment. During the year under review, the European Central Bank continued its efforts to fight inflation, raising rates on six occasions.

Looking forward, the European Commission is projecting that in 2024 domestic economic activity will grow by 4.6%,[16] with a strong rebound in net exports and growth in private consumption. Inflation is set to remain high with pressure from services and food prices, but slow down to 2.9% in 2024 and 2.7% in 2025. These projections follow closely forecasts from the Central Bank of Malta. Overall risks to these growth projections are tilted to the downside, due to high uncertainty and rising geopolitical tensions in Europe, the Near East and major trade routes across the Red Sea. Moreover, in view of continued inflation and upside risks linked with it, together with tight labour market conditions, pressures on businesses are expected to remain high. According to the Central Bank of Malta, compensation per employee is projected to be relatively strong, with nominal wage growth forecasted to exceed consumer price inflation again in 2024.[17]

### *MDB's assistance to businesses and students*

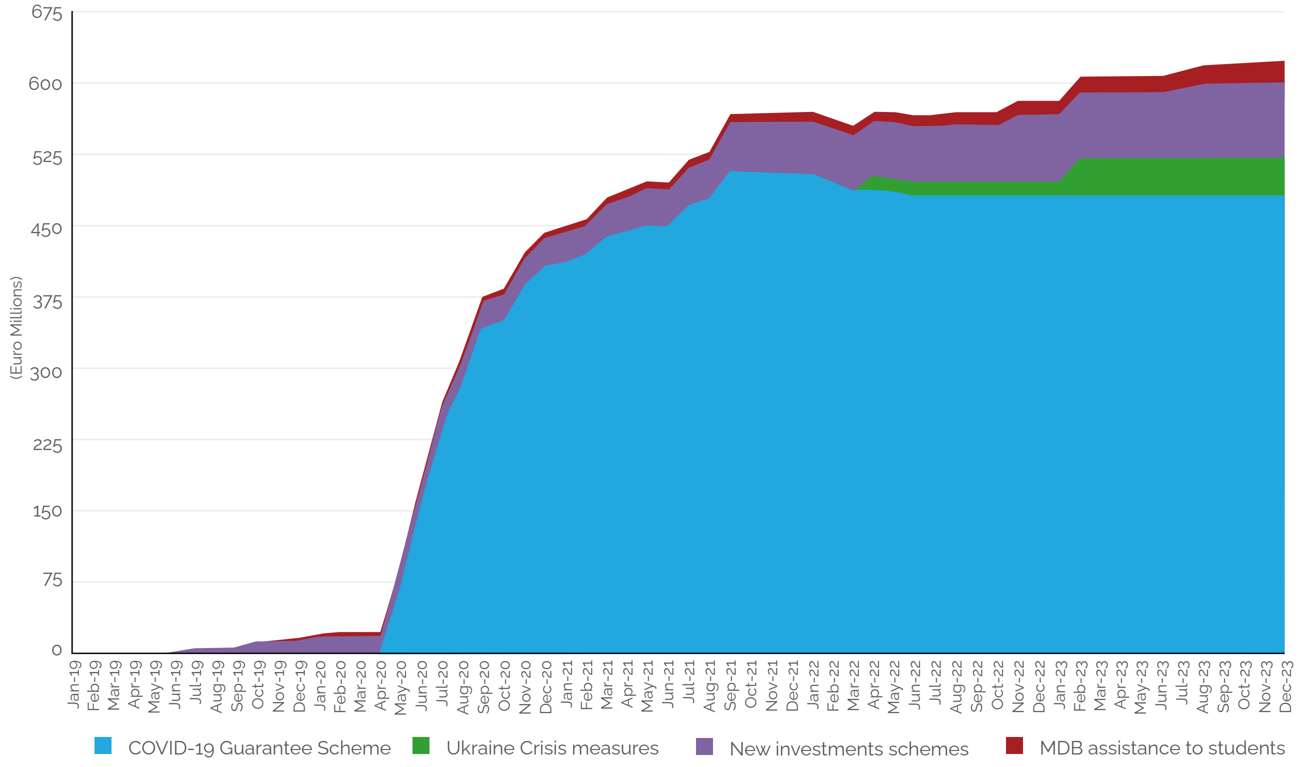
During the year under review, largely reflecting the record number of schemes launched during 2022, the MDB has not introduced new financial instruments. Instead, efforts were devoted towards the promotion of the Bank's flagship schemes for SMEs and students. Nevertheless, during 2023 the Bank worked on a number of initiatives aimed at ensuring that the MDB will have an increasingly important role in facilitating sustainable investments.

As at end 2023, the total cumulative assistance, in terms of both direct and guaranteed loans, reached €623.3 million, largely reflecting the exceptional role played by the Bank during the pandemic. Overall, during the first six years of operations, the Bank sanctioned 1,363 facilities to 1,272 businesses and students. When compared to the position as at end December 2022, MDB's assistance during the twelve months under review increased by €41.5 million (see Chart 1). The latter, reflects assistance in terms of increased access to finance for new investment, higher liquidity support as part of the Ukraine-crisis response measures, as well as a rise in guaranteed soft-loans to students.

16 The EC's Winter forecasts were last updated on 15 February 2024.
17 See "Outlook for the Maltese Economy, 2024:1".



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




### *Gateway to finance new investments*

During 2023, MDB's schemes continued to serve as a gateway to finance new investments. Consistent with MDB's objective to improve access to finance and to diversify the financing options to SMEs, the MDB seeks to magnify the outreach of its promotional role by collaborating with credit institutions. MDB's schemes enable credit institutions to be more responsive to the borrowing requirements of businesses to fulfil their growth ambitions.

MDB's investment schemes offer favourable financing terms for bankable projects across different economic sectors. During the period under review, the Bank had three instruments dedicated to new investments – the SME Guarantee Scheme (SGS), the Guaranteed Co-Lending Scheme (GCLS) and the Tailored Facility for Businesses. Through these schemes, the Bank gives a special priority to those investments involving innovation, digitalisation and, more broadly, the preservation and enhancement of competitiveness; socially-oriented initiatives; and investment aimed at achieving a higher level of sustainability or to promote the green and circular economy.

By end 2023, the MDB had facilitated close to €81.0 million in loans for new investment purposes, €10.7 million more than a year earlier. The latter reflects increases across the three financial instruments offered by the MDB.

### *Ukraine crisis support measures*

When Russia invaded Ukraine in February 2022, the MDB was again entrusted with a government guarantee to respond countercyclically and launch a package of support measures in response to the economic challenges related to the war. The first measure – the Subsidised Loans Scheme (SLS) - was launched in May 2022 and sought to ensure the security of supply of grains, animal feeds and related products of strategic importance by assisting importers and wholesalers through the provision of urgent temporary liquidity support. Subsequently, two other measures - Liquidity Support Guarantee Scheme – Measure A (LSGS-A) and Measure B (LSGS-B) - were launched; one aimed at all business sectors, and the other directed towards fuel and oil importers. This package was designed to ensure access to bank financing to undertakings whose cashflow was adversely impacted by the disruptions in supply chains and other pressures brought about by the war.

These three schemes were notified under the European Commission's Temporary Crisis Framework for State Aid which enabled Member States to cushion the economic impact of Russia's aggression of Ukraine until the end of 2023. By end December 2023, the three schemes had facilitated €38.7 million in support measures to assist businesses whose liquidity was negatively impacted by the Ukraine war.

### *Further Studies Made Affordable Plus schemes (FSMA+)*

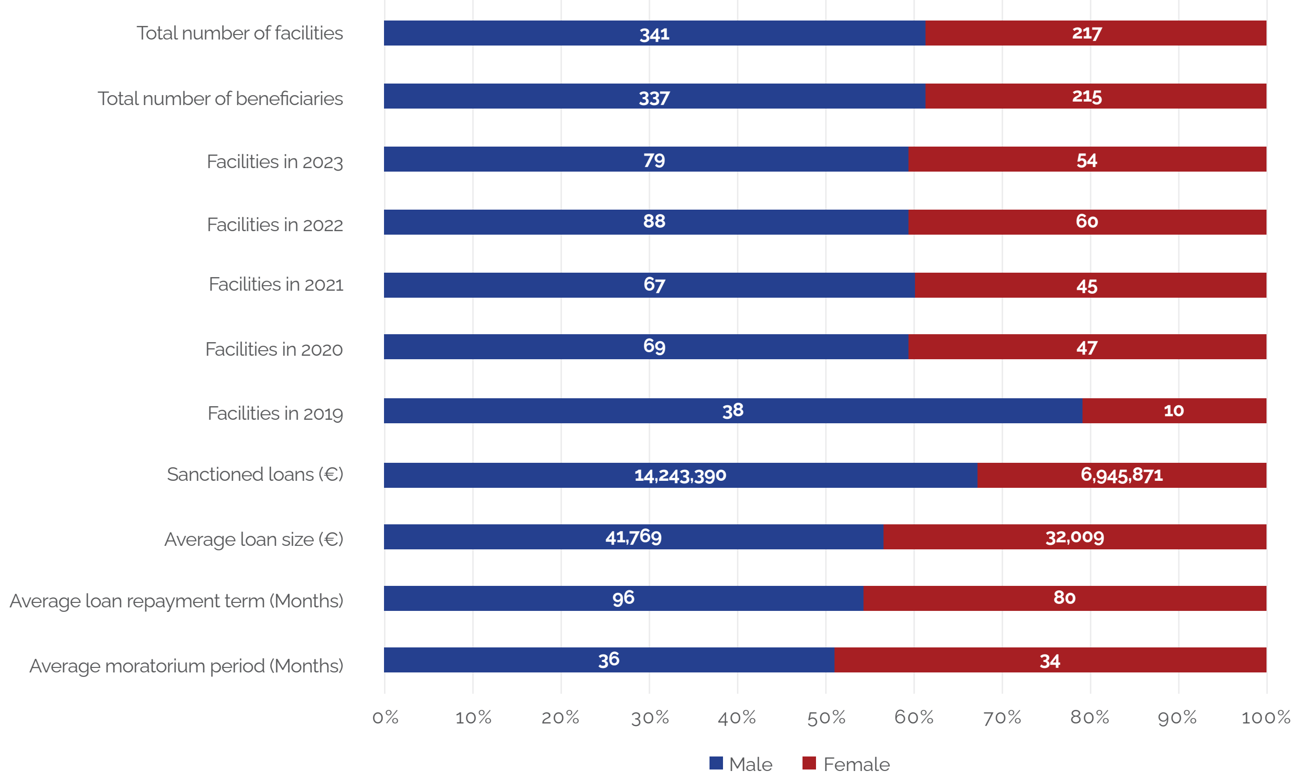
In Malta's small yet dynamic economy, human capital stands as a very valuable resource. The MDB, which is tasked with fostering inclusive and sustainable economic growth, views education as a pivotal route to realise this aim. The MDB's study-loan schemes were launched in 2019, to support the financing of students' studies in Malta and abroad. Eligible costs covered include tuition fees, accommodation, travel, subsistence, and related expenses. The schemes consider full time, part time or distance learning study courses, at MQF levels 5 to 8, and other internationally recognised academic certificates. The maximum loan value reaches up to €100,000 for a possible term of up to 15 years.

In addition to a significantly reduced interest rate, these facilities provide a moratorium on both capital repayments and interest for the duration of the study period plus an additional 12 months. The interest accrued during this moratorium period is fully covered by the interest rate subsidy, relieving students of any repayment obligations during their studies, and granting an extra year for job seeking. There are no extra charges or processing fees, and no collateral, life insurance, or upfront contributions are required. These schemes are tailored to meet the needs of students who are typically financially constrained during their studies, offering them peace of mind without the burden of loan repayments.

By the end of 2023, 552 individuals were supported through 558 facilities granted under the FSMA and FSMA+ schemes. Facilities rose by 133 compared to end-2022. Out of these beneficiaries, 337 are male, whereas 215 are female. Total loans sanctioned under both schemes reached €21.2 million by end-2023. 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 more than twice than that of female beneficiaries. The latter is also resulting in notable differences in the average loan size by gender (see Chart 2).

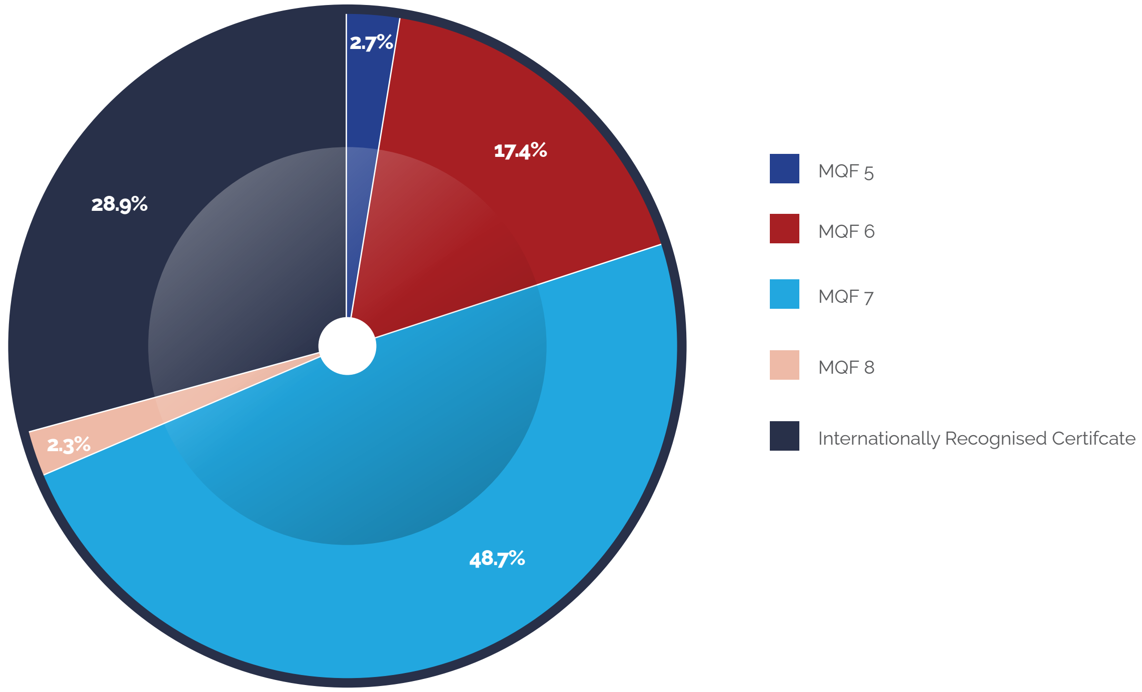


**Chart 2: FSMA schemes characteristics by gender**



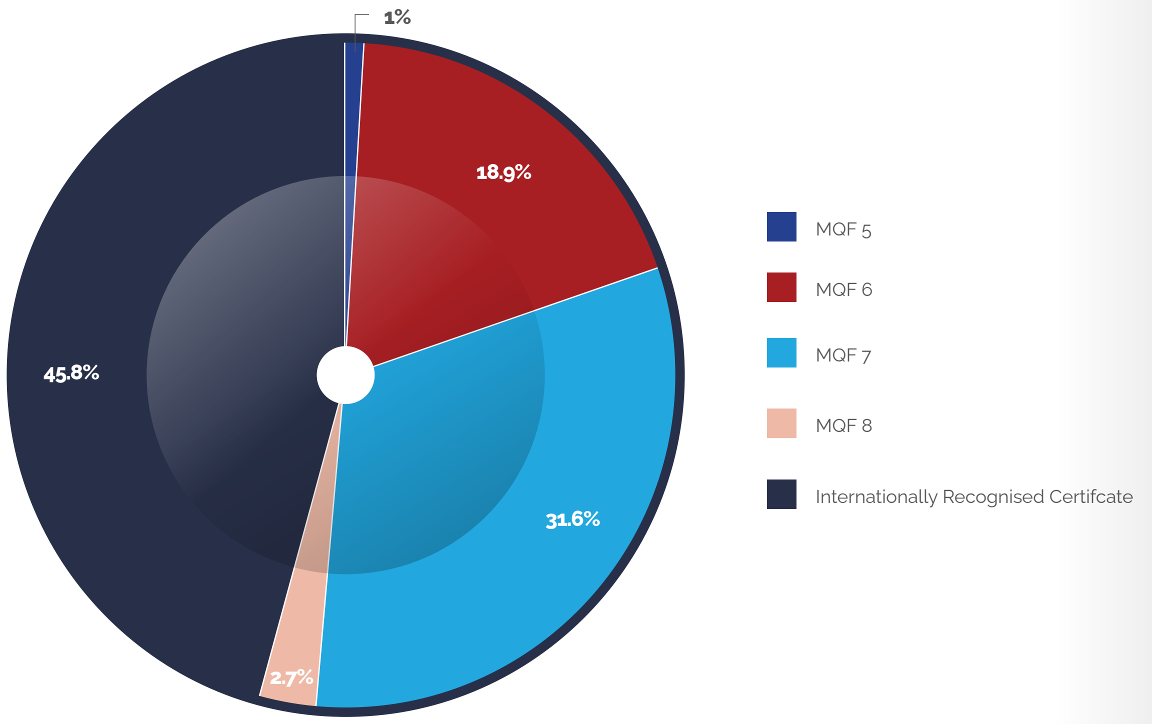

Under these two schemes, the overall average loan size reached €37,974, which is markedly higher than what commercial banks are willing to offer without the MDB's guarantee. On sanctioning date, the beneficiaries are aged between 18 and 59 years. However, over 65% of all beneficiaries are in the 16-24 age cohort.

**Chart 3: Beneficiary facilities sanctioned under FSMA schemes**




As shown in Chart 3, the most popular courses undertaken by FSMA beneficiaries were for MQF 7 level of education, which is equivalent to a Master's degree. Almost half, or 48.7% of facilities, opted for these courses, followed by 28.9% of facilities, mainly linked with internationally recognised certificates, predominantly courses for aircraft pilots. Reflecting the substantial costs related to the latter professional courses, the total amount sanctioned for international recognised certificates accounted for 45.8% of the total financing sanctioned under the schemes (see Chart 4).

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




MDB promotes the importance of investing in human capital to enhance Malta's growth prospects and maintain its long-term macroeconomic competitiveness. The adoption of MDB schemes surpassed initial expectations significantly. In December 2023, Fi-Compass, a platform offering advisory services on financial instruments under EU shared management, acknowledged the success of these schemes, interviewing key players that led to their success.[18]

## SUSTAINING INFRASTRUCTURAL INVESTMENT

In line with MDB's vision, the financing of large infrastructure projects remains an important element in the Bank's overall strategy. Large-scale infrastructure projects can face difficulties in accessing the appropriate financing. This may be due to the long repayment period that is normally required to make them bankable, and the required funding that may also be too large for most banks, in an institutional setting where syndication is not readily available.

During the year under review, the MDB was 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 promote the syndicated loan market in Malta.

### *Sport facilities*

During 2023, the MDB, in collaboration with the National Development and Social Fund (NDSF), has provided financial assistance by way of a loan from the MDB and a grant from the NDSF to the Malta Football Association (MFA) as end finance for the construction and completion of the National Football Centre at the MFA Training Grounds in Ta' Qali covering an area of circa 2600 square metres.

The joint financial support will serve as a home for all national teams (from youths to senior teams) and will feature the latest in sports science research labs, medical facilities, physiotherapy clinic, gymnasium, dressing rooms, restroom facilities, multifunctional meeting rooms and technical office.

### *Affordable housing*

Advanced discussions were held with the Foundation for Affordable Housing to provide financing solutions for the Foundation's projects. During 2023, MDB continued negotiations with the Foundation with regards to a residential housing development in Fgura. The residential units shall be a mix of one, two and three bedroom units. The MDB is expected to conclude the signing of the facility agreement in early 2024.

18 See full article at https://www.fi-compass.eu/f/fi-compass-news-winter-2023/fsma-article.html



# SIGNIFICANT EVENTS

*MDB strengthens SMEs support with signing of agreements with BOV, HSBC and APS*

The MDB signed strategic agreements with three leading banks to serve as intermediary partners for its two flagship financing schemes, the SME Guarantee Scheme, and the Guaranteed Co-Lending Scheme. By working together, the MDB and its intermediary partners offer a comprehensive suite of benefits to SMEs, including lower interest rates, reduced collateral requirements and better credit terms. These partnerships mark a significant milestone in MDB's commitment to fostering the growth and development of SMEs in Malta.

*MDB signs €30 million loan from the EIB to accelerate green transition*

The EIB and the MDB joined forces to boost the green transition of SMEs and public sector entities. To this end, the EIB provided MDB with a €30 million loan to finance much-needed small-scale green investments on favourable conditions. Thanks to this agreement, MDB will provide access to credit to entities willing to invest in projects that contribute to the fight against adverse climate change. MDB will pass on the EIB's favourable financing conditions and a longer repayment period to final beneficiaries, enabling major financial savings for sustainable projects. Through this agreement, the EIB will be leveraging on MDB's market positioning, local outreach, and ability to channel funds in Malta.

*Green Gateway advisory access*

A separate agreement between the EIB and the MDB enabled the Bank to benefit from the EIB's advisory services to expand its environmental sustainability capacity and financing. The EU bank's advisory services — developed under the Green Gateway programme launched by the EIB and the European Commission — will help MDB build capacity in sourcing and assessing the eligibility of green projects, while supporting them in reporting to the EIB.

This partnership will not only have a positive environmental impact but aims to support employment in Malta, by financing small-scale private and public investments in the country.




*Participation in conferences on green and sustainable financing, and digitalisation*

Our Chief Business Development Officer, Mr Joseph Darmanin, presented MDB's possible financing solutions and potential role as an implementing partner under the Alternative Fuels Infrastructure Facility, during a conference organised by the Ministry for Transport, Infrastructure, and Capital Projects in March 2023.

The MDB's CEO, Mr Paul V. Azzopardi, shared insights at the 2023 SME Conference on "Renewing our Future Growth", hosted by the Malta Chamber of SMEs. Mr Azzopardi discussed how the MDB is an active contributor to this objective, through financing projects in the AI and digital spheres.

Our Senior EU Affairs Officer, Mr Silvio Attard, represented the MDB at the National Roundtable towards transitioning energy investment in Malta, organised by the European Commission, in partnership with the Ministry for Environment, Energy and Enterprise, and the Ministry for Public Works and Planning.

The MDB was present among other national stakeholders at an event organised by Tech.mt and the Malta Chamber, highlighting the grants, incentives and initiatives. Mr Silvio Attard shared key details of current MDB schemes supporting innovation, investment in skills, technology, clean energy and energy efficiency.

*Participation in other conferences and events*

The MDB's CEO took part in this year's SME National Forum, hosted by the Malta Employers' Association. This focused on the challenges associated with foreign workers in Malta. Mr Azzopardi moderated one of the discussion tables focusing on the fiscal regime, and its impact on industry and employment.

Our Chief Credit Officer, Ms Maria Xuereb was one of the panellists during an event organised by the Malta Chamber of SMEs. During the workshop on Governance in Business, she emphasised the significance of governance for small businesses, highlighting the relevance of these policies in lending process.

MDB officers continuously support accountancy and audit professionals, who are ideally placed to guide businesses through funding and financing opportunities. MDB officials delivered a detailed presentation to the members of the Malta Institute of Accountants on recently launched schemes.


# INTERNATIONAL AFFILIATIONS AND COOPERATION

*MDB's membership with European associations and networks*

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

Membership in these associations is very beneficial for the MDB. These organisations promote the exchange of information, interfacing and sharing of technical experiences and best practices; other benefits include 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.

Membership of these organisations has allowed MDB access to key individuals who provided the support needed to answer technical questions, or provided support on applications that allowed the Bank to issue schemes with a very short turn-around. Continued attendance and full participation in these networks is of paramount importance for the continued nurturing of these relationships. In turn, it is these relationships that led to many of MDB's successes.

In 2023, MDB representatives attended several meetings, seminars and training events organised by these networks. Some of the meetings attended were the permanent working group meetings of the NEFI, ELTI's CEOs and General Assembly meetings, and AECM's Operational Training Sessions.

EUROPEAN ASSOCIATION ELTI LONG-TERM INVESTORS

aecm

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

*ELTI's tenth year anniversary*

Mr Azzopardi, MDB's CEO and the Chief Business Development Officer, Mr Joseph Darmanin, attended the Extraordinary General Assembly of the European Association of Long-Term Investors (ELTI) in Madrid, celebrating the 10th Anniversary of this organisation.

ELTI celebrated its anniversary in the country of the EU Presidency, Spain. During this occasion, ELTI members elected the organisation's new President, Mr Dario Scannapieco, for the next three years. The meeting also gave the opportunity to validate the new ELTI strategic framework for 2023 - 2033, the roadmap that will guide the Association's actions and priorities for the next ten years.




*European Leaders Programme*

Following an invitation by Cassa Depositi e Prestiti (CDP), Italy's largest promotional bank, our Senior EU Affairs Officer, Mr Silvio Attard, took part in a leadership training programme. The objective of the European Leaders Programme is to provide participants with the key tools to grasp the implications of the main developments on the EU agenda from both a policy and sectoral perspective. The Programme is designed by CDP and ELTI for interdisciplinary managers who engage in discussions with high-level experts, policymakers, and top managers. This network could contribute to consolidate the long-term relationship between national promotional banks and institutions, and to shape their common future in Europe.

*Seminars on designing Agricultural financial instruments*

Mr Joseph Darmanin, Chief Business Development Officer, and Ms Maria Xuereb, Chief Credit Officer, attended an operational training session on agriculture, with a focus on financial support for young farmers, including grants and blended instruments. The event was hosted by Landwirtschaftliche Rentenbank in Frankfurt, and discussed guarantee systems in the primary sector, financing trends, and the role of promotional banks and other dedicated public entities in supporting the sector by bridging the financing gaps.

Mr Silvio Attard, Senior EU Affairs officer, and Ms Diane Attard, Senior Credit Officer, attended an fi-compass conference in October 2023, organised by the European Commission's Directorate-General for Agriculture and Rural Development and the EIB Group to showcase best practices and share research material on financial instruments for agriculture and rural development. The discussions focused on obstacles to green investment, such as high purchase costs and long payback periods, and lack of expertise to assess innovative investments. Public support was deemed necessary, with financial instruments, grants and technical support seen as effective policy instruments.

# RISK AND CAPITAL MANAGEMENT

In terms of the Malta Development Bank Act (Act No XXI of 2017), the Bank takes risks consciously within the limits of prudence by applying the principles of sound banking operations to support viable projects that could be facing difficulties to access the required financing. This aligns with the MDB's overriding objective of facilitating 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.

To achieve this objective, the MDB developed 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. Great importance is accordingly given to the risk governance structure, which includes socioeconomic value statements, codes of conduct and ethics, policies and procedures and risk assessments. Additionally, the Risk Management function continuously strives to instil a culture of risk awareness that contributes to establishing a robust risk management framework and effective risk control processes across the Bank.

## RISK GOVERNANCE

The risk governance structure is designed to allow for the proper understanding of existing and emerging risks through collaboration among the Board of Directors, the three lines of defence, and the Supervisory Board. This collaborative approach aims to ensure the effective implementation of risk management controls. It underscores the significance of recognising MDB's risk culture in achieving its entrepreneurship and socio-economic objectives.

### *Supervisory Board*

The MDB Act provides that the Bank 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 Requirement 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 a bespoke local regulation, providing a framework that allows the MDB to fulfil its promotional role and public policy mission more effectively. This supervision ensures adherence to 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. As of the end of 2023, Mr John Cassar White chaired the Supervisory Board, which comprised Mr Oliver Bonello, Deputy Governor Central Bank of Malta, Dr Christopher Buttigieg, Chief Officer Supervision at Malta Financial Services Authority, Mr Paul Zahra, Permanent Secretary, Ministry for Finance and Employment, and Dr Chris Cilia, as an independent professional.

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. The Supervisory Board exercises monitoring, advisory and regulatory powers to ensure that the MDB adheres to sound governance and best practices. Additionally, 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. Furthermore, the Supervisory Board has the right to request any information it deems necessary.

The Supervisory Board also has the power to communicate 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 providing oversight and guidance for risk management activities across the MDB. The Board emphasises the integration and embedding of risk management into the tone and culture of the MDB. The management team of the MDB is responsible for regularly reviewing and affirming the effectiveness of the controls in place, contributing to a proactive risk management approach.

To ensure effective governance, the Board receives support from three committees, namely the Audit Committee, the Ethics and Governance Committee and the Risk Committee. These committees play an important role in various activities outlined in the Corporate Governance Statement of this Annual Report. The members of the Board of Directors are listed on page 13.

### *Three lines of defence*

The MDB is committed to promote a culture of integrity, high ethical standards and strong risk awareness. Every individual in the Bank is expected to contribute actively to the promotion of this sound risk culture, ensuring the maintenance of a robust internal control environment and the seamless operation of the Bank's enterprise risk management framework. The MDB has implemented a clear governance structure supported by a comprehensive set of policies and procedures to support the presence of a sound risk culture.

The implementation of this sound risk culture follows the three-lines-of-defence model. The first line of defence involves the risk-taking business functions, responsible for day-to-day risk management within their remit, ensuring compliance with the internal policies, regulations and procedures. The second line includes the Risk Management and Legal and Compliance functions, which are responsible for thorough oversight and monitoring activities. The third line consists of the Internal Audit function, which conducts audit activities and independent valuations on the effectiveness of the Bank's internal control environment.

| RISK | DESCRIPTION OF THE RISK | RISK MITIGATION MEASURE |
|---|---|---|
| **STRATEGIC RISK** | The MDB relies on demand from local businesses to meet its key strategic objective of providing credit to enterprises in Malta to address financing gaps 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 proactively engages in consultations with prospective partner banks and other pertinent stakeholders to ensure the fulfilment of the requirements of both partner banks and SMEs. The MDB also conducts soft-market testing. |

| | | |
|---|---|---|
| **CREDIT RISK** | The MDB is exposed to the risk of a borrowing counterparty defaulting on its obligations, leading to potential losses for the MDB. This credit risk arises from (i) the loans extended to borrowers and (ii) the risk-sharing schemes, where loans provided to final beneficiaries are guaranteed by the MDB. | The MDB implements robust measures for controlling credit risk, utilising well-defined credit risk policies and prescribed procedures to establish a proactive internal control system aimed at preventive action.<br><br>The credit risk management framework holds a pivotal role in the MDB's business policy and strategic considerations. To regulate this area effectively, the MDB has implemented distinct documents, namely: (a) the Credit Risk Policy, applicable to all stages of the credit process and (b) the Credit Risk Mitigation Policy, outlining supplementary credit risk mitigation measures aligning with core considerations for prudent lending.<br><br>Specific mitigation measures include rigorous due diligence conducted prior to lending decisions, continuous monitoring and evaluation of facilities, and regular assessments of compliance with respective covenants and undertakings. Additionally, the MDB implements quarterly reporting, which encompasses an analysis of overall risk levels in the portfolio, incorporating key risk indicators outlined in the Risk Appetite Statement. The Credit Committee and the Board play an important role in assessing credit risk within the framework of these comprehensive measures. |
| **LIQUIDITY RISK AND INTEREST RATE RISK** | Liquidity risk relates to the possibility that the MDB may be unable to meet its short-term debt obligations without incurring significant losses due to the pricing of wide liquidity premia. It is the risk of loss arising from situations where there is insufficient cash to support daily operations and the MDB faces challenges in converting assets into cash in a timely manner without incurring material losses.<br><br>The MDB is also exposed to interest rate risk on its interest rate-sensitive receivables (such as securities) and interest rate-sensitive payables (such as funding positions). Unfavourable fluctuations in the interest rates may lead to adverse effects 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 both current and planned liquidity, and provides sufficient funds necessary for the timely settlement of obligations and disbursements under committed loans and planned commitments.<br><br>Moreover, liquidity risk is managed in a preventive manner to minimise the maturity, principal repayment and interest payment mismatch of loans provided during the course of loan programmes and other financing.<br><br>The MDB aims to align the interest rate risk profile of its lending facilities with the underlying funding agreements to minimise significant interest rate mismatches.<br><br>ALCO, a sub-committee of the Risk Committee, and the Board of Directors manage liquidity and interest rate risks. |
| **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 controls operational risks through the Operational Risk Policy and Risk Register. 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.<br><br>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 Bank's operations and financial statements. While the MDB is not subject to externally imposed capital requirements, the MDB Act outlines certain capital requirement parameters. The Bank is committed to maintaining sufficient capitalisation to facilitate balance sheet growth and serve as a buffer for potential credit and other losses, both in the current as well as in more severe but plausible economic scenarios.

To ensure that the MDB is adequately capitalised to absorb potential losses, the Bank follows a structured approach, which includes:

- Complementing 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.
- Maintaining sufficient capital to withstand extreme yet plausible shocks arising from volatilities inherent in the financial markets and cyclical macroeconomic downturns.
- Efficiently utilise capital to maximise the achievement of the Bank's public policy objectives.

This structured approach ensures that the MDB maintains adherence to its internal minimum capital level, ensuring adequate capitalisation to absorb potential losses whilst fulfilling its public policy objectives as set by the Board of Directors.

### *Own funds*

While the MDB is not subject to the Capital Requirements Regulation and Capital Requirements Directives, it remains committed to ensuring adequate capitalisation. The Bank maintains a capital buffer to accommodate balance sheet growth and act as a safeguard against potential losses in both current and more severe yet plausible scenarios. As of 31 December 2023, the paid-up share capital of the MDB remained at €80 million, unchanged from the end of 2022. This share capital is provided by the MDB's sole shareholder, the Government of Malta.

As at end December 2023, the MDB's exposure in the form of guarantees amounted to €11.7 million. This includes €9.0 million in guaranteeing for outstanding balances and €2.7 million in guarantees for the approved credit that is yet to be drawn by borrowers. In terms of direct lending, the MDB's exposure was €18.5 million, with €2.2 million representing unutilised commitments.

Within this context, the Bank maintains a considerably strong capital position, well above the internally set minimum capital adequacy level.


MDB BANK MALTI GHALL-IŻVILUPP
MALTA DEVELOPMENT BANK

# FINANCIAL STATEMENTS

31 DECEMBER 2023

# CONTENTS

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Malta Development Bank ('the Bank' or 'the MDB') for the year ended 31 December 2023.

## PRINCIPAL ACTIVITIES

The Bank was established by virtue of the Malta Development Bank 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 plays a key role as a strategic partner for businesses in bridging the financing gap in traditional lending channels. Through its offering of innovative financial products such as loan guarantees, direct lending, and co-lending schemes, the MDB provides accessible capital to businesses at favourable terms which in turn reduces the overall credit costs to end beneficiaries. The Bank's guarantee schemes in support of businesses are mainly intermediated through the local credit institutions. Direct lending can be directed to national social and economic infrastructure by public and private sector entities. By fostering a supportive financial ecosystem, the MDB contributes towards an inclusive and environmentally sustainable economic growth and infrastructure development.

## REVIEW OF BUSINESS DEVELOPMENTS

During the financial year ending 31 December 2023, the Bank had three instruments dedicated to new investments – the SME Guarantee Scheme ('SGS'), the Guaranteed Co-Lending Scheme ('GCLS') and the Tailored Facility for Businesses. Through these schemes, the Bank supports as a matter of special priority those investments involving innovation, digitalisation and, more broadly, the preservation and enhancement of competitiveness; socially-oriented initiatives; and investment aimed at achieving a higher level of sustainability or to promote the green and circular economy. New loans sanctioned under the SGS scheme in 2023 amounted to €2.5 million.

During the year, the Bank continued to attract new investment through GCLS which is a risk-sharing facility for larger facilities, involving co-lending between the MDB and the accredited commercial banks on a 50:50 basis and a guarantee of 60% on the commercial bank's loan. As of 31 December 2023, projects financed under the GCLS primarily focused on the innovative digitalisation spheres, having a total sanctioned amount by the MDB of €7.7million (2022: €6.05 million). The outstanding amount of such facilities was €4.0 million at the end of 2023 (2022: €Nil).

Through the Tailored Facility for Business, the Bank also supported large-scale infrastructure projects, which experienced difficulties in accessing the appropriate financing through commercial banks. The direct lending portfolio of sanctioned facilities under this scheme of €19.3 million (2022: €9.3 million) facilitated financing towards sustainable transport, sports facilities and education.

Existing schemes supporting investments guaranteed by MDB include the SME Loan Guarantee Scheme ("SME Invest") and Family Business Transfer ('FBT'), both schemes are intermediated through a commercial bank. The total sanctioned loans under such schemes amounted to an aggregate of €44.2 million (2022: €47.7 million) whilst the outstanding loan portfolio amounted to €32.6 million in 2023 compared to €33.5 million in 2022.

The Further Studies Made Affordable ('FSMA') and the Further Studies Made Affordable Plus ('FSMA+') which were set up in collaboration with the Managing Authority of EU funds, have remained popular financial instruments aimed at reducing the financing cost of students' studies locally and overseas. The FSMA+ scheme was launched on 8 February 2022. The FSMA+ scheme was launched on 8 February 2022 whilst the last date of inclusion for loans in the FSMA was 31 March 2022. By the end of 2023 total sanctioned facilities amounted to €20 million increasing by €4.8 million over the previous year.

MDB also offered emergency liquidity support to businesses through the Liquidity Support Guarantee Scheme ('LSGS') as part of an aid package in response to the Ukraine crisis. The first measure – the Subsidised Loans Scheme ('SLS') sought to ensure the security of supply of grains, animal feeds and related products of strategic importance by assisting importers and wholesalers through the provision of urgent temporary liquidity support in the form of direct lending by MDB. The other LSGS measures consisted of one open to all undertakings affected by the crisis ('LSGS-A') and the other specific to the fuel and oil importers ('LSGS-B'). The latter two Schemes were intermediated through local banks. There were €38.7 million in sanctioned loans in respect of the LSGS scheme as at 31 December 2023.

Through the COVID-19 Guarantee Scheme ('CGS') MDB provided guarantees to commercial banks to help businesses in Malta access bank financing for working capital requirements. The CGS closed on 30 June 2022 and the total CGS portfolio of sanctioned loans amounted to €482.6 million. The outstanding amount of such loans declined to €288.8 million by the end of the year (2022: €330.2 million) through scheduled loan amortisation.

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



Total assets stood at €100 million (2022: €99 million) as at the period end.

The Bank funds its operations and investments through its earnings from guarantee and lending operations, financial investments, share issuance or external funding sources. During the year under review, the Bank did not utilise new funding from external sources or share capital injections. Up to end of 2023, the Government subscribed to €80 million of paid-up capital in terms of Article 10 of the MDB Act.

The MDB supplements the paid-up capital with bilateral borrowing from international development institutions and EIB. To this effect, the MDB has utilised a loan facility of €25 million with the KfW Group. During the year under review, partial repayments of the fixed term loan with KfW amounted to €4.2 million. As at 31 December 2023, the Bank had outstanding loan borrowings of €11.6 million (2022: €15.8 million) from the KFW loan facility. As of the end of the year, such funding was fully deployed through projects including direct lending to SMEs and large cap infrastructure.

MDB is party to a loan agreement of €60 million with the European Investment Bank ('EIB') under the Multiple Beneficiary Intermediated Loan (MBIL) programme. In addition, during the year under review, the EIB and the MDB joined forces to boost the green transition of SMEs and public sector entities. To this end, the EIB provided MDB with a €30 million loan to finance small-scale green investments on favourable conditions. As a result, MDB can provide access to credit to entities willing to invest in projects that combat the adverse impact of climate change.

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

## FINANCIAL PERFORMANCE

The Bank has consolidated its positive financial performance whilst maintaining a stable risk profile of its lending and guarantee exposures. This is the result of prudent risk management operations based on sound banking practices. The Bank generated a net profit during the year after provisions of €3.2 million compared to a net profit of €0.7 million reported for the prior year after provisions. This is primarily driven by an increase in net interest income from the Bank's deployment of its reserve assets through higher yielding financial investments and continuous growth in its direct lending portfolio.

The progressive increases in interest rates by the European Central Bank since July 2022 has offered MDB the opportunity to significantly improve its return on its reserve asset portfolio through attractive deposit rates and higher returns on investment in debt securities. During the reporting period, the Bank generated a positive net interest margin of €3,304,366 (2022: 509,541) which was attributed partially to the increase in interest rates coupled with the placement by MDB in term deposits with local counterparty banks offering attractive interest rates. As a result, the average yield on financial assets improved by 1% over the prior year from 3.4% in 2022 to 4.4% in 2023.

The Bank's reserve asset portfolio comprises a mix of fixed income debt securities and a term deposit with a local bank which yielded a positive return of €2,861,503 compared to an interest income of €350,401 for the prior year.

Additionally, the Bank generated higher interest income from its portfolio of loans and advances to customers as new facilities and loan commitments were drawn down during the year. Total interest income from the Bank's direct lending facilities for the reporting year amounted to €552,451 (2022: €337,276).

In its administrative capacity, the Bank generated administrative fee income from the CGS and other schemes guaranteed by the Government during both 2023 and 2022 of €2.6 million. During 2023, guarantee fee income from the SMEI and other schemes directly guaranteed by MDB amounted to €183,422 (2022: €154,948). The net marginal increase in such income is attributed to the growth of the loan portfolios and the stepped-up rates on the guaranteed loans established by the risk sharing arrangements with partner banks which offset the reduction in fees from loan repayments.

The Bank generated additional income of €37,782 (2022: €44,796) primarily from rental income.

Additional Expected credit loss ('ECL') provisions of €665,793 (2022: €528,914) were recognised during the year to allow for staging migrations during the year and net increase in credit exposures comprising direct loans and commitments and financial guarantee contracts. The ECL provision as at the end of the year on the direct lending portfolio including financial investments and loans and advances to banks amounted to €183,915 (2022: €105,886) whilst the provision on Financial Guarantees and undrawn loan commitments amounted to €2.2 million (2022: €1.6 million).

An increase in staffing levels to meet expanding operations and general inflationary pressures on the price of goods and services directly impacting the Bank's operating expenditure are the main contributors to the increase in operating costs by €214,680.

Other results may be referred to in the Statement of Financial Position and Statement of Comprehensive Income on pages 100 and 101 respectively.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Bank faces the following principal risks and uncertainties:

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

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

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

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

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

## BOARD OF DIRECTORS

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

Mr Leo Brincat – Chairman[1]
Prof. Rose Mary Azzopardi
Mr Victor Carachi[2]
Dr Michele Cardinali
Mr Steve Ellul
Mr Norbert Grixti[3]
Mr Anthony Valvo
Prof. Josef Bonnici – Chairman (initial appointment expired on 11 December 2023)
Prof. Philip Von Brockdorff - (initial appointment expired on 11 December 2023)
Mr William Spiteri Bailey - (initial appointment expired on 11 December 2023)

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

Dr Bernadette Muscat, Chief Legal and Compliance Officer served as Secretary to the Board during the period ending 31 December 2023.

1 appointed with effect from 20 December 2023 in lieu of Prof. Josef Bonnici.

2 appointed with effect from 20 December 2023 in lieu of Prof. Philip von Brockdorff on 20 December 2023.

3 appointed with effect from 20 December 2023 in lieu of Mr William Spiteri Bailey on 20 December 2023.



## DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors are also responsible for designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Act. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Malta Development Bank for the year ended 31 December 2023 are included in the Annual Report 2023, which is published in hard-copy printed form and is available on the Bank's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

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

## AUDITORS

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

Approved by the Board of Directors on 22 March 2024 and signed on its behalf by:

**LEO BRINCAT**
Chairperson

**PROF. ROSE MARY AZZOPARDI**
Director

Registered Address

**Malta Development Bank**
5 Market Street,
Floriana, Malta

# Independent auditor's report

To the Shareholders of 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 2023, 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 100 to 144, comprise:

- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

### Basis for opinion

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

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

**Independence**

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



# Independent auditor's report - *continued*

To the Shareholders of Malta Development Bank

### Other information

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

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

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

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

When we read the Malta Development Bank's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with the 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, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



# *Independent auditor's report* *- continued*

To the Shareholders of Malta Development Bank

## *Other matter – use of this report*

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

Fabio Axisa
Principal

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

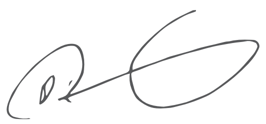
22 March 2024

## STATEMENT OF FINANCIAL POSITION

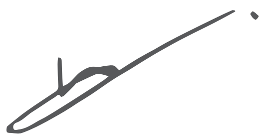
| | NOTES | AS AT 31 DECEMBER | |
|---|---|---|---|
| | | 2023 | 2022 |
| | | € | € |
| **ASSETS** | | | |
| Balances with Central Bank of Malta | 3 | **508,430** | 696,456 |
| Loans and advances to banks | 3 | **35,527,955** | 24,968,231 |
| Financial investments | 4 | **42,172,788** | 46,803,063 |
| Loans and advances to customers | 5 | **16,138,263** | 20,965,084 |
| Investment property | 6 | **606,377** | 614,948 |
| Property and equipment | 7 | **3,566,023** | 3,639,852 |
| Right-of-use assets | 8 | **-** | 11,683 |
| Intangible assets | 9 | **19,308** | 19,424 |
| Other assets | 10 | **1,280,253** | 1,232,850 |
| **Total assets** | | **99,819,397** | 98,951,591 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 11 | **80,000,000** | 80,000,000 |
| Accumulated profits/(losses) | | **155,051** | (2,996,453) |
| **Total equity** | | **80,155,051** | 77,003,547 |
| **LIABILITIES** | | | |
| Amounts owed to banks | 12 | **11,565,012** | 15,769,681 |
| Amounts owed to other entities | 13 | **5,626,515** | 4,305,341 |
| Other liabilities | 14 | **2,472,819** | 1,873,022 |
| **Total liabilities** | | **19,664,346** | 21,948,044 |
| **Total liabilities and equity** | | **99,819,397** | 98,951,591 |
| **MEMORANDUM ITEMS** | | | |
| Commitments | 15 | **27,196,603** | 17,804,318 |

The notes on pages 104 to 144 are an integral part of these financial statements.

The financial statements on pages 100 to 144 were approved by the Board of Directors on 22 March 2024 and signed on its behalf by:



**MR LEO BRINCAT**
Chairperson



**PROF. ROSE MARY AZZOPARDI**
Director



## STATEMENT OF COMPREHENSIVE INCOME

| | NOTES | YEAR ENDED 31 DECEMBER | |
|---|---|---|---|
| | | 2023 | 2022 |
| | | € | € |
| Interest receivable and similar income | 16 | **3,413,952** | 687,677 |
| Interest payable and similar expense | 17 | **(109,586)** | (178,136) |
| **Net interest income** | | **3,304,366** | 509,541 |
| Income from financial guarantees | 18 | **183,422** | 154,948 |
| Administrative fee income | 19 | **2,605,678** | 2,570,400 |
| Other income | 20 | **37,782** | 44,796 |
| **Net operating income** | | **6,131,248** | 3,279,685 |
| Administrative expenses | 22 | **(599,954)** | (593,881) |
| Employee compensation and benefits | 23 | **(1,572,985)** | (1,374,844) |
| Depreciation of investment property, property and equipment and right-of-use assets | 6, 7, 8 | **(134,582)** | (123,528) |
| Amortisation of intangible assets | 9 | **(6,430)** | (7,018) |
| Total operating expenses | | **(2,313,951)** | (2,099,271) |
| **Profit for the year before changes in expected credit losses** | | **3,817,297** | 1,180,414 |
| **Changes in expected credit losses** | 21 | **(665,793)** | (528,914) |
| **Profit for the year - total comprehensive income** | | **3,151,504** | 651,500 |

The notes on pages 104 to 144 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

| | NOTES | SHARE CAPITAL | ACCUMULATED PROFITS / (LOSSES) | TOTAL EQUITY |
|---|---|---|---|---|
| | | € | € | € |
| Balance as at 1 January 2022 | | 60,000,000 | (3,647,953) | 56,352,047 |
| **Transactions with owners** | | | | |
| Capital contributed by the Government of Malta - total transactions with owners | 11 | 20,000,000 | - | 20,000,000 |
| **Comprehensive income** | | | | |
| Profit for the year - total comprehensive income | | - | 651,500 | 651,500 |
| **Balance as at 31 December 2022** | | **80,000,000** | **(2,996,453)** | **77,003,547** |
| Balance as at 1 January 2023 | | 80,000,000 | (2,996,453) | 77,003,547 |
| **Comprehensive income** | | | | |
| Profit for the year - total comprehensive income | | - | 3,151,504 | 3,151,504 |
| **Balance as at 31 December 2023** | | **80,000,000** | **155,051** | **80,155,051** |

The notes on pages 104 to 144 are an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

| | NOTES | YEAR ENDED 31 DECEMBER | |
|---|---|---|---|
| | | 2023 | 2022 |
| | | € | € |
| **Cash flows from operating activities** | | | |
| Net cash (used in) / generated from operating activities | 24 | **(3,375,532)** | 138,519 |
| **Cash flows from investing activities** | | | |
| Purchase of financial investments | 4 | **(31,280,341)** | (29,931,419) |
| Proceeds from sale of financial investments | | **35,931,551** | - |
| Interest received on financial assets held as investments | 16 | **2,378,000** | 328,684 |
| Purchase of property and equipment | 7 | **(40,499)** | (185,651) |
| Purchase of intangible assets | 9 | **(7,788)** | (2,230) |
| **Net cash generated from / (used in) investing activities** | | **6,980,923** | (29,790,616) |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of share capital | 11 | **-** | 20,000,000 |
| Repayments of long term borrowing | 12 | **(4,204,669)** | (3,936,202) |
| Payments for the principal portion of lease liabilities | 8 | **(11,856)** | (14,114) |
| **Net cash (used in) / generated from financing activities** | | **(4,216,525)** | 16,049,684 |
| **Net decrease in cash and cash equivalents** | | **(611,134)** | (13,602,413) |
| Cash and cash equivalents at beginning of year | | **11,697,892** | 25,300,305 |
| **Cash and cash equivalents at end year** | 25 | **11,086,758** | 11,697,892 |

The notes on pages 104 to 144 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

### 1.1 BASIS OF PREPARATION

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

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

***Standards, interpretations and amendments to published standards effective in 2023***

In 2023, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2023. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Bank's accounting policies impacting the Bank's financial performance or position.

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

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning on or after 1 January 2024 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.

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



***Classification and subsequent measurement***

As of 31 December 2023 and 2022, all of the Bank's financial assets were classified under the amortised cost measurement category.

***Debt instruments***

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

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

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

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

***Business Model Assessment***

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

The information that will be considered in such assessment includes:

- the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

***Cash flows that represent solely payments of principal and interest***

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending 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).

***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 the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:



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

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

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

## 1.4 IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such 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 provides more detail of how the expected credit loss allowance is measured.

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

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

## 1.5 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.

## 1.6 INVESTMENT PROPERTY

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

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

| | YEARS |
|---|---|
| Buildings | 75 |

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

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

## 1.7 PROPERTY AND EQUIPMENT

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

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

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

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

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

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

## 1.8 CURRENT AND DEFERRED TAX

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

## 1.9 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.



## 1.10 FINANCIAL LIABILITIES

***Initial recognition and measurement***

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

***Classification and subsequent measurement***

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

Financial liabilities measured at amortised cost comprise principally of amounts owed to banks and entities and other liabilities.

***Derecognition***

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

## 1.11 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.

## 1.12 FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

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

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

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

## 1.13 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.

## 1.14 REVENUE RECOGNITION

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

***Interest income and expense***

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

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

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

***Income on financial guarantees***

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

***Administrative fee income***

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

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

### 1.15 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 to produce a constant period rate of interest on the remaining balance of the liability.

### 1.16 PROVISIONS FOR PENSION OBLIGATIONS

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



## 2. FINANCIAL RISK MANAGEMENT

### 2.1 ORGANISATION

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has also established the Audit and Risk Committees, which are responsible for monitoring risk in specified areas and are chaired by a non-executive director. These Committees include non-executive directors, with the Chief Executive Officer also present at Board meetings. Reports from the Audit and Risk Committees are submitted to the Board of Directors.

The Risk Committee receives reports from three management committees: the Asset-Liability Management Committee, the Credit Management Committee, and the Operational Risk Management Committee.

ALCO is responsible for executing asset and liability management functions, managing liquidity risk, interest rate risk, and capital risk. Asset and liability management involve assessing structural changes and attaining strategic objectives in respect of the Bank's financial position.

The Credit Committee approves or recommends approval of credit requests and guarantees, in accordance with the risk thresholds established by the Board. It assesses and oversees the effectiveness of credit risk management policies and procedures, ensuring that the Board's method to managing the loan portfolio are effective.

The Operational Risk Committee oversees the operational risks faced by the Malta Development Bank ('MDB') in its business operations. It examines operational risk processes, handles reputation risk, and keeps track of the Bank's Risk Register.

The MDB's Enterprise Risk Management Framework is designed to oversee the Bank's risk-taking activities within the context of its mission and strategy. This framework considers the Bank's risk-bearing capacity, its risk appetite, and the minimum quantitative requirements for capital and liquidity. The Framework addresses:

i. credit risk through the Credit Risk Management Framework;
ii. funding and liquidity risk through the Treasury Management Policy;
iii. interest rate risk arising from non-trading activities; and
iv. operational risk 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 internal processes, people and systems, or from external events.

### 2.3 CAPITAL MANAGEMENT

The Bank is not subject to externally imposed capital requirements. As at 31 December 2023, the Bank's paid-up share capital stood at €80 million (2022: €80 million), which has been provided by the Bank's sole shareholder, the Government of Malta.

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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Capital** | | |
| Paid up share capital | **80,000,000** | 80,000,000 |
| Accumulated profits/(losses) | **155,051** | (2,996,453) |
| **Total equity** | **80,155,051** | 77,003,547 |

## 2.4 CREDIT RISK

### 2.4.1 CREDIT RISK MANAGEMENT

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

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

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

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

(i) Financial Guarantee contracts

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

The following financial guarantee schemes are disclosed as off-balance sheet commitments:

- *Guarantee Facility for loans to SMEs ('SME Invest'):* to provide financial guarantees for loans to Small and Medium Enterprises ('SMEs') facilitating lending to smaller businesses that are viable but unable to obtain the required amount of finance from a commercial bank. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan, subject to a portfolio capping of 25%. The last date for inclusion of loans under this scheme was 30 June 2023.

- *Family Business Transfer Facility ('FBT'):* to provide financial guarantees to commercial banks to assist and facilitate family businesses to transfer their business from one generation to the next. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan, subject to a portfolio capping of 50%. The last date for inclusion of loans under this scheme was 31 March 2022.

- *SME Guarantee Scheme ('SGS'):* to enhance access to bank financing for SMEs that, in spite of having viable projects, are unable to access the required bank finance for various reasons. The scheme addresses the following barriers to lending: (i) inadequate collateral; (ii) lack of credit history; and (iii) novel business market, sector or technology that is perceived by finance providers as higher risk under the current credit risk evaluation practices. The risk-sharing agreement entered into with counterparty commercial banks guarantees 80% of each eligible loan.

- *Guarantee Co-Lending Scheme ('GCLS'):* to provide financial guarantees for loans to SMEs with a special focus on SMEs with large loan requirements aimed at achieving a high level of sustainability or to promote the circular economy. The risk-sharing agreement entered into with counterparty commercial banks guarantees 60% of each eligible loan.

As of 31 December 2023, the Bank issued financial guarantee contracts, net of repayments, amounting to €44.3 million (2022: €45.8 million). The Bank needs to honour the guarantee in the event that the borrower defaults on the obligation to the counterparty commercial bank. However, the risk sharing agreements entered into between the Bank and the counterparty commercial banks limit the credit risk exposure in the event of default by the borrower and effectively reduce the credit risk of the Bank to €13.4 million (2022: €11.6 million) (see Note 15). The Bank has earmarked a pre-determined amount of own capital to fund these credit facilities in the event of default.



During the financial years ended 31 December 2023 and 2022, the Bank was also entrusted to implement and manage the following guarantee schemes on behalf of the Ministry for European Affairs and Equality and the Government of Malta:

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

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

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

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

(ii) Loans and advances to customers

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

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

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

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

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

- Guarantee Co-Lending Scheme ('GCLS'): to provide loans to SMEs with a special focus on SMEs with large loan requirements aimed at achieving a high level of sustainability or to promote the circular economy. The credit risk arising on loans originated before 31 December 2022, are backed by a 70% guarantee by the European Investment Fund.

(iii) Other financial assets

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

As at 31 December 2023, the Bank's other financial assets consisted of balances held with the Central Bank of Malta, amounts placed with local banks, treasury bills issued by the Government of Malta and local sovereign and corporate debt securities. All financial assets were placed with local high-quality counterparties.

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Balances with Central Bank of Malta | **508,430** | 696,456 |
| Loans and advances to banks | **35,527,955** | 24,968,231 |
| Financial investments | **42,172,788** | 46,803,063 |
| | **78,209,173** | 72,467,750 |

As at 31 December 2023 and 2022, these financial assets were neither past due nor impaired; and the credit quality grading attributable to these assets was considered of investment grade.

### 2.4.2 CREDIT RISK MEASUREMENT

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures expected credit losses ('ECLs') using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD') parameters.

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

The Credit Risk Policy of the Bank establishes the internal credit risk grading framework which reflects the assessment of the PD of individual counterparties or facilities for loans and advances to customers and financial guarantee contracts. The rating is initially inferred through the Risk Acceptance Criteria outlined in the Credit Risk Policy, and subsequently assessed through credit file reviews on the basis of ongoing qualitative and quantitative assessments. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement.

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.

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

The internal risk ratings are aligned to the different stages emanating from the requirements of IFRS 9, being; Stage 1, Stage 2 and Stage 3 (credit-impaired) which are further explained in Note 2.4.3

(b) Other financial assets

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

### 2.4.3 EXPECTED CREDIT LOSS MEASUREMENT

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

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk monitored by the Bank;
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on lifetime ECL;
- The measurement of ECL considers forward-looking information.



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

The following diagram summarises the impairment requirements under IFRS 9:

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

#### 2.4.3.1 SIGNIFICANT INCREASE IN CREDIT RISK

To determine whether the credit risk 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 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 credit monitoring.

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

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

In the case of other financial assets, the Bank applies the low credit risk simplification to exposures considered 'investment-grade', thus they are not subject to the SICR assessment.

#### 2.4.3.2 DEFINITION OF DEFAULT AND CREDIT IMPAIRED

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

The Bank considers exposures to be in default when:

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

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

- qualitative - such as non-adherence to terms and conditions of sanction and/or other breaches of covenant;
- quantitative - such as overdue status; and
- based on data developed internally and obtained from external sources.

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

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

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

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

ECLs 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.

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

PDs are estimates at a certain date, which are calculated based on statistical rating models. The PD calculation for loans and advances to customers and financial guarantee contracts is based on transition matrices which show the probability of a borrower's transition from one internal rating class to another (or staying within the same class) within a given horizon. The main assumption is that the future PD depends on the current characteristics of the exposure or borrower.

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

EAD is based on the 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 (see Note 2.4.3.4).

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

*(b) Other financial assets*

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



#### 2.4.3.4 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODEL

The calculation of ECL incorporates forward-looking information. The Bank performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses by reference to local default rates. In this respect, during 2023, the Bank assessed the Real Gross Domestic Product ('GDP'), Gross Fixed Capital Formation, Net Exports and Harmonised Index of Consumer Prices ('HICP'), to be good predictors of domestic non-financial corporate default rates. The impact of this economic variable on the PD is determined by performing statistical regression analysis to explain the historical impact that the change in these variables had on the local lending market.

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

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

| | AS AT 31 DECEMBER 2022 | |
|---|---|---|
| | **2023** | **2024** |
| Real GDP (% change) | **3.7%** | 3.6% |

The macroeconomic forecasts for Malta as published by the Central Bank of Malta project a moderate GDP growth, with a 4.4% increase in 2024, slowing to 3.6% in 2025 and 3.3% in 2026. Domestic demand will be the main growth driver, with employment growth expected to ease and wages to rise due to high inflation and tight labour market. Risks to economic activity are tilted downwards in 2024 due to geopolitical tensions, while risks to inflation and fiscal outlook are balanced.[4]

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 remained constant during 2023 at 50% (2022: 50%) for the 'Base' scenario, 30% (2022: 30%) for the 'Downside' scenario and 20% (2022: 20%) for the 'Upside' scenario. The economic scenarios were simulated over a full economic cycle.

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

4 Source: https://www.centralbankmalta.org/en/news/92/2024/11179

***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 €59,703 (2022: €53,645) if the provisions had to be calculated solely on the baseline scenario; ECLs would increase by €545,617 (2022: €466,849) if these had to be estimated using only the downside scenario and would reduce by €669,169 (2022: €566,162) if the upside scenario only was to be taken into consideration. In 2022 and 2023, the sensitivity impact was not considered to be significant, cognisant of the Bank's strong capital base.

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

### 2.4.4 MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

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

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 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 | **36,088** | **(52)** | 25,700 | (35) |
| Financial investments | **42,227** | **(54)** | 46,857 | (54) |
| Loans and advances to customers | **16,216** | **(78)** | 20,982 | (17) |
| **Credit risk exposure** | **94,531** | **(184)** | 93,539 | (106) |
| **Credit risk exposures relating to off-balance sheet instruments** | | | | |
| Financial guarantees | **13,421** | **(2,161)** | 11,594 | (1,570) |
| Undrawn commitments to lend | **13,659** | **(22)** | 6,094 | (25) |
| **Credit risk exposure** | **27,080** | **(2,183)** | 17,688 | (1,595) |



### 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 2023, no loans and advances to customers, or financial guarantee contracts were deemed to be prohibited large exposures in accordance with the requirements emanating from the MDB Act.

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

***Credit concentration risk by industry sector***

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

| | 2023 | 2022 |
|---|---|---|
| | €000 | €000 |
| Government of Malta | **20,227** | 24,857 |
| Corporate – financial services | **22,000** | 22,000 |
| **Net carrying amount** | **42,227** | 46,857 |

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

| | 2023 | 2022 |
|---|---|---|
| | €000 | €000 |
| Information and Communication | **3,278** | - |
| Retail | **712** | - |
| Accommodation | **9,283** | 9,238 |
| Manufacturing | **2,943** | 11,744 |
| | **16,216** | 20,982 |

All financial assets were held with local counterparties in Malta.

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

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

At the end of the reporting period, none of these financial assets mentioned were past due or impaired.

The credit rating of Malta was classified as investment grade by external rating agencies as at 31 December 2023 and 2022.

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

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

| | 2022 | | | |
|---|---|---|---|---|
| | 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 | 25,700 | - | - | 25,700 |
| Loss allowance | (35) | - | - | (35) |
| **Carrying amount** | **25,665** | - | - | **25,665** |

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

| | 2022 | | | |
|---|---|---|---|---|
| | 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 | 46,857 | - | - | 46,857 |
| Loss allowance | (54) | - | - | (54) |
| **Carrying amount** | **46,803** | **-** | **-** | **46,803** |



### 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) 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.

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

| | 2022 | | | |
|---|---|---|---|---|
| | 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 | 20,982 | - | - | 20,982 |
| Loss allowance | (17) | - | - | (17) |
| **Carrying amount** | **20,965** | - | - | **20,965** |

As at 31 December 2023 and 2022, the Bank's loans and advances to customers were 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 financial guarantees and undrawn commitments to lend is managed by the Bank using internal credit grades. The Bank assigns a grading of Stage 1, Stage 2 or Stage 3 (credit-impaired), on the basis of qualitative and quantitative assessments.

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

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

| | 2022 | | | |
|---|---|---|---|---|
| | STAGE 1 12-MONTH ECL | STAGE 2 LIFETIME ECL | STAGE 3 LIFETIME ECL | TOTAL |
| | €000 | €000 | €000 | €000 |
| Financial guarantees | | | | |
| Guaranteed amounts | 31,003 | 3,527 | 893 | 35,423 |
| Loss allowance | (333) | (614) | (623) | (1,570) |

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest and a portfolio capping of 50% under the Family Business Transfer Facility which effectively limit the credit risk exposure of the Bank to €6.8 million (2022: €8.0 million). No portfolio capping is applicable to the SGS and GCLS with the exposure amounting to €6.6 million (2022: €3.6 million) (refer to Note 2.4.1 and Note 15).

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

| | 2022 | | | |
|---|---|---|---|---|
| | STAGE 1 12-MONTH ECL | STAGE 2 LIFETIME ECL | STAGE 3 LIFETIME ECL | TOTAL |
| | €000 | €000 | €000 | €000 |
| Undrawn commitments to lend | 6,094 | - | - | 6,094 |
| Loss allowance | (24) | - | - | (24) |



### 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 2023 and 2022, 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 updates of model inputs;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwinding within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Write-offs of allowances related to assets that were written off during the period.

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

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

| | 2022 | | | |
|---|---|---|---|---|
| | 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 2022 | 55,235 | 19 | 55,235 | 19 |
| New financial assets purchased | 17,759 | 26 | 17,759 | 26 |
| Repayments and disposals | (47,294) | (10) | (47,294) | (10) |
| **At 31 December 2022** | **25,700** | **35** | **25,700** | **35** |
| Total net income statement charge for the year | | | | 16 |

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

| | 2022 | | | |
|---|---|---|---|---|
| | 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 2022 | 17,094 | - | 17,094 | - |
| New financial assets purchased | 29,932 | 54 | 29,932 | 54 |
| Other movements | (169) | - | (169) | - |
| **At 31 December 2022** | **46,857** | **54** | **46,857** | **54** |
| Total net income statement charge for the year | | | | 54 |



| | 2023 | | | |
|---|---|---|---|---|
| | 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 2023 | 20,982 | 17 | 20,982 | 17 |
| New and further lending | 4,034 | 72 | 4,034 | 72 |
| Repayments | (8,800) | (11) | (8,800) | (11) |
| **At 31 December 2023** | **16,216** | **78** | **16,216** | **78** |
| Total net income statement charge for the year | | | | 61 |

| | 2022 | | | |
|---|---|---|---|---|
| | 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 2022 | 3,204 | - | 3,204 | - |
| New and further lending | 17,778 | 17 | 17,778 | 17 |
| **At 31 December 2022** | **20,982** | **17** | **20,982** | **17** |
| Total net income statement charge for the year | | | | 17 |

| | 2023 | | | |
|---|---|---|---|---|
| | 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 2023 | 6,094 | 24 | 6,094 | 24 |
| New and further lending | 7,565 | (2) | 7,565 | (2) |
| **At 31 December 2023** | **13,659** | **22** | **13,659** | **22** |
| Total net income statement release for the year | | | | (2) |

| | 2022 | | | |
|---|---|---|---|---|
| | 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 2022 | 6,096 | - | 6,096 | - |
| New lending | 6,050 | 24 | 6,050 | 24 |
| Loan drawdowns | (6,052) | - | (6,052) | - |
| **At 31 December 2022** | **6,094** | **24** | **6,094** | **24** |
| Total net income statement charge for the year | | | | 24 |

| | 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | STAGE 1 | | STAGE 2 | | STAGE 3 | | TOTAL | |
| | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| **Financial guarantees** | | | | | | | | |
| **At 1 January 2023** | **31,003** | **333** | **3,527** | **614** | **893** | **623** | **35,424** | **1,570** |
| New financial guarantees originated | 4,532 | 195 | - | - | - | - | 4,532 | 195 |
| Repayments and disposals | (5,553) | (68) | (301) | (74) | (215) | (111) | (6,069) | (254) |
| Transfers between stages: | | | | | | | | |
| Stage 1 to Stage 2 | (1,151) | (15) | 1,151 | 15 | - | - | - | - |
| Stage 1 to Stage 3 | (906) | (13) | - | - | 906 | 13 | - | - |
| Stage 2 to Stage 1 | 1,594 | 285 | (1,594) | (285) | - | - | - | - |
| Net remeasurement of ECL arising from stage transfers and changes in risk parameters | - | (138) | - | 227 | - | 559 | - | 649 |
| **At 31 December 2023** | **29,519** | **580** | **2,784** | **497** | **1,584** | **1,084** | **33,887** | **2,161** |
| Total net income statement charge for the year | | | | | | | | 590 |

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest 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 €6.8 million (2022: €8.0 million). No portfolio capping is applicable to the SGS and GCLS, with the exposure amounting to €6.6 million (2022: €3.6 million) (refer to Note 2.4.1 and Note 15).



| | 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | STAGE 1 | | STAGE 2 | | STAGE 3 | | TOTAL | |
| | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES | EXPOSURE AMOUNT | EXPECTED CREDIT LOSSES |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| **Financial guarantees** | | | | | | | | |
| **At 1 January 2022** | **30,361** | **150** | **1,793** | **541** | **1,200** | **462** | **33,354** | **1,153** |
| New financial guarantees originated | 7,317 | 225 | - | - | - | - | 7,317 | 225 |
| Repayments and disposals | (4,783) | (40) | (353) | (102) | (112) | (60) | (5,248) | (202) |
| Transfers between stages: | | | | | | | | |
| Stage 1 to Stage 2 | (2,148) | (147) | 2,148 | 147 | - | - | - | - |
| Stage 2 to Stage 1 | 256 | 96 | (256) | (96) | - | - | - | - |
| Stage 3 to Stage 2 | - | - | 195 | 45 | (195) | (45) | - | - |
| Net remeasurement of ECL arising from stage transfers and changes in risk parameters | - | 49 | - | 79 | - | 266 | - | 394 |
| **At 31 December 2022** | **31,003** | **333** | **3,527** | **614** | **893** | **623** | **35,423** | **1,570** |
| Total net income statement charge for the year | | | | | | | | 417 |

### 2.4.11 WRITE-OFF POLICY

The Bank writes off loans, and/or receivable balances (and any related allowances for impairment losses) when management determines that the loan, security and/or receivables are uncollectible, and the Bank has exhausted all practical recovery efforts and concluded that there is no reasonable expectation of recovery. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. There were no write offs recorded during 2023 or 2022.

### 2.4.12 COLLATERAL

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

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

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

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

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

Financial guarantees that were credit impaired and in respect of which collateral in the form of immovable property was held as of 31 December 2023 are shown below:

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

As at 31 December 2022, all financial guarantees that were credit-impaired were unsecured.

## 2.5 MARKET RISK

Market risk comprises the risk of losses in value caused by unexpected changes in market prices before the affected positions can be closed out or hedged. Market risk for the Bank consists of interest rate risk which is the risk of losses due to adverse changes in interest rates. As at 31 December 2023 and 2022, the Bank did not have any foreign exchange exposures and neither held any equity positions.

### 2.5.1 INTEREST RATE RISK

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

*Exposure to interest rate risk*

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

| | CARRYING AMOUNT | EFFECTIVE INTEREST RATE | LESS THAN 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 YEAR AND 5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **As at 31 December 2023** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Bank of Malta | 508 | 0.10% | 508 | - | - | - |
| Loans and advances to banks | 35,528 | 3.69% | 10,564 | 1 | 24,963 | - |
| Financial investments | 42,173 | 5.54% | 3,471 | - | 38,702 | - |
| Loans and advances to customers | 16,138 | 3.11% | 6,120 | 734 | 796 | 8,488 |
| **Total financial assets** | **94,347** | | **20,663** | **735** | **64,461** | **8,488** |
| **Financial liabilities** | | | | | | |
| Amounts owed to banks | 11,565 | 0.6% | 1,213 | 1,205 | 9,147 | - |
| **Total financial liabilities** | **11,565** | | **1,213** | **1,205** | **9,147** | - |
| **Interest repricing gap** | | | **19,450** | **(470)** | **55,314** | **8,488** |
| **Cumulative gap** | | | **19,450** | **18,980** | **74,294** | **82,782** |



| | 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 2022** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Bank of Malta | 696 | 1.80% | 696 | - | - | - |
| Loans and advances to banks | 24,968 | 1.01% | 10,987 | 4,994 | 8,987 | - |
| Financial investments | 46,803 | 5.10% | 3,979 | 3,953 | 35,076 | 3,795 |
| Loans and advances to customers | 20,965 | 2.42% | 2,197 | 6,590 | 3,534 | 8,644 |
| **Total financial assets** | **93,432** | | **17,859** | **15,537** | **47,597** | **12,439** |
| **Financial liabilities** | | | | | | |
| Amounts owed to banks | 15,770 | 0.60% | 3,003 | 1,204 | 9,701 | 1,862 |
| **Total financial liabilities** | **15,770** | | 3,003 | 1,204 | **9,701** | 1,862 |
| **Interest repricing gap** | | | **14,856** | **14,333** | **37,896** | **10,577** |
| **Cumulative gap** | | | **14,856** | **29,189** | **67,085** | **77,662** |

*Interest rate profile*

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | FIXED | VARIABLE | FIXED | VARIABLE |
| | €000 | €000 | €000 | €000 |
| **Interest-earning assets** | | | | |
| Balances with Central Bank of Malta | - | 508 | - | 696 |
| Loans and advances to banks | 24,963 | 10,564 | 14,003 | 10,965 |
| Financial investments | 20,227 | 21,946 | 24,857 | 21,946 |
| Loans and advances to customers | 2,937 | 13,202 | 11,727 | 9,238 |
| | **48,127** | **46,220** | **50,587** | **42,845** |
| **Interest-bearing liabilities** | | | | |
| Amounts owed to banks | 11,565 | - | 15,770 | - |
| | **11,565** | **-** | **15,770** | **-** |

Loans and advances to customers include variable interest rate loans of €9,284,355 (2022: €9,238,494) which are fixed for a period of 12 years since origination, and which will reprice in 2033.

Financial investments include variable interest rate debt securities of €21,945,798 (2022: €21,945,798) which are fixed for a period of 4 years since inception, and which will reprice in 2026.

*Fair value sensitivity analysis for fixed-rate instruments*

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

*Cash flow sensitivity for variable rate instruments*

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

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

As at 31 December 2022, a cash flow sensitivity for variable rate instruments was not considered necessary in view that variable rate loans and advances to customers and financial investments reprice in 2033 and 2026 respectively, and interest income on variable rate loans and advances to banks was not considered significant.

### 2.5.2 CURRENCY RISK

At the reporting date, the Bank's financial assets and liabilities were all denominated in Euro and therefore the Bank was not exposed to currency risk.

### 2.5.3 FAIR VALUES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

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

*Financial investments*

The fair value of debt securities measured at amortised cost on the Statement of Financial Position amounted to €42,729,842 (2022: €44,983,012) at 31 December 2023, based on quoted prices.

## 2.6 LIQUIDITY RISK

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

The Bank's approach to managing liquidity risk is to ensure, to the extent possible, that it 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 assets and liabilities in order to diversify funding sources and maintain a spread of asset and liability maturities to the extent practicable.

The Bank's liquidity risk during 2023 and 2022 was insignificant in view of the margin of liquidity available to manage repayments of liabilities.

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



| | CARRYING AMOUNT | WITHIN 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 YEAR AND 5 YEARS | MORE THAN 5 YEARS | NO MATURITY DATE |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **As at 31 December 2023** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Bank of Malta | 508 | 508 | - | - | - | - |
| Loans and advances to banks | 35,528 | 10,565 | - | 24,963 | - | - |
| Financial investments | 42,173 | 3,471 | - | 38,702 | - | - |
| Loans and advances to customers | 16,138 | 2,276 | 1,066 | 2,623 | 10,173 | - |
| Other assets | 1,194 | 1,028 | 166 | - | - | - |
| **Total financial assets** | **95,541** | **17,848** | **1,232** | **66,288** | **10,173** | **-** |
| **Financial liabilities** | | | | | | |
| Amounts owed to banks | 11,565 | 1,213 | 1,205 | 9,147 | - | - |
| Amounts owed to other entities | 5,627 | - | - | - | - | 5,627 |
| Other liabilities | 290 | 145 | 137 | - | - | 8 |
| **Total financial liabilities** | **17,482** | **1,358** | **1,342** | **9,147** | **-** | **5,635** |
| **Maturity gap** | | **16,490** | **(110)** | **57,141** | **10,173** | **(5,635)** |
| **Cumulative gap** | | **16,490** | **16,380** | **73,521** | **83,694** | **78,059** |

| | CARRYING AMOUNT | WITHIN 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 YEAR AND 5 YEARS | MORE THAN 5 YEARS | NO MATURITY DATE |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **As at 31 December 2022** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Bank of Malta | 696 | 696 | - | - | - | - |
| Loans and advances to banks | 24,968 | 10,987 | 4,994 | 8,987 | - | - |
| Financial investments | 46,803 | 3,978 | 3,954 | 35,076 | 3,795 | - |
| Loans and advances to customers | 20,965 | 2,197 | 6,590 | 3,534 | 8,644 | - |
| Other assets | 1,181 | 985 | 162 | 34 | - | - |
| **Total financial assets** | **94,613** | **18,843** | **15,700** | **47,631** | **12,439** | **-** |
| **Financial liabilities** | | | | | | |
| Amounts owed to banks | 15,770 | 3,003 | 1,204 | 9,701 | 1,862 | - |
| Amounts owed to other entities | 4,305 | - | - | - | - | 4,305 |
| Other liabilities | 278 | 139 | 102 | 25 | 4 | 8 |
| **Total financial liabilities** | **20,353** | **3,142** | **1,306** | **9,726** | **1,866** | **4,313** |
| **Maturity gap** | | **15,701** | **14,394** | **37,905** | **10,573** | |
| **Cumulative gap** | | **15,701** | **30,095** | **68,000** | **78,573** | |

## 3. BALANCES WITH CENTRAL BANK OF MALTA AND OTHER BANKS

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Current** | | |
| Repayable on call and at short notice | **11,086,758** | 11,697,892 |
| Term loans and advances | **25,001,392** | 14,001,387 |
| Gross carrying amount | **36,088,150** | 25,699,279 |
| Less allowances for expected credit losses | **(51,765)** | (34,592) |
| **Net carrying amount** | **36,036,385** | 25,664,687 |

By virtue of an agreement entered into between the Ministry for European Affairs and Equality (the 'Managing Authority') and the Bank, as the entity entrusted with the implementation of the Further Studies Made Affordable ('FSMA') and Further Studies Made Affordable Plus ('FSMA+') programmes, an amount of €5.6 million (2022: €4.3 million) was held in favour of, and for the ultimate benefit of the Managing Authority as part of the implementation of the FSMA programmes. The said amount will be used to provide financial guarantees and interest rate subsidies on loans sanctioned by counterparty commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent (see Note 13).

## 4. FINANCIAL INVESTMENTS

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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Debt instruments** | | |
| Local government debt securities listed on the Malta Stock Exchange | **20,226,990** | 24,857,265 |
| Other local debt securities listed on the Irish Stock Exchange | **22,000,000** | 22,000,000 |
| Gross carrying amount | **42,226,990** | 46,857,265 |
| Less allowances for expected credit losses | **(54,202)** | (54,202) |
| **Net carrying amount** | **42,172,788** | 46,803,063 |

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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| At 1 January | **46,803,063** | 17,093,955 |
| Acquisitions | **31,280,341** | 29,931,419 |
| Redemptions and disposals | **(35,948,027)** | - |
| Amortisation | **37,411** | (168,109) |
| Expected credit loss allowances | **-** | (54,202) |
| **At 31 December** | **42,172,788** | 46,803,063 |



## 5. LOANS AND ADVANCES TO CUSTOMERS

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Term loans and advances | **16,216,211** | 20,982,176 |
| Less: expected credit loss allowances | **(77,948)** | (17,092) |
| **Net carrying amount** | **16,138,263** | 20,965,084 |

## 6. INVESTMENT PROPERTY

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Year ended 31 December** | | |
| Opening net book amount | **614,948** | 623,519 |
| Depreciation charge | **(8,571)** | (8,571) |
| Closing net book amount | **606,377** | 614,948 |
| **At 31 December** | | |
| Cost | **642,851** | 642,851 |
| Accumulated depreciation | **(36,474)** | (27,903) |
| **Net book amount** | **606,377** | 614,948 |

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 2023 and 2022, the Board considers the carrying amount of the investment property to be fairly close to its fair value as reflected below.

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

| | | SIGNIFICANT UNOBSERVABLE INPUTS | |
|---|---|---|---|
| | FAIR VALUE AT 31 DECEMBER 2023 AND 2022 | VALUATION TECHNIQUE | VALUE PER SQUARE RENTAL METRE |
| | € | | € |
| **Office Building** | **640,000** | Equivalent value per square metre | **4,100** |

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

## 7. PROPERTY AND EQUIPMENT

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

| | BUILDINGS | IMPROVEMENTS TO PROPERTY | FURNITURE | COMPUTER EQUIPMENT | OTHER EQUIPMENT | TOTAL |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **Year ended 31 December 2022** | | | | | | |
| At 1 January 2022 | 3,104,184 | 271,150 | 86,217 | 73,045 | 20,995 | 3,555,591 |
| Additions | - | 100,931 | 19,161 | 41,234 | 24,325 | 185,651 |
| Disposals | - | - | - | (2,301) | - | (2,301) |
| Depreciation charge | (42,162) | (17,474) | (10,526) | (25,301) | (5,474) | (100,937) |
| Depreciation released on disposal | - | - | - | 1,848 | - | 1,848 |
| **Closing net book amount** | **3,062,022** | **354,607** | **94,852** | **88,525** | **39,846** | **3,639,852** |
| **At 31 December 2022** | | | | | | |
| Cost | 3,135,806 | 377,701 | 114,713 | 150,846 | 47,218 | 3,826,284 |
| Accumulated depreciation | (73,784) | (23,094) | (19,861) | (62,321) | (7,372) | (186,432) |
| **Net book amount** | **3,062,022** | **354,607** | **94,852** | **88,525** | **39,846** | **3,639,852** |

As at 31 December 2023, capital expenditure authorised and contracted for amounted to €117,000 (2022: €117,000) and is mainly related to the acquisition of immovable property. This contracted expenditure is included within Commitments in Note 15.



## 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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Opening net book amount | **11,683** | 25,703 |
| Depreciations | **(11,683)** | (14,020) |
| **At 31 December** | **-** | 11,683 |

### LEASE LIABILITIES

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Current | - | 11,745 |
| **At 31 December** | **-** | 11,745 |

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

The total cash payments for leases in 2023 amounted to €11,856 (2022: €14,114).

The income statement reflects the following amounts relating to leases:

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Depreciation charge of right-of-use asset | **11,683** | 14,020 |
| Interest expense on lease liabilities | **111** | 399 |
| | **11,794** | 14,419 |

## 9. INTANGIBLE ASSETS

| | COMPUTER SOFTWARE €|
|---|---|
| At 1 January 2022 | |
| Cost | 34,523 |
| Accumulated amortisation | (10,311) |
| | 24,212 |
| Year ended 31 December 2022 | |
| At 1 January 2022 | 24,212 |
| Additions | 2,230 |
| Amortisation charge | (7,018) |
| At 31 December 2022 | 19,424 |
| At 31 December 2022 | |
| Cost | 36,753 |
| Accumulated amortisation | (17,329) |
| Net book amount | 19,424 |
| **Year ended 31 December 2023** | |
| At 1 January 2023 | 19,424 |
| Additions | 7,788 |
| Disposals | (1,769) |
| Amortisation charge | (6,430) |
| Amortisation released on disposals | 295 |
| **At 31 December 2023** | 19,308 |
| **At 31 December 2023** | |
| Cost | 42,772 |
| Accumulated amortisation | (23,464) |
| **Net book amount** | 19,308 |

## 10. OTHER ASSETS

| | 2023 € | 2022 € |
|---|---|---|
| Accrued interest | **364,486** | 453,307 |
| Accrued income from financial guarantees | **143,675** | 108,693 |
| Accrued administrative fee income | **670,770** | 611,704 |
| Prepayments | **86,523** | 51,597 |
| Other receivables | **14,799** | 7,549 |
| | **1,280,253** | 1,232,850 |



## 11. SHARE CAPITAL

| | 2023 € | 2022 € |
|---|---|---|
| **Authorised** | | |
| 2,000,000 shares of €100 each | **200,000,000** | 200,000,000 |
| **Issued and fully paid up** | | |
| 800,000 (2022: 800,000) shares of €100 each | **80,000,000** | 80,000,000 |

The Bank is fully owned by the Government of Malta. In accordance with article 10(1) of the Malta Development Bank Act, Chapter 574 of the Laws of Malta, the authorised share capital of the Bank is €200 million divided into 2 million shares having a par value of €100 each.

During 2022, the Bank issued 200,000 shares at par value of €100 each which were fully subscribed by the Government of Malta.

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

***Government guarantee***

In terms of Article 5 of the Malta Development Bank Act, the Government of Malta guarantees up to 100% of all obligations of the Bank and up to 100% of the loans, facilities and guarantees issued by the Bank. A Government guarantee was issued on 16 February 2018 in favour of the Bank. The amount of the guarantee stood at €150 million as at 31 December 2023 (2022: €150 million).

## 12. AMOUNTS OWED TO BANKS

| | 2023 € | 2022 € |
|---|---|---|
| Current | **2,418,701** | 4,207,001 |
| Non-current | **9,146,311** | 11,562,680 |
| | **11,565,012** | 15,769,681 |

On 24 June 2019, the Bank entered into a loan agreement with KfW, for the amount of €45 million. On 31 March 2020 and 30 June 2020, the Bank withdrew €10 million and €15 million respectively. The disbursement period of this facility expired on 23 June 2022. The loan is unsecured, subject to a fixed interest rate of 0.6% and matures in 2029.

The Bank is also party to a loan agreement with the European Investment Bank ('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 had been disbursed.

On 14 November 2023, the Bank entered into a Climate Action finance agreement with the EIB for an amount of €30 million. This facility, which is guaranteed by the Government of Malta, will allow the Bank to provide access to credit to SME enterprises, mid-caps and local authorities for investment in projects that contribute to the fight against adverse climate change. The EIB's favourable financing cost will be passed on to the industry together with longer repayment periods thus enabling better investment planning in sustainable projects. As at the reporting date, no amounts under this agreement had 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 and FSMA+ programmes, an amount of €5.6 million (2022: €4.3 million) was held in favour of, and for the ultimate benefit of the Managing Authority as part of the implementation of the FSMA and FSMA+ programmes. The said amount is being used to provide financial guarantees and interest rate subsidies on loans sanctioned by counterparty commercial banks in favour of individuals seeking to further their studies at a tertiary education institution or equivalent (see Note 3).

## 14. OTHER LIABILITIES

| | 2023 € | 2022 € |
|---|---|---|
| Accounts payable | **45,244** | 47,257 |
| Lease liabilities (Note 8) | **-** | 11,745 |
| Accrued interest payable | **27,985** | 29,320 |
| Other accruals | **216,495** | 189,370 |
| Expected credit losses on financial guarantees (Note 15) | **2,183,095** | 1,595,330 |
| | **2,472,819** | 1,873,022 |

## 15. COMMITMENTS

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

| | 2023 € | 2022 € |
|---|---|---|
| **Commitments** | | |
| Undrawn commitments to lend | **13,658,806** | 6,093,762 |
| Capital commitments | **117,000** | 117,000 |
| | **13,775,806** | 6,210,762 |
| **Financial guarantees** | | |
| Maximum exposure guaranteed by the MDB on SME Invest and FBT | **6,839,877** | 7,963,556 |
| Maximum exposure guaranteed by the MDB on GCLS | **6,580,920** | 3,630,000 |
| | **13,420,797** | 11,593,556 |
| | **27,196,603** | 17,804,318 |

As of the end of the reporting period, the Bank sanctioned commitments amounting to €13.7 million (2022: €6.1 million) inclusive of two facilities amounting to €10m (2022: nil) which were sanctioned subject to a number of conditions precedent to initial drawdown which were in the process of being perfected as at the reporting date.

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

The guaranteed amounts are subject to a further portfolio capping of 25% under the SME Invest and a portfolio capping of 50% under the Family Business Transfer Facility which effectively limit the credit risk exposure of the Bank to €6.8 million (2022: €8.0 million). No portfolio capping is applicable to the SGS and GCLS with the exposure amounting to €6.6 million (2022: €3.6 million) (refer to Note 2.4.1).

Financial guarantees are further explained below:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | DRAWN COMMITMENTS € | UNDRAWN COMMITMENTS € | TOTAL € | DRAWN COMMITMENTS € | UNDRAWN COMMITMENTS € | TOTAL € |
| **Financial guarantees** | | | | | | |
| Total sanctioned loans (net of repayments) | **36,746,170** | **7,533,837** | **44,280,007** | 33,535,954 | 12,254,781 | 45,790,735 |
| Guaranteed amount by the MDB per individual exposure | **28,591,497** | **5,295,309** | **33,886,806** | 26,828,763 | 8,593,825 | 35,422,588 |
| Maximum exposure guaranteed by the MDB (portfolio capping) | | | **13,420,797** | | | 11,593,556 |

As at 31 December 2023 the expected credit losses arising on financial guarantees amounted to €2,160,620 (2022: €1,570,411).

Expected credit losses in respect of undrawn commitments to lend attributable to loans and advances to customers as at 31 December 2023 amounted to €22,475 (2022: €24,919).



## 16. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2023 € | 2022 € |
|---|---|---|
| On loans and advances to banks and balances with Central Bank of Malta | **446,091** | 189,826 |
| On loans and advances to customers | **552,450** | 337,276 |
| | **998,541** | 527,102 |
| On debt instruments | **2,378,000** | 328,684 |
| Net amortisation of discounts and premiums | **37,411** | (168,109) |
| | **2,415,411** | 160,575 |
| | **3,413,952** | 687,677 |

## 17. INTEREST PAYABLE AND SIMILAR EXPENSE

| | 2023 € | 2022 € |
|---|---|---|
| On balances with Central Bank of Malta | **-** | 1,451 |
| On amounts owed to banks | **109,475** | 176,286 |
| On lease liabilities (Note 8) | **111** | 399 |
| | **109,586** | 178,136 |

## 18. INCOME FROM FINANCIAL GUARANTEES

| | 2023 € | 2022 € |
|---|---|---|
| SME Invest Scheme | **164,707** | 154,418 |
| Family Business Transfer Scheme | **464** | 530 |
| Guarantee Co-Lending Scheme | **18,251** | - |
| | **183,422** | 154,948 |

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

## 19. ADMINISTRATIVE FEE INCOME

| | 2023 € | 2022 € |
|---|---|---|
| COVID-19 Guarantee Scheme | **2,471,843** | 2,505,570 |
| Further Studies Made Affordable | **44,709** | 34,730 |
| Further Studies Made Affordable Plus | **1,405** | 30,100 |
| Liquidity Support Guarantee Scheme | **87,721** | - |
| | **2,605,678** | 2,570,400 |

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

## 20. OTHER INCOME

| | 2023 € | 2022 € |
|---|---|---|
| Rental income | **36,646** | 33,941 |
| Other income | **1,136** | 10,855 |
| | **37,782** | 44,796 |

## 21. CHANGES IN EXPECTED CREDIT LOSSES

| | 2023 € | 2022 € |
|---|---|---|
| On balances with Central Bank of Malta and other banks | **17,173** | 15,557 |
| On financial investments | **-** | 54,202 |
| On loans and advances to customers | **60,856** | 17,092 |
| On undrawn loan commitments | **(2,444)** | 24,920 |
| On financial guarantee contracts | **590,208** | 417,143 |
| | **665,793** | 528,914 |

## 22. ADMINISTRATIVE EXPENSES

| | 2023 € | 2022 € |
|---|---|---|
| Legal and professional fees | **143,612** | 141,143 |
| Supervisory fees | **19,500** | 19,500 |
| Directors' fees | **88,307** | 84,572 |
| Travelling and accommodation | **10,339** | 11,908 |
| Memberships of local and international associations | **45,726** | 37,372 |
| Insurance costs | **55,840** | 51,689 |
| Advertising and public awareness | **31,190** | 27,024 |
| Repairs and maintenance | **94,022** | 72,843 |
| Other | **111,418** | 147,830 |
| | **599,954** | 593,881 |

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

**Auditor's remuneration**

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

| | 2023 € | 2022 € |
|---|---|---|
| Annual statutory audit | **37,500** | 35,000 |



## 23. EMPLOYEE COMPENSATION AND BENEFITS

| | 2023 € | 2022 € |
|---|---|---|
| Staff costs | | |
| - Wages, salaries and allowances | **1,472,211** | **1,304,294** |
| - Social security costs | **54,219** | **49,686** |
| - Other costs | **46,555** | **20,864** |
| | **1,572,985** | **1,374,844** |

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

| | 2023 € | 2022 € |
|---|---|---|
| Senior management | **10** | 10 |
| Middle management | **14** | 11 |
| **Average number of employees** | **24** | 21 |

## 24. NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES

| | 2023 € | 2022 € |
|---|---|---|
| Profit/(loss) for the year | **3,151,504** | 651,500 |
| Adjustments for: | | |
| Depreciation of investment property, property and equipment and right-of-use assets (Notes 6, 7, 8) | **134,582** | 123,528 |
| Loss on disposal of intangible assets | **1,476** | 453 |
| Loss on disposal of investments | **16,475** | - |
| Amortisation of intangible assts (Note 9) | **6,430** | 7,018 |
| Interest income on debt instruments (Note 16) | **(2,378,000)** | (328,684) |
| Net amortisation of discounts and premiums on financial investments (Note 16) | **(37,411)** | 168,109 |
| Changes in expected credit losses (Note 21) | **665,793** | 528,914 |
| Interest expense on lease liabilities (Note 8) | **111** | 399 |
| | **1,560,960** | 1,151,237 |
| Changes in operating assets and liabilities: | | |
| (Increase)/decrease in loans and advances to banks (Note 3) | **(11,000,005)** | 15,933,091 |
| (Increase)/decrease in loans and advances to customers (Note 5) | **4,765,965** | (17,778,225) |
| Increase in amounts owed to entities (Note 13) | **1,321,174** | 1,370,573 |
| Increase in other assets (Note 10) | **(47,403)** | (376,115) |
| Increase/(decrease) in accruals and accounts payable (Note 14) | **23,777** | (162,042) |
| | **(3,375,532)** | 138,519 |

## 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.

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Balances with Central Bank of Malta and other banks** | | |
| Repayable on call and at short notice (Note 3) | **11,086,758** | 11,697,892 |

## 26. RELATED PARTIES

### 26.1 IDENTIFICATION OF RELATED PARTIES AND THE ULTIMATE CONTROLLING PARTY

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

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

### 26.2 TRANSACTIONS WITH THE SHAREHOLDER AND RELATED PARTIES

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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Income received from related parties** | | |
| Interest receivable and similar income | **2,420,147** | **172,883** |
| Income from financial guarantees | **48,991** | **111,455** |
| Administrative fee income | **2,125,639** | **1,820,716** |
| Other income | **36,646** | **33,941** |
| **Interest and expenses paid to related parties** | | |
| Interest payable and similar expense | **-** | **1,451** |
| Administrative expenses | **95,332** | **84,131** |

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 AND RELATED PARTIES

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

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| **Amounts owed by related parties** | | |
| Balances with Central Bank of Malta | **508,430** | 696,456 |
| Loans and advances to banks | **8,796,820** | 6,205,936 |
| Financial investments | **42,172,788** | 46,803,063 |
| Other assets | **811,793** | 598,701 |
| **Amounts owed to related parties** | | |
| Amounts owed to other entities | **5,626,515** | 4,305,341 |
| Other liabilities | **22,055** | 22,787 |

### 26.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

| | 2023 | 2022 |
|---|---|---|
| | € | € |
| Compensation to key management personnel | **866,875** | 874,532 |

## 27. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

### 27.2 MEASUREMENT OF THE EXPECTED CREDIT LOSSES

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

A number of significant judgements are required in measurement of ECLs, such as:
- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECLs; and
- Establishing the number and relative weightings of forward-looking scenarios and associated ECLs.

### 27.3 ASSESSMENT OF ESTIMATES AND JUDGEMENTS

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

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

## 28. STATUTORY INFORMATION

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

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