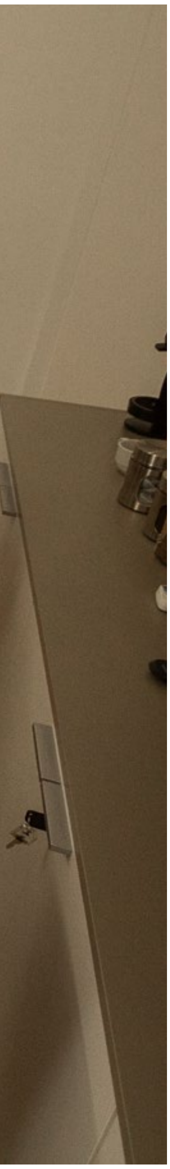
Annual Report
2018

NDSF
National Development and Social Fund

NDSF

National Development and Social Fund

Annual Report and Financial Statements
31 December 2018



Contents

From left to right: John Bencini (Member), Maria Camilleri (Member), David G. Curmi (Chairman), and Ray Sladden (Deputy Chairman)

Board of Governors' Report

For the year ended 31 December 2018

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.

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.

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 in November 2017.

The Order requires the 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 into by the NDSF with the Principal Permanent Secretary for the period 1 March 2017 to the 29 February 2020.

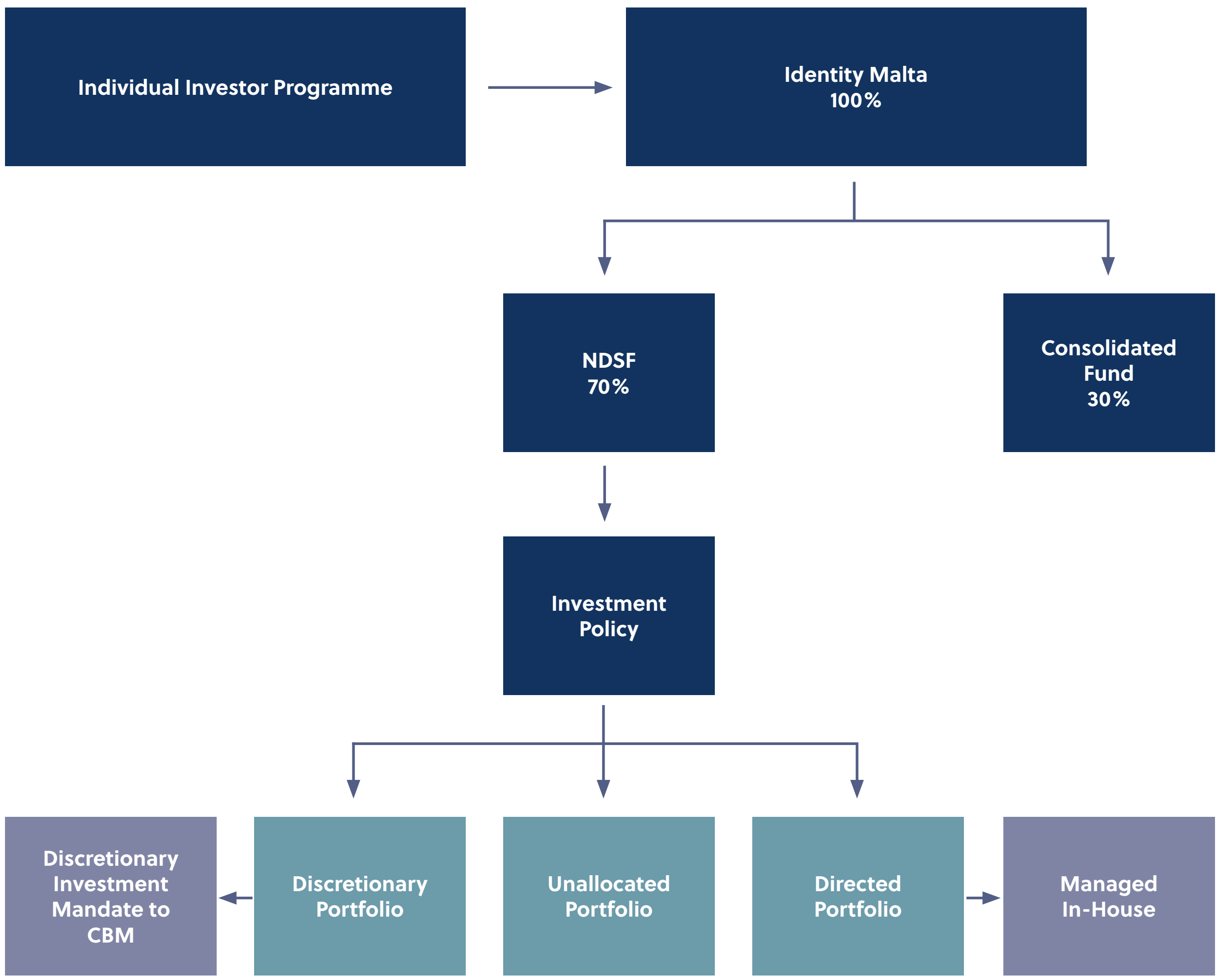
The Board of Governors of the NDSF is autonomous but coordinates closely with government, through the Office of the Prime Minister to ensure that it acts in line with government policies.

REVIEW OF OPERATIONS

The following Review highlights the main activities and achievements of the Agency during 2018 which are sub-divided as follows:

- Funding and Investment Strategy
- Economic Overview for 2018
- Investment Performance Review for 2018
- Social Projects under Directed Portfolio during 2018
- Consolidated Position
- Market Outlook for 2019

1. Funding and Investment Strategy



The NDSF Investment Policy identifies three main portfolios:

i. Discretionary Portfolio

ii. Directed Portfolio

iii. Unallocated Portfolio

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 invest and hold 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 includes solely investments in high quality 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.

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.

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.

Unallocated Portfolio

Funds that are not allocated to either the Discretionary Portfolio or the Directed Portfolio are retained in an Unallocated Portfolio and basically represent cash balances held in a segregated account with the Central Bank of Malta in the name of NDSF.

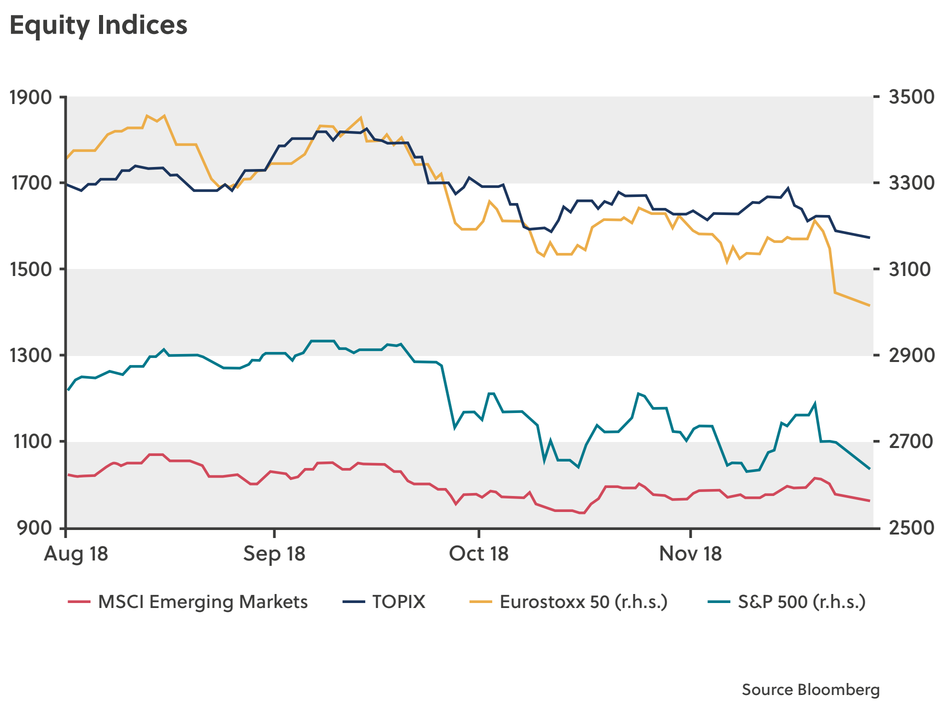
2. Economic Overview

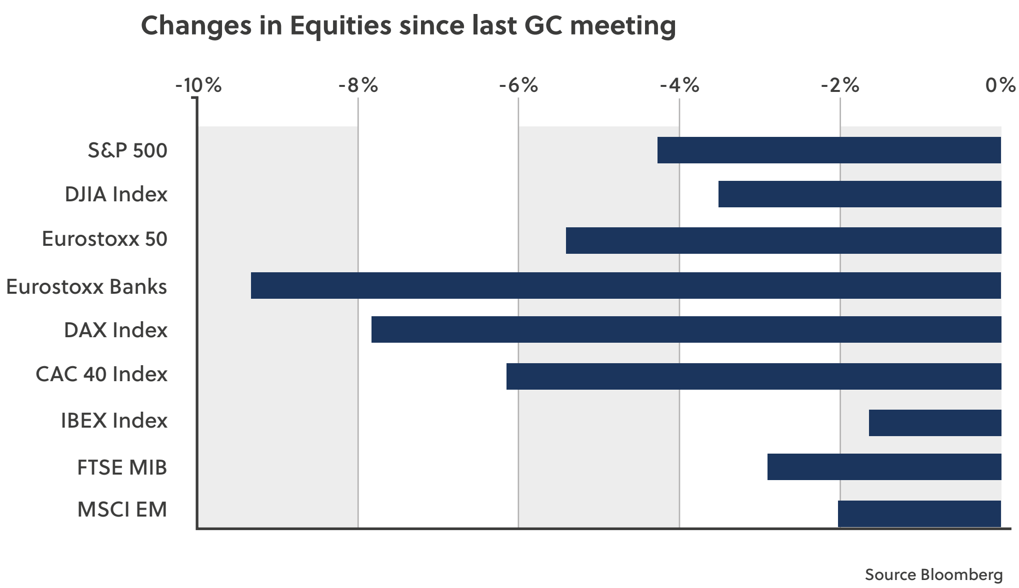
Markets in 2018 have proved to be quite volatile and for the first time in at least 25 years, real returns across ten major asset classes were mostly negative. Global equity markets have struggled this year, with US stocks experiencing steep declines in the final quarter of 2018 as illustrated in the two diagrams below.

Given the tough challenges in getting a forecast of the economy exactly right, the Agency has ensured through its Investment Policy and particularly in its Strategic Asset Allocation, that various asset classes are employed to diversify holdings as much as possible. Holding assets which are not highly correlated to one another, mitigates negative movements in one asset class against gains in another. Historically equities and bonds have been a good pairing for a portfolio. Equities rise during a growing economy; bonds can hold value when the equity markets decline. While the negative correlation relationship isn't perfect, it has held up broadly over history. Most models would suggest a weighted distribution between fixed income securities and equities. A combination of equities and bonds contributes to smooth returns, especially since the main investment objective of the NDSF is to preserve capital and achieve total positive returns over the long term.

In 2018, not all fixed-income markets ended on a high note. U.S. corporate debt, for instance, has declined 2.76 % and headed towards its worst yearly loss since 2008. Globally, high-yield securities have tumbled 4.44%, also the worst performance in a decade.

It is against this market volatility backdrop that the Fund's Consolidated Performance is assessed further below.





3. Investment Performance Review for FY2018

(i) Revenue Generation

During 2018 NDSF received €100.6 million from the Malta Individual Investor Programme (MIIP) (2017: €201.9 million, 2016: €163.6 million) so that the total amount of proceeds received from inception to-date amounted to €466.1 million.

The Agency also received €381,908 through government subvention which covered NDSF's operational, administrative and capital expenditure for the year.

(ii) Discretionary Portfolio

In September 2018, the Agency concluded an Investment, Administration and Custody Agreement with the Central Bank of Malta. By means of this Agreement the Bank was awarded an Investment Mandate to manage on a discretionary basis a balanced investment portfolio of foreign securities. The initial investment made by the Fund stood at €100 million. As mentioned above, the building of the portfolio coincided with a market downturn towards the final quarter of 2018. Foreign markets suffered heavy losses where the S&P 500 index lost around 15% of total value between the months of November and December. US equities registered the worst year since the financial crisis.

The actual asset allocation of the Discretionary Portfolio at as 31 December 2018 compared to the long-term strategic asset allocation was as follows:

Asset Class	Strategic Asset Allocation	Actual Asset Allocation
Cash and cash equivalents	0%	3.4%
Foreign bonds	80%	84%
Foreign equity	20%	12.1%
Alternative investments	0%	0.5%
Total	**100%**	**100%**

The Net Present Value of the portfolio as at 31 December stood at €97.55 million, thus representing a loss of €2.45 million, the largest contributor being the negative fair value movement of €1.8 million and a realised loss on disposable of €0.9 million. The table below provides a breakdown of the performance.

Detail	Amount in €
Realised Gains/Losses	(939,724)
Unrealised Fair Value Gains/Losses	(1,839,142)
Interest and dividends	475,932
Fees	(132,974)
Tax	(12,487)
Profit/(Loss)	**(2,448,395)**

(iii) Directed Portfolio

In August 2018, NDSF acquired from Cypriot Popular Bank (Public) Co Ltd a 49.1% shareholding in Lombard Bank (Malta) p.l.c. for €47.9 million as part of its Directed Portfolio. In March 2013 Cyprus Popular Bank Public Co. Ltd was placed in Resolution and as part of the Resolution process was made to dispose of certain assets including its shareholding in Lombard Bank Malta p.l.c.. Since 2013 several attempts were made at finding a solution for the disposal of the shares but none materialised. This acquisition by NDSF is not 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 NDSF in terms of its founding regulations to support business and enterprise, in this case an important operator in the domestic banking sector. The Fund had communicated that it does not intend to increase its holding in Lombard Bank Malta p.l.c. nor act in concert with any other shareholders nor exert any influence on the operations of the Bank. On the contrary, the NDSF will seek to reduce its shareholding in the Bank in an orderly manner, at the right market conditions and by agreement with the regulatory authorities.

The Fund invested a further €6.4 million in various equities and €3.4 million in various bonds listed on the Malta Stock Exchange. Also during the year the fund acquired a total of €52.3 million in Malta Government Stock out of which €45.5 million were later sold resulting in a net profit of €189,798.

During 2018, the Fund had acquired an equity holding in Bank of Valletta plc, amounting to shareholding of 2.88%. The fair value of this investment, which forms part of the Fund's Directed Portfolio as at 31 December 2018, amounted to €20.3 million.

(iv) Unallocated Portfolio

The cash balance held with the Central Bank of Malta in a segregated account in the name of NDSF stood at €274.97 million.

4. Social Projects under the Directed Portfolio

During the year the Fund awarded a social grant of €950,000 to Mater Dei Hospital's Cardiology Department to upgrade its two catheterisation suites. The Agency has also committed a further €50 million towards social housing and €5 million towards Puttinu's London apartment project, bringing the total amount committed to social initiatives to €55,950,000 or 12% of total funds allocated to it by the Individual Investor Programme.

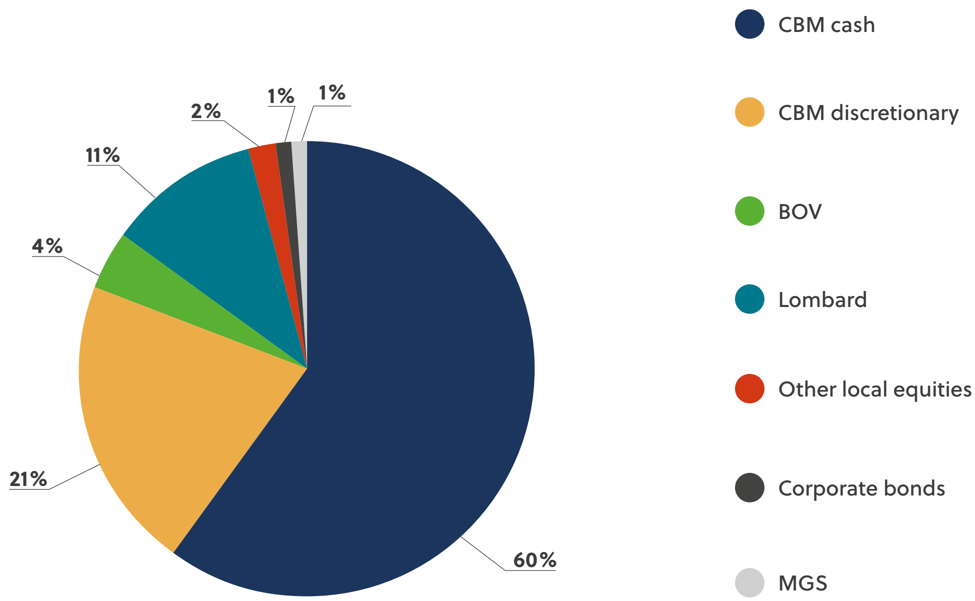
5. Consolidated Position

The financial results of the Fund for the year are summarised in the table below. The consolidated total investment return on the Discretionary as well as Directed Portfolio amounted to a loss of €3.2 million or (1.67%). The main contributor was the negative fair value movement of the Bank of Valletta p.l.c. equity of €6.4 million or (23%) followed by a net loss on the CBM Discretionary Portfolio of €2.4 million (2.4%). On the other hand, the Fund's 49.1% holding in Lombard Bank (Malta) p.l.c. registered a positive fair value movement of €4.9 million or 10.1%.

Issuer	Initial investment at cost (€)	FV movement to profit/ (loss)	Dividend, interest and gain on sale	Investment charges	Absolute return	% Gain/ (Loss)
	€	€	€	€	€	%
CBM Discretionary	100,000,000	(1,839,142)	(463,792)	(145,461)	(2,448,395)	(2.45)
Bank of Valletta p.l.c.	27,818,304	(7,181,232)	794,519	-	(6,386,713)	(22.96)
Lombard Bank (Malta) p.l.c.	47,967,233	4,863,027	-	(383)	4,862,644	10.14
Other local equity	6,383,613	371,361	20,154	-	391,515	6.13
Local corporate bonds	3,401,419	(9,302)	19,176	-	9,874	0.29
Malta Government Stock	5,785,000	92,500	137,226	-	229,726	4.00
Sale of Malta Government Stock	45,507,780	-	200,935	-	200,935	0.40
Total	**191,355,569**	**(3,702,788)**	**708,218**	**(145,844)**	**(3,140,414)**	**-1.64%**

The consolidated performance of the returns from investments was a loss of €3.1 million (€2.4 million from the Discretionary Portfolio and €692,019 from Directed Portfolio).

Consolidated Position including cash €461.7 million:



6. Market Outlook in 2019

The end of 2018 has set the tone for what is likely to follow in much of 2019. Markets are facing a turbulent period ahead of them. Here are some main highlights.

Local Market Outlook

- The Maltese economy is set to experience robust growth and tighter labour market conditions.
- Moody's most recent Malta credit rating was reported at A3 with positive outlook. Fitch's credit rating for Malta was last set at A+ with stable outlook. DBRS's Malta credit rating remains A (high) with stable outlook. Standard and Poor's (S&P) credit rating for Malta stands at A- with positive outlook.
- On the capital markets side, the indicative listing calendar published by the MSE anticipates the issuance of 9 new corporate bonds amounting to €209 million and 2 new equities one of which is the BMIT issue in the first half of the year. There are also several corporate bonds redemptions which need to be re-financed.
- During 2018 the share price of a select number of local equities improved substantially which provides room for potential growth during 2019.
- The local Government Treasury plans to issue approximately €450 million worth of Malta Government Stocks rolling-over 6 existing bonds.

Global Economic Outlook

- The global economy is expected to slow down, and by more than most currently anticipate.
- This slowdown will be led by the US, where a combination of tighter monetary policy and the fading effects of this year's fiscal stimulus will start to drag on activity.
- Growth in China is expected to slow down despite additional stimulus from the People's Bank.
- Europe's economy is likely to weaken too, with Italy flirting with recession coupled by uncertainty over Brexit.
- Global GDP growth is expected to slow from 3.7% in 2018 to around 3.3% in 2019 and to below 3% in 2020.
- Given the backdrop of weaker US growth, chances are that that the Fed is now close to the end of its tightening cycle.

- The ECB indicated that it would leave rates on hold "at least through the summer" of 2019 though there is a real possibility that the ECB fails to raise interest rates at all in the coming years.
- Political developments will remain a major theme in markets this year.
- In the UK, a "no deal" Brexit weighs in heavily by prolonging the uncertainty for businesses and investors over the shape of UK's future relationship with Europe.
- Other geopolitical considerations fuelling a slower global economy are the US-China trade dispute and 'tech war' centred on intellectual property, industrial strategy and national security.
- Credit spreads are likely to widen too. But, on current forecasts rates should remain steady in the US and therefore should at least be a better year for investors in US government bonds.

The Board of Governors expresses its gratitude and appreciation to the management and staff of NDSF for their commitment and contribution to another satisfactory year and to the members of the Advisory Board for their continued support.

Statement of Governors' responsibilities for the financial statements

The Governors are required to prepare financial statements which give a true and fair view of the state of affairs of the Fund as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Governors 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;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Fund will continue in business as a going concern.

The Governors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the applicable legislation.

They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the National Development and Social Fund for the year ended 31 December 2018 are included in this Annual Report, which is being published in printed form and made available on the Fund's website. The Governors 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 Fund'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.

Management and Administration

Board of Governors:	David G. Curmi (Chairman) Ray Sladden (Deputy Chairman) John Bencini (Member) Maria Camilleri (Member) Michael Bonello (resigned during 2018)
Chief Executive Officer:	Raymond Ellul
Advisory Board:	Raymond Ellul (Chairman) Dr. Kevin Mompalao (Member) Tony Zahra (Member) Joshua Zammit (Member) Dr. Peter Paul Zammit (Member)
Address:	National Development and Social Fund Orange Grove, Blk B, Birbal Street, Balzan, BZN 9013 Malta
Banker & Discretionary Portfolio Manager:	Central Bank of Malta 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 re-appointment will be put forward to the Board of Governors at the 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
National Development and Social Fund
Orange Grove, Blk B,
Birbal Street,
Balzan, BZN 9013, Malta

Ray Sladden
Deputy Chairman

26 February 2019

Chief Executive Officer's Review of Operations

The following Review highlights the main activities and achievements during 2018 which are sub-divided as follows:

- Operations and Governance
- Investments
- Social Projects under Directed Portfolio during 2018
- Unallocated Portfolio

Raymond Ellul, Chief Executive Officer

A. MAIN ACTIVITIES AND ACHIEVEMENTS DURING 2018

(i) Operations and Governance

- The National Development and Social Fund's main focus this year has been to strengthen its operations through the recruitment of Head (Operations), Head (Finance) and Manager (Corporate Services). The Agency will during the course of 2019 continue to strengthen its management and organisational structure in line with resource requirements.

- The Board of Governors has met 24 times since it was established in January 2015 and 12 times during 2018. Furthermore the Agency's Advisory Board which is chaired by the CEO was established in January 2018 and has met 7 times during 2018.

"The Agency will during the course of 2019 continue to strengthen its management and organisational structure in line with resource requirements"

- During 2018, the Board has approved a Marketing and Communications Policy which includes the NDSF's Brand Guidelines. As a consequence the Agency has embarked on its fully dedicated website and launch of its logo and corporate livery with the tag line "Committed to a Sustainable Future". The NDSF website ndsf.com.mt will be launched in early January 2019.

- The Agency is currently formulating its Social Policy on Grants and Donations after a series of extensive consultations with various external stakeholders including the Commissioner for Voluntary Organizations, Dean of Faculty of Social Well Being at the University of Malta, the Office of the President of the Republic and the Chairperson of the Malta Community Chest Fund Foundation. The Policy is expected to be formally approved in 2019.

(ii) Investments

- The Fund has increased its investment activity in two major ways. The first was to finalise an Investment, Management and Custody Agreement with the Central Bank of Malta (CBM) and consequently awarded an Investment Mandate to CBM to manage the Fund's Discretionary Portfolio with the overall objective to preserve capital and ensure net positive returns over the long-term. The Discretionary Portfolio holds investments which are equal to 30% of all funds received by NDSF. To date €100,000,000 have already been invested across a wide range of foreign financial instruments and up to the 31 December 2018 had a Net Asset Value of €97,551,605.

- Apart from the above, as part of the Directed Portfolio the Fund acquired a 49.01% shareholding in Lombard Bank (Malta) plc from Cyprus Popular Bank (Public) Co Ltd for an amount of €47.9 million. The Fund also established an Income Portfolio of Local Listed Securities (Bonds and Equities) with a total target allocation of around €10 million and a Portfolio of Malta Government Stock (Bonds). A summary of local investments up to 31 December 2018 is provided below:

Table 1: Listed Local Investments (Directed Portfolio)

Financial Assets	Investments at cost/carrying amount (€)	Market value as at 31.12.2018 (€)	Fair value to profit (loss)
BOV shares	27,502,593	20,321,260	(7,181,333)
Lombard shares	47,908,141	52,830,260	4,922,119
Other local equity	6,383,623	6,695,883	312,260
Local corporate bonds	3,401,419	3,392,113	(9,306)
Malta Government stocks	5,785,000	5,877,512	92,512
Total	**90,980,776**	**89,117,028**	**(1,863,748)**

The Directed Portfolio registered an Unrealised Loss of (€1,863,748) which was taken to Profit and Loss. The largest negative fair value movement was on the Fund's holding of Bank of Valletta shares which suffered a net negative movement of (€7,181,333) and was partly mitigated by gains in Lombard Bank Malta shares and other local equity holdings.

(iii) Social Projects under Directed Portfolio during 2018

- NDSF has also approved its first Social Grant to Mater Dei's Cardiology Department for the upgrading of its two Catheterisation Units. The Grant amounted to €950,000 but the monetised social benefit over the 8-9 year lifetime of the new medical equipment is expected to exceed €10 million over the 8 years of useful life of the upgrade.
- The Agency has committed a further €55 million towards two major projects involving Social Housing and the Puttinu Cares London Apartments as per table 2 below.

Table 2: Committed Social Projects as at 31 December 2018

Project	Funds committed (€)
Mater Dei Catheterisation Suites	950,000
Puttinu Cares	5,000,000
Social Housing	50,000,000
Total	**55,950,000**

- While some of the projects will materialise in 2019, others may be staggered over a number of years such as the NDSF Social Housing project.

(iv) Unallocated Portfolio

- The Fund's Unallocated Portfolio consists of a Cash balance amounting to €274,971,164 which is held in a segregated account in the name of NDSF with the Central Bank of Malta

Table 3: Financial Highlights as at 31 December 2018

Financial highlights	As at 31 December 2018 (€)
Total revenue received from Identity Malta at 31 December 2018	466,105,078
Total revenue received from Identity Malta for 2018	100,581,180
Cash at bank	274,971,164
Total assets	461,845,508
Fair value of investments as at 31 December 2018	179,159,317
Realised investment loss	(1,967,082)
Interest and dividend income	2,675,300
Unrealised fair value loss recognised in profit/loss	(3,702,788)
Government subvention	381,908
Investment charges	(145,844)
Loss for the financial year ended 31 December 2018	(3,140,414)

Consolidated Position of the Fund as at 31 December 2018

- The consolidated position at Fair Value of the Fund as at 31 December 2018 is given in table 4 below.

Table 4: Consolidated Position of Fund as at 31 December 2018

		Unallocated Portfolio		Discretionary Portfolio		Directed Portfolio		Total	
		2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
ASSETS									
Non-current assets									
Property and equipment	5	**15,684**	-	**-**	-	**-**	-	**15,684**	-
Other non-current assets	6	**10,000**	-	**-**	-	**-**	-	**10,000**	-
Total non-current assets		**25,684**	-	**-**	-	**-**	-	**25,684**	-
Current assets									
Financial investments	7	**-**	-	**90,042,189**	-	**89,117,128**	27,502,593	**179,159,317**	27,502,593
Other current assets	8	**-**	-	**6,933,408**	-	**-**	-	**6,933,408**	-
Balance due from Identity Malta	9	**-**	2,278,502	**-**	-	**-**	-	**-**	2,278,502
Receivables and prepayments	9	**13,570**	21,296	**708,952**	-	**59,097**	-	**781,619**	21,296
Cash and cash equivalents	10	**274,971,164**	335,427,132	**-**	-	**-**	-	**274,971,164**	335,427,132
Total current assets		**274,984,734**	337,726,930	**97,684,549**		**89,176,225**	27,502,593	**461,845,508**	365,229,523
Total assets		**275,010,418**	337,726,930	**97,684,549**	-	**89,176,225**	27,502,593	**461,871,192**	365,229,523

B. PROPOSED PROGRAMMES AND ACTIVITIES FOR 2019

Investment and Social Initiatives

- NDSF will continue to administer and manage funds received in line with its investment policy as well undertake major investments and social initiatives mentioned above.
- With regards to its Financial Investments, NDSF will be seeking to continue to diversify its investments further both in the local as well as international markets. On the Social Investment side, the Fund will be focusing its efforts on the Social Housing Project as well as other initiatives in healthcare and social well-being currently under evaluation.

Governance and Operations

- The Board of Governors will approve the NDSF's Social Policy on Grants and Donations and work will then commence on the drafting of the Fund's Risk Management and Performance Policy;
- The Agency will launch its fully dedicated website in January 2019 and develop its marketing collateral and communications strategy in line with its approved Marketing and Communications Policy;
- In terms of Human Resource Management, the Agency will continue with its recruitment and training programme so as to reach the optimum staff complement as per approved HR Plan (2017-2019) and will start to negotiate the Agency's new Human Resource Plan for the period 2020-2022;
- The Agency will also procure an Integrated Accounting, Investment and Risk Management system which will enable it to have real-time information on the activities of the Fund and improve predictive capabilities in terms of investment performance and risk management.

C. CONTRIBUTION BY GOVERNMENT TO NDSF

The recurrent expenditure of the Agency is funded by means of a government subvention which for 2019 is estimated to reach €700,000. A breakdown of the main expenditure items is given in the figure below.

Table 5: NDSF Government Subvention (Line Item 6035)

Head line Item	2018 (Actual)	2019 (Forecast)
Personnel Costs	€233,354	€407,000
Operational & Maintenance	€61,599	€100,000
Contractual Services	€4,130	€20,000
Professional Services	€78,904	€156,000
Equipment, Improvement to Property & Others	€3,921	€17,000
Totals	**€381,908**	**€700,000**

Around 58% of the allocation will go towards HR related costs consisting of staff salaries and honoraria of the Board of Governors.

The Fund will also utilise around €156,000 or 22.5% of its budgeted allocation for the procurement of Professional Services mainly in auditing, legal, marketing services and I.T. systems development.

Raymond Andrew Ellul
Chief Executive Officer

26 February 2019

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 2018, and of the Fund'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 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 23 to 46, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year 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 these codes.

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 and the Chief Executive Officer's Review of Operations (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 and the CEO's review of operations.

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 and the CEO's review of operations, 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 and the CEO's review of operations for the financial year 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.

Independent auditor's report – *continued*

To the Stakeholders of National Development and Social Fund

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.

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.

Independent auditor's report – *continued*

To the Stakeholders of National Development and Social Fund

Auditor's responsibilities for the audit of the financial statements - continued

- 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.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Stefan Bonello
Partner

26 February 2019

Statement of financial position

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
ASSETS									
Non-current assets									
Property and equipment	5	**15,684**	-	**-**	-	**-**	-	**15,684**	-
Other non-current assets	6	**10,000**	-	**-**	-	**-**	-	**10,000**	-
Total non-current assets		**25,684**	-	**-**	-	**-**	-	**25,684**	-
Current assets									
Financial investments	7	**-**	-	**90,042,189**	-	**89,117,128**	27,502,593	**179,159,317**	27,502,593
Other current assets	8	**-**	-	**6,933,408**	-	**-**	-	**6,933,408**	-
Balance due from Identity Malta	9	**-**	2,278,502	**-**	-	**-**	-	**-**	2,278,502
Receivables and prepayments	9	**13,570**	21,296	**708,952**	-	**59,097**	-	**781,619**	21,296
Cash and cash equivalents	10	**274,971,164**	335,427,132	**-**	-	**-**	-	**274,971,164**	335,427,132
Total current assets		**274,984,734**	337,726,930	**97,684,549**	-	**89,176,225**	27,502,593	**461,845,508**	365,229,523
Total assets		**275,010,418**	335,726,930	**97,684,549**	-	**89,176,225**	27,502,593	**461,871,192**	365,229,523
LIABILITIES									
Accruals and other liabilities	11	**(39,255)**	(21,296)	**(132,944)**	-	**-**	-	**(172,199)**	(21,296)
Total liabilities		**(39,255)**	(21,296)	**(132,944)**	-	**-**	-	**(172,199)**	(21,296)
Net assets of the Fund at the end of year		**274,971,163**	337,705,634	**97,551,605**	-	**89,176,225**	27,502,593	**461,698,993**	365,208,227
Memorandum items									
Commitments	14	**-**	-	**-**	-	**55,000,000**	-	**55,000,000**	-

The notes on pages 27 to 46 from an integral part of these financial statements.

The financial statements on pages 23 to 46 were approved and authorised for issue by the Board of Governors and signed on its behalf on 26 February 2019 by:

David G Curmi
Chairman

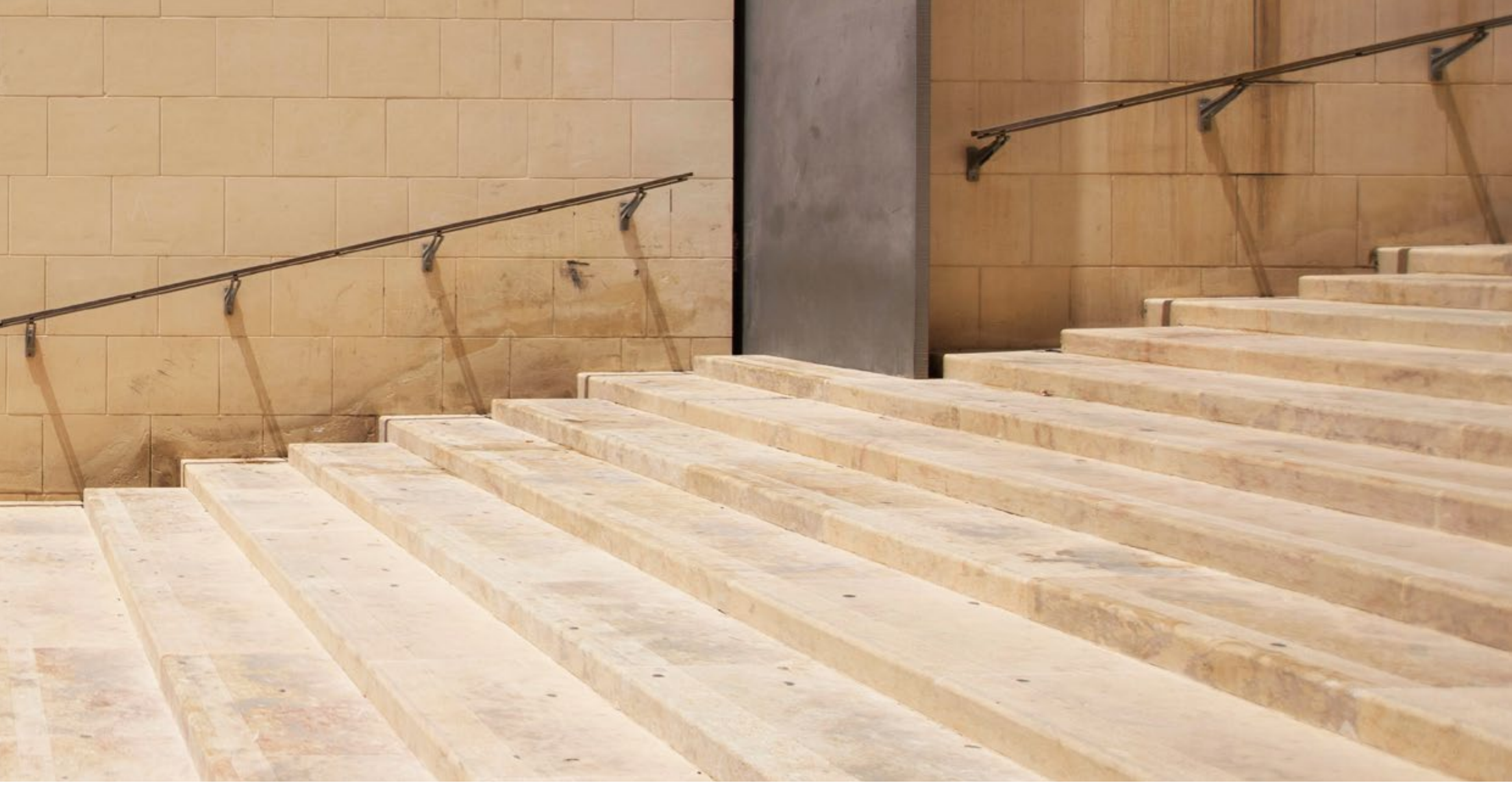
Ray Sladden
Deputy Chairman

Raymond Ellul
Chief Executive Officer

Statement of comprehensive income

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
Investment income									
Net fair value losses on financial assets through profit or loss	7	**-**	-	**(1,839,142)**	-	**(1,863,646)**	(315,691)	**(3,702,788)**	(315,691)
Realised loss on investment	7	**-**	-	**(939,724)**	-	**(1,027,358)**	-	**(1,967,082)**	-
Interest income on debt securities	7	**-**	-	**402,357**	-	**1,384,695**	-	**1,787,052**	-
Dividend income on equities	7	**-**	-	**73,575**	-	**814,673**	-	**888,248**	-
Other income									
Endowment from the Government of Malta	12	**381,908**	113,891	**-**	-	**-**	-	**381,908**	113,891
Net income/(loss)		**381,908**	113,891	**(2,302,934)**	-	**(691,636)**	(315,691)	**(2,612,662)**	113,891
Expenses									
Operating expenses	12	**(381,908)**	(113,891)	**-**	-	**-**	-	**(381,908)**	(113,891)
Investment charges	12	**-**	-	**(145,461)**	-	**(383)**	-	**(145,844)**	-
Total expenses		**(381,908)**	(113,891)	**(145,461)**	-	**(383)**	-	**(527,752)**	-
Loss for the financial year		**-**	-	**(2,448,395)**	-	**(692,019)**	(315,691)	**(3,140,414)**	(315,691)

The notes on pages 27 to 46 from an integral part of these financial statements.



Statement of changes in net assets

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
Net assets at the beginning of the year		**337,705,634**	163,552,199	**-**	-	**27,502,593**	-	**365,208,227**	163,552,199
Loss for the year		**-**	-	**(2,448,395)**	-	**(692,019)**	(315,691)	**(3,140,414)**	(315,691)
Funds received from Identity Malta		**100,581,180**	201,971,719	**-**	-	**-**	-	**100,581,180**	201,971,719
Transfer between portfolios		**(162,365,651)**		**100,000,000**	-	**62,365,651**	27,818,284	**-**	-
Contributions paid out of the Fund	13	**(950,000)**	-	**-**	-	**-**	-	**(950,000)**	-
Net assets at end of year		**274,971,163**	337,705,634	**97,551,605**	-	**89,176,225**	27,502,593	**461,698,993**	365,208,227

The notes on pages 27 to 46 from an integral part of these financial statements.

Statement of cash flows

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
Cash flows from operating activities									
Interest income received	7	**-**	-	**-**	-	**1,325,598**	-	**1,325,598**	-
Dividend income received	7	**-**	-	**-**	-	**814,673**	-	**814,673**	-
Cash flows generated from operations		**-**	-	**-**	-	**2,140,271**	-	**2,140,271**	-
Cash flows from investing activities									
Purchase financial assets	7	**-**	-	**(100,000,000)**	-	(109,988,563)	(27,818,284)	(209,988,563)	(27,818,284)
Disposal of investments	7	**-**	-	**-**	-	**45,482,642**	-	**45,482,642**	-
Contributions paid out of the Fund	14	**(950,000)**	-	**-**	-	**-**	-	**(950,000)**	-
Cash flows used in investing activities		**(950,000)**		**(100,000,000)**	-	**(64,505,921)**	(27,818,284)	**(165,455,921)**	(27,818,284)
Cash flows from financing activities									
New funds received from Identity Malta		**102,859,682**	214,143,016	**-**	-	**-**	-	**102,859,682**	214,143,016
Opening cash and cash equivalents		**335,427,132**	149,102,400	**-**	-	**-**	-	**335,427,132**	149,102,400
Closing cash and cash equivalents		**437,336,814**	363,285,416	**-**	-	**-**	-	**274,971,164**	335,427,132

The notes on pages 27 to 46 from 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.

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 2018

The Fund has applied the following standard and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments

Provisions of IFRS 9 mandate that 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.

Following the adoption of IFRS 9, the Fund's investment portfolio continues to be classified as fair value through profit or loss. Other financial assets which are held for collection continue to be measured at amortised cost with no material impact expected from application of the new impairment model. Thus, the adoption of the IFRS 9 did not have a material impact on the Fund's financial statements in the current and prior periods.

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2018 that would be expected to have a material impact on the Fund.

New standards, amendments and interpretations effective after 1 January 2018 and have not been early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Fund.

IFRS 16 Leases was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Fund considers that the impact of adoption of this new standard will not be material.

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.

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

2.3.1 Classification

From 1 January 2018, since IFRS 9 became effective, the Fund has the option to classify its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Fund's business model for managing the financial assets and the contractual terms of the cash flows.

In view of the nature of the entity, which is a fund, the Board of Governors has elected to classify its financial assets in the category of those measured subsequently at fair value through profit or loss.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes.

2.3.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Fund commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

2.3.3 Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories applicable to debt instruments prescribed by IFRS 9 are as follows:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Fund subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Fund's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Fund's business model

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

2.3.4 Impairment

From 1 January 2018, the Fund assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Fund applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 2.6 for further details.

2.3.5 Accounting policies applied until 31 December 2017

The Fund has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Fund's previous accounting policy.

Until 31 December 2017, the Fund classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,

The classification depended on the purpose for which the investments were acquired. The Board of Governors determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

2.3.5.1 Reclassification

The Fund could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Fund could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Fund had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

2.3.5.2 Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 17.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

2.3.5.3 Impairment

The Fund assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2.3.5.4 Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Fund could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 2.6.

2.3.5.5 Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives (in years), as follows:

Computer equipment	20% of cost per year
Computer software	20% of cost per year
Office equipment	20% of cost per year

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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.

The carrying amount of an item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. When assets are derecognised, their cost, accumulated depreciation and accumulated impairment losses, if any, are eliminated from the accounts. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income (expenses) in profit or loss.

2.5 Prepayments and other current assets

Prepayments are expenses paid in cash and recorded as assets at cost before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognissed as expense either with the passage of time, through use, consumption.

Other current assets include assets that are realised as part of the normal operating cycle and are included in current assets, except for maturities greater than twelve (12) months after the reporting date, in which case, these are classified as non-current assets. Other assets are recognised at cost and are derecognised when used, consumed, sold or when it has been determined that there are no future benefits to the Fund.

2.6 Receivables

The Fund's receivables consist of balances due from Identity Malta, the Government of Malta, as well as accrued interest on investments.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from each entity at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses.

2.7 Cash and cash equivalents

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.

2.8 Accrued expenses and other liabilities

Accrued expenses and other current liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised in the period in which the related money, goods or services are received or when a legally enforceable claim against the Fund is established. These 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.

Accrued expenses and other current liabilities are measured at the original invoice amount (as the effect of discounting is immaterial). These are derecognised when the obligation is paid, cancelled or extinguished.

These are carried in the statement of financial position at face or nominal amount.

2.9 Deferred grants

Deferred grants represent amount received from the Government of Malta (GOM) for expenditures reimbursed by the latter to the Fund. Deferred grants are recognised once the amounts are receivable. It is initially recorded at the fair value of the amount to be received.

Deferred grants are derecognised against revenue when the conditions relating to the grant are met. Conditions may pertain to passage of time, in which deferred grants are recognised over time, or on the actual completion or disposal of the asset to which the grant relates to.

2.10 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 financial assets at fair value profit or loss. Dividend income is recognised when the right to receive payment is established, e.g. record date.

2.11 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.

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 though an endowment from the Government of Malta, in accordance with the Public Administration Act

2.12 Expenses

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

2.13 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 awarded an investment, management, custody and administration mandate to the Central Bank of Malta (CBM) 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.

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.

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 judgements 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. PROPERTY AND EQUIPMENT

Details and movements of property and equipment as at 31 December 2017 and 2018 are as follows:

Unallocated portfolio

	Computer equipment	Computer software	Office equipment	Total
	€	€	€	€
At 1 January 2017				
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Net book amount	-	-	-	-
Year ended 31 December 2018				
Opening net book amount	-	-	-	-
Additions	2,519	2,405	14,681	19,605
Depreciation charge (Note 12(c))	(504)	(481)	(2,936)	(3,921)
Closing net book amount	**2,015**	**1,924**	**11,745**	**15,684**
At 31 December 2018				
Cost	2,519	2,405	14,681	19,605
Accumulated depreciation	(504)	(481)	(2,936)	(3,921)
Net book amount	**2,015**	**1,924**	**11,745**	**15,684**

6. LEASE AGREEMENT

On 11 December 2018, the Fund entered into a cancellable lease agreement with third parties in relation to an office space in Balzan. The term is for a period of four years and is subject to escalation clause of 2% annually after the second year of lease.

Rent expense charged to operations during the year amounted to €4,130 (2017: nil) (Note 12).

A security deposit amounting to €10,000 (2017: €nil) has been paid out and is accounted for as "Other non-current asset" in the unallocated portfolio of the statement of financial position.

7. FINANCIAL INVESTMENTS

During the year, the Fund entered into an agreement with the Central Bank of Malta, appointing the latter as the investment manager, responsible to manage a defined amount of investments on a discretionary basis. By virtue of the same agreement, the CBM performs the accounting and other related support services in connection with this portfolio of investments. A tripartite custody agreement was signed by CBM, NDSF and Bank of Valletta plc to provide the necessary custody services to the fund being managed by the CBM. The balance of the investment as at 31 December is as follows:

Discretionary portfolio

	2018	2017
	€	€
Financial assets designated at fair value through profit or loss at inception		
Quoted equity	**11,720,461**	-
Debt securities	**78,321,728**	-
	90,042,189	-

The movements in investments in the Discretionary Portfolio classified as fair value through profit or loss are summarised as follows:

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	**-**	-
Additions	**100,000,000**	-
Interest income on debt securities	**402,357**	-
Dividend income equities	**73,575**	-
Realised loss on investment	**(939,724)**	-
Investment charges	**(145,461)**	-
Net fair value losses	**(1,839,142)**	-
Net asset value of the portfolio	**97,551,605**	-
Restricted cash (Note 8)	**(6,933,408)**	-
Accrued interest receivable (Note 9)	**(705,509)**	-
Accrued dividend receivable (Note 9)	**(3,443)**	-
Accrued investment charges (Note 11)	**132,944**	-
	90,042,189	-

Out of the €100,000,000 initial investment by the Fund into the Discretionary portfolio managed by the CBM, a balance of €6,933,408 as at 31 December 2018 have not been invested and is being accounted for as as restricted cash under other current assets (Note 8).

The composition of the underlying portfolio is governed by the mandate given by the Board of Governors of the Fund.

Directed portfolio

Details and movements of the Fund's investments under the Directed Portfolio for the year ended 31 December 2017 and 2018 are as follows:

	2018	2017
	€	€
Financial assets designated at fair value through profit or loss at inception		
Quoted equity	**79,847,503**	27,502,593
Debt securities	**9,269,625**	-
	89,117,128	27,502,593

The above equity and debt securities are listed on the Malta Stock Exchange.

The movements in investments classified as fair value through profit or loss are summarised as follows:

Fair value movement – equity securities

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	**27,502,593**	-
Additions	**54,291,754**	27,818,284
Net fair value losses	**(1,946,944)**	(315,691)
	79,847,403	27,502,593

Fair value movement – debt securities

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	**-**	-
Additions	**55,696,427**	-
Disposals	**(46,510,000)**	-
Net fair value gains	**83,198**	-
	9,269,625	-

8. OTHER CURRENT ASSETS

Discretionary portfolio		
	2018	2017
	€	€
Restricted cash (Note 7)	**6,933,408**	-

The restricted cash represents the unutilised fund on the Discretionary Portfolio as disclosed in Note 7.

9. RECEIVABLES AND PREPAYMENTS

Details of the Fund's receivables and prepayments as of 31 December 2017 and 2018 are as follows:

Discretionary portfolio		
	2018	2017
	€	€
Accrued interest receivable	**705,509**	-
Dividend receivable	**3,443**	-
Total receivables and prepayments	**708,952**	-

Unallocated portfolio		
	2018	2017
	€	€
Accrued interest receivable	**59,097**	-
Prepaid rent (Note 7)	**12,215**	-
Amount receivable from the Government of Malta (Note 13(c))	**1,355**	21,296
Funds receivable from Identity Malta	**-**	2,278,502
Total receivables and prepayments	**72,667**	2,299,798

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

10. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, the year-end cash and cash equivalents is as follows:

Unallocated portfolio		
	2018	2017
	€	€
Central Bank of Malta	**274,971,164**	335,427,132
	274,971,164	335,427,132

11. ACCRUED EXPENSES AND OTHER LIABILITIES

Discretionary		
	2018	2017
	€	€
Accrued investment charges	**132,944**	-

Accrued investment charges represent the unpaid portion of management, custody and administration fees incurred.

Unallocated portfolio		
	2018	2017
	€	€
Professional fees	**17,700**	-
Deferred grants	**15,684**	-
Others	**5,871**	9,496
	39,255	21,296

Professional fees include accruals relating to statutory audit and tax consultancy services.

The deferred grants represent financing received from the Government of Malta for the purpose of the investment in property and equipment made by the Fund (Note 5).

Others include accruals relating to advertising, utilities and salaries.

12. OPERATING EXPENSES AND INVESTMENT CHARGES

(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		
	2018	2017
	€	€
Statutory audit	**11,800**	11,800
Total	**11,800**	11,800

(b) Renumeration

The following remuneration was paid by the Fund during the years ending 31 December 2018 and 2017:

Unallocated portfolio		
	2018	2017
	€	€
Governors' honoraria	**40,680**	39,835
Wages and salaries	**192,674**	56,635
Total	**233,354**	96,470

The average amount of employees during the year was 4 (2017: 1).

(c) Other operating expenses

The details of the Fund's other operating expenses follow:

Unallocated portfolio		
	2018	2017
	€	€
Professional fees	**78,904**	92
Marketing and Advertising	**45,631**	2,991
Rent (Note 6)	**4,130**	-
Depreciation (Note 5)	**3,921**	-
Other expenses	**4,168**	2,538
Total	**136,754**	96,470

(d) 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 accordance with the Public Administration Act.

(e) Investment charges incurred by the Fund

During the year, the Fund incurred investment management expense amounting to €145,461 (2017: nil) and €383 (2017: €nil) on its Discretionary and Directed Portfolios.

13. CONTRIBUTIONS PAID OUT

In 2018, the Fund entered into a memorandum agreement with Mater Dei Hospital awarding the latter's cardiology department a social grant amounting to €950,000 to finance the upgrading of two catheterisation labs.

14. COMMITMENTS

During the year ended 31 December 2018, the Board of Governors committed the sum of €50,000,000 to the Housing Authority to finance a project aimed to assist a small part of the population of Malta with social housing needs.

Moreover, during the same year an amount of €5,000,000 was committed by the Fund to finance the Puttinu Cares Project in London which aims to purchase apartments and serve as free accommodation for Maltese families who go to various United Kingdom hospitals for treatment.

15. TAX EXPENSE

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

16. 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 agencies and institutions are considered to be related party transactions. Transactions and/or balance with other entities over which the governors have significant influence are also considered to be related entities.

As explained in Note 7, the Fund has entered into a discretionary portfolio management agreement with the Central Bank of Malta. The deposit held with the CBM are disclosed in Note 10. As at 31 December 2018, the Fund held an investment in debt securities issued by the Government of Malta amounting to €5,877,500.

Note 13 disclosed the contribution of €950,000 paid by the Fund to Mater Dei Hospital.

The balance due from Identity Malta is disclosed in Note 9.

Note 14 discloses the commitment entered into by the Fund with the Housing Authority, which is another Government agency.

Note 12 disclosed the honoraria paid to the Board of Governors and salaries to the Chief Executive, who are also considered to be related parties, by virtue of their position in the agency.

As at 31 December 2018, the Fund held investments in the form of equity and debt securities having a fair value of €591,068 and €492,954 respectively, issued by local entities over which the governors have significant influence in respect of which the governors declared their interest and refrained from participating in the acquisition of these investments.

During 2017, the Fund acquired 2.88% of the shareholding of Bank of Valletta plc, a local credit institution over which the Government of Malta has significant influence by virtue of the latter's shareholding. The fair value of this investment as at 31 December 2018 was €20,321,360 (2017: €27,502,593).

17. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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 custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired. As explained in Note 7, by virtue of the discretionary investment management agreement in place with the Central Bank of Malta, Bank of Valletta p.l.c. has been appointed as custodian of the investment held by the Fund in the Discretionary Portfolio (Note 3.1).

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. During the year, the Fund did not enter into any derivative contract to manage its risk on exposures.

All securities investments present a risk of loss of capital. The maximum loss of capital on debt securities is limited to the respective fair value.

The management of the risks emanating from the Discretionary Portfolio is carried out by the investment mananger under the policies approved by the Board of Governors. The investment manager, by virture of the agreement in place, reports results to the Board of Governors on the performance and risks arising from the portfolio under management. As for the Directed Portfolio, the Board of Governors manages the risks by creating an investment policy setting out the investment opportunities with the maximum return after a detailed market analysis. 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 day-to-day management of the Directed Portfolio (Note 3.2) is delegated to management. As already explained, the Board of Governors, sets the strategy and risk appetite for the Directed Portfolio, which are detailed in the investment policy and excercises the necessary oversight in connection thorugh its function.

Market price risk

(a) Price risk

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the euro, the price initially expressed in foreign currency and then converted into euros will also fluctuate because of changes in foreign exchange rates. Section (b) 'Foreign exchange risk' below sets out how this component of price risk is managed and measured.

The investment strategy is clearly stated in the founding regulations and detailed further in the Fund's investment policy and discretionary portfolio management agreement with the Central Bank of Malta. The Chief Executive Officer and the Investment Manager, as applicable, monitor the Fund's market exposures within the pre-determined investment restrictions on a regular basis. The overall market exposures are also monitored on a regular basis by the Board of Governors and the Investment Manager accordingly. The fund manager reports on a regular basis on the risks emanating from the portfolio under management. Details of the nature of the Fund's investment portfolio as at the reporting date are disclosed in Note 7.

All of the Fund's equity investments are traded in active markets. The Fund's policy requires that overall market position is monitored on a regular basis, as applicable, by Management and the Fund's Investment Manager and is reviewed on a monthly basis by the Board of Governors. Compliance with the Fund's investment policies are reported to the Board on a monthly basis.

As at 31 December 2017 and 2018, the fair value of equities were as follows:

	2018	2017
	€	€
Quoted equities – Directed	**79,847,503**	27,502,593
Quoted equities – Discretionary	**11,720,461**	-
	91,567,964	27,502,593

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio.

	At 31 December 2018	2017
Sector	**Fund's equity portfolio (%)**	Fund's equity portfolio (%)
Financial	**85**	100
Industrial	**4**	-
Consumer	**2**	-
Communication services	**2**	-
Other	**7**	-
	100	100

The sensitivity for equity price risk illustrates how changes in the fair value of equity and equity related securities will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual equity issuer or factors affecting all similar equity traded in the market. A 10% increase/(decrease) in equity and debt prices, with all other variables held constant would result in an increase/(decrease) in net assets amounting to €17,915,931.

(b) Foreign exchange risk

As of 31 December 2017 and 2018 the Fund invested solely in euro-denominated investments and accordingly is not exposed to foreign exchange risk.

(c) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. The Fund holds fixed interest securities that expose the Fund to fair value interest rate risk. The Fund does not hold a floating rate debt, cash and cash equivalents and accordingly is not exposed to a cash flow interest rate risk. The Fund's investment policy, as approved by the Board of Governors, requires the Management, and as applicable, the Investment Manager to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities. The average effective duration of the Fund's portfolio is a measure of the sensitivity of the fair value of the Fund's fixed interest securities to changes in market interest rates.

As at 31 December 2018, the exposure of the Fund to fair value interest rate risk is not considered material. The Fund is not exposed to cash flow interest rate risk since it invested solely in fixed rate debt securities. The Fund was not exposed to interest rate risk in 2017, as it held no investments in debt securities.

Liquidity risk

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

The Fund's listed securities are considered readily realisable, as the majority are listed on reputable exchanges.

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

The table below presents the Fund's financial instruments for which maturities are considered to be essential for an understanding of the timing of the cash flows based on the Fund's investment strategy.

	Less than 30 days	**1-6 months**	**6-12 months**	**More than 12 months**
Local debt securities	-	-	-	9,269,625
Foreign debt securities	-	-	409,133	77,912,595
	-	-	409,133	87,182,220

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investment in debt securities and the exposure with the Central Bank of Malta. The Fund is also exposed to counterparty credit risk on amounts due from Identity Malta and other receivables.

The maximum exposure to credit risk before any credit enhancements at 31 December 2017 and 2018 is the carrying amount of financial assets as set out below.

	2018	2017
Debt securities	**87,591,353**	-
Cash and cash equivalents	**274,971,164**	335,427,132
Accrued interest receivable	**764,606**	-
Balance due from Identity Malta	**-**	2,278,502
Other assets	**4,798**	21,296
	363,331,921	337,726,930

The Fund's policy to manage this risk is to invest in debt securities that have a minimum credit rating of BBB/Baa as designated by a reputable rating agency.

Debt securities by rating category

	2018	2017
	€	€
AAA	**19,483,627**	-
AA	**18,266,305**	-
A/A	**10,029,341**	-
BBB	**37,050,407**	-
Unrated	**2,658,114**	-
Others	**103,560**	-
	87,591,353	-

In accordance with the Fund's policy, the Investment Manager and the Board, as applicable, monitors the Fund's credit position on a regular basis; the Board of Governors reviews it on a monthly basis.

Credit risk on the balance due from Identity Malta is considered limited, in view of the government agency status of the entity. As at 31 December 2018, the Fund carried no exposure with Identity Malta.

All other receivables, cash and cash equivalents are held by the Government of Malta on which no credit risks are deemed to arise, in view of the nature and status of the counter party.

No expected credit loss is deemed to arise on the deposit held with the Central Bank of Malta and other receivables from the Government of Malta, in view of the nature and status of the counter parties in question.

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 which reports to the Board of Governors. 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 in line with the founding regulations.

Fair value estimation

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the year end date. The Fund utilises the last traded market price for both financial assets.

An active market is a market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

All of the Fund's investments are quoted and traded in active markets.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

As at 31 December 2018 and 2017:

Discretionary Portfolio	Level 1	
	2018	2017
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	**11,720,461**	-
Debt securities	**78,321,728**	-
	90,042,189	-

Directed portfolio	Level 1	
	2018	2017
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	**79,847,503**	27,502,593
Debt securities	**9,269,625**	-
	89,117,128	27,502,593

There were no transfers between level 1, level 2 and level 3 during the year ended 31 December 2018 and 2017.

18. 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 office address of the National Development and Social Fund is at Blk B Orange Grove, Birbal Street, Balzan BZN 9013, Malta.

NDSF

National Development and Social Fund

ndsf.com.mt