

Annual Report 2020

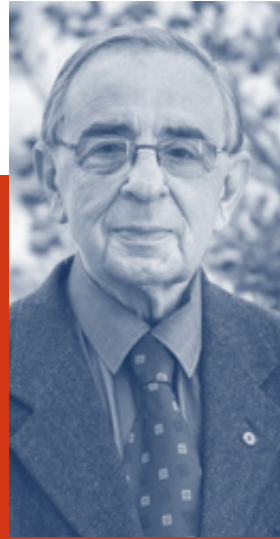




**Annual Report and Financial Statements
31 December 2020**

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Board of Governors' Report

For the year ended 31 December 2020

From left to right: Jonathan Cardona, Ray Sladden, John Bencini, Maria Camilleri, Joseph Zrinzo, Monica Farrugia, James Grech

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. In the carrying out of its functions and duties, the Agency shall receive, from Identity Malta Agency, from the Malta Individual Investor Programme Agency and from the Community Malta Agency (other Government Agencies), such percentage of the amounts of money payable to the Fund from the revenue received from the programme (as amended by Legal Notice 440 of 2020) 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 notwithstanding any other law, the Fund shall be administered by the Board of Governors consisting of seven (7) members of whom one shall be the Chairman and another shall be the Deputy Chairman who shall be appointed by the Cabinet of Ministers: Provided that two (2) members of the Board of Governors shall be nominated by the Minister responsible for citizenship. 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 and 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, healthcare and care for the elderly; and
- to undertake initiatives for the benefit of future generations.

REGULATORY DEVELOPMENTS DURING 2020

On 20th November 2020, new regulations which allow for the granting of Maltese citizenship for exceptional services were published. Together with these regulations, a new agency, Community Malta was also established to take over all the processes and functions relating to the acquisition of Maltese citizenship which were previously being conducted by the Malta Individual Investor Programme Agency and Identity Malta Agency.

At the same time, the IIP regulations came to an end, and only individuals who had started their application process were being allowed to submit applications under this legal regime. This was done in view that the established cap of 1,800 families was fast being reached.

The new regulations which established the Community Malta Agency allow for the Agency to transmit funds generated under the granting of Maltese citizenship for exceptional services Regulations. Therefore, the NDSF will continue to receive funds from both the IIP until current pending applications are processed and completed, and in parallel from the new regulations. This might create a revenue gap of a few months until a pipeline of applications under the new regulations is generated, and it is foreseen that cashflows would eventually reach 2019 levels by early 2022.

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 Minister responsible for Citizenship. 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 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 and has since been renewed to 28 February 2023.

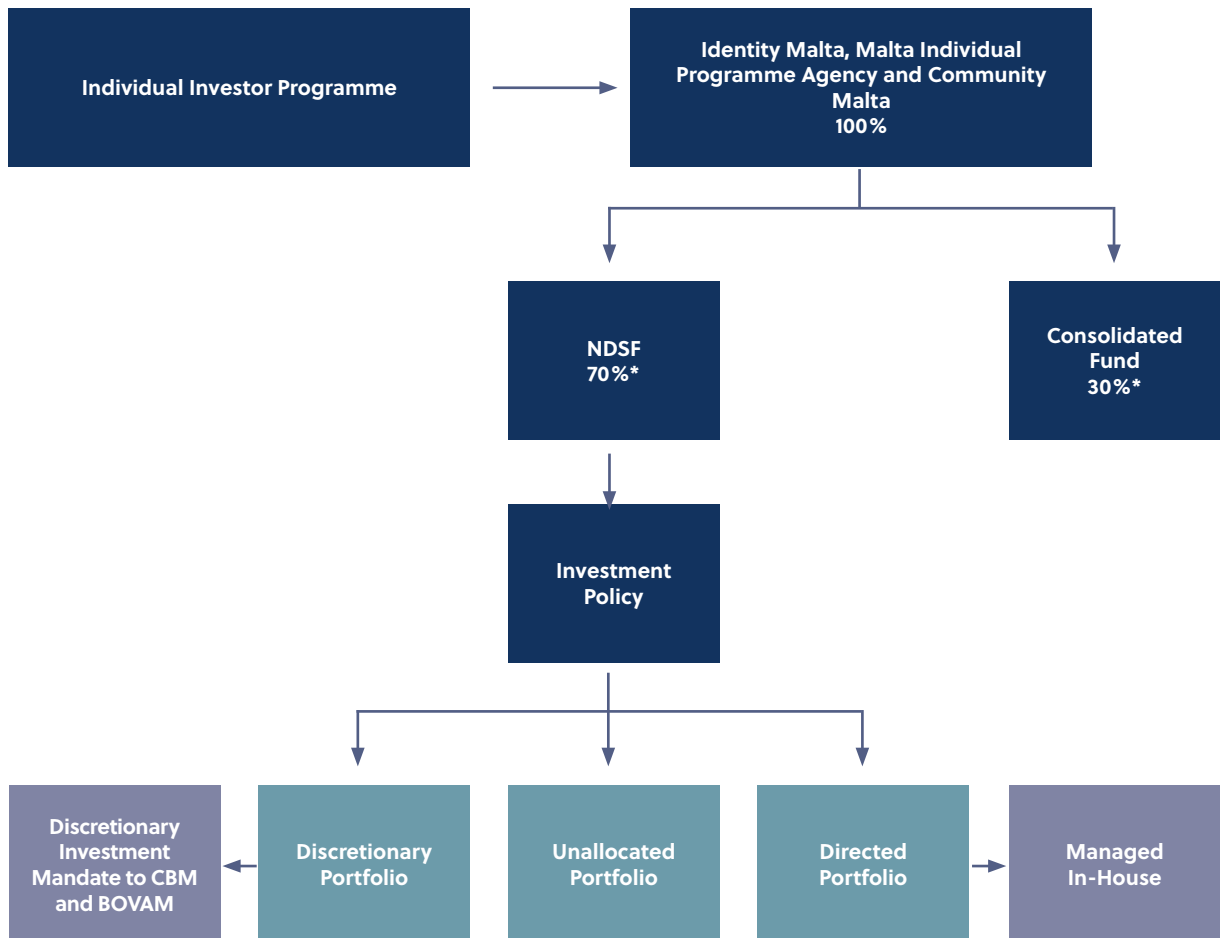
The Board of Governors of the NDSF is autonomous but coordinates closely with government through the Ministry, to ensure that it acts in line with government policies.

REVIEW OF OPERATIONS

The following Review highlights the main activities and achievements of the Agency during 2020 which are sub-divided as follows:

- Funding and Investment Strategy
- Economic Overview for 2020
- Investment Performance Review for 2020
- Funding targeted towards Social Projects since inception
- Consolidated Position
- Market Outlook for 2020

1. Funding and Investment Strategy



*L.N 161 of 2020 published on the 24th April 2020 amended the proportion of contributions from the Individual Investor Programme which are to be allotted to the National Development and Social Fund under the principal regulations, from seventy percent (70%) to twenty percent (20%).

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 amount to around 30% of all funds received from Identity Malta, the Malta Individual Investor Programme Agency (MIIPA) and Community Malta, all being other government agencies. 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.

In December 2020, a second Discretionary Portfolio was established by NDSF with Bank of Valletta Asset Management (BOVAM) with a mandate to invest in global equity. The overall objective of this portfolio is growth and revenue generation over the long term.

Directed Portfolio

The Directed Portfolio which amount to around 70% of all funds received from Identity Malta, the Malta Individual Investor Programme Agency (MIIPA) and Community Malta Agency, all being other government agencies, 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 net 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.

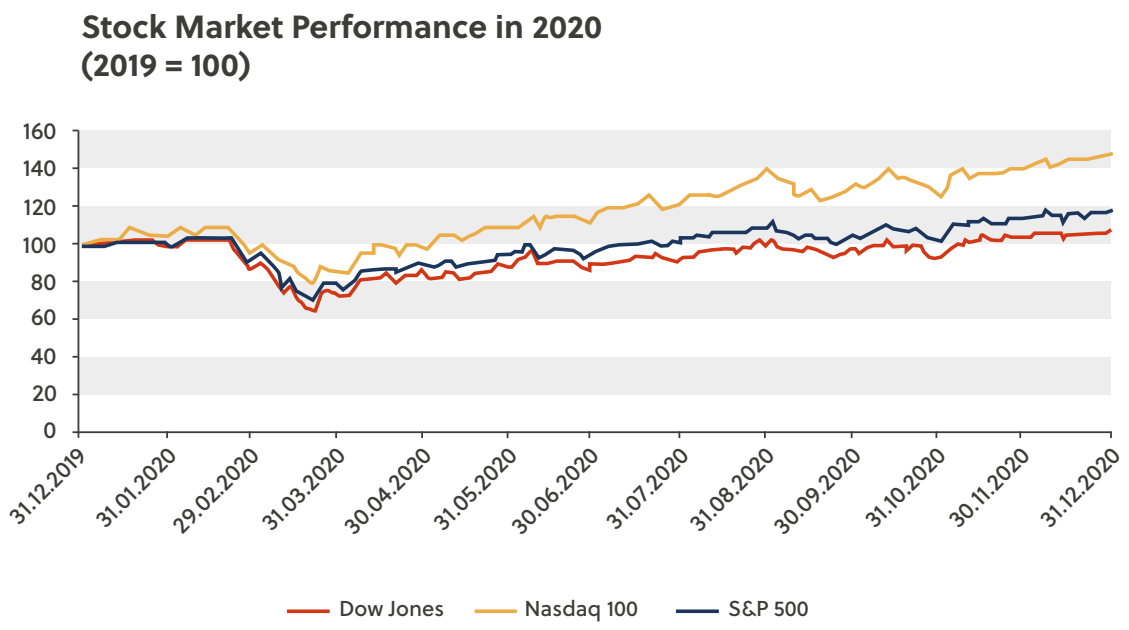
2. Economic Overview for 2020

2020 has proved to be an exceptional year for financial markets whose performance was affected by the deepest global recession in modern history triggered by simultaneous demand and supply shocks, caused by the spread of COVID-19 pandemic by rising infections and periods of lockdowns. In real terms, the IMF anticipates a global growth contraction of around -3.5% in FY2020 and a projected growth of 5.5% in 2021 and 4.2% in 2022, respectively. The economic recovery in the third quarter of 2020 was uneven and incomplete across countries with changing consumer behaviour and weak sentiment. The year was marked by unprecedented fiscal and monetary measures to tackle the crisis, such that the economic activity and capital markets became largely dependent on the fiscal and monetary stimulus and so leading to the risk of further decoupling of risky asset markets

from economic fundamentals. 2020 was also turbulent because of geo-political tensions arising from rising populism and multi-political order, economic uncertainties on US elections and Brexit, and persistent disruptive trade war rhetoric between the US and China.

While the spread of COVID-19 severely conditioned stock market performance for the reasons mentioned above, equity markets quickly rebounded on the announcement of accommodating fiscal and monetary policies and optimism that the accelerated imminent roll-out vaccines would help return the world to 'normality' in the new year. The US major stock indices were particularly driven higher by the largest technology companies. Indeed, Nasdaq ended up 44% higher for 2020 while the S&P 500 Index, which represents the performance of the largest US-listed companies, finished 2020 with a gain of 16%, whereas the Dow Jones Industrial Average ended 2020 with a gain of 6%.

Equity performance in Europe was mixed. However, European stocks were still able to recoup most of the pandemic-induced losses at a remarkable speed due to the massive stimulus programs that have put a floor to the market. The Euro Stoxx 50, Europe's leading blue-chip index for the Eurozone, registered a decline of 4.5%, whereas the DAX 30 index in Germany pushed higher by 4%. In the meantime, the MSCI World Index, which captures large and mid-cap representation across 23 Developed Markets countries gained over 16% in 2020. Meanwhile, the MSCI Emerging Markets and MSCI ACWI Markets registered an annual performance of 19% and 17%, respectively.



The pandemic and the response of monetary authorities were also the overriding factors that impacted the performances of the bond market. The flight to safety and close-to-zero short-term interest rates led to positive US fixed income returns across sectors in 2020. Indeed, the Bloomberg Barclays U.S. Aggregate Total Return index returned 7.5% for the year. In addition, the U.S. yield on the 10-year Treasury note fell to 0.92% from 1.9% at the end of 2019, while short-term interest rates on the U.S. 3-month Treasury bill plummeted to 0.1% from 1.5%. In the same vein, the 3-month Euribor rate closed at -0.5%, down by approx. 40 basis points. The European Central Bank's asset purchase program has steadily expanded since its introduction in March 2020, and also paved the way for a rebound in credit that flowed throughout the remainder of the year.

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.



3. Investment Performance Review for FY2020

(i) Revenue Generation

During FY2020, NDSF received €27.8 million from the Malta Individual Investor Programme Agency (MIIPA)/Community Malta Agency (2019 €105.9 million; 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 €599.8 million.

The Agency also received €490,372 through government subvention which covered NDSF's operational, administrative, and capital expenditure for the year.

(ii) Discretionary Portfolio managed by the Central Bank of Malta

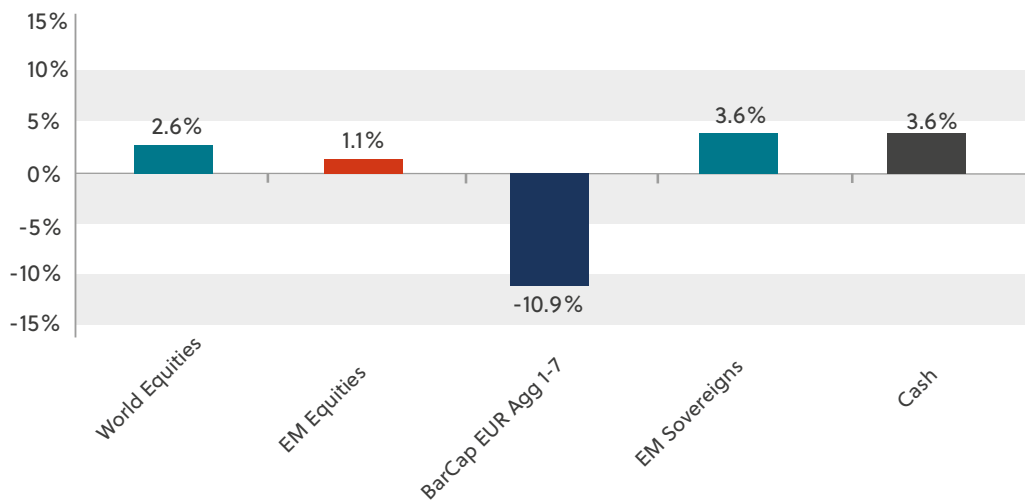
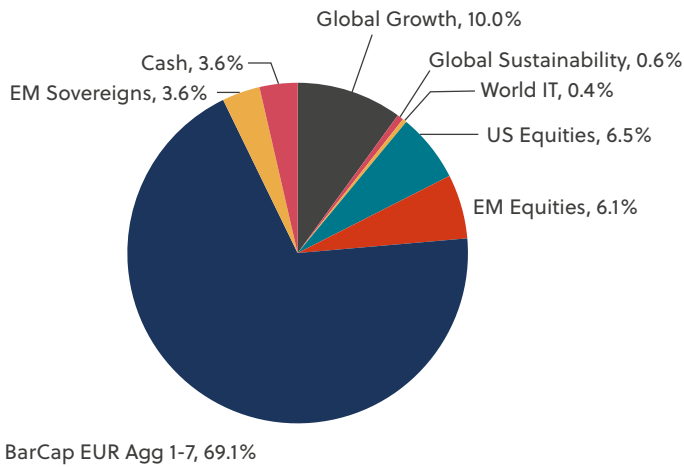
In September 2018, the Agency had concluded an Investment, Administration and Custody Agreement with the Central Bank of Malta. By means of this Agreement the Bank was awarded an Investment Mandate to manage on a discretionary basis a balanced investment portfolio of foreign securities.

The actual asset allocation of the Discretionary Portfolio at as 31 December 2020 compared to the long-term strategic asset allocation was as follows:

(a) Actual Asset Allocation versus Strategic Asset Allocation

	Strategic Asset Allocation	Actual Asset Allocation
Cash and cash equivalents	0%	3.6%
Foreign bonds	80%	72.7%
Foreign equity	20%	23.7%
Alternative investments	0%	0.0%
Total	100%	100%

(b) Discretionary Portfolio Allocation as at 31st December 2020

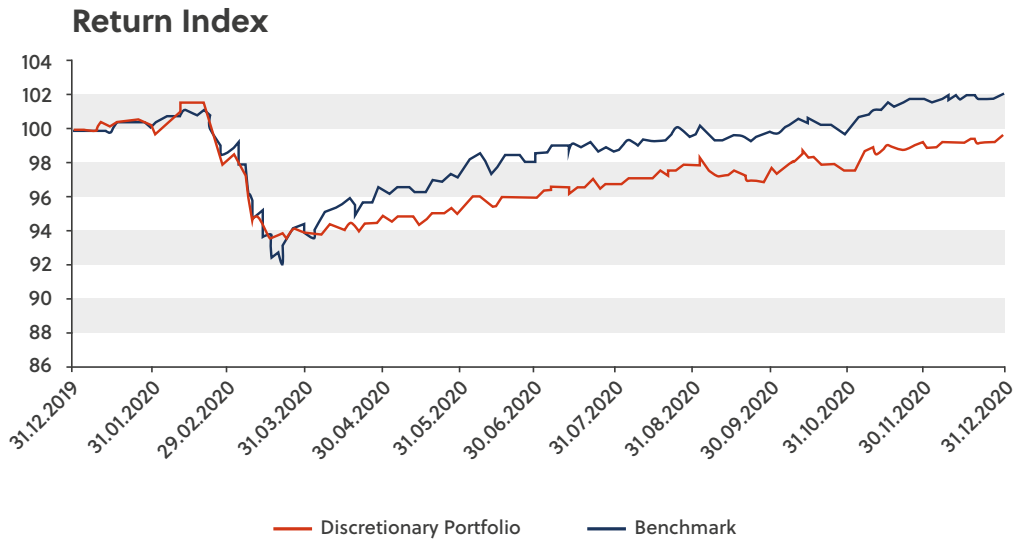


Source: Allianz Global Investors

The Portfolio has an effective duration of 3.98 years and an average rating of A+. The Net Asset Value of the Portfolio as at 31st December 2020 stood at €102.6 million (2019: €103.1 million), thus representing a year-on-year loss of approximately €0.5 million. The largest contributor being the positive Fair Value Movement to Profit and Loss of €1 million, a realised loss of € 2.1 million and increase in Income of €1 million.

The Performance Attribution of the component asset classes is provided in (d) further below.

(c) Return and Relative Performance Against the Benchmark

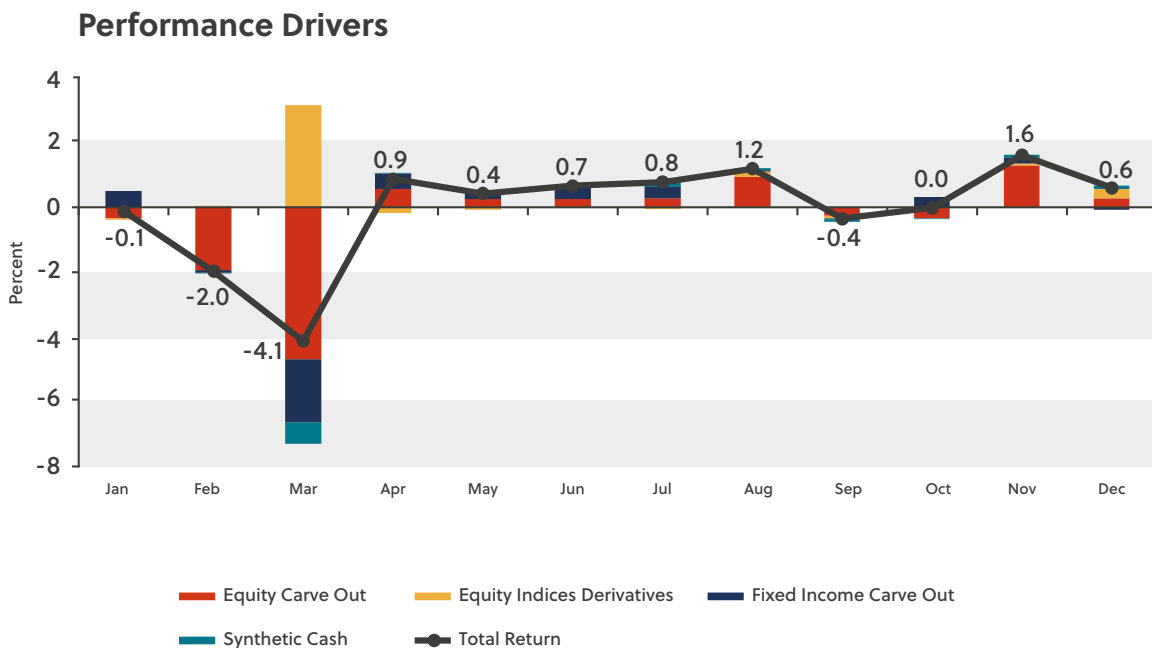


Comparison: 80% BLOOMBERG BARCLAYS CAPITAL EURO-AGGREGATE: 1-7 YEAR RETURN, 15% MSCI EMU EUR TOTAL RETURN (NET), 5% S&P 500 EUR HDG (NET TR) RETURN REBASED LAST BUSINESS DAY OF MONTH IN EUR; since 09/03/2020: 80% BLOOMBERG BARCLAYS EURO-AGGREGATE: 1-7 YEARS EUR UNHEDGED RETURN, 15% MSCI THE WORLD INDEX EUR TOTAL RETURN (NET), 5% MSCI EM (EMERGING MARKETS) EUR TOTAL RETURN (NET) REBASED LAST BUSINESS DAY OF MONTH IN EUR

Source: Allianz Global Investors

The Fund’s performance started in-line with the benchmark in the initial months of the year. However, the portfolio suffered from the acute volatility in the market by end of the first quarter which was triggered by the more turbulent markets, as a result of the spread of the COVID-19. Movements in the market largely exceeded previous historical corrections both in extent and speed in practically all asset classes. Within this context, and in-line with the Fund’s overall investment objective of capital preservation, risk mitigation measures were undertaken to allow the investment management team to partly reposition the portfolio. This mitigation measure allowed the Portfolio to benefit and participate in the also unprecedented market recovery, albeit in a limited way. During the remaining months of the financial year, the Fund was able to recoup almost all losses, however still registering a small overall negative performance for FY2020 of -0.4%.

(d) Performance Attribution by Asset Class



Source: Allianz Global Investors

The above Chart provides an overview of the returns of the portfolio by asset class during each month period and highlights the negative equity performance during March 2020. The negative performance from the market downturn, was partly mitigated through portfolio rebalancing of asset classes in the Fund. While performance from the fixed income asset class was mixed during the period under review, the positive rebound in performance was mainly attributable to adjustments made in cash and equity positions once volatility levels stabilised towards the middle of the year.

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

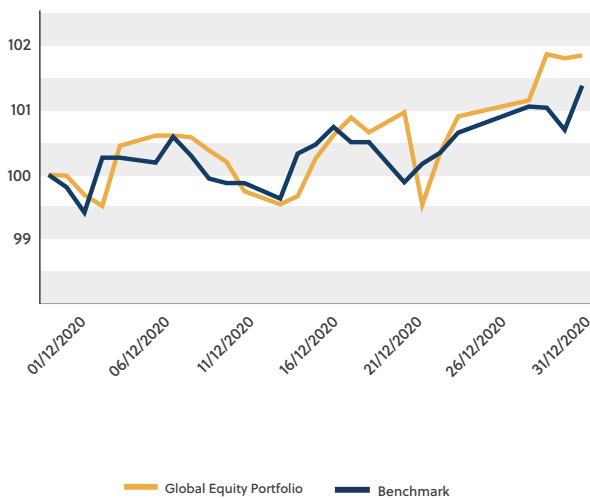
Detail	Amount in €
Realised gain/losses	(2,096,495)
Unrealised fair value gains/losses	961,473
Interest and dividends	1,091,622
Fees	(418,437)
Profit/(Loss)	(461,837)

(iii) Discretionary Portfolio Managed by BOV Asset Management Limited

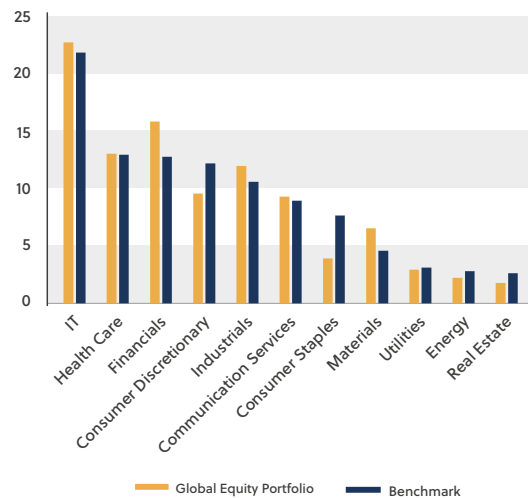
In November 2020, the Agency had concluded an Investment Portfolio Management Agreement with Bank of Valletta Asset Management Limited. By means of this Agreement, the Bank was awarded an Investment Mandate to manage on a discretionary basis, a Global Equity Portfolio.

Investment in the portfolio commenced on the 1st December 2020. In the first month of operation, the portfolio managed to register a 0.5% positive performance over the relative MSCI benchmark, as depicted in the chart below. The chart also includes the equity allocation by sector against the benchmark for the same period under review. The Net Asset Value of the Global Equity Portfolio as at 31st December 2020 stood at €6.1 million.

NDSF Global Equity Portfolio Return vs MSCI Benchmark



Allocation by Sector vs Benchmark



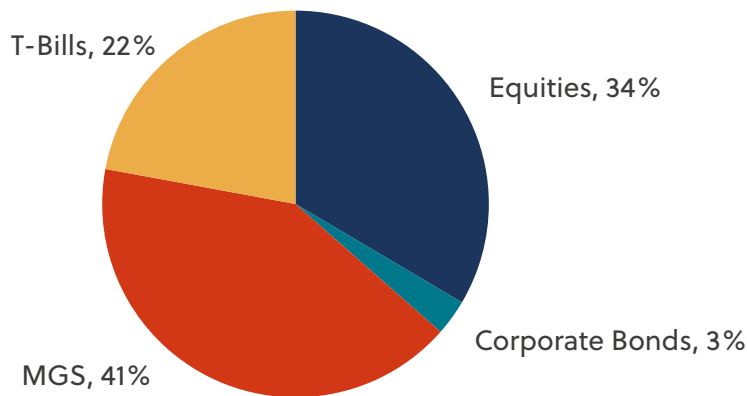
Benchmark: MSCI World EUR

(iv) Directed Portfolio

The Directed Portfolio had a market value of €260 million as at 31 December 2020 and consisted solely of domestic assets listed on the Malta Stock Exchange. Total net additions in the Directed Portfolio during the year amounted to €165.2 million. This increase was brought about by the acquisition of €1.7 million in local equities, €1.1 million in corporate bonds, €104.8 million in Malta Government Stock and €57.5 million in Treasury Bills.

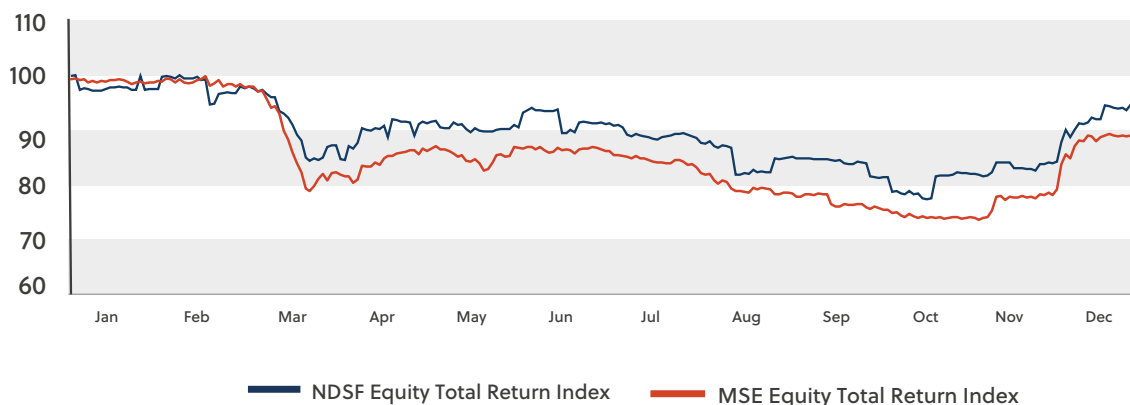
During the year, the Fund earned €0.7 million in dividends and interest. At year-end, the amount invested per asset class as a proportion to total fair value, amounted to 33.5% in local equities- main exposures out of which were Lombard (20%) and BOV (6.1%), as well as 3.0% in local corporate bonds, 41% in MGS and 22% in Treasury Bills.

Composition of Directed Portfolio



The Chart below shows the NDSF Equity Total Return index's relative outperformance against the MSE Equities Total Return Index benchmark. The NDSF Index decreased by 3.2% compared to a decrease of 11.9% in the comparative benchmark, over the course of 2020. The local equity market generally underperformed when compared to the larger developed global stock markets. Trading was characterised by subdued activity and significant underperformance of the larger-capitalised companies, mainly as a result of the negative economic expectations of the pandemic on their respective operations.

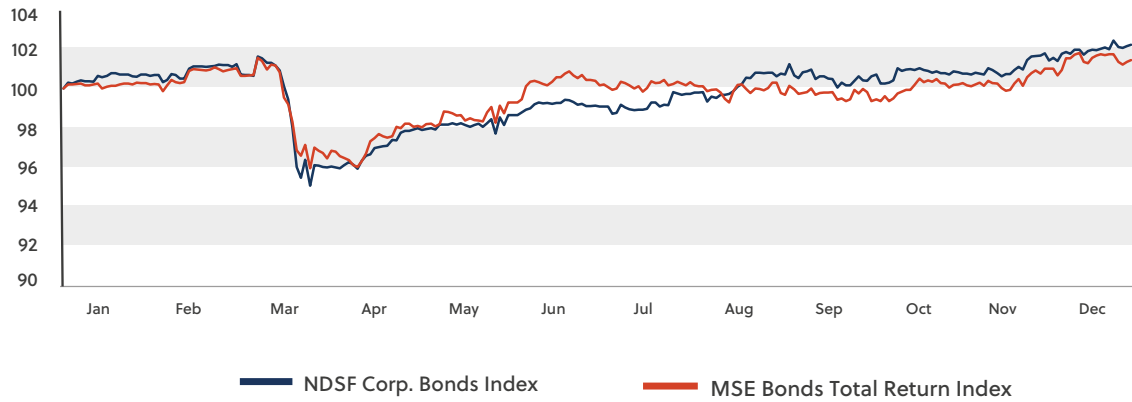
Equities



Source: NDSF (2020)

The NDSF Corporate Bond Index also performed relatively well with an annualised return of 0.8% against the respective MSE Corporate Bond Index performance of 0.4%.

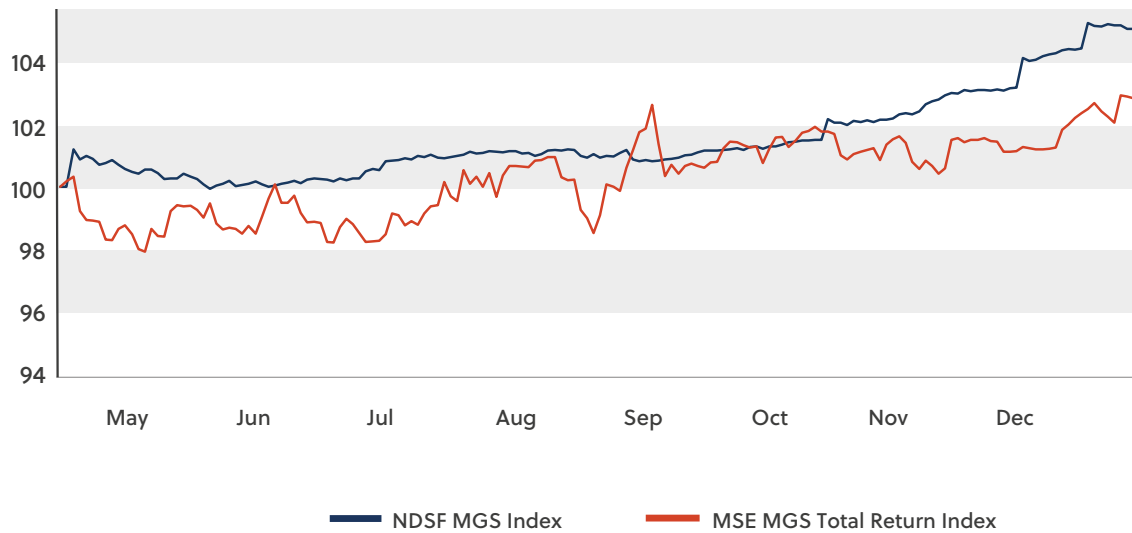
Corporate Bonds



Source: NDSF (2020)

The NDSF Malta Government Stock Index rallied by 4.8%, almost by 2 percentage points higher than the MSE Government Bond Index as highlighted in the chart below.

Malta Government Securities



Source: NDSF (2020)

(v) Unallocated Portfolio

The cash balance held with the Central Bank of Malta in a segregated account in the name of NDSF, as at the 31 December 2020, stood at €227,194,596.

(vi) Heritage asset

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 €1,480,503.

The stated acquisition falls within the aims of the Agency to protect and enrich the cultural and artistic heritage of our country.

Under the terms of a public agreement signed In FY2020, the masterpiece which has been classified as NDSF Investment Property in terms of IFRS, will be loaned out for an indefinite period to Heritage Malta for the benefit of present and future generations.

4. Social Projects under the Directed Portfolio

Since its inception, the Fund has earmarked more than €109 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, €66 million will be directed towards providing social housing units, which project will be staggered over a number of years. The second largest allocation of funds amounting to €10 million will go towards the upgrading of clinics and health centres in the Primary Healthcare sector. Further details are provided in the CEO's overview of operations.

5. Consolidated Position

The financial results of the Fund for the year are summarised in the table below. The consolidated total investment return on the Discretionary as well as Directed Portfolio produced a net profit of €64,154 representing a Consolidated Weighted Average Return of 0.02%.

Investment performance was mainly affected by the negative market movement in the Bank of Valletta p.l.c. equity holding of minus €1.8 million or (-6.3%) and the negative market movement of €2.9 million or (-12.52%) on other equity holdings. The marginal total positive return of the Fund for the period under review, was mainly attributed to the favourable market movements in Lombard Bank (Malta) p.l.c. equity holdings of €1.7 million (+3.61%) and Malta Government Stock of €2.9 million or (+1.76%), respectively. A detailed breakdown of the consolidated investment performance is provided in the table below.

Investment	Initial investment at cost	Fair Value to Profit and Loss	Total Return (Net of Fees)	Gain/Loss
	€	€	€	%
Discretionary Portfolios				
Discretionary (CBM)	100,000,000	961,473	(461,837)	-0.46%
Discretionary (BOV AM)	6,000,000	110,333	108,360	1.81%
Directed Portfolios				
BOV Equity	29,346,226	(1,848,785)	(1,848,785)	-6.30%
Lombard Equity	47,967,233	1,732,140	1,732,140	3.61%
Other Local Equities	21,880,965	(2,937,345)	(2,740,332)	-12.52%
Local Corporate Bonds	7,911,396	(139,407)	132,038	1.67%
Malta Government Securities	162,403,547	2,898,488	3,142,573	1.76%
Total	375,509,367	776,900	64,157	0.02%

The table below depicting the Fund's investment performance since inception, highlights the fact that it has broadly managed to meet its main investment object of capital preservation thereby trying to seek a fine balance between the risk and return trade-off in a highly volatile market.

Net Investment Return by Portfolio	FY 2017/8	FY 2019	FY 2020
	€	€	€
Discretionary (CBM)	(2,448,395)	5,557,603	(461,837)
Discretionary (BOV AM)			108,360
Directed	(1,007,348)	(2,312,035)	417,631
Total	(3,455,743)	3,245,568	64,157

The Fund has during the year under review, continued to diversify its investments with a view to obtaining total positive returns in the long term.

6. Market Outlook in 2020

(a) Local Market outlook

Until recently, Malta had registered one of the highest GDP growth rates in the EU coupled with a tight labour market. The Covid-19 pandemic has had a tough toll on the economy, particularly on tourism-reliant sectors, and public finances. The government's timely stimulus package towards a large number of economic sectors has stemmed the threat of unemployment and has supported the local economy and therefore avoiding mass lay-offs.

- The prudent fiscal policy stance of recent years and the context of negative interest rates ensured that government's intervention did not jeopardise public finance sustainability.
- Given the Islands' small size and open economy, Malta's outlook remains closely tied to the economic performance of its main trading partners. Albeit, the budgetary plan for 2021 seeks to ensure a quick pull through the current crisis.
- The economy is projected to expand by 6.4% at current market prices in 2021. This is attributed to both domestic demand and net-export rebound. The outlook is uncertain and particularly subject to the evolution of the pandemic and the impact of new trading relations between the UK and the EU.
- 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 stable outlook. DBRS's Malta credit rating remains A with stable outlook while Standard and Poor's (S&P) credit rating for Malta stands at A-/A-2 with stable outlook.
- The 2021 Annual Borrowing Plan projects that total amount of Malta Government Stocks (MGS) is not expected to exceed €1.1 billion. This amount will be raised mainly through the issuance of Malta Government Securities and Debt Instruments with maturity of more than one year.

(b) Global Economic Outlook

i. Equities

- The global economic outlook continues to be affected by the high uncertainty due to the COVID-19 pandemic, depending on the rollout of the vaccine and the path to world economic recovery.
- On one hand, the availability of vaccines could benefit a range of regions and sectors - beyond tech firms that have done already well. On the other hand, vaccine rollout failures are likely to be priced in by financial markets.
- Furthermore, private consumption expenditure could remain further suppressed which will exert greater

pressure on fiscal and monetary authorities to help cushion the recession. This may encourage investors seeking higher returns to consider moving out of “safe” assets and into more riskier ones.

- Yet, if fears about the speed of economic recovery intensify this may overturn equity performance. In general, there are potential value cyclical opportunities in European and emerging markets, particularly if accommodated by a global rebound in growth.

ii. Bonds

- Despite weak macroeconomic fundamentals, there are attractive opportunities for fixed-income markets. The unprecedented excess liquidity is likely to continue extending to fixed-income securities and riskier assets such as corporate bonds.
- The current economic climate and inflation expectations in the Euro area are likely to continue supporting the low risk of sell-off in long-term yields.
- Spreads are also likely to remain stable or becoming possibly tighter. In the meantime, the US economic situation suggests that long-end yields are expected to continue to move higher in 2021, primarily attached to inflationary expectations and more optimistic economic expectations.
- This is, however, highly dependent on government spending and the successful rollout of the COVID-19 vaccine.
- In general, the environment of low and negative short-term interest rates, point to the fact that governments across the world are likely to continue supporting their economies through the issuance of new debt.
- Monetary authorities want to keep interest rates as low as possible to support the recovery as higher rates might trigger bankruptcy risks. In this sense, quantitative easing programmes as well as interest rates that hover near zero or in the negative territory are likely to persist.

7. Post-balance Sheet Events

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

During the 54th Meeting held on the 16th February 2021, the Board has approved the following social grants totalling €8,410,500 subject to the signing of a Memorandum of Agreement between the NDSF Agency and the respective beneficiaries, namely:

- (i) A Social Grant of €3,500,000 million to WasteServ Malta Limited for the purposes of developing Urban Greening Projects in various localities. The pilot project will focus on three localities:

Project 1: Triq il-Wied in Qormi, at an estimated cost €1 million

Project 2: Triq il-Mithna, Triq il-Bdoti and Triq ta' Venezja in Mosta, at an estimated cost €1 million

Project 3: Misraħ is-Sebgħa ta Ġunju 1919 in Ħamrun, at an estimated cost €1.5 million

WasteServ Malta Ltd. will be involved in several Urban Greening projects with the aim of creating more green spaces for residents and tourists on the island. Open areas in highly urbanized localities are lacking in Malta and therefore these projects should serve as green lungs whilst improving the landscape and the wellbeing of the public in general and more specifically for the residents of these localities.

- (ii) Social Grant of €4,910,500 to SportMalta towards the financing of technical support in the preparation of Maltese Athletes for the Games of Small States of Europe (GSSE) in 2023.

SportMalta will be collaborating with the Maltese Olympic Committee (MOC) and shall oversee the technical costs in preparation of the Games. SportMalta shall be funding the MOC by means of a separate agreement over the years 2021-2024. NDSF's social grant will go towards the reimbursement of costs related to the employment, by the respective sport associations affiliated with the MOC, of full-time professional coaches in all disciplines, the employment of sport entourage, financing of athletes participation in foreign competitions and training camps and better technical equipment, other than costs relating to the development of sports facilities which will be financed by the central government.



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.

8. 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 2020 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: Jonathan Cardona* (Chairman)
Ray Sladden (Deputy Chairman)
John Bencini (Member)
Maria Camilleri (Member)
Joseph Zrinzo (Member)
Monica Farrugia* (Member)
James Grech* (Member)

*Mr David G. Curmi resigned his position as Chairman of the NDSF Board of Governors on 31st January 2021. Mr Jonathan Cardona was appointed Chairman on the 1st February 2021 together with two new members, Ms Monica Farrugia and Mr James Grech following the issuing of Legal Notice 440 of 2020.

Chief Executive Officer & Board Secretary: Raymond Ellul

Advisory Board: Raymond Ellul (Chairman)
Dr. Kevin Mompalao (Member)
Joshua Zammit (Member)
Peter Paul Zammit L.P.(Member)

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,
Zone 5, Central Business District
Qormi CBD 5090
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:



Jonathan Cardona
Chairman



Ray Sladden
Deputy Chairman

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

16 March 2021



Chief Executive Officer's Review of Operations

Raymond Ellul, Chief Executive Officer

The following review highlights the main activities and achievements during 2020 which are sub-divided as follows:

- A. Operations and Governance
- B. Investments
- C. Financial Highlights and Consolidated Position FY2020
- D. Funds targeted towards Social Projects since inception
- E. Proposed Programmes and Activities for 2021

A. OPERATIONS AND GOVERNANCE

- The National Development and Social Fund's focus this year has been to continue strengthening its operations. Notwithstanding the great challenges imposed by the COVID-19 pandemic, the Agency continued to strengthen its risk management capabilities by means of online training and access to expert risk management systems.
- This has enabled the Agency to monitor in detail the activities of its Investment managers as well as to keep track of the risk-return performance of Investments in the current highly volatile and challenging financial and capital markets.
- In Q4 2020 The Agency published a tender 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 in the first quarter of next year.
- In tandem, the Agency has concluded 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. The Agency will utilize the experience gained during this exercise in the eventual procurement of such systems.
- In terms of its human resource management, the Agency issued a Call for Applications for the posts of Manager (Operations) and Manager (Finance), however response was limited and the posts remained vacant. A fresh call will be made in 2021 which will increase staff complement to 7.
- The Board of Governors has met a total of 52 times since its first meeting on the 7th December 2015 and during 2020 alone, the Board met a record 16 times. Furthermore, the Agency's Advisory Board which was set up in 2018 and is chaired by the CEO has met 16 times since inception.
- Following the publication of an Expression of Interest, the Agency engaged a consultancy firm on Public Procurement. During the period under review, the firm advised on 2 tenders and one Preliminary Market Consultation call as well as providing knowledge transfer on this subject to all NDSF staff.

B. INVESTMENTS

The Fund has increased its investment activity both in its Discretionary Portfolio with the Central Bank of Malta (CBM). During FY2020, the Fund established its second discretionary global equity portfolio with the Bank of Valletta Asset Management

Limited (BOVAM). The two Discretionary portfolios comprise solely foreign listed securities, while its Directed Portfolio consists primarily in local listed securities, Malta Government Securities and Treasury Bills and is managed in-house.

(a) Discretionary Portfolio with CBM and BOVAM

The Discretionary Portfolio holds investments which equal approximately 30% of all funds received from Individual Investor Programme. Currently, committed funds with the bank 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 yet to be employed.

A further €6 million were invested in a Global Equity Portfolio managed by BOV Asset Management. The Total Net Asset Value of the discretionary portfolios as at 31 December 2020 stood at €108,755,731 as per Table 1 below.

Table 1: Change in Discretionary Portfolio Net Asset Value

	Original Cost of Investment (€)	NAV as at 31.12.2019 (€)	NAV as at 31.12.2020 (€)	Y-o-Y change in NAV (€)
BOVAM	6,000,000	0	6,108,360	108,360
CBM	100,000,000	103,257,180	102,647,371	(461,837)
Total			108,755,731	(353,477)

(b) Directed Portfolio (In-house)

During 2020 the Fund has continued to invest substantially in local listed securities on the Malta Stock Exchange as well as Malta government Securities and local Treasury Bills.

The Directed Portfolio consisting of around 18 locally listed equity holdings amounting to €87 million and 20 locally listed corporate bonds amounting to €7.7 million. The Fund's holdings in Malta Government Stock and Treasury bills have reached a total of €165 million. Total fair value of the Income Portfolio as at 31st December 2020 stood at €260,032,375. 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 31.12.2019 (€)	Net Additions 01.01.2020 to 31.12.2020 (€)	Market Value as at 31.12.2020 (€)
BOV p.l.c equity	29,346,226	17,815,569	0	15,966,784
Lombard Bank (Malta) equity	47,967,233	49,365,981	0	51,098,121
Other local equity	21,880,965	21,155,366	1,743,015	19,961,039
Local corporate bonds	7,911,396	6,743,804	1,100,000	7,704,401
MGS & TBs	162,403,547	0	162,403,547	165,302,031
Total	269,509,637	95,080,720	165,246,562	260,032,376

(c) Unallocated Portfolio

The Fund's Unallocated Portfolio consists of a Cash balance amounting to €227,194,596 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 2020

Cash Balance held with CBM as at 31 December 2019 (€)	Cash Balance held with CBM as at 31 December 2020 (€)
371,871,585	227,194,596

C. MAIN FINANCIAL HIGHLIGHTS AND CONSOLIDATED POSITION FY2020

Total funding received from the Individual Investor Programme from inception to 31 December 2020 amounted to €599,375,449, while total funding for the year amounted to €27,763,851. Total funds invested from inception to the end of FY2020 at fair value amounted €364,962,999 resulting in a Consolidated Profit for the year under review of €64,154.



Table 4: Financial Highlights FY2020

Financial highlights	As at 31 December 2019 (€)	As at 31 December 2020 (€)
Total Revenue as at date	571,611,598	599,375,449
Funding received from MIIPA/Community Malta	105,506,520	27,763,851
Cash and Cash Equivalents	371,871,585	227,194,596
Total Assets	570,581,418	598,106,139
Fair Value of Consolidated Investments	195,294,265	364,962,999
Realised Investment Gain/(Losses)	6,511,970	(291,217)
Unrealised Gain/(Losses)	(2,741,387)	776,900
Endowment from Government	533,876	490,372
Operating Expenses	(533,876)	(495,480)
Net Profit/(Loss)	3,250,713	59,049

(i) Consolidated Position of the Fund as at 31st December 2020

The consolidated position of the Fund at Fair Value as at 31st December 2020 is given in Table 5 below. Net Assets of the Fund stood at €597,676,001 with major assets being Financial Investments of €364,962,999 and Cash and Cash Equivalents of €227,194,596.

Table 5: Consolidated Position of Fund as at 31st December 2020

	Unallocated Portfolio		Discretionary Portfolio		Directed Portfolio		Total	
	2020	2019	2020	2019	2019	2020	2019	2019
	€	€	€	€	€	€	€	€
ASSETS								
Non-current assets								
Property and equipment	149,588	223,350	-	-	-	-	149,588	223,350
Heritage assets	1,480,503	-	-	-	-	-	1,480,503	-
Other non-current assets	10,000	10,000	-	-	-	-	10,000	10,000
Total non-current assets	1,640,091	233,350	-	-	-	-	1,640,091	233,350
Current assets								
Financial investments	-	-	104,930,623	100,213,545	260,032,376	95,080,720	364,962,999	195,294,265
Other current assets	-	-	3,608,269	2,489,476	-	-	3,608,269	2,489,476
Receivables and prepayments	13,570	13,361	468,710	554,159	217,904	125,222	700,184	692,742
Cash and cash equivalents	227,194,596	371,871,585	-	-	-	-	227,194,596	371,871,585
Total current assets	227,208,166	371,884,946	109,007,602	103,257,180	260,250,280	95,205,280	596,466,048	570,348,068
Total assets	228,848,257	372,118,296	109,007,602	103,257,180	260,250,280	95,205,942	598,106,139	570,581,418
LIABILITIES								
Non-current liability								
Lease liability	(79,887)	(150,569)	-	-	-	-	(79,887)	(150,569)
Current liabilities								
Lease liabilities	(70,800)	(65,810)	-	-	-	-	(70,800)	(65,810)
Accruals and other liabilities	(27,580)	(30,332)	(251,871)	(147,972)	-	-	(279,451)	(178,304)
Total current liabilities	(98,380)	(96,142)	(251,871)	(147,972)	-	-	(350,251)	(244,114)
Total liabilities	(178,267)	(246,711)	(251,871)	(147,972)	-	-	(430,138)	(394,683)
Net Assets of the Fund at year-end	228,669,990	371,871,585	108,755,731	103,109,208	260,250,280	95,205,942	597,676,001	570,185,735

(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 2020 amounted to €495,480 and for the FY2021 the total expenditure is estimated to reach €800,000. A breakdown of the main expenditure items is given in Table 6 below.

Table 6: Consolidated Position of Fund as at 31st December 2020

Head line item	2020 (Actual) (€)	2021 (Budgeted) (€)
Human Resources Costs	336,382	584,460
Operational & Maintenance	28,814	37,740
Contractual Services	85,057	80,000
Professional Services	40,361	97,800
Equipment, Improvement to Property & Others	4,866	0
Totals	495,480	800,000

Around 73% of the allocation will go towards Human Resources related costs including the honoraria of the Agency's Board of Governors, Advisory Board members and salaries of CEO and new employees who will be recruited throughout FY 2021.

The Fund will also utilise around €98,000 or 12% of its budgeted allocation towards the provision of Professional Services in auditing, legal, marketing services and systems development. Around 10% or €80,000 will be allocated towards Contractual Services vital for the Fund's operations.

D. FUNDING TARGETED TOWARDS SOCIAL PROJECTS SINCE INCEPTION

NDSF has earmarked more than €109 million to-date towards the wellbeing of society in a variety of important areas ranging from health, social accommodation, and sports. Table 7 below provides a breakdown of the targeted funding since inception to 31st December 2020. 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: Targeted funding of Social Projects as at 31st December 2020

Social Proposals	Amount of Grant Requested (€)
Social Housing Project	66,000,000
Primary Health Care	10,000,000
Puttinu Cares (London Apartments)	5,000,000
Caritas	1,540,000
Other Social Grants (WIP)	26,500,000
Total	109,040,000



Targeted funding for social projects has reached
€109.04 Million
till end of December 2020



Grant for new Caritas Community Centre and upgrading of its residential facilities



'Boethius and Philosophy' – the latest addition to the National Collection

Out of the €109 million targeted figure, only the amount of €0.6 million has been paid out to-date by the Fund.

(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 around 550 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 V.A.T on construction would reach €60 million.
- The process of finalising the legal documentation securing this funding is expected to be concluded in the in Q1 2021.
- The number of optimal sites to be developed have been revised to 16 across 11 different localities.
- 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 Q2 2021.

(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.



Primary Health Care – nationwide clinic upgrades

- 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 targeted around €33,040,000 towards various social projects including co-funding to well-known VOS. Details of the said projects and grants will be communicated in Q2/Q3 2021 when the relative Memorandum of Agreements between the Agency and the respective organisations are expected to be concluded.

E. PROPOSED PROGRAMMES AND ACTIVITIES FOR 2021

(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.
- It will seek membership of the Official Monetary and Financial Institutions Forum with the view of enhancing networking opportunities with other sovereign wealth funds within the EMEA region.
- The Agency will explore the possibility to manage other extraordinary revenue due to Government.
- It will examine opportunities to leverage part of the Fund's investment portfolio to create additional funding.

(ii) Investment and Social Initiatives

- NDSF will continue to administer and manage funds received in line with its investment policy as well undertake major strategic investments and social initiatives mentioned above. On the Investments side, NDSF will continue to assess its strategy on its major shareholding in Lombard Bank Malta p.l.c. in line with developments of the local banking sector.
- The Agency will be focusing its efforts on bringing to fruition 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



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 financial statements give a true and fair view of the financial position of National Development and Social Fund as at 31 December 2020, 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 36 to 64, comprise:

- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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



Basis of accounting and restriction on distribution and use

We draw attention to Note 2.1 to these financial statements, which describes the basis of accounting. The financial statements are prepared for and only for the governors to comply 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) and for no other purpose. As a result, these financial statements may not be suitable for another purpose.

Our report is intended solely for the purpose above and should not be distributed to or used by other parties. Our opinion is not modified in respect of this matter.

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).

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

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

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

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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Fund's operations, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with 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,
Zone 5, Central Business District,
Qormi, CBD 5090,
Malta

A handwritten signature in blue ink, appearing to read 'Stefan Bonello', is written over a light blue horizontal line.

Stefan Bonello

Partner

16 March 2021



Statement of financial position

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2020	2019	2020	2019	2020	2019	2020	2019
Notes		€	€	€	€	€	€	€	€
ASSETS									
Non-current assets									
Property and equipment	5	149,588	223,350	-	-	-	-	149,588	223,350
Heritage asset	7	1,480,503	-	-	-	-	-	1,480,503	-
Other non-current assets	6	10,000	10,000	-	-	-	-	10,000	10,000
Total non-current assets		1,640,091	233,350	-	-	-	-	1,640,091	233,350
Current assets									
Financial investments	8	-	-	104,930,623	100,213,545	260,032,376	95,080,720	364,962,999	195,294,265
Other current assets	9	-	-	3,608,269	2,489,476	-	-	3,608,269	2,489,476
Receivables and prepayments	10	13,570	13,361	468,710	554,159	217,904	125,222	700,184	692,742
Cash and cash equivalents	11	227,194,596	371,871,585	-	-	-	-	227,194,596	371,871,585
Total current assets		227,208,166	371,884,946	109,007,602	103,257,180	260,250,280	95,205,942	596,466,048	570,348,068
Total assets		228,848,257	372,118,296	109,007,602	103,257,180	260,250,280	95,205,942	598,106,139	570,581,418



		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total		
		2020	2019	2020	2019	2020	2019	2020	2019	
Notes		€	€	€	€	€	€	€	€	
LIABILITIES										
Non-current liability										
	Lease liability	13	(79,887)	(150,569)	-	-	-	-	(79,887)	(150,569)
Current Liabilities										
	Lease liability	13	(70,800)	(65,810)	-	-	-	-	(70,800)	(65,810)
	Accruals and other liabilities	12	(27,580)	(30,332)	(251,871)	(147,972)	-	-	(279,451)	(178,304)
	Total current liabilities		(98,380)	(96,142)	(251,871)	(147,972)	-	-	(350,251)	(244,114)
	Total liabilities		(178,267)	(246,711)	(251,871)	(147,972)	-	-	(430,138)	(394,683)
Net assets of the Fund at the end of year										
			228,669,990	371,871,585	108,755,731	103,109,208	260,250,280	95,205,942	597,676,001	570,186,735
Memorandum items										
	Commitments	16	-	-	-	-	81,936,875	76,270,509	81,936,875	76,270,509

The notes on pages 36 to 64 from an integral part of these financial statements.

The financial statements on pages 36 to 64 were approved and authorised for issue by the Board of Governors and signed on its behalf on 16 March 2021 by:

Jonathan Cardona
Chairman

Ray Sladden
Deputy Chairman

Raymond Ellul
Chief Executive Officer

Statement of changes in net assets

	Notes	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2020	2019	2020	2019	2020	2019	2020	2019
		€	€	€	€	€	€	€	€
Net assets at the beginning of the 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
(Loss)/Profit for the year		(5,108)	-	(353,477)	5,557,603	417,634	(2,306,890)	59,049	3,250,713
Funds received from MIIPA and Community Malta Agency		27,763,851	105,506,520	-	-	-	-	27,763,851	105,506,520
Transfer between portfolios		(170,626,704)	(8,336,607)	6,000,000	-	164,626,704	8,336,607	-	-
Contributions paid out of the Fund	15	(333,634)	(269,491)	-	-	-	-	(333,634)	(269,491)
Net assets to the fund at end of year		228,669,990	371,871,585	108,755,731	103,109,208	260,250,280	95,205,942	597,676,001	570,186,735

The notes on pages 41 to 64 from an integral part of these financial statements.

Statement of cash flows

		Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2020	2019	2020	2019	2020	2019	2020	2019
Notes		€	€	€	€	€	€	€	€
Cash flows from operating activities									
Interest income received	8	-	-	-	-	422,987	2,734,533	422,987	2,734,533
Dividend income received	8	-	-	-	-	197,010	338,584	197,010	338,584
Cash generated from operations		-	-	-	-	619,997	3,073,117	619,997	3,073,117
Cash flows from investing activities									
Additions/purchase of financial assets	8	(171,246,700)	(45,088,482)	-	-	-	-	(171,246,700)	(45,088,482)
Disposal of investments	8	-	-	-	-	-	33,678,757	-	33,678,757
Purchase of heritage assets	7	(1,480,503)	-	-	-	-	-	(1,480,503)	-
Contributions paid out of the Fund	15	(333,634)	(269,491)	-	-	-	-	(333,634)	(269,491)
Cash flows used in investing activities		(173,060,837)	(45,357,973)	-	-	616,997	33,678,757	(173,060,837)	(11,679,216)
Cash flows from financing activities									
New funds received from Identity Malta		27,763,851	105,506,520	-	-	-	-	27,763,851	105,506,520
Opening cash and cash equivalents		371,871,585	274,971,164	-	-	616,997	-	371,871,585	274,971,164
Closing cash and cash equivalents		226,574,599	335,119,711	-	-	616,997	36,751,874	227,194,596	371,871,585

The notes on pages 41 to 64 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.

The 2020 the financial results and position of the Fund are reported in the context of unprecedented economic conditions emanating from the COVID-19 pandemic which was unleashed in the first months of same year. The market disruptions brought about by the pandemic have affected, amongst other things, the investment result of the Fund which is the most significant and quantifiable impact registered in these financial statements. The Board of Governors and management team have considered the new challenges and addressed these in an agile and effective way to contain and minimise the impact that these could have on the operations and financial position and results of the Fund. The Board of Governors consider that the Fund has in place robust financial fundamentals and proper technical resources to navigate through the further challenges and heightened level of uncertainty fuelled by the ongoing pandemic. The funds operational and administrative overheads are funded entirely from endowments from the Government of Malta. Management and the Board do not anticipate any changes in this respect. Based on these facts and considerations, the Board is of the opinion that these financial statements can be prepared on a going concern basis.

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 2020

In 2020, the Fund adopted amendments and interpretations to existing standards that are mandatory to the Fund's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Fund's accounting policies impacting the Fund's financial position and performance.

b. New standards, amendments and interpretations effective after 1 January 2020 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 2020. 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

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.

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.

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.

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 previously 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 Heritage assets

Heritage assets represents property owned by the entity that is held and/or maintained principally for their contribution to knowledge and culture and for capital appreciation purposes.

Heritage assets are measured initially at their historical cost, including related transaction costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

After initial recognition, heritage asset is carried at fair value, representing open market value determined on a periodic basis. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location, or condition of the specific assets. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the end of the reporting period by professional valuers who hold recognised and relevant professional qualifications and have recent experience in category of the heritage asset being valued. These valuations form the basis for the carrying amounts in the financial statements.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Changes in fair values are recognised in profit or loss. Heritage assets are derecognised either when they have been disposed of or when the heritage asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.6 Leases

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.

The group's leasing policy is described in Note 6.

2.7 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 or 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.

2.8 Receivables

The Fund's receivables consist of balances due from the Malta Individual Investor Programme Agency (MIIPA) and Community Malta Agency, 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.

2.9 Cash and cash equivalents

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

2.10 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.

2.11 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.

2.12 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.

2.13 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 through an endowment from the Government of Malta, in accordance with the Public Administration Act.

2.14 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 through an endowment from the Government of Malta, in accordance with the Public Administration Act.

2.15 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 the Identity Malta by the Fund. Over the past years and up to 20 November 2020, the Identity Malta was replaced, and it was MIIPA who was transferring the funds to NDSF. MIIPA was eventually replaced by the Community Malta Agency. 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.

As explained in Note 8, during 2020, the Fund expanded its discretionary portfolio by entering into an agreement with BOV Asset Management Limited whereby the latter is being appointed as an investment manager for a certain amount of investments on a discretionary basis.

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. As discussed on note 3.1 above, Identity Malta was replaced by MIIPA, and eventually, by the Community Malta Agency. 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 which will yield 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 judgments 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, 2020 and 2019 are as follows:

Unallocated portfolio				
	Computer equipment €	Computer software €	Office equipment €	Total €
At 1 January 2020				
Cost	4,607	2,617	15,200	22,424
Accumulated depreciation	(1,455)	(1,005)	(5,946)	(8,406)
	3,152	1,612	9,254	14,018
Year ended 31 December 2020				
Opening net book amount	3,152	1,612	9,254	14,018
Additions	692	-	1,211	1,903
Depreciation charge (Note 13)	(2,522)	(242)	(2,101)	(4,865)
Closing net book amount	1,322	1,370	8,364	11,056
At 31 December 2020				
Cost	5,299	2,617	16,411	24,327
Accumulated depreciation	(3,977)	(1,247)	(8,047)	(13,271)
Net book amount	1,322	1,370	8,364	11,056

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

Unallocated portfolio	2020 (€)	2019 (€)
Opening net book amount	209,332	280,132
Amortisation charge	(70,800)	(70,800)
Closing net book amount	138,532	209,332
Cost	280,132	280,132
Accumulated amortisation	(141,600)	(70,800)
Net book amount	138,532	209,332

The details of the related lease liability are disclosed in Note 13. Further details on the lease agreement is disclosed in Note 6.

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. The lease agreement does not impose any covenants.

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.

As 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.

(i) Amounts recognised in the statement of financial position

The disclosures in relation to the right-of-use asset and its related lease liability recognised in the statement of financial position are discussed in notes 6 and 13.

(ii) Amounts recognised in the statement of comprehensive income

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

Unallocated portfolio	2020 (€)	2019 (€)
Amortisation charge of right of use asset (note 6)	70,800	70,800
Finance cost	5,108	7,047
Net book amount	75,908	77,847

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

7. HERITAGE ASSET

During the year, the Fund purchased Mattia Preti's monumental oil on canvas painting named "Boethius and Philosophy" for a consideration of €1,480,503 (including transaction costs) by means of an online auction organised in New York. The acquisition is deemed to be an investment in the preservation of Malta's cultural patrimony for the enjoyment of current and future generations. The painting is currently under the custody of Heritage Malta as exhibit for public viewing.

As explained in Note 2.5, Heritage assets are measured initially at their historical cost, including related transaction costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. After initial recognition, heritage asset is carried at fair value, representing open market value determined on a periodic basis.

Details and movement of the Fund's heritage asset is as follows:

Unallocated portfolio	2020 (€)
Opening balance	-
Addition	1,480,503
Fair value adjustment	-
Balance as at 31 December	1,480,503

8. FINANCIAL INVESTMENTS

Discretionary portfolio

During 2018, 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, the Fund and Bank of Valletta plc to provide the necessary custody services to the fund being managed by the CBM.

In 2020, the Fund expanded its discretionary portfolio by entering into an agreement with BOV Asset Management Limited whereby the latter is being appointed as an investment manager for a €6,000,000 amount of investments which will be managed on a discretionary basis.

The balance of the investment as at is as December 31 follows:

	2020	2019
	€	€
Financial assets designated at fair value through profit or loss at Inception		
Quoted equity	25,546,406	27,624,708
Debt securities	79,384,217	72,588,837
	104,930,623	100,213,545

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

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	103,109,208	97,551,605
Net additions	6,000,000	-
Interest income on debt securities	1,037,232	1,317,516
Dividend income equities	55,367	615,128
Realised (loss)/gain on investment	(2,096,495)	34,038
Investment charges	(421,387)	(518,825)
Net fair value gain(losses)	1,071,806	4,109,746
Net asset value of the portfolio	108,755,731	103,109,208
Restricted cash (Note 9)	(3,608,269)	(2,489,476)
Accrued interest receivable (Note 10)	(468,710)	(549,220)
Accrued dividend receivable (Note 10)	-	(4,939)
Deferred investment charges (Note 12)	251,871	147,972
	104,930,623	100,213,545

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, 2020 and 2019 are as follows:

	2020	2019
	€	€
Financial assets designated at fair value through profit or loss at Inception		
Quoted equity	87,025,944	88,336,916
Debt securities	173,006,432	6,743,804
	260,032,376	95,080,720

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:

Equity securities

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	88,336,916	79,847,503
Additions	1,743,015	15,383,258
Disposal	-	(100,999)
Net fair value losses	(3,053,987)	(6,792,846)
	87,025,944	88,336,916

Debt securities

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	6,743,804	9,269,625
Additions	163,503,547	29,704,178
Disposals		(32,171,712)
Net fair value gain/(losses)	2,759,081	(58,287)
	173,006,432	6,743,804

Various local equity and debt securities amounting to €1,743,015 and €163,503,547, respectively, were purchased during the year (2019: €15,383,258 equity and €29,704,178 debt).

During the year ended 31 December 2019, the Fund disposed of various debt and equity securities under the directed portfolio valued at €32,272,711 for a consideration of €33,678,757 resulting to a gain of €1,406,046. There were no such transaction during the year ended 31 December 2020.

Dividend and interest income earned on the above equity and debt securities earned by Fund in 2020 amount to €197,010 and €515,669, respectively (2019: €2,800,658 and €338,584).

9. OTHER CURRENT ASSETS

Discretionary portfolio		
	2020	2019
	€	€
Restricted cash (Note 8)	3,608,269	2,489,476

The restricted cash represents the unutilised fund on the discretionary portfolio held with the CBM and BOV Asset Management, in accordance with the agreements as disclosed in Note 8.

10. RECEIVABLES AND PREPAYMENTS

Details of the Fund's receivables and prepayments as of December 31, 2020 and 2019 are as follows:

Discretionary portfolio		
	2020	2019
	€	€
Accrued interest receivable	468,710	549,220
Dividend receivable	-	4,939
Total receivables and prepayments	468,710	554,159

Directed portfolio		
	2020	2019
	€	€
Accrued interest receivable	217,904	125,222

Unallocated portfolio		
	2020	2019
	€	€
Prepaid rent	13,570	12,215
Amount receivable from the Government of Malta	-	1,146
Total receivables and prepayments	13,570	13,361

Amounts due from Government of Malta are unsecured, interest free and repayable on demand (note 14(d)).

11. 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		
	2020	2019
	€	€
Central Bank of Malta	227,194,596	371,871,585

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Discretionary		
	2020	2019
	€	€
Accrued investment charges	251,871	147,972

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

Unallocated portfolio		
	2020	2019
	€	€
Deferred grants	4,010	6,971
Others	23,570	23,361
	27,580	30,332

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

Others include accruals relating to professional fees, advertising, utilities and salaries.



13. LEASE LIABILITY

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

Unallocated portfolio		
	2020	2019
	€	€
Current	70,800	65,810
Non-current	79,887	150,569
	150,687	216,379

Further disclosure on leases is disclosed in Note 6.

14. 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		
	2020	2019
	€	€
Statutory audit	10,000	10,000
Other assurance services	5,000	5,000
Total	15,000	15,000

(b) Remuneration

The following remuneration was paid by the Fund during the years ending 31 December 2020 and 2019:

Unallocated portfolio		
	2020	2019
	€	€
Governors' honoraria	42,895	42,636
Wages and salaries	293,487	245,683
Total	336,382	288,319

The average number of employees during the year was 5 (2019: 5).

(c) Other operating expenses

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

Unallocated portfolio

	2020	2019
	€	€
Professional fees	28,561	103,110
Depreciation and amortisation (Note 5)	75,665	75,285
Marketing and advertising	4,246	18,443
Finance cost	5,108	7,047
Other expenses	30,518	26,672
Total	144,098	230,557

(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 €421,387 (2019: €518,825) and €139 (2019: €1,045) on its discretionary and directed portfolios, respectively.

15. CONTRIBUTIONS PAID OUT

In 2020, the Fund paid out an amount of €28,504 to Primary Healthcare (Ministry for Health) in line with the Memorandum of Agreement made during the same year.

Moreover, during the same year, €305,130 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 2020 to the above-mentioned organisations is disclosed in Note 16.

16. COMMITMENTS

16.1 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. In December 2020, due to the recent developments on the planned social housing project, a 10% contingency was reserved by the Board thereby increasing the total commitment to €66,000,000 as at 31 December 2020.

16.2 During 2019, 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 whose memorandum of agreement was actually signed in May 2020. Such centre will house all non-residential Caritas community services 24/7. Also in 2019, a further €540,000 was committed to the same organisation for the upgrading of the San Blas Drug Rehabilitation Centre. Out of the total €1,540,000 grant as at 31 December 2020, €305,130 and €216,000 were disbursed in 2020 and 2019, respectively.

16.3 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. Amounts of €28,504 and €53,491 were disbursed in 2020 and 2019, respectively.

16.4 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. No disbursements have yet been made as at 31 December 2020.

During 2020, the Board received various proposals for projects amounting to an aggregate of €26,500,000 (2019: €14,000,000) from a number of potential beneficiaries. Such projects are currently under review by the Board, and no formal commitment has yet been entered into by the Fund. Such funding arrangements are expected to be finalised during the next financial year.

17. 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) of the Law of Malta.

18. 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 8, 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 MIIPA and Community Malta Agency is nil for the year ended 31 December 2020 and 2019.

Note 16 discloses the commitment entered into by the fund with the Housing Authority, which is another Government agency and Primary HealthCare.

Note 14 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 2020, the Fund held investments in the form of equity and debt securities having a fair value of €3,278,296 (2019: €3,324,571) and €1,173,573 (2019: €1,165,570), 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 2020 was €15,966,784 (2019: €17,815,569).

19. FINANCIAL 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 8, by virtue of the discretionary investment management agreements 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). In 2020, the Fund expanded its discretionary portfolio by entering into an agreement with BOV Asset Management Limited whereby the latter is being appointed as an investment manager for a €6,000,000 amount of investments which will be managed on a discretionary basis. 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 manager under the policies approved by the Board of Governors. The investment manager, by virtue of the agreement in place, reports results to the Board of Governors on the performance and risks arising from the portfolio under management. As for the directed portfolio, the Board of Governors manages the risks by creating an investment policy setting out the investment opportunities with the maximum return after a detailed market analysis. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. The day-to-day management of the Directed Portfolio (Note 3.2) is delegated to management. As already explained, the Board of Governors, sets the strategy and risk appetite for the Directed Portfolio, which are detailed in the investment policy and exercises the necessary oversight in connection through its 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 8.

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	
	2020	2019
	€	€
Quoted equities – Directed	87,025,944	88,336,916
Quoted equities – Discretionary	25,546,406	27,624,708
	112,572,350	115,961,624

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.

Sector	At 31 December 2020	
	Fund's equity portfolio (%)	Fund's equity portfolio (%)
Financial	64	64
Industrial	3	10
Consumer	3	4
Communication services	4	4
Collective investment schemes	17	10
Property	3	3
Hospitality	1	1
Transport	4	4
Other	1	-
	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 €30,738,297.

(b) Foreign exchange risk

The Fund operates internationally and holds both monetary assets denominated in currencies other than Euro. Foreign currency risk, as defined in IFRS 7, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

The table below summarises the Funds' monetary assets (since there are no non-monetary assets) which are denominated in a currency other than the functional currency.

	2020	2019
	USD (\$)	USD (\$)
Monetary assets	1,834,510	-
Net exposure	1,834,510	-

In accordance with the Fund's policy, the Investment Manager monitors the Fund's foreign exchange exposure on a regular basis and the Board of governors review it during their regular meetings.

The following table summarises the sensitivity of the Fund's monetary assets and liabilities to changes in foreign exchange movements at 31 December 2020 and 2019. The analysis is based on the assumption that the relevant foreign exchange rate increased/decreased by the percentage disclosed in the table below, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates. This increase or decrease in the net Fund arises mainly from a change in value of financial assets and liabilities which are denominated in a currency other than Euro.

Currency	Reasonable possible shift in rate	Movement in value (in EUR)	Reasonable possible shift in rate	Movement in value (in EUR)
	2020	2020	2019	2019
US dollars (monetary)	10%	135,909	-	-

(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, and it holds cash at bank which is not interest bearing, thus the Fund is not subject to 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.

	2020	2019
	Assets / liabilities held at fixed rate	Assets / liabilities held at variable rate
	€	€
Financial investments at fair value through profit or loss	190,689,183	79,332,641
	% of NAV	% of NAV
Financial investments at fair value through profit or loss	32	14

The impact of a reasonable possible shift of 25 basis points in interest rates is not expected to have a significant impact on the net fund as a result of the Fund's diversification strategy. The Fund invests in different types of assets having different maturities and interest rates, therefore, the Fund is not significantly exposed to interest rate risk. Accordingly, a sensitivity analysis disclosing the effect on the statement of comprehensive income of changes in interest rates were reasonably possible at the reporting date is not deemed necessary.

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
Foreign debt securities	-	-	301,161	79,083,056
Local debt securities	-	57,580,025	-	115,426,407
	-	57,580,025	301,161	194,509,463

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 and the BOV Asset Management. The Fund is also exposed to counterparty credit risk on amounts due from MIIPA and Community Malta Agency 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.

	2020	2019
Debt securities	252,390,649	79,332,641
Cash and cash equivalents	227,194,596	371,871,585
Accrued interest receivable	686,614	674,443
	480,271,859	451,878,669

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		
	2020	2019
	€	€
AAA	183,283,351	11,467,767
AA	18,656,811	17,267,625
A/A	13,915,865	16,195,211
BBB	28,830,218	27,658,235
Unrated	7,704,404	6,743,803
Others	-	-
	252,390,649	79,332,641

The table below is a summary of the significant sector concentrations within the debt portfolio.

Sector	At 31 December 2020	2019
	Fund's equity portfolio (%)	Fund's equity portfolio (%)
Government activity	75	42
Financials	15	31
Hospitality	2	4
Consumer cyclicals	1	3
Healthcare	1	2
Real estate	1	2
Consumer non-cyclicals	1	4
Industrials	1	3
Others	3	9
	100	100

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 MIIPA and Community Malta Agency is considered limited, in view of the government agency status of the entity. As at 31 December 2020, the Fund carried no exposure with MIIPA and Community Malta Agency.

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 the 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 2020 and 2019:

Discretionary Portfolio	Level 1	
	2020	2019
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	25,546,406	27,624,708
Debt securities	79,384,217	72,588,837
	104,930,623	100,213,545

Directed portfolio	Level 1	
	2019	2018
	€	€
Financial assets designated at fair value through profit and loss at inception		
Quoted equity	87,025,944	88,336,916
Debt securities	173,006,432	6,743,804
	260,032,376	95,080,720

There were no transfers between level 1, level 2 and level 3 during the year ended 31 December 2020 and 2019.

20. COMPARATIVE INFORMATION

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.

21. 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.



On the cover and p. 6

MATTIA PRETI

BOETHIUS AND PHILOSOPHY

c.1665-1685, oil on canvas, Heritage Malta Grand Master's Palace collection, Valletta



p.10 MATTIA PRETI
MARTYRDOM OF ST CATHERINE OF ALEXANDRIA

1659, oil on canvas, Heritage Malta MUŻA collection, Valletta



p.19 MATTIA PRETI
DANIEL INTERPRETING NEBUCHADNEZZAR'S DREAM

c.1675, oil on canvas, Heritage Malta MUŻA collection, Valletta



p.20 MATTIA PRETI
THE YOUNG ST JOHN THE BAPTIST WEARING THE RED TABARD OF THE ORDER OF ST JOHN

1671, oil on canvas, Heritage Malta MUŻA collection, Valletta



p.36-37 FRANK PORTELLI,
MALTA CRAFTS

1969, oil on canvas on panel, Heritage Malta MUŻA collection, Valletta



p.42 MATTIA PRETI
DOUBTING THOMAS

1671, oil on canvas, Heritage Malta MUŻA collection, Valletta

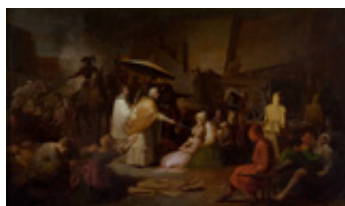


p.49 JOSEPH MALLORD WILLIAM TURNER
VIEW OF THE GRAND HARBOUR

1830, Watercolour and gouache on paper, Heritage Malta MUŻA collection, Valletta



p.54 EDWARD CARUANA DINGLI,
BOSCHETTO FAIR
oil on cardboard, Heritage Malta MUŻA collection, Valletta



p.61 Pietro Paolo Caruan
THE ADMINISTRATION OF HOLY COMMUNION DURING THE PLAGUE OF 1813
oil on canvas, Heritage Malta MUŻA collection, Valletta

