



Annual Report and Financial Statements
31 December 2016

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Board of Governors' Report

For the period ended 31 December 2016

The National Development and Social Fund ("NDSF", "Fund" or "Agency") was established on 6 January 2015, by virtue of Subsidiary Legislation 188.03, "Individual Investor Programme of the Republic of Malta Regulations" made under the Maltese Citizenship Act Cap. 188. Article 13 of the said Regulations lays down the founding provisions for the establishment and governance of the Fund.

Subsidiary Legislation 497.12 – "National Development and Social Fund (Establishment as an Agency)" was enacted to implement the provisions of article 13 of the "Individual Investor Programme of the Republic of Malta Regulations" wherein it is established that the National Development and Social Fund shall have a separate legal personality. The NDSF was therefore established as a government agency in terms of article 36 (1) of the Public Administration Act Cap. 497.

Founding Regulation: Article 13 of the Individual Investor Programme of the Republic of Malta Regulations S.L. 188.03.

Article 13 of the Individual Investor Programme of the Republic of Malta Regulations establishes that there shall be a fund to be known as the National Development and Social Fund into which 70% of contributions received by Identity Malta (another Government Agency) under the Individual Investor Programme (IIP) shall be paid.

The funds received by the NDSF shall be used in the public interest inter alia for the advancement of education, research, innovation, social purposes, justice and the rule of law, employment initiatives, the environment and public health.

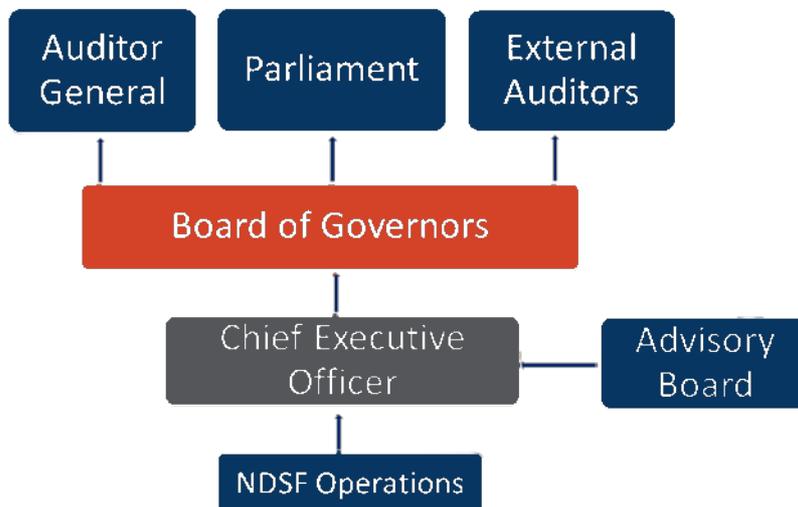
The Fund shall have a separate legal personality and shall be administered by a Board of Governors consisting of five members of whom one shall be the Chairman and another shall be the Deputy Chairman who shall be appointed by the Prime Minister. The Board of Governors of the Fund shall be responsible to ensure the highest level of governance of the Fund and that the funds held in the Fund are used solely for the said intended purposes.

The Board of Governors of the NDSF was appointed in September 2015.

The NDSF is required to publish its audited accounts on an annual basis and shall report to the Minister responsible for Finance on its activities not less than once a year. The audited accounts and the annual report of the Fund shall be laid on the table of the House of Representatives by the Minister responsible for Finance. The Fund is also subject to being audited by the Auditor General.

Board of Governors' Report - continued

The Governance and Reporting Framework of the NDSF is as follows:



Implementing Order: National Development and Social Fund (Establishment as an Agency) Order S.L. 497.12

On 6 January 2015 by means of Implementing Order S.L. 497.12 ("the Order") the NDSF was established as a government agency which reports to the Office of the Prime Minister. The Implementing Order also lays down the functions and duties of the NDSF namely:

- To contribute to major projects of national importance.
- To assist in projects and initiatives in the public interest, by inter alia, promoting, supporting the advancement of education, research, innovation, justice and the rule of law, employment and public health.
- To contribute to the development of better public services.
- To support enterprise and business in improving its competitiveness.
- To promote research and development in matters conducive to the public interest.
- To help stakeholders to deliver social, employment and educational projects.
- To foster initiatives that support reforms and better governance.
- To support measures for the improvement of the fairness and efficiency of justice.
- To foster initiatives encouraging gender equality, prevention of discrimination and respect for human rights.
- To assist initiatives to provide for the social housing needs of the population and to combat social exclusion.
- To sponsor initiatives for the improvement of health, health care and care for the elderly.
- To undertake initiatives for the benefit of future generations.

The administrative head of the Agency is the Chief Executive Officer who has the legal and judicial representation of the Fund and who acts under the direction of the Board of Governors. The Chief Executive Officer was appointed in March 2017.

Board of Governors' Report - continued

The Implementing Order specifically states that Articles 38 and 39 of the Public Administration Act Cap. 497 shall not apply to NDSF. These articles relate to directives and guidelines issued by the Principal Permanent Secretary in relation to government agencies and to the general direction and control of agencies by Ministers and supervision by Permanent Secretaries.

The Order requires that the Board of Governors of the Fund shall ensure that all accountability and transparency obligations resulting from the founding regulations are strictly adhered to.

It also provides for the setting up of an Advisory Board to the Fund which shall consist of 4 persons appointed by the Prime Minister. The Advisory Board shall be chaired by the Chief Executive Officer. The Advisory Board was appointed on in November 2017.

The Order requires that NDSF to enter into an Agency Performance Agreement with the Principal Permanent Secretary in terms of article 40 of the Public Administration Act Cap. 497.

The Agency Performance Agreement regulates the relationship, the communication, consultation and reporting lines between NDSF and Government. An Agency Performance Agreement was entered by the NDSF with the Principal Permanent Secretary for the period 1st March 2017 to the 29 February 2020.

The Board of Governors of the NDSF is autonomous but coordinates closely with government, through the Office of the Prime Minister to ensure that it acts in line with government policies.

Investment Strategy

The Board of Governors is responsible for setting the Investment Strategy of the Fund. The Investment Policy and Risk Management Framework of the Fund were approved by the Board of Governors on the 29th September 2017.

The Investment Strategy of the Fund, as articulated and approved by the Board of Governors in consultation with government is underpinned by four main objectives:

- To deliver sustainable real positive returns and preservation of capital over the long term by managing assets held under commercial principles.
- To act with integrity and professionalism at all times by adhering to the values of legality, accountability, transparency and performance.
- To follow best international practices of other sovereign wealth funds under the Santiago Principles promoting excellence in all that it does.
- To support development and social initiatives of national importance for the benefit of the community across present and future generations.

Board of Governors' Report - continued

In so doing, the NDSF will:

- Seek to balance short-term economic policy goals with long term maximisation of returns for the benefit of public policies.
- Utilise funds for the purpose of improving the economy's potential for future growth, creating higher future revenue streams while supporting economic development in a sustainable manner.
- Ensure its investment policy is consistent with the strategic purposes and defined objectives in the founding regulations.
- Prioritise between the different social and development strategic purposes of the Fund.
- Maintain the highest standards of governance and accountability at all times.

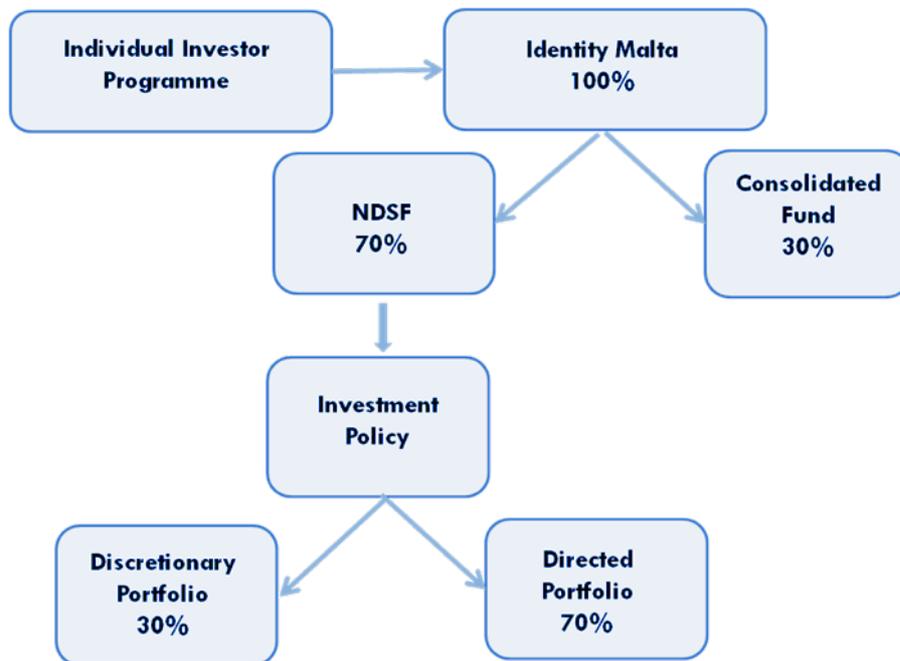
On the other hand, the NDSF will seek not to:

- Undertake or support measures and initiatives that trigger a long term expenditure commitment on the Public Sector.
- Be a rainy-day fund but will seek to employ funds in a budget-neutral manner to further economic and social objectives.
- Commit funds in any one year that amount to more than the Fund's expected revenue for the year.
- Undertake or support measures or initiatives for which funding is available from other sources e.g. National Budget or EU Funding.

The Investment Policy and Risk Management Framework of the Fund have been designed in a way to allow the Fund to achieve the social and economic objectives laid down in the founding regulations whilst at the same time investing on a commercial basis in a manner to support those objectives. This is a model that is generally used by Sovereign Wealth Funds. This model ensures that a second source of income is created for the Fund from the returns made on the investments.

For this purpose, the Fund has allocated two main portfolios namely the Discretionary Portfolio and the Directed Portfolio.

Board of Governors' Report - continued



Discretionary Portfolio

The Discretionary Portfolio holds investments which equal to 30% of all funds received from Identity Malta by the Fund. The NDSF has given an investment, management, custody and administration mandate to the Central Bank of Malta to manage this portfolio on a discretionary basis. The Central Bank of Malta is required to hold or invest the assets of the Fund as set out in the mandate given to it by the Fund, which includes the strategic asset allocation and tactical ranges of the investments together with the broad risk parameters of the portfolio. The Discretionary Portfolio will include solely investments in financial instruments.

The overall objective of the discretionary portfolio is the preservation of capital and the re-investment of investment returns over the long term. (Refer to Note 3.1 on Page 21).

Directed Portfolio

The Directed Portfolio holds 70% of all funds received from Identity Malta which will be used for social and development purposes. The holding, management, directions and disposals of the directed investments, must be in accordance with the provisions of S.L. 188.03 and S.L. 497.12 and must satisfy the investment criteria stated in the Investment Policy of the Fund as articulated by the Board of Governors from time to time. Any interest or other income received from investments held in the Directed Portfolio are reinvested or disbursed by the Fund as may be decided by the Board of Governors.

Board of Governors' Report - continued

In general, the Fund expects to receive a commercial return on the assets held in the Directed Portfolio which may include:

- direct equity participation;
- purchase of financial instruments issued by special purpose vehicles (SPVs) and banks such as Medium Term Note programmes;
- issuance of guarantees, underwriting, performance bonds, standby letters of credit, credit enhancement (over-collateralisation);
- participation in syndicated lending; and
- any other strategic investments as may be considered by the Board of Governors in line with the Investment Policy.

The Directed Portfolio will also be used to fund social and economic initiatives in respect of which there will be no direct financial return to the Fund. In such instances, the investment will be considered by the Fund as a grant with a "social or economic return". All investment proposals in respect of which there is no direct financial return to the Fund are evaluated by the Board of Governors to ensure that such investments generate a positive social or economic impact. Furthermore the Board of Governors is drawing up a policy that will establish the basis for grants and donations.

Funds that are not allocated to either the Discretionary Portfolio or the Directed Portfolio are retained in an Unallocated Portfolio. (Refer to Note 3.3 on Page 22).

Review of operations and activities

As at 31 December 2016 the NDSF had received total funds of €149million. No investments were made. Net Assets of the Fund as at 31 December 2017 stood at €164million. The operating expenses for the period amounted to €36,538. This was financed by an equivalent endowment receivable from the Government of Malta.

The first funds due from Identity Malta were transferred to the NDSF in July 2016. For this purpose, the NDSF opened a segregated account with the Central Bank of Malta. Therefore all funds received by the NDSF are held in this segregated account.

In view of the status of the NDSF as a Government Agency, all operational expenses are financed through an endowment from the Government of Malta in terms of the Public Administration Act Cap. 497.

In National Accounts, the NDSF is treated as an Extra Budgetary Unit classified inside the General Government sector. Thus all revenue received by the Fund from Identity Malta and subsequent expenditure would impact the general government deficit/surplus figures.

Consequently expenditure by the Fund of a non-financial transaction nature, e.g. subsidies, social grants and direct investment on infrastructure will impact the deficit/surplus in the year the transaction occurs.

Investments in financial instruments e.g. bonds and shares do not impact government finances, while investments in Malta Government Stock reduces government debt due to consolidation

The NDSF has adopted the IFRS accounting and financial reporting framework.

Board of Governors' Report - continued

The Fund is exempt from income tax under article 12(2) of the Income Tax Act.

Post Balance Sheet Events and Outlook

The Board of Governors wishes to disclose the following non-adjusting post balance sheet events:

1. On the 11th January 2018, the Fund acquired a total of €40,000,000 nominal of Malta Government Stock for a total consideration of €52,528,074. The government securities form part of the NDSF's long-term Directed Portfolio.
2. On the 2nd February 2018, the Fund awarded a Social Grant of €950,000 to the Cardiology Department of Mater Dei Hospital to upgrade its two Catheterisation Suites. Grants will be treated as an adjustment (reduction) in the Unallocated Portfolio for FY2018.
3. On the 16th March 2018, NDSF informed the Board of Directors of Lombard Bank Malta p.l.c. that the Fund had entered into a Share Purchase Agreement to acquire 21,651,746 ordinary shares in the issued share capital of Lombard Bank Malta p.l.c., representing 49.01% of the total issued share capital of the Bank, from Cyprus Popular Bank Co. Ltd.

The Board of Governors of the NDSF explained that this acquisition is by no means a strategic investment but intended solely to facilitate the exit of the Cypriot major shareholder of Lombard Bank Malta p.l.c. one of Malta's established and respected banks and also the major shareholder of MaltaPost p.l.c. Malta's leading postal services operator. It is a measure taken by the Board of Governors of the NDSF in terms of its founding regulations to support business and enterprise, in this case an important operator in the domestic banking sector. The Board of Governors of the NDSF confirms that it does not intend to increase its holding in Lombard Bank Malta p.l.c. nor to act in concert with any other shareholders. On the contrary, the NDSF will seek to reduce its proposed shareholding in the Bank in an orderly manner, at the right market conditions and by agreement with the regulatory authorities. In the meantime, the Board of Governors further confirms that the NDSF has no intention of exerting influence on the operations of the Bank. The Acquisition will therefore not result in a change in control of the Bank.

The acquisition is subject to approval being granted by the Malta Financial Services Authority in terms of Article 13 of the Banking Act and by the Competition Authority under the Control of Concentrations Regulations (S.L. 379/08).

4. The investment in the Bank of Valletta plc equity has occurred in 2017 and is accordingly accounted for in the financial statements for the financial year ending 31 December 2017.

Going forward the NDSF will identify the real social and economic needs of the country and will seek to allocate its funds to those priority sectors where the highest social and economic impacts are likely whilst ensuring that its initiatives and investments are in accordance with the functions and duties of the Fund as required by the founding regulations and the Implementing Order.

The NDSF will simultaneously continue to strengthen its operations and invest proceeds in line with its investment policy and risk management framework.

The Fund expects interest yields to rise, albeit gradually. Accordingly it will aim to diversify its holdings with a view to reduce the expected volatility from such movement. The ultimate aim is that the consolidated investment portfolios will yield a positive total return for the Fund while preserving capital over the long term.

Board of Governors' Report - continued

NDSF will continue with its recruitment programme to strengthen the organizational structure in line with its Human Resource Plan. . The Agency will be finalising its Marketing and Communications Policy and Strategy. A major initiative will be the launching of the Agency's website towards the second quarter of 2018.

In the coming months, the NDSF will hold discussions with the Malta Development Bank to identify long term investment opportunities for the Fund as well as other natural synergies that exist between the two institutions.

Management and Administration

Board of Governors: David G. Curmi (Chairman)
Raymond Sladden (Deputy Chairman)
John Bencini (Member)
Michael C. Bonello (Member)
Maria Camilleri (Member)

Chief Executive Officer: Raymond Ellul

Advisory Board: Raymond Ellul (Chairman)
Dr. Kevin Monpalao (Member)
Tony Zahra (Member)
Joshua Zammit (Member)
Dr. Peter Paul Zammit (Member)

Registered Office: National Development Fund
46 West Street
Valletta VLT1531
Malta

Banker: Central Bank of Malta
Payments and Banking Operations
Castille Place
Valletta VLT 1060
Malta

Auditors: PricewaterhouseCoopers
78 Mill Street
Qormi QRM 3103
Malta

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Fund and a resolution proposing their appointment will be put forward to the Board of Governors at the first Board Meeting after the approval of these Financial Statements.

Approved by the Board of Governors and signed on its behalf by:


David G. Curmi
Chairman


Ray Sladden
Deputy Chairman


Raymond Ellul
Chief Executive Officer

11 April 2018



Independent auditor's report

To the Stakeholders of National Development and Social Fund

Report on the audit of the financial statements

Our opinion

In our opinion:

- The National Development and Social Fund's financial statements give a true and fair view of the Fund's financial position as at 31 December 2016, and of the Fund's financial performance and cash flows for the period 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 Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12).

What we have audited

The National Development and Social Fund's financial statements, set out on pages 13 to 26, comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the period then ended;
- the statement of changes in net assets for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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 the IESBA Code.



Independent auditor's report - continued

To the Stakeholders of National Development and Social Fund

Other information

The Board of Governors are responsible for the other information. The other information comprises the Board of Governors' 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.

Our opinion on the financial statements does not cover the other information, including the Board of Governors' report.

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.

With respect to the Board of Governors' report, we also considered whether the Board of Governors' report includes the disclosures required by the Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12).

Based on the work we have performed, in our opinion:

- The information given in the Board of Governors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Board of Governors' report has been prepared in accordance with the Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12).

In addition, in light of the knowledge and understanding of the Fund and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Board of Governors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Board of Governors for the financial statements

The Board of Governors 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 Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12), and for such internal control as the Board of Governors 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 Board of Governors are responsible for assessing the Fund'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 Board of Governors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.



Independent auditor's report - continued

To the Stakeholders of National Development and Social Fund

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Governors.
- Conclude on the appropriateness of the Board of Governors' 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 company'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 Fund 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 the Board of Governors 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 Stakeholders of National Development and Social Fund

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Stefan Bonello', is written over a faint, dotted grid background.

Stefan Bonello
Partner

11 April 2018

Statement of financial position

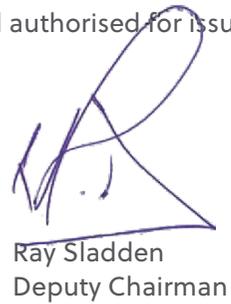
	Notes	Unallocated portfolio 2016 €	Discretionary portfolio 2016 €	Directed portfolio 2016 €	Total 2016 €
ASSETS					
Balance due from Identity Malta	4	14,449,799	-	-	14,449,799
Trade and other receivables	4	36,538	-	-	36,538
Cash and cash equivalents	5	149,102,400	-	-	149,102,400
Total assets		163,588,737	-	-	163,588,737
LIABILITIES					
Accruals and other liabilities	6	(36,538)	-	-	(36,538)
Total liabilities		(36,538)	-	-	(36,538)
Net assets of the Fund at the end of period		163,552,199	-	-	163,552,199

The notes on pages 17 to 26 form an integral part of these financial statements.

The financial statements on pages 13 to 26 were approved and authorised for issue by the Board of Directors and signed on its behalf on 11 April 2018 by:



David G Curmi
Chairman



Ray Sladden
Deputy Chairman



Raymond Ellul
Chief Executive Officer

Statement of comprehensive income

	Notes	Unallocated portfolio 2016 €	Discretionary portfolio 2016 €	Directed portfolio 2016 €	Total 2016 €
Income					
Endowment from the Government of Malta	7	36,538	-	-	36,538
Total income		36,538	-	-	36,538
Expenses					
Operating expenses	7	(36,538)	-	-	(36,538)
Result for the period.		-	-	-	-

The notes on pages 17 to 26 form an integral part of these financial statements.

Statement of changes in net assets

	Unallocated portfolio	Discretionary portfolio	Directed portfolio	Total
	2016	2016	2016	2016
	€	€	€	€
Funds receivable from Identity Malta	163,552,199	-	-	163,552,199
Net assets to the fund at end of period	163,552,199	-	-	163,552,199

The notes on pages 17 to 26 form an integral part of these financial statements.

Statement of cash flows

	Unallocated portfolio	Discretionary portfolio	Directed portfolio	Total
Notes	2016 €	2016 €	2016 €	2016 €
Cash flows from financing activities				
New funds received by Identity Malta	149,102,400	-	-	149,102,400
Net cash from financing activities	149,102,400	-	-	149,102,400
Opening cash and cash equivalents	-	-	-	-
Closing cash and cash equivalents	149,102,400	-	-	149,102,400

The notes on pages 17 to 26 form an integral part of these financial statements

Notes to the Financial Statements

1. General information

The National Development and Social Fund was ("The Fund") established on 6 January 2015, by virtue of Subsidiary Legislation 188.03, Individual Investor Programme of the Republic of Malta Regulations. Subsidiary Legislation 497.12 – National Development and Social Fund (Establishment as an Agency) ("founding regulations") has been enacted to implement the provisions of regulation 13(3) of the Individual Investor Programme of the Republic of Malta Regulations wherein it is established that the National Development and Social Fund shall have a separate legal personality. The Minister, as the Minister responsible for Home Affairs and National Security has determined, in terms of the powers conferred by the said regulation 13(3) of the Individual Investor Programme of the Republic of Malta Regulations, to establish the Fund in the form of a Government Agency.

The Board of Governors of the NDSF was appointed in September 2015 and the first funds were received during 2016. Accordingly these financial statements are being prepared for this period ending 31 December 2016.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12). They are prepared under the historical cost basis as modified by the revaluation of financial assets and liabilities held at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS's as adopted by the EU requires the use of certain critical accounting estimates. It also requires the Board of Governors to exercise their judgment in the process of applying the Fund's accounting policies (see note 4 - Critical accounting estimates and judgments).

Standards and amendments to existing standards effective 1 January 2016

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2016 that would be expected to have a material impact on the Fund.

New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. The Fund's Board of Governors is of the opinion that with the exception of IFRS 9, Financial Instruments, there are no requirements that will have a possible significant impact on the Company's financial statements in the years of initial application. IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

2. **Summary of significant accounting policies** - continued

2.1 **Basis of preparation** - continued

New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted - continued

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

2.2 **Foreign exchange translation**

The Fund's designated currency is the Euro, which is the presentation currency used in the financial statements. Transactions carried out in currencies other than the functional currency of the Fund, are to be translated at exchange rates ruling at the transaction dates. Assets and liabilities designated in currencies other than the functional currency are translated into the functional currency at exchange rates ruling at the Fund's year end. All resulting differences if any, are taken to the statement of comprehensive income.

Translation differences on financial assets and financial liabilities held at fair value through profit and loss are reported as part of 'other net fair value movements on financial assets and financial liabilities at fair value through profit and loss'.

2. **Summary of significant accounting policies** - continued

2.3 **Financial assets and financial liabilities at fair value through profit or loss**

2.3.1 **Classification**

- i. Financial assets and liabilities designated at fair value through profit or loss at inception

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the funds' documented investment strategy.

The Fund's policy requires the Board of Governors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

2.3.2 **Recognition, derecognition and measurement**

Purchases and sales of financial assets and financial liabilities are recognised on trade date, the date on which the Fund commits to purchase or sell the asset. Financial assets and liabilities are initially recognised at fair value, and transaction costs for all financial assets carried at fair value through profit and loss are expensed as incurred.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has substantially transferred all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities at fair value through profit and loss are subsequently re-measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the statement of comprehensive income in the period in which they arise.

2. **Summary of significant accounting policies** - continued

2.3 **Financial assets and financial liabilities at fair value through profit or loss** - continued

2.3.3 **Fair value estimation**

Fair value is the price that would be obtained when selling an asset or having to be paid when transferring a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities are traded in active and are based on quoted market prices at the close of trading on the reporting date. The Fund utilises the latest middle market quotation for both financial assets and financial liabilities where the latest middle market quotation falls within the bid-ask spread. In circumstances where the price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.4 **Other receivables and payables**

Other receivables and payables represent amounts receivable and payable respectively, for transactions contracted for but not yet delivered by the end of the year.

These amounts are initially recognised at fair value and subsequently measured at amortised cost less any provision for impairment. A provision for impairment of amounts due is established when there is objective evidence that the Fund will not be able to collect all amounts due.

2.5 **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise deposits held at call with banks net of any overdrawn bank balances.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities in the statement of financial position.

2.6 **Interest income and dividend income**

Interest income is recognised on a time-proportionate basis using the effective interest method. It includes interest income from cash and cash equivalents and on debt securities at fair value through profit or loss. Dividend income is recognised when the right to receive payment is established.

2. **Summary of significant accounting policies** – continued

2.3 **Financial assets and financial liabilities at fair value through profit or loss** - continued

2.7 **Income recognition**

All distributions from financial assets included in the statements of comprehensive income are recognised on the date of which the stock is quoted ex-dividend up to the Fund's reporting date. Interest income from financial assets not classified as fair value through profit and loss is recognised using the effective interest method. Other gains or losses, including interest income, arising from changes in the fair value of the financial assets at fair value through profit and loss category are presented in the statements of comprehensive income within other net fair value movements on financial assets at fair value through profit and loss in the period in which they arise.

In view of the Fund's Government Agency status, all operational exposures are financed through an endowment from the Government of Malta, in term of the Public Administration Act

2.8 **Expenses**

Expenses are accounted for on an accrual basis and are expensed as incurred.

2.9 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3. **Fund Portfolios**

3.1 **Discretionary Portfolio**

The Discretionary Portfolio holds investments which equal to 30% of all funds received from Identity Malta by the Fund. The NDSF will be awarding an investment, management, custody and administration mandate to the Central Bank of Malta to manage this portfolio on a discretionary basis. The Central Bank of Malta will be required to hold or invest the assets of the Fund as set out in the mandate given to it by the Fund which includes the strategic asset allocation and tactical ranges of the investments together with the broad risk parameters of the portfolio. The Discretionary Portfolio will include solely investments in financial instruments.

The overall objective of the discretionary portfolio is the preservation of capital and the re-investment of investment returns over the long term.

3.2 **Directed Portfolio**

The Directed Portfolio holds 70% of all funds received from Identity Malta which will be used for social and development purposes. The holding, management, directions and disposals of the directed investments, must be in accordance with the provisions of S.L. 188.03 and S.L. 497.12 and must satisfy the investment criteria stated in the Investment Policy of the Fund as articulated by the Board of Governors from time to time. Any interest or other income received in respect of deposits and/or securities held in the Directed Portfolio are reinvested or disbursed by the Fund as may be decided by the Board of Governors.

In general, the Fund expects to receive a commercial return on the assets held in the Directed Portfolio.

3. **Fund Portfolios** - continued

3.2 **Directed Portfolio** - continued

The Directed Portfolio will also be used to fund social and economic initiatives in respect of which there will be no direct financial return to the Fund. In such instances, the investment will be considered by the Fund as a grant with a “social or economic return”. All investment proposals in respect of which there is no direct financial return to the Fund are evaluated by the Board of Governors to ensure that such investments generate a positive social or economic impact.

3.3 **Unallocated Portfolio**

Funds that are not allocated to either the Discretionary Portfolio or the Directed Portfolio are retained in an Unallocated Portfolio.

4. **Critical accounting estimates and judgements**

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

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

5. **Other receivables**

	Unallocated portfolio 2016 €
Funds receivable from Identity Malta	14,449,799
Amount receivable from the Government of Malta	36,538
	14,486,337
Total receivables	14,486,337

Amounts due are unsecured, interest free and repayable on demand.

6. **Cash and cash equivalents**

For the purpose of the statements of cash flows, the period-end cash and cash equivalents comprising bank balances held at call were as follows:

	Unallocated portfolio 2016 €
Central Bank of Malta	149,102,400
	149,102,400

7. **Other payables**

	Unallocated portfolio 2016 €
Fund	
Accrued expenses	36,538
	36,538

8. **Fees and other income**

(a) Auditor's fees

Fees (exclusive of VAT and out-of-pocket expenses) charged by the auditor for services rendered to the Fund relate to:

	Unallocated portfolio 2016 €
Statutory audit	3,500
Total	3,500

(b) Remuneration

The following remuneration was paid by the Fund during the period ending 31 December 2016 and 2016:

	Unallocated portfolio 2016 €
Governor's honoraria	36,538
Total	36,538

The average amount of employees during the period was 1.

(c) Endowment from the Government of Malta

In view of the Fund's Government Agency status, all operational expenses are financed through an endowment from the Government of Malta, in term of the Public Administration Act.

9. **Tax expense**

The National Development and Social Fund, by virtue of an exemption from the Minister of Revenue fall outside the scope of income tax, in terms of Article 12 (2) of the Income Tax Act (Cap. 123) of the laws of Malta.

10. **Related parties**

By virtue of the founding regulations, the Individual Investor Programme of Republic of Malta Regulations (S.L. 188.03) and National Development and Social Fund (Establishment as an Agency) Order (S.L. 497.12), the National Development and Social Fund was constituted as a Government of Malta Agency.

All transactions and balances held with other state controller agencies and institutions are considered to be related party transactions. Balance due from Identity Malta are disclosed in Note 4 whilst Note 7 disclosed the honoraria paid to the Board of Governors who are also considered to be related parties, by virtue of their position in the agency. Deposit held with the Central Bank of Malta are disclosed in Note 5.

11. **Financial risk management**

Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, fair value recovery rate risk, cash flow rate risk and currency risk), credit risk and liquidity risk.

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the Fund/custodian, in the event of its failure, the ability of the Fund to transfer the securities might be temporarily impaired.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

All investments present a risk of loss of capital. The maximum loss of capital on equity is limited to the fair value of those positions.

11. **Financial risk management** - continued

Financial risk factors - continued

The management of these risks is carried out by the Chief Executive Officer under policies approved by the Board of Governors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. The founding regulations of the Fund prescribe that an Advisory Board is appointed, to advise the Board in the discharge of its operations, in line with the investment objectives and strategy of the Fund.

Interest rate risk

As of 31 December 2016 the Fund was not exposed to interest rate risk, in view that it held no investment in fixed interest debt securities. The exposure to interest rate risk arising on deposits held with the Central Bank is not deemed significant.

Currency risk

Currency fluctuations between the functional currency of the Fund and the currency of the underlying investments, may adversely affect the value of investments and the income derived there from. The Fund is not exposed to currency risk given not all its exposures are denominated in Euro.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. Financial assets, which potentially subject the Fund to credit risk, consist of loans and receivables. Loans and receivables comprise other receivables and bank balances as disclosed in the Statement of Financial Position.

Credit risk is limited as funds are received from Identity Malta, a government agency, through the Central Bank of Malta in terms of the founding regulations. Credit risk on such balances is limited, in view of the nature of the underlying entities.

Other amounts receivable include other balances due from the Government of Malta. These receivables are all short-term in nature. As already explained, in view of the nature of the entity, no credit risk is deemed to arise.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate cash resources to settle its obligations in full as they fall due over can only do on terms that are materially disadvantageous.

In view of the Public Administration Act, which regulates Government Agencies, the Government of Malta funds the National Development and Social Fund's operations. Accordingly the Board of Governors considers that the Fund is not exposed to liquidity risk.

11. **Financial risk management** - continued

Capital risk management

The capital of the Fund is represented by its net assets. The upside and downside of each position is reviewed regularly by the Chief Executive Officer. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to maintain a strong capital base to support the development of the investment activities of the Fund and to provide returns for stakeholders.

12. **Subsequent events**

During January 2018, the Fund was party to the following transactions:

- i) Purchase of Malta Government Securities equivalent to €52,528,075.
- ii) A social grant in the region of €950,000 has been awarded for the purpose of upgrading the two catheterisation suites at the Cardiology Department of Mater Dei Hospital.
- iii) On the 16th March 2018, NDSF informed the Board of Directors of Lombard Bank Malta p.l.c. that the Fund had entered into a Share Purchase Agreement to acquire 21,651,746 ordinary shares in the issued share capital of Lombard Bank Malta p.l.c., representing 49.01% of the total issued share capital of the Bank, from Cyprus Popular Bank Co. Ltd.

The acquisition is subject to approval being granted by the Malta Financial Services Authority in terms of Article 13 of the Banking Act and by the Competition Authority under the Control of Concentrations Regulations (S.L. 379/08).

These transactions are not being accounted for in these financial statements.

13. **Statutory information**

The National Development and Social Fund was established by virtue of Subsidiary Legislation 188.03, Individual Investor Programme of the Republic of Malta Regulations. Subsidiary Legislation 497.12 – National Development and Social Fund (Establishment as an Agency) established a separate legal personality to the fund as a Government Agency.

The registered address of the National Development and Social Fund is at 46, West Street, Valletta, VLT 1531.