Annual Report 2019

NDSF

National Development and Social Fund

NDSF

National Development and Social Fund

Annual Report and Financial Statements
31 December 2019

Contents





From left to right: David G. Curmi, Ray Sladden, John Bencini, Joseph Zrinzo, Maria Camilleri

Board of Governors' Report

For the year ended 31 December 2019

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 Regulations, lays down the founding provisions for the establishment and governance of the Fund.

Subsidiary Legislation 595.12 – "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. 595.

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 Malta Individual Investor Programme Agency (MIIPA) (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 first 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. 595.12

On 6 January 2015 by means of Implementing Order S.L. 595.12 ("the Order") the NDSF was established as a government agency reporting 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. 595 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 first Advisory Board was appointed on in November 2017.

The Order requires that NDSF to enter into an Agency Performance Agreement with the Principal Permanent Secretary in terms of article 40 of the Public Administration Act Cap. 595.

The Agency Performance Agreement regulates the relationship, the communication, consultation and reporting lines between NDSF and Government. The first 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.

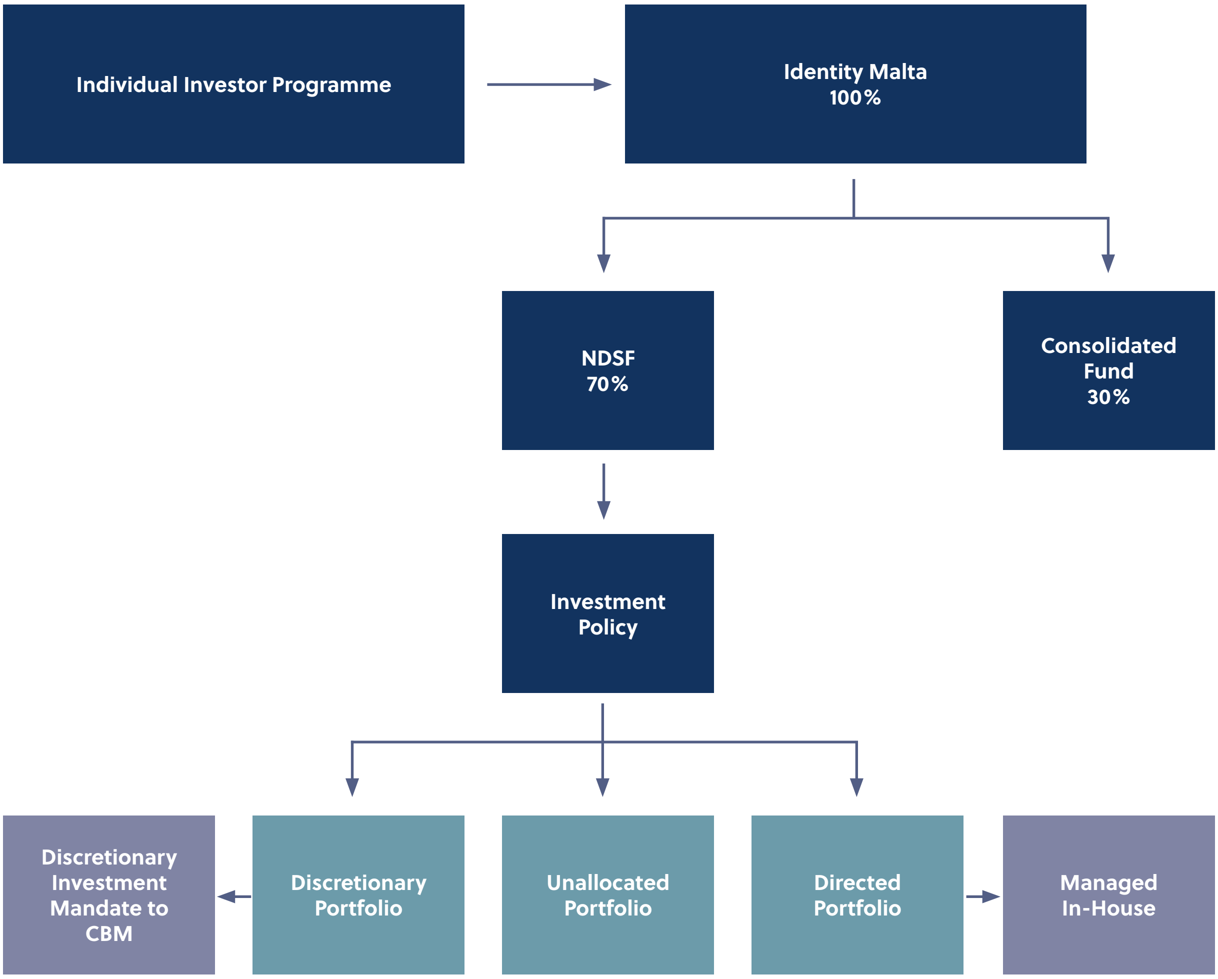
The Board of Governors of the NDSF is autonomous but coordinates closely with government, through the Office of the Prime Minister to ensure that it acts in line with government policies.

REVIEW OF OPERATIONS

The following Review highlights the main activities and achievements of the Agency during 2019 which are sub-divided as follows:

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

1. Funding and Investment Strategy



The NDSF Investment Policy establishes 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 the Malta Individual Investor Programme Agency (MIIPA), a sub-agency of Identity Malta. 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 Central Bank of Malta in accordance with the NDSF has outsourced the management of the investment portfolio to a leading global investment manager. The Discretionary Portfolio includes solely investments in high quality foreign 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 specifically from MIIPA, a sub-agency of 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. 595.12 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 is used to fund social and economic initiatives which may or may not have a direct financial return to the Fund. In those instances when social and economic initiatives undertaken by the Fund do not have a direct financial return to the Fund, the investment will be considered 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.

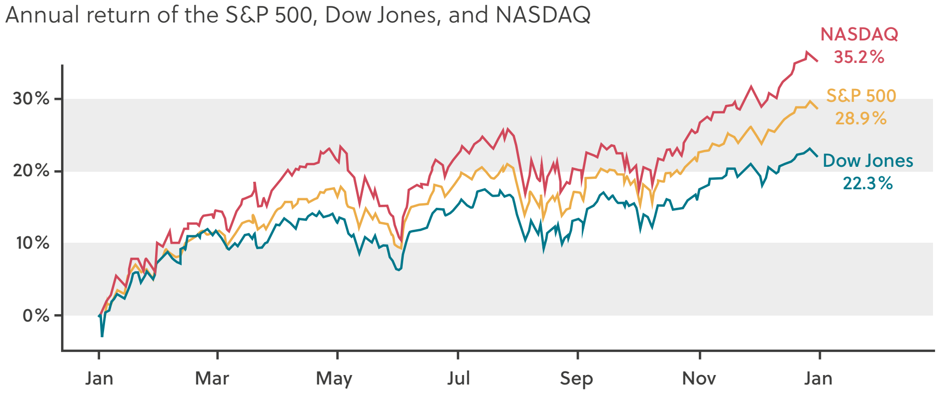
2. Economic Overview

Major market challenges in 2019 included risks of a global economic slowdown, disruptive trade wars between the US and China, economic uncertainty on Brexit, rising tensions in the Middle East as well as potential further tightening of US monetary policy by the Federal Reserve. As 2019 progressed however, these fears seemed to dissipate as the Federal Reserve relaxed its monetary stance by lowering interest rates 3 times in 2019. Interest Rates in the US are now expected to remain largely unchanged in 2020. This change in sentiment led to US equity markets experiencing double digit growth fuelled mostly by the rate cuts as well as the strong performance of the Tech sector that drove major indices higher as demonstrated in the figures below.

Eurozone equities continued to perform well supported by indicators of improving economic data as well as optimism about the global economy. UK shares gained despite the political uncertainty over Brexit, whereas the Japanese market also grew, though to a lesser extent. Emerging market equities also demonstrated positive gains because of improved geopolitical prospects and higher crude oil prices. The performance of corporate bonds reflected this, and government bond yields rose.

Stock market performance in 2019

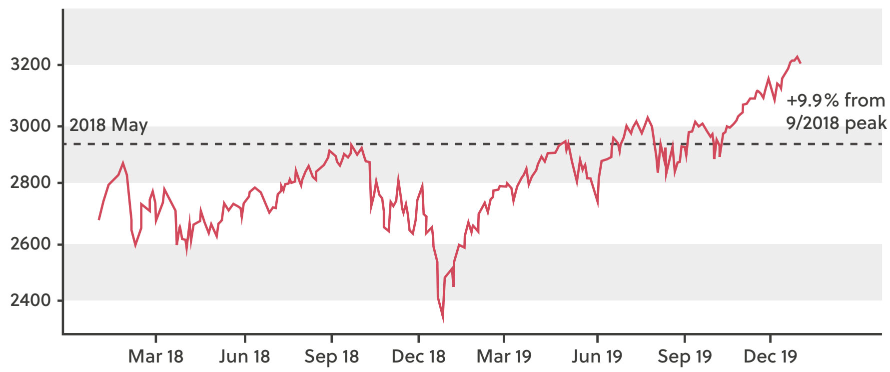
Annual return of the S&P 500, Dow Jones, and NASDAQ



Source: FactSet. Data as of market close on 12/30/2019.

The S&P is up 10% from its 2018 peak

Daily S&P 500 price since Jan 1 2018



Source: FactSet. Data as of market close on 12/30/2019.

The investment-grade corporate bond market in the US returned 14.2 per cent in 2019, the best performance since the aftermath of the financial crisis in 2009. High-yield bonds notched returns of 14.4 per cent; the highest since 2016's rebound from turmoil in the energy sector. The bond rally was again mainly fuelled as a result of central bank rate-cuts intervention across the globe aimed at stimulating growth. With the rates in negative territory in Europe and Japan, there may be little room for manoeuvre in these major markets in 2020.

The Fund invests in a wide range of quality foreign assets. The Agency ensures, 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.

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

2. Investment Performance Review for FY2019

(i) Revenue Generation

During 2019 NDSF received €106 million from the Malta Individual Investor Programme (MIIP) (2018: €100.6 million, 2017: €201.9 million, and 2016: €163.6 million) so that the total amount of proceeds received from inception to-date amounted to €572.1 million.

The Agency also received €533,876 through government subvention which covered NDSF's operational, administrative and capital expenditure for the year.

(ii) Discretionary Portfolio

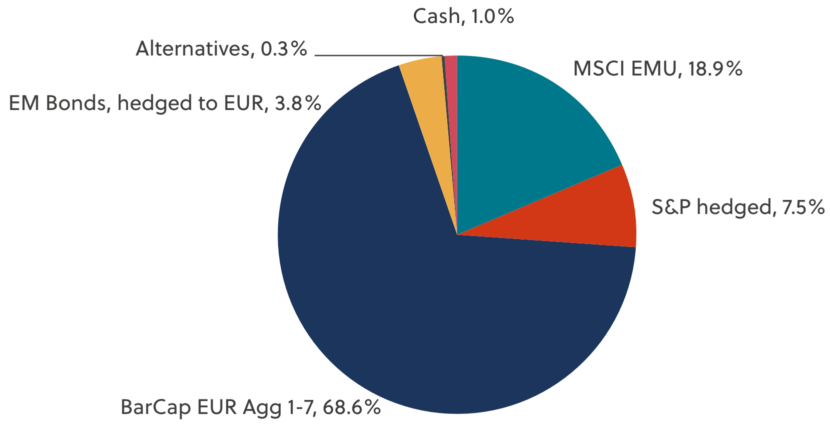
In September 2018, the Agency concluded an Investment, Administration and Custody Agreement with the Central Bank of Malta. By means of this Agreement the Bank was awarded an Investment Mandate to manage on a discretionary basis a balanced investment portfolio of foreign securities.

The actual asset allocation of the Discretionary Portfolio at as 31 December 2019 compared to the long-term strategic asset allocation was as follows:

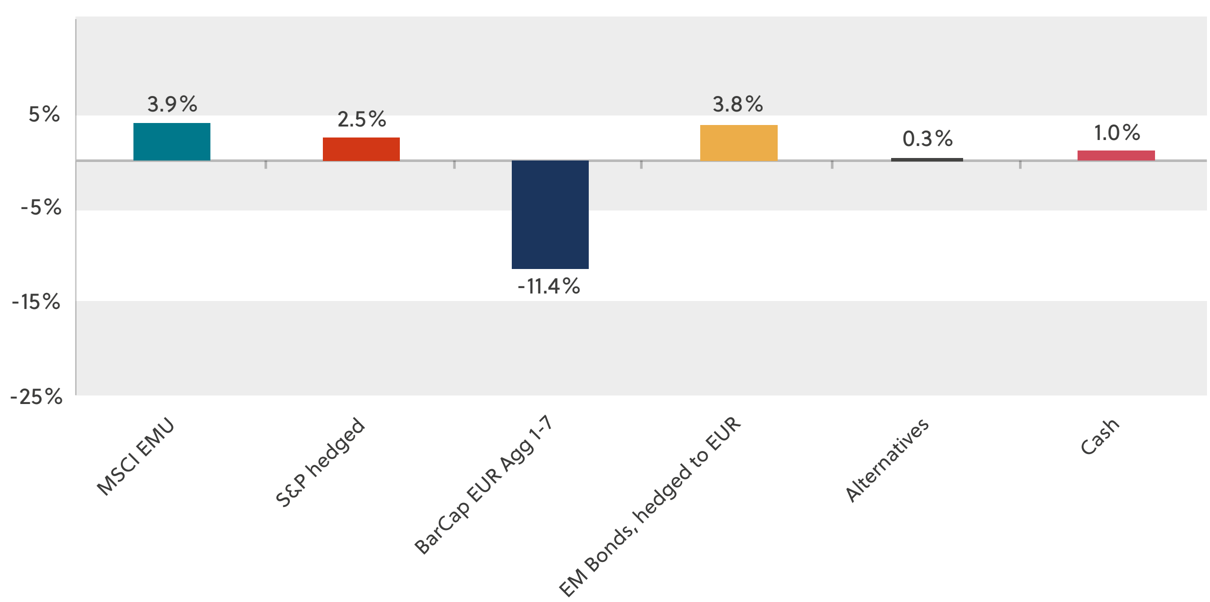
(a) Actual Asset Allocation versus Strategic Asset Allocation

Asset Class	Strategic Asset Allocation	Actual Asset Allocation
Cash and cash equivalents	0%	1.0%
Foreign bonds	80%	72.4%
Foreign equity	20%	26.4%
Alternative investments	0%	0.2%
Total	**100%**	**100%**

(b) Discretionary Portfolio Allocation as at 31st December 2019



Relative Allocation Weight to SAA



Source: Allianz Global Investors

The Portfolio has an effective duration of 3.92 years and an average rating of A+. The Net Asset Value of the Portfolio as at 31st December 2019 stood at €103.1 million (2018: €97.6 million), thus representing a year-on-year gain of €5.5 million. The largest contributor being the positive fair value movement to Profit and Loss of €4.1 million and an Investment Income of €2.0 million.

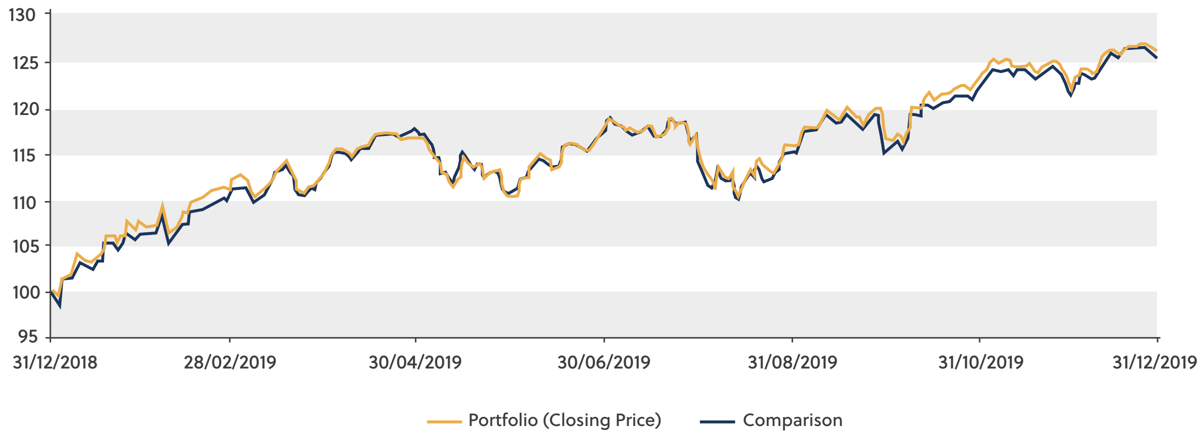
The carved-out Performance of the two major asset classes, i.e. Equity and Fixed Income holdings against their respective benchmarks is provided below.

(c) Equity Carve out: Performance since inception

Performance 31 Dec 2018 – 31 Dec 2019

	Portfolio (%)	Comparison (%)	Active Return (%)
Closing Price	26.23	25.47	0.76

Absolute Performance



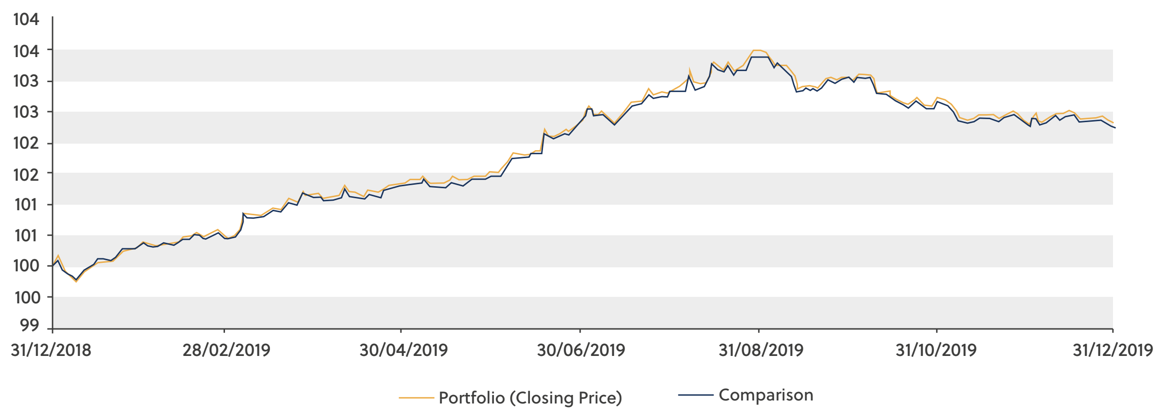
Comparison: MSCI EMU EUR TOTAL RETURN (NET) Source: Allianz Global Investors

(d) Fixed Income Carve out: Performance since inception

Performance 31 Dec 2018 – 31 Dec 2019

	Portfolio (%)	Comparison (%)	Active Return (%)
Closing Price	2.32	2.26	0.06

Absolute Performance



Comparison: BLOOMBERG BARCLAYS CAPITAL EURO-AGGREGATE: 1-7 YEAR RETURN Source: Allianz Global Investors

The table below provides a breakdown of the absolute performance of the Discretionary Portfolio over the reporting period.

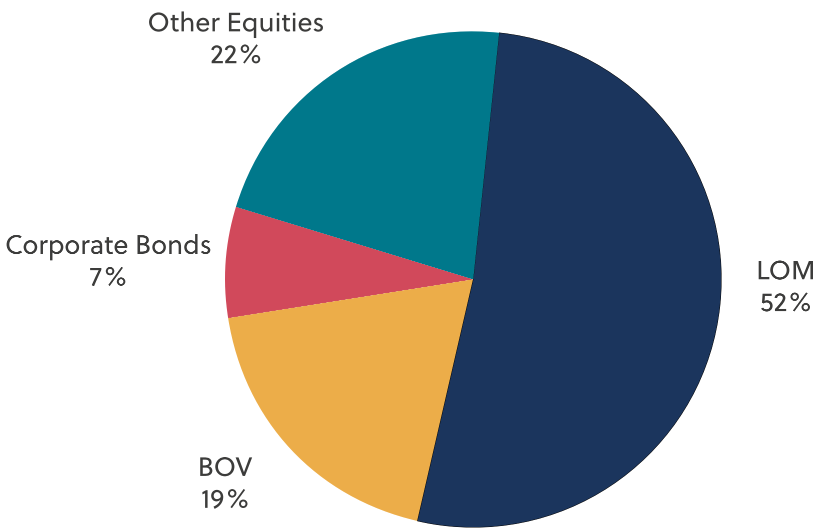
Detail	Amount in €
Realised gain	34,038
Unrealised fair value gain	4,109,746
Interest and dividends	1,932,644
Investment charges	(518,825)
Profit/(Loss)	**5,557,603**

(iii) Directed Portfolio

The Directed Portfolio, at fair value, amounted to €95 million as at 31 December 2019. The Directed Portfolio consists solely of domestic assets. Total net additions on the directed portfolio for the year amounted to €12.8 million. This was brought about by the acquisition of €15.4 million in local equities, €3.4 million in corporate bonds and €26.3 million in Malta Government Stock (MGS) and the disposal of €32.2 million in MGS and €0.1 million of local equities. The MGS was sold at a gain of €1.4 million. During the year, the Fund generated €2.8 million in dividends and interest received of €0.3 million.

At year-end 2019, in terms of amount invested as a proportion to total fair value, the Directed Portfolio comprised of 93% in local equities, main exposures out of which were Lombard (52%) and BOV (19%), as well as 7% in local corporate bonds.

Composition of Directed Portfolio



Equities

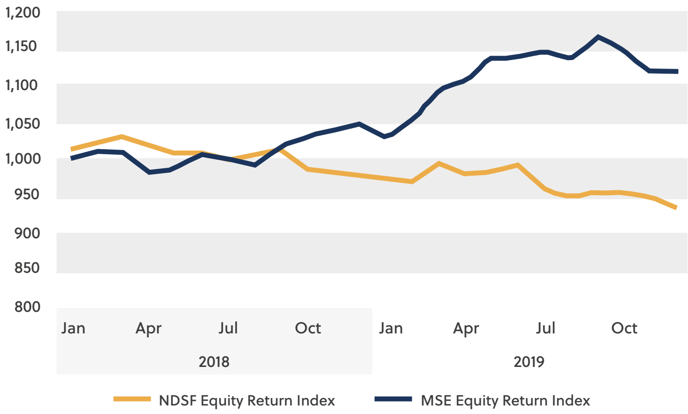
	NDSF Portfolio (%)	MSE Performance (%)
Return	-4.1%	+6.9%

The NDSF Equity Return Index, which includes the dividends distributed by various companies, decreased year-on-year by -4.1% in 2019 compared to a decrease of -4.0% in 2018.

This mainly reflects negative developments in the closing share prices of Lombard and BOV, and the overall downturn in the local market in the second half of 2019.

Adopting the MSE Return Index as a benchmark, NDSF investment in equities continued to underperform. This is attributable to the relatively large exposure of the Fund in Lombard and BOV equities.

With BOV and LOM



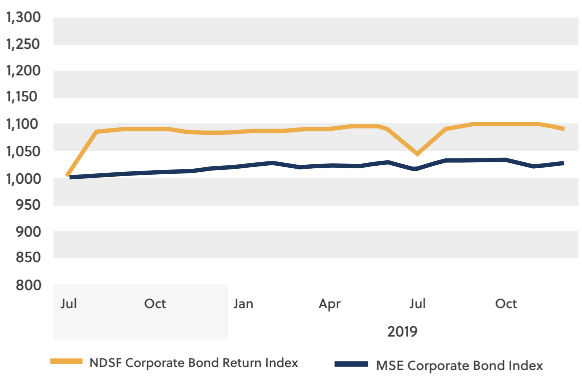
Source: NDSF (2019)

Both the Corporate Bond and MGS holdings performed well against their respective benchmarks. Corporate bond holdings registered an average return of 0.9% against the MSE Corporate Bond Index return of 1.2%. MGS held by NDSF showed a return of 21.6% against the comparative MSE Government Bond return of 11.8%. The NDSF Total Return Index, which consists of equities, corporate bonds and Malta Government Stocks, registered a decrease of 3.1% over the period January to December

Corporate Bonds

Performance Jan–Dec 2019, computed on average monthly returns

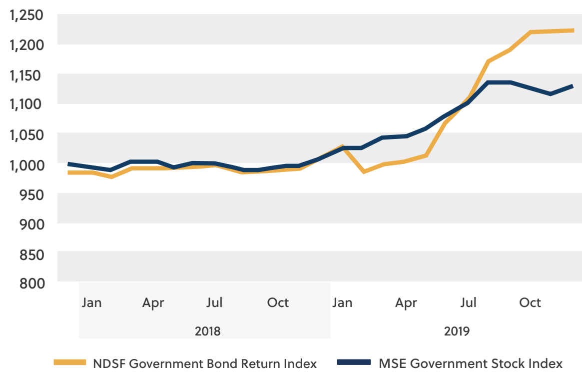
	NDSF Portfolio (%)	MSE Performance (%)
Return	+0.9%	+1.2%



Malta Government Stocks

Performance Jan–Dec 2019, computed on average monthly returns

	NDSF Portfolio (%)	MSE Performance (%)
Return	+21.6%	+11.8%



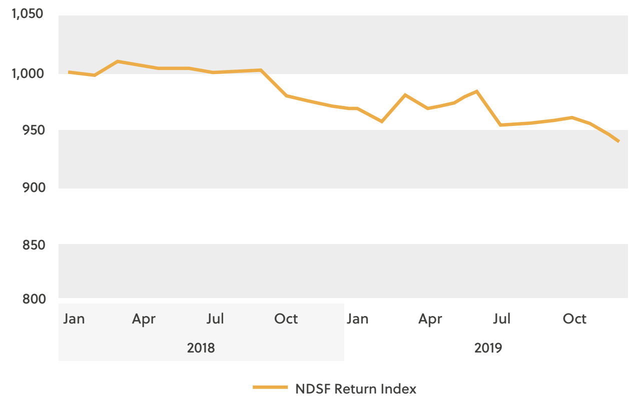
Source: NDSF (2019)

The NDSF Total Return Index, which consists of equities, corporate bonds and Malta Government Stocks, registered a decrease of 3.1% over the period January to December 2019.

Total Return

Performance Jan–Dec 2019, computed on average monthly returns

	NDSF Portfolio (%)
Return	-3.1%



Source: NDSF (2019)

(iv) Unallocated Portfolio

The cash balance held with the Central Bank of Malta in a segregated account in the name of NDSF as at the 31st December 2019 stood at €371,871,585.

3. Social Projects under the Directed Portfolio

During the year the Fund has committed in excess of €90.5 million towards the wellbeing of society in a variety of important areas ranging from health, social accommodation and sports. The major part of this allocation will be directed towards providing social housing over a three year period. The second largest allocation of funds was committed to the Primary Healthcare sector. Further details are provided in the CEO's overview of operations.

4. 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 net profit of €3.25 million or Weighted Average Return of 1.55%. The main contributors were the negative absolute return on the Bank of Valletta p.l.c. equity of *minus* €2.5 million or (-9.01%); the negative absolute return of minus €2.8 million or -5.76% on Lombard Bank (Malta) p.l.c. equity mitigated by net gains on the CBM discretionary portfolio of €5.56 million (+5.7%) and €2.95 million on other local equity and bonds.

Investment	Initial investment at cost	Fair Value to P/L	Dividend,/ interest Gain on Disposal	Charges/ Fees	Absolute return	Gain/(Loss)
	€	€	€	€	€	%
CBM Discretionary	100,000,000	4,109,746	1,812,228	-387,747	5,534,227	5.67
BOV Equity	29,346,226	-4,033,714	1,527,922	-	-2,505,792	-9.01
Lombard Equity	47,967,233	-3,464,279	703,682	-	-2,760.597	-5.76
Other Local Equity	20,137,950	705,147	558,677	-1,045	1,262,779	6.27
Local Corporate Bonds	6,811,396	-58,287	221,587	-	163,300	2.40
MGS (sold)	5,877,500	1,406,046	127,374	-	1,533,420	26.09
Total	**204,262,805**	**-1,335,341**	**4,951,470**	**-388,792**	**3,227,337**	**1.55**

5. Market Outlook in 2020

While uncertainty in the financial markets continues to prevail, the market outlook for 2020 does not seem far different than the previous year. Albeit, political uncertainty from the Presidential elections in the US, post Brexit relationship between Britain and the EU, China and the Middle East may weigh in heavily on investment market performance. Here are some main highlights on the local as well as global market outlook.

Local Market Outlook

- The latest economic outlook published by the Ministry for Finance of Malta in the Draft Budgetary Plan 2020 shows that the Maltese economy is expected to maintain a positive performance with a job-creating economy.
- The economy is projected to expand by 4.3% in 2020. This is attributed to strong domestic demand (private consumption) and a marginal negative contribution of net-exports.
- The domestic demand is expected to be sustained by job creation and stronger wage growth, whereas the subdued global economic prospects are expected to leave a negative effect on net-exports.

The economic indicators suggest that the outlook for the local market is expected to remain positive, however, with moderate return. The uncertainties surrounding the global markets coupled with potential slowdown in key economies suggest that risks are skewed towards the downside.

- Moody's most recent Malta credit rating was reported at A2 with Stable outlook. Fitch's credit rating for Malta was last set at A+ with Positive outlook. DBRS's Malta credit rating remains A (high) with stable outlook while Standard and Poor's (S&P) credit rating for Malta stands at A- with Positive outlook.
- The 2020 Annual Borrowing Plan projects that total amount of Malta Government Stocks (MGS) during 2020 is not expected to exceed €450 million. The funds raised will be principally used to finance the redemption of six MGS issues, which in aggregate, amount to €461.5 million.

Global Economic Outlook

A. Equities - Global

- A number of leading indicators point to a tentative cyclical recovery in the US and Europe.
- However, the upswing is still fragile and may be endangered by external factors such as the coronavirus.
- On the positive side, the geopolitical tensions have recently diminished somewhat and the major central banks are likely to continue their very generous monetary policies. This should support the equity markets in the medium term.
- Still, the improved outlook will need to feed through to corporate results if disappointments are to be avoided.
- Overall, investment analysts generally believe that volatility will remain elevated and that markets will experience increasing disparity between individual stocks, sectors and countries.
- This environment is favourable for an active investment approach with a focus on strong risk management.

B. Equities - Europe

- European economic data recently pointed to a stabilisation.
- The Belgian PMI, an important leading indicator for growth in the euro area, improved significantly.
- A hard Brexit, which would have been the biggest single risk for the British economy, has not materialised; the UK left the EU in an orderly process on 31 January 2020.

- Catch-up effects are quite possible, provided that concerns about the future relationship with the European Union do not prevail during the year.
- Overall, European equity valuations appear moderate, and dividend yields are highly attractive on a global scale.

C. Equities - Emerging markets/China

- China's GDP growth slowed down recently in a natural development for a mature economy.
- However, an escalation of the trade conflict might throw the Chinese economy off track; in fact, this is the biggest risk in 2020.
- Both the government and the People's Bank of China (PBoC) have taken measures to support growth.
- The emerging markets are faced with numerous challenges, from uncertainties about world trade to a slowing commodity cycle.
- A weaker US dollar should support them to some extent. Nevertheless, valuations still appear attractive both in comparison to other regions and in comparison to history.

Bonds - Global

- As long as the major international central banks do not cut their interest rates, any declines in global bond yields look set to remain limited.
- At the same time, investment analysts do not expect interest rates to increase significantly, as the economies remain weak and there are no inflationary pressures.
- Overall, interest rates in the developed economies are likely to stay low and move within relatively tight corridors.
- In this environment, demand for bonds with a yield pick-up over prime government bonds should remain buoyant.
- This includes euro-area peripheral bonds, which benefit from the European Central Bank's monetary policy.
- Select corporate bonds, collateralised bonds and emerging markets bonds also offer a chance of additional returns. Prudent selection will become more important.

6. Post-Balance Sheet Events

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

On the 29 January 2020, Heritage Malta on behalf of the NDSF, successfully participated in an on-line auction by Sotheby's New York to acquire Mattia Preti's monumental oil on canvas, "Boethius and Philosophy" for a total consideration of USD1.49 million (approximately €1.38 million). This Painting was present on the island before it 'mysteriously disappeared' as confirmed by a watercolour painted by Charles de Brocktorff (1775-1850), an artist active in Malta by 1810. The watercolour, which is preserved today in the Museum of the Order of Saint John , shows the Mattia Preti masterpiece hanging in the North West corner of the antechamber in the Grand Master's Palace in Valletta. The stated acquisition falls within the aims of the Agency to protect and enrich the cultural and artistic heritage of our country. The Fund will own the asset but will lend the masterpiece for an indefinite period to Heritage Malta for the benefit of present and future generations.

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.

7. Statement of Governors' responsibilities for the financial statements

The Governors are required to prepare financial statements which give a true and fair value of the state of affairs of the Fund as at the end of each reporting period and 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 the 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 2019 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) Joseph Zrinzo (Member)* *Mr Joseph Zrinzo was appointed to the NDSF Board on 1st September 2019.
Chief Executive Officer & Board Secretary:	Raymond Ellul
Advisory Board:	Raymond Ellul (Chairman) Dr.Kevin Monpalao (Member) Joshua Zammit (Member) Dr. Peter Paul Zammit (Member) Tony Zahra (Member)** *Mr Tony Zahra resigned his position as a member on the NDSF Advisory Board on 26th August 2019.
Address:	National Development and Social Fund Orange Grove, Blk B, Triq Birbal, Balzan, BZN 9013 Malta
Banker:	Central Bank of Malta Payments and Banking Operations Castille Place, Valletta, VLT 1060 Malta
Auditors:	PricewaterhouseCoopers 78 Mill Street, Qormi, QRM 3103 Malta

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Fund and a resolution proposing their 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

Ray Sladden
Deputy Chairman

National Development and Social Fund
Blk B Orange Grove, Triq Birbal, Balzan, Malta.

10 March 2020

Chief Executive Officer's Review of Operations

The following Review highlights the main activities and achievements during 2019 which are sub-divided as follows:

- Operations and Governance
- Investments
- Financial Highlights and Consolidated Position FY2019
- Social Projects under Directed Portfolio during 2019
- Proposed Programmes and Activities for 2020

Raymond Ellul, Chief Executive Officer

A. OPERATIONS AND GOVERNANCE

- The National Development and Social Fund's main focus this year has been to continue strengthening its operations.
- In January, the Agency launched its fully dedicated website, logo and corporate livery with the tag line "Committed to a Sustainable Future".
- In terms of its human resource management, the Agency has recruited a Manager (Risk and Investment Performance) and in the final quarter of this year has initiated the process for issuing a Call for Applications for the posts of Manager (Investments and Research), Manager (Operations) and Manager (Finance). This will increase staff complement to 8.
- The Board of Governors has met a total of 35 times since its first meeting on the 7th December 2015 and during 2019, the Board met 11 times. Furthermore, the Agency's Advisory Board which was set up in 2018 and is chaired by the CEO has met 13 times since Inception and 5 times in 2019.
- In October of this year, the Board of Governors approved the NDSF's Conflicts of Interest Policy and Market Sounding Procedures which are based on EU Market Abuse Regulations and the local Prevention of Market Abuse Act.
- In December, the Agency issued an Expression of Interest for Consultancy Services on Public Procurement with a view of achieving transfer of knowledge on this complex and vital operation.
- The Agency will in early 2020 issue a call for the provision of consultancy services on establishing an NDSF Risk Management Framework and Policy in line with international best practice in this area. This Policy is expected to be formally approved by the Board by the second quarter of 2020.
- In tandem, the Agency has embarked on a Proof of Concept exercise to develop a bespoke investment and risk management system which would provide NDSF with predictive management information capability on its investment portfolio as well as timely cash-flow analytics.

B. INVESTMENTS

The Fund has increased its investment activity both in its Discretionary Portfolio with the Central Bank of Malta (CBM), which comprises solely foreign listed securities, and its Directed Portfolio which is primarily invested in local listed securities and managed in-house.

(a) Discretionary Portfolio with CBM

The Discretionary Portfolio holds investments which equal approximately 30% of all funds received from Individual Investor Programme. Currently, committed funds amount to around €125,000,000 out of which €100 million have already been invested across a wide range of foreign financial instruments, with the remaining amount to be employed by early 2020. The Net Asset Value of the discretionary portfolio as at 31 December 2019 stood at €103,109,208 as per Table 1 below.

Table 1: Change in Discretionary Portfolio Net Asset Value

Original Cost of Investment (€)	N A V as at 31.12.2018 (€)	N A V as at 31.12.2019 (€)	Y-o-Y Change in N A V (€)
100,000,000	**97,551,605**	**103,109,208**	**5,557,603**

(b) Directed Portfolio (In-house)

During 2019 the Fund has continued to invest substantially in local listed securities on the Malta Stock Exchange and apart from its holdings in BOV and Lombard, has established an Income Portfolio within the Directed Portfolio consisting of 18 locally listed equity holdings amounting to €21.2 million and 15 locally listed corporate bonds amounting to €6.7 million. Total fair value of the Income Portfolio as at 31st December 2019 stood at €95,080,720. A breakdown of these holdings is provided in Table 2 below.

Table 2: Local Listed Securities at Fair Value

Financial Assets	Investments at cost (€)	Market value as at 31.12.2018 (€)	Additions 01.01.2019 to 01.12.2019 (€)	Disposals	Market Value as at 31.12.2019 (€)
BOV shares	27,502,592	20,321,360	1,527,922		17,815,569
Lombard shares	47,967,233	52,830,260	-		49,365,981
Other local equity	6,383,613	6,695,883	13,855,336	(100,999)	21,155,366
Local corporate bonds	3,401,419	3,392,113	3,409,978		6,743,804
Malta Government stocks	5,785,512	5,877,512	26,294,200	(32,171,712)	-
Total	**91,042,369**	**89,117,128**	**45,087,436**	**(32,272,711)**	**95,080,720**

(c) Unallocated Portfolio

The Fund's Unallocated Portfolio consists of a Cash balance amounting to €371,871,585 which is held in a segregated account in the name of NDSF with the Central Bank of Malta.

Table 3: Cash Balances with CBM as at 31 December 2019

Cash Balance held with CBM as at 31 December 2018 (€)	Cash Balance held with CBM as at 31 December 2019 (€)
274,971,164	**371,871,585**

C. MAIN FINANCIAL HIGHLIGHTS AND CONSOLIDATED POSITION FY2019

Total funding received from the Individual Investor Programme from inception to 31 December 2019 amounted to €571,611,598, while total funding for the year amounted to €105,506,520. Total funds invested during FY2019 at fair value amounted €195,294,265 resulting in a Consolidated Profit for the year under review of €3,250,713 while €90.5 million have been committed towards various social projects highlighted in the Table 7 further below.

Table 4: Financial Highlights FY2019

Financial highlights	As at 31 December 2018 (€)	01 Jan to 31 Dec 2019 (€)
Total revenue received from MIIPA from inception	466,105,078	571,611,598
Funding received from MIIPA for the year	100,581,180	105,506,520
Cash at bank	274,971,164	371,871,585
Total assets	461,871,192	570,581,418
Fair value of consolidated investments	179,159,317	195,294,265
Realised investment income	708,218	6,511,970
Unrealised losses	(3,702,788)	(2,741,387)
Endowment from government	381,908	533,876
Operating expenses and investment charges	(381,908)	(533,876)
Profit/Loss	**(3,140,414)**	**3,250,713**

(i) Consolidated Position of the Fund as at 31st December 2019

The consolidated position of the Fund at Fair Value as at 31st December 2019 is given in Table 5 below. Net Assets of the Fund stood at €570,186,735 with major assets being Financial Investments of €195,294,265 and Cash and Cash Equivalents of €371,871,585.

Table 5: Consolidated Position of Fund as at 31st December 2019

		Unallocated Portfolio		Discretionary Portfolio		Directed Portfolio		Total	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
ASSETS									
Non-current assets									
Property and equipment	5	**223,350**	15,684	**-**	-	**-**	-	**223,350**	15,684
Other non-current assets	6	**10,000**	10,000	**-**	-	**-**	-	**10,000**	10,000
Total non-current assets		**233,350**	25,684	**-**	-	**-**	-	**233,350**	25,684
Current assets									
Financial investments	7	**-**	-	**100,213,545**	90,042,189	**95,080,720**	89,117,128	**195,294,265**	179,159,317
Other current assets	8	**-**	-	**2,489,476**	6,933,408	**-**	-	**2,489,476**	6,933,408
Receivables and prepayments	9	**13,361**	13,570	**554,159**	708,952	**125,222**	59,097	**692,742**	781,619
Cash and cash equivalents	10	**371,871,585**	274,971,164	**-**	-	**-**	-	**371,871,585**	274,971,164
Total current assets		**371,884,946**	274,984,734	**103,257,180**	97,684,549	**95,205,942**	89,176,225	**570,348,068**	461,845,508
Total assets		**372,118,296**	275,010,418	**103,257,180**	97,684,549	**95,205,942**	89,176,225	**570,581,418**	461,871,192

(ii) Contribution by Government to NDSF.

The recurrent expenditure of the Agency is funded by means of line item 6035. The total administrative expenditure incurred in 2019 amounted to 533,876 and for the FY2020 the total expenditure estimated to reach €1.2 million. A breakdown of the main expenditure items is given in Table 6 below.

Table 6: Consolidated Position of Fund as at 31st December 2019

Head line item	2019 (Actual) (€)	2020 (Forecast) (€)
Personnel Costs	288.319	670,000
Operational & Maintenance	67,162	89,000
Contractual Services	70,800	245,000
Professional Services	103,110	200,000
Equipment, Improvement to Property & Others	4,485	30,000
Totals	**533,876**	**1,234,000**

Around 54% of the allocation will go towards Personnel Costs covering the honoraria of the Agency's Governors and salaries of CEO and new employees who will be recruited throughout FY 2020.

The Fund will also utilise around €200,000 or 20% of its budgeted allocation towards the provision of Professional Services in auditing, legal, marketing services and systems development. Around 20% or €245,000 will be allocated towards Contractual Services vital for the Fund's operations.

D. COMMITTED SOCIAL PROJECTS UNDER DIRECTED PORTFOLIO DURING 2019

NDSF has committed in excess of €90.5 million to-date towards the wellbeing of society in a variety of important areas ranging from health, social accommodation and sports. Table 4 below provides a breakdown of the amount committed in FY2019. The major part of this allocation will be directed towards providing a substantial number of social housing units over a 3 year period. The second largest allocation of funds will go towards the Primary Healthcare sector.

Table 7: Committed Social Projects as at 31st December 2019

Social Proposals	Amount of Grant Requests (€)
Social Housing Projects	60,000,000
Primary Health Care	10,000,000
Puttinu Cares (London Apartments)	5,000,000
National Sports Strategy	6,000,000
Other Social Grants (WIP)	9,500,000
Total	**90,500,000**

Out of the €90.5 million grant requested, €0.27 million have been paid out by the Fund in 2019. The unutilised portion of the grant as at 31 December 2019 is €90.23 million.

(a) Social Housing Project

- On the 6th February 2019 an MOU was signed between the Housing Authority and NDSF wherein the Fund committed €50 million towards the development and finishing of a significant number of social accommodation units spread over 22 sites across the Maltese islands.

- Consequently, NDSF commissioned a Development Brief on the social housing project which was completed towards the end of June 2019. The result of the exercise was that through spatial optimisation of the 22 sites in over 12 different localities across the island, the potential number of units could be increased albeit, for an additional investment of €10 million by NDSF, so that the total grant including VAT on construction would reach €60 million.

- The process of finalising the legal documentation securing this funding is expected to be concluded in the in Q12020.

- Detailed plans are already at an advanced stage on a significant number of sites therefore allowing the Housing Authority to obtain the necessary building permits and issue tenders to commence excavation and civil works in the Q12020.

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(b) Primary Health Care Upgrading and Refurbishment Project

- On the 20th May 2019, a Memorandum of Agreement was signed between the Primary Health Care division and NDSF for a €10 million grant towards the co-funding of an upgrading programme of €14 million in total covering over 50 clinics and 8 Health Centres across Malta and Gozo.

- The purpose of the NDSF grant is to accelerate the repositioning of primary healthcare as a first point of contact in the community and decentralising a number of important outpatient services.

- The project entails creating Centres of Excellence and other services which will alleviate pressures on Mater Dei and reduce inconvenience to patients resulting in a Cost-to-Benefit ratio of 2.3 times and shows that for every €1 invested by NDSF. The Project yields around €5.80 of economic benefits.

(c) NDSF Social Grants to Voluntary Organisations (VOS)

- NDSF has committed around €9.5 million towards the projects of three well-known VOS. Details of the said projects and grants will be communicated in Q1 2020 when the relative Memorandum of Agreements between the Agency and the respective organisations are expected to be concluded.

E. PROPOSED PROGRAMMES AND ACTIVITIES FOR 2020

The proposed programmes and activities for 2020 in so far as new initiatives and related funding are, as follows:

(i) Operations and Governance

- The Agency will continue with its external employee recruitment programme and systems development to ensure it has the necessary internal capabilities to manage its investment, risk management and social investment obligations.

- It will launch its Risk Management Framework and Policy in line with international best practice and will review all other existing policies.

- It will consider membership of the Official Monetary and Financial Institutions Forum (OMFIF) with the view of enhancing governance, networking and investment opportunities with other sovereign wealth funds within the EMEA region.

(ii) Investment and Social Initiatives

- NDSF will continue to administer and manage funds received in line with its investment policy as well undertake the major strategic investments and social initiatives mentioned above. On the Investments side, NDSF will continue to seek new investment opportunities in line with its Investment Policy.

- The Agency will be focusing its efforts on the Social Housing Project in line with the deliverables outlined in the Development Brief as well as the Primary Health Care upgrading projects and other social projects in hand.

Raymond Andrew Ellul
Chief Executive Officer
National Development and Social Fund

10 March 2020

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 2019, 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. 595.12).

What we have audited

The National Development and Social Fund's financial statements, set out on pages 26 to 55, comprise:

- the statement of financial position as at 31 December 2019;
- 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. 595.12).

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. 595.12).

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.

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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. 595.12), 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

10 March 2020

Statement of financial position

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
ASSETS									
Non-current assets									
Property and equipment	5	**223,350**	15,684	**-**	-	**-**	-	**223,350**	15,684
Other non-current assets	6	**10,000**	10,000	**-**	-	**-**	-	**10,000**	10,000
Total non-current assets		**233,350**	25,684	**-**	-	**-**	-	**233,350**	25,684
Current assets									
Financial investments	7	**-**	-	**100,213,545**	90,042,189	**95,080,720**	89,117,128	**195,294,265**	179,159,317
Other current assets	8	**-**	-	**2,489,476**	6,933,408	**-**	-	**2,489,476**	6,933,408
Receivables and prepayments	9	**13,361**	13,570	**554,159**	708,952	**125,222**	59,097	**692,742**	781,619
Cash and cash equivalents	10	**371,871,585**	274,971,164	**-**	-	**-**	-	**371,871,585**	274,971,164
Total current assets		**371,884,946**	274,984,734	**103,257,180**	97,684,549	**95,205,942**	89,176,225	**570,348,068**	461,845,508
Total assets		**372,118,296**	275,010,418	**103,257,180**	97,684,549	**95,205,942**	89,176,225	**570,581,418**	461,871,192

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
LIABILITIES									
Non-current liability									
Lease liability	12	**(150,569)**	-	**-**	-	**-**	-	**(150,569)**	-
Current Liabilities									
Lease liability	12	**(65,810)**	-	**-**	-	**-**	-	**(65,810)**	-
Accruals and other liabilities	11	**(30,332)**	(39,255)	**(147,972)**	(132,944)	**-**	-	**(178,304)**	(172,199)
Total current liabilities		**(96,142)**	(39,255)	**(147,972)**	(132,944)	**-**	-	**(244,114)**	(172,199)
Total liabilities		**(246,711)**	(39,255)	**(147,972)**	(132,944)	**-**	-	**(394,683)**	(172,199)
Net assets of the Fund at the end of year		**371,871,585**	274,971,163	**103,109,208**	97,551,605	**95,205,942**	89,176,225	**570,186,735**	461,698,993
Memorandum items									
Commitments	15		-	**-**	-	**90,270,509**	55,000,000	**90,270,509**	55,000,000

The notes on pages 37 to 58 from an integral part of these financial statements.

The financial statements on pages 37 to 58 were approved and authorised for issue by the Board of Governors and signed on its behalf on 10 March 2020 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	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
Investment income									
Net fair value gains/ (losses) on financial assets through profit or loss	7	**-**	-	**4,109,746**	(1,839,142)	**(6,851,133)**	(1,863,646)	**(2,741,387)**	(3,702,788)
Realised gains/(losses) on investment	7	**-**	-	**34,038**	(939,724)	**1,406,046**	(1,027,358)	**1,440,084**	(1,967,082)
Interest income on debt securities	7	**-**	-	**1,317,516**	402,357	**338,584**	1,384,695	**1,656,100**	1,787,052
Dividend income on equities	7		-	**615,128**	73,575	**2,800,658**	814,673	**3,415,786**	888,248
Other income									
Endowment from the Government of Malta	13	**533,876**	381,908	**-**	-	**-**	-	**533,876**	381,908
Net income/(loss)		**533,876**	381,908	**6,076,428**	(2,302,934)	**(2,305,845)**	(691,636)	**4,304,459**	(2,612,662)
Expenses									
Operating expenses	13	**(533,876)**	(381,908)	**-**	-	**-**	-	**(533,876)**	(381,908)
Investment charges	13	**-**	-	**(518,825)**	(145,461)	**(1,045)**	(383)	**(519,870)**	(145,844)
Total expenses		**(533,876)**	(381,908)	**(518,825)**	(145,461)	**(1,045)**	(383)	**(1,053,746)**	(527,752)
Profit/loss for the financial year		**-**	-	**5,557,603**	(2,448,395)	**(2,306,890)**	(692,019)	**3,250,713**	(3,140,414)

The notes on pages 37 to 58 from an integral part of these financial statements.

Statement of changes in net assets

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Notes	**€**	€	**€**	€	**€**	€	**€**	€
Net assets at the beginning of the year		**274,971,163**	337,705,634	**97,551,605**	-	**89,176,225**	27,502,593	**461,698,993**	365,208,227
Profit/loss for the year			-	**5,557,603**	(2,448,395)	**(2,306,890)**	(692,019)	**3,250,713**	(3,140,414)
Funds received from Identity Malta		**105,506,520**	100,581,180	**-**	-	**-**	-	**105,506,520**	100,581,180
Transfer between portfolios		**(8,336,607)**	(162,365,651)	**-**	100,000,000	**8,336,607**	62,365,651	**-**	-
Contributions paid out of the Fund	14	**(269,491)**	(950,000)	**-**	-	**-**	-	**(269,491)**	(950,000)
Net assets to the fund at end of year		**371,871,585**	274,971,163	**103,109,208**	97,551,605	**95,205,942**	89,176,225	**570,186,735**	461,698,993

The notes on pages 37 to 58 from an integral part of these financial statements.

Statement of cash flows

	Notes	Unallocated portfolio 2019 €	Unallocated portfolio 2018 €	Discretionary portfolio 2019 €	Discretionary portfolio 2018 €	Directed portfolio 2019 €	Directed portfolio 2018 €	Total 2019 €	Total 2018 €
Cash flows from operating activities									
Interest income received	7	-	-	-	-	**2,734,533**	1,325,598	**2,734,533**	1,325,598
Dividend income received	7	-	-	-	-	**338,584**	814,673	**338,584**	814,673
Cash generated from operations		-	-	-	-	**3,703,117**	2,140,271	**3,703,117**	2,140,271
Cash flows from investing activities									
Purchase financial assets	7	-	-	-	(100,000,000)	**(45,088,482)**	(109,988,563)	**(45,088,482)**	(209,988,563)
Disposal of investments	7	-	-	-	-	**33,678,757**	45,482,642	**33,678,757**	45,482,642
Contributions paid out of the Fund	14	**(269,491)**	(950,000)	-	-		-	**(269,491)**	(950,000)
Cash flows used in investing activities		**(269,491)**	(950,000)	-	(100,000,000)	**(11,409,725)**	(64,505,921)	**(11,679,216)**	(165,455,921)
Cash flows from financing activities									
New funds received from Identity Malta		**105,506,520**	102,859,682	-	-	-	-	**105,506,520**	102,859,682
Opening cash and cash equivalents		**274,971,164**	-	-	-	-	-	**274,971,164**	335,427,132
Closing cash and cash equivalents		**380,208,193**	101,909,682	-	-	**(8,336,608)**	(62,365,650)	**371,871,585**	274,971,164

The notes on pages 37 to 58 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 595.12 - 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. 595.12). 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).

a. Standards and amendments to existing standards effective 1 January 2019

In 2019, the Fund adopted amendments and interpretations to existing standards that are mandatory to the Fund's accounting period beginning on 1 January 2019.

On 1 January 2019, the Fund applied for the first time IFRS 16 Leases. IFRS 16 Leases was issued in January 2016 and effective starting 1 January 2019. It resulted 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 had to change its accounting policies as a result of adopting IFRS 16. The Fund elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The impact of the adoption of this standard is disclosed below.

Other standards, amendments and interpretations effective 1 January 2019 did not have any impact on the Fund's accounting policies and did not require retrospective adjustments.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Fund's financial statements and discloses the new accounting policy that have been applied from 1 January 2019.

The Fund has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(i) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Fund recognised lease liability in relation to lease which had previously been classified as "operating lease" under the principles of IAS 17 Leases. The liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liability on 1 January 2019 was 3.0%.

The associated right-of-use asset for property lease was measured at the amount equal to the lease liability. There were no onerous lease contracts that would require adjustment to the right-of-use asset at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets recorded under property and equipment - increase by €280,132
- lease liability recorded under accruals and other liabilities - increase by €280,132

The statement of comprehensive income includes the following amounts relating to leases:

Unallocated	As at 31 December 2019 (€)
Amortisation charge of right of use assets	70,800
Finance cost	7,047
	77,847

The above expenses are recorded under 'Operating expenses' in the statement of comprehensive income.

(ii) The Fund's leasing activity and how this is accounted for

The Fund has an existing lease in relation to its office premises. Rental contract is for a period of two years and subject for a further two years of extension. The lease agreement does not impose any covenants.

Until the 2018 financial year, such lease was classified as operating lease. Payments made were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, the above lease was recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liability includes the net present value of the following lease payments:

- fixed payments;
- variable lease payments that are based on an index or a rate.

- The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options

Extension and termination options are included in the office rental agreement of the Fund. These terms are used to maximise operational flexibility in terms of managing the said contract. The said options are exercisable only by the Fund and not by the respective lessor.

b. New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Fund's accounting policies beginning after 1 January 2019. The Fund has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Fund's governors are of the opinion that there are no requirements that will have possible significant impact on the Fund's financial statements in the period of initial application.

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

As 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. All of the Fund's debt instruments are classified as FVPL.

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.

All of the Fund's equity instruments are measured at FVPL.

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. As wholly explained, 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. 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 2.7 for further details.

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 recognized 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 derecognized. 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 derecognized on disposal or when no future economic benefits are expected from its use or disposal. When assets are derecognized, 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 recognized within other income (expenses) in profit or loss.

2.5 Operating lease

Accounting policies applied until 31 December 2018

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or a series of payments, the right to use an asset for an agreed period of time.

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

Until the 2018 financial year, such lease was classified as operating lease and recognised as rent expense on a straight-line basis over the lease term as presented operating expenses.

Accounting policies applied beginning 1 January 2019

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund.

Changes in accounting policies effected by the Fund from 1 January 2019 in relation to the adoption of IFRS 16 are discussed in Note 2.1.

2.6 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 recognized as expense either with the passage of time, through use, consumption.

Other current assets include assets that are realized 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 recognized at cost and are derecognized when used, consumed, sold or when it has been determined that there are no future benefits to the Fund.

2.7 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.

2.8 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 less1 and bank overdrafts. Bank overdrafts are shown in current liabilities in the statement of financial position.

2.9 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 recognized 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 derecognized when the obligation is paid, cancelled or extinguished.

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

2.10 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 recognized once the amounts are receivable. It is initially recorded at the fair value of the amount to be received.

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

2.11 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.

2.12 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.

2.13 Expenses

Expenses are accounted for on an accrual basis and are expensed as incurred. As explained in Note 2.2, 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.

2.14 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. 595.12 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.

3.4 Awarding of grants

The Fund receives proposals for social grants from either voluntary organisations or public entities which are to be examined in detail. The evaluation is a three-step process which starts from explaining the purpose of the social grant and assessing whether it is line with the stated objectives of the Fund as detailed in the founding regulations (S.L. 595.12) and its investment policy. After which, an internal analysis of the proposal will be carried out to determine the monetised social benefit of the project according to a cost-benefit analysis which the Fund requires the potential beneficiary to provide with each proposal. The request will be placed on the agenda of the Advisory Board which may request further information or resolve to forward such request to the Board of Governors for its final consideration. The Board of Governors will then decide whether or not to proceed with the awarding of the grant subject to a Memorandum of Agreement between Fund and the beneficiary. The Fund retains the right to carry out a post-implementation exercise to determine the efficacy of the grant in relation to the stated purpose and attach other conditions on beneficiary, on a case-by-case basis.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

5. PROPERTY AND EQUIPMENT

Details and movements of property and equipment, excluding the right-of-use asset, as at December 31, 2019 and 2018 are as follows:

Unallocated portfolio	Computer equipment €	Computer software €	Office equipment €	Total €
At 1 January 2018				
Cost	2,519	2,405	14,681	19,605
Accumulated depreciation	(504)	(481)	(2,936)	(3,921)
	2,015	1,924	11,745	15,684
Year ended 31 December 2019				
Opening net book amount	2,015	1,924	11,745	15,684
Additions	2,088	212	519	2,819
Depreciation charge (Note 13)	(951)	(524)	(3,010)	(4,485)
Closing net book amount	**3,152**	**1,612**	**9,254**	**14,018**
At 31 December 2019				
Cost	4,607	2,617	15,200	22,424
Accumulated depreciation	(1,455)	(1,005)	(5,946)	(8,406)
Net book amount	**3,152**	**1,612**	**9,254**	**14,018**

The details of the right-of-use asset as a result of the adoption of IFRS 16 are as follows:

Unallocated portfolio	As at 31 December 2019 (€)	As at 1 January 2019 (€)
Opening net book amount	**280,132**	280,132
Additions	**-**	-
Amortisation charge	**(70,800)**	-
Closing net book amount	**209,332**	280,132
Cost	**280,132**	280,132
Accumulated amortisation	**(70,800)**	-
Net book amount	**209,332**	280,132

The details of the related lease liability are disclosed in Note 12.

6. LEASE AGREEMENTS

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.

No rent expense was charged to operations in 2019 upon adoption of IFRS 16 (2018: €4,130) (Note 12). As disclosed in note 2.1, such adoption in 2019 resulted the Fund to recognise amortisation charge of right of use assets amounting to €70,800 (2018: nil) and finance cost of €7,047 (2018: nil).

A security deposit in 2018 amounting to €10,000 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

Discretionary portfolio

During 2019, the Fund entered into an agreement with the Central Bank of Malta ("CBM"), 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 is as December 31 follows:

	2019	2018
	€	€
Financial assets designated at fair value through profit or loss at Inception		
Quoted equity	**27,624,708**	11,720,461
Debt securities	**72,588,837**	78,321,728
	100,213,545	90,042,189

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

	2019	2018
	€	€
Year ended 31 December		
At beginning of year	**90,042,189**	-
Net additions	**7,509,416**	100,000,000
Interest income on debt securities	**1,317,516**	402,357
Dividend income equities	**615,128**	73,575
Realised gain(loss) on investment	**34,038**	(939,724)
Investment charges	**(518,825)**	(145,461)
Net fair value gain(losses)	**4,109,746**	(1,839,142)
Net asset value of the portfolio	**103,109,208**	97,551,605
Restricted cash (Note 8)	**(2,489,476)**	(6,933,408)
Accrued interest receivable (Note 9)	**(549,220)**	(705,509)
Accrued dividend receivable (Note 9)	**(4,939)**	(3,443)
Deferred investment charges (Note 11)	**147,972**	132,944
	100,213,545	90,042,189

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 December 31, 2019 and 2018 are as follows:

	2019	2018
	€	€
Financial assets designated at fair value through profit or loss at Inception		
Quoted equity	**88,336,916**	79,847,503
Debt securities	**6,743,804**	9,269,625
	95,080,720	89,117,128

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

	2019	2018
	€	€
Year ended 31 December		
At beginning of year	**79,847,503**	27,502,593
Additions	**15,383,258**	54,291,754
Disposal	**(100,999)**	-
Net fair value losses	**(6,792,846)**	(1,946,944)
	88,336,916	79,847,503

Fair value movement – debt securities

	2019	2018
	€	€
Year ended 31 December		
At beginning of year	**9,269,625**	-
Additions	**29,704,178**	55,696,427
Disposals	**(32,171,712)**	(46,510,000)
Net fair value losses	**(58,287)**	83,198
	6,743,804	9,269,625

During the year ended 31 December 2019, the Fund disposed various debt and equity securities under the directed portfolio valued at €32,272,711 (2018: €46,510,000) for a consideration of €33,678,757 (2018: €45,482,642) resulting to a gain of €1,406,046 (2018: €1,027,358 loss).

Dividend and interest income earned on the above equity and debt securities earned by Fund in 2019 amount to €2,800,658 and €338,584, respectively (2018: 814,673 and €1,384,695).

8. OTHER CURRENT ASSETS

Discretionary portfolio	2019	2018
	€	€
Restricted cash (Note 7)	**2,489,476**	6,933,408

The restricted cash represents the unutilised fund on the discretionary portfolio held with the CBM, in terms of the agreement between both parties (Note 7).

9. RECEIVABLES AND PREPAYMENTS

Details of the Fund's receivables and prepayments as of December 31, 2019 and 2018 are as follows:

Discretionary portfolio	2019	2018
	€	€
Accrued interest receivable	**549,220**	705,509
Dividend receivable	**4,939**	3,443
Total receivables and prepayments	**554,159**	708,952

Directed portfolio	2019	2018
	€	€
Accrued interest receivable	**125,222**	59,097

Unallocated portfolio	2019	2018
	€	€
Prepaid rent (Note 7)	**12,215**	12,215
Amount receivable from the Government of Malta (Note 13(d))	**1,146**	1,355
Total receivables and prepayments	**13,361**	13,570

Amounts due from Government of Malta 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		
	2019	2018
	€	€
Central Bank of Malta	**371,871,585**	274,971,164

11. ACCRUED EXPENSES AND OTHER LIABILITIES

Discretionary		
	2019	2018
	€	€
Accrued investment charges	**147,972**	132,944

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

Unallocated portfolio		
	2019	2018
	€	€
Deferred grants	**6,971**	15,684
Others	**23,361**	23,571
	30,332	39,255

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 professional fees, advertising, utilities and salaries.

12. LEASE LIABILITY

The lease liability associated with the right-of-use asset relates to the below:

Unallocated portfolio		
	As at 31 December 2019	As at 31 December 2018
	€	€
Current	**65,810**	63,753
Non-current	**150,569**	216,379
	216,379	280,132

The impact upon adoption of IFRS 16 is disclosed in Note 2.1.

13. 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		
	2019	2018
	€	€
Statutory audit	**11,800**	11,800
Other assurance services	**5,900**	5,900
Total	**17,700**	17,700

(b) Remuneration

The following remuneration was paid by the Fund during the years ending 31 December 2019 and 2018:

Unallocated portfolio		
	2019	2018
	€	€
Governors' honoraria	**42,636**	40,680
Wages and salaries	**245,683**	192,674
Total	**288,319**	233,354

The average amount of employees during the year was 5 (2018: 4).

(c) Other operating expenses

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

Unallocated portfolio		
	2019	2018
	€	€
Professional fees	**103,110**	78,904
Depreciation and amortisation (Note 5)	**75,285**	3,921
Marketing and advertising	**18,443**	39,731
Finance cost	**7,047**	-
Rent (Note 6)	**-**	4,130
Other expenses	**23,972**	4,168
Total	**227,857**	130,854

(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 €518,825 (2018: €145,461) and €1,045 (2018: €383) on its discretionary and directed portfolios.

14. CONTRIBUTIONS PAID OUT

In 2019, the Fund paid out an amount of €53,491 to Primary Healthcare (Ministry for Health) in line with the Memorandum of Agreement made during the same year.

Moreover, during the same year, €216,000 disbursement was also made in line with its commitment in place with Caritas Malta.

The total amount of committed funds which have not been fully utilised as of 31 December 2019 to the above-mentioned organisations is disclosed in Note 15.

15. 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. Consequently, a development brief was commissioned by the Fund in 2019, in which through spatial optimisation of the sites, the number of social accommodations that could be created was increased. Such increase required additional €10,000,000 investment from the Fund, and consequently, the total committed grant for this project reached €60,000,000.

Also, in 2018, an amount of €5,000,000 was committed by the Fund to finance the Puttinu Cares London 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. The amount has not yet been utilised by the voluntary organisation in 2019.

In 2019, the Fund entered into a Memorandum of Agreement with Primary Health Care division for a €10,000,000 grant towards the co-funding of an upgrading programme covering over 50 clinics and 8 health centres across Malta and Gozo. An amount of €53,491 was paid out by the Fund during the year as disclosed in Note 13.

An amount of €6,000,000 was also committed by the Fund towards the National Sports Strategy during 2019. No disbursements have been made during the same year.

During the same year, an amount of €1,000,000 was committed by the Fund to Caritas Malta to co-fund the investment in a modern centre named Caritas Community Centre. Such centre will house all non-residential community services 24/7. Thereafter, a further €540,000 was committed to the same organisation for the upgrading of San Blas Rehabilitation Centre. Out of the total grant, €216,000 was disbursed during in 2019.

Further commitments of around €8,000,000 have been made in 2019 with various voluntary organisations. Such funding arrangements are expected to be finalised during the second quarter of 2020.

16. TAX EXPENSE

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

17. 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. 595.12), the National Development and Social Fund was constituted as a Government of Malta Agency.

All transactions and balances held with other state-controlled agencies and institutions are considered to be related party transactions. Transactions and/or balances held with other entities over which the governors have significant influence and/or control 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.

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 and Primary HealthCare.

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 2019, the Fund held investments in the form of equity and debt securities having a fair value of €3,324,571 (2018: Nil) and €1,165,570 (2018: €5,877,500), respectively, issued by local entities over which two of the governors have significant influence, which declared their interest and refrained from participating in the discussion on the acquisition of such 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 2019 was €17,815,569 (2018: €20,231,360).

18. 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 plc. has been appointed as custodian of the investment held by the Fund in the Discretionary Portfolio (Note 3.1). All other instruments in the Directed Portfolio are held through the Malta Stock Exchange.

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

All 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 Portflio (Note 3.2) is delegated to management. As already explained, the Board of Governors, sets the strategy and risk apetite for the Directed Portfolio, which are detailed in the investment policy and excercises the necessary oversight in connection thorugh it's functions.

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.

At 31 December, the fair value of equities were as follows:

	Fair value	
	2019	2018
	€	€
Quoted equities – Directed	**88,336,916**	79,847,503
Quoted equities – Discretionary	**27,624,708**	11,720,461
	115,961,624	91,567,964

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 2019	2018
Sector	**Fund's equity portfolio (%)**	Fund's equity portfolio (%)
Financial	**64**	84
Industrial	**10**	6
Consumer	**4**	3
Communication services	**4**	3
Collective investment schemes	**10**	1
Property	**3**	1
Hospitality	**1**	0
Transport	**4**	2
	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 €19,529,427.

(b) Foreign exchange risk

As of 31 December 2019 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 December 31, 2019 and 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.

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 the operations of 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	-	-	-	6,743,804
Foreign debt securities	-	310,185	305,079	71,973,573
	-	310,185	305,079	78,717,377

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 is the carrying amount of financial assets as set out below.

	2019	2018
Debt securities	**79,332,641**	87,591,353
Cash and cash equivalents	**371,871,585**	274,971,164
Accrued interest receivable	**674,443**	764,606
	451,878,669	363,327,123

The Fund's policy to manage this risk is to invest in debt securities and hold balances with counter parties which have a minimum credit rating of BBB/Baa as designated by a reputable rating agency.

Debt securities by rating category		
	2019	2018
	€	€
AAA	**11,467,767**	19,483,627
AA	**17,267,625**	18,266,305
A/A	**16,195,211**	10,029,341
BBB	**27,658,235**	37,050,407
Unrated	**6,743,803**	2,658,114
Others	**-**	103,560
	79,332,641	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 2019, 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 are 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 2019 and 2018:

Discretionary Portfolio	**Level 1**	
	2019	2018
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	**27,624,708**	11,720,461
Debt securities	**72,588,837**	78,321,728
	100,213,545	90,042,189

Directed portfolio	**Level 1**	
	2019	2018
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	**88,336,916**	79,847,503
Debt securities	**6,743,804**	9,269,625
	95,080,720	89,117,128

There were no transfers between level 1, level 2 and level 3 during the year ended 31 December 2019 and 2018.

19. 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 595.12 – 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, Triq Birbal, Balzan BZN 9013, Malta.

NDSF

National Development and Social Fund