

# National Development and Social Fund

Annual Report and Financial Statements

31 December 2021

NATIONAL DEVELOPMENT AND SOCIAL FUND  
Annual Report and Financial Statements - 31 December 2021

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## **Board of Governors' Report**

### **For the year ended 31 December 2021**

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:

- (a) to contribute to major projects of national importance;
- (b) 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;

## **Board of Governors' Report - continued**

### **For the year ended 31 December 2021**

- (c) to contribute to the development of better public services;
- (d) to support enterprise and business in improving its competitiveness;
- (e) to promote research and development in matters conducive to the public interest;
- (f) to help stakeholders to deliver social, employment and educational projects;
- (g) to foster initiatives that support reforms and better governance;
- (h) to support measures for the improvement of the fairness and efficiency of justice;
- (i) to foster initiatives encouraging gender equality, prevention of discrimination, and respect for human rights;
- (j) to assist initiatives to provide for the social housing needs of the population and to combat social exclusion;
- (k) to sponsor initiatives for the improvement of health, healthcare and care for the elderly; and
- (l) to undertake initiatives for the benefit of future generations.

### **Regulatory Developments**

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.

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 28 and 29 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.

**Board of Governors' Report - continued**

**For the year ended 31 December 2021**

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 30 (1) 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.

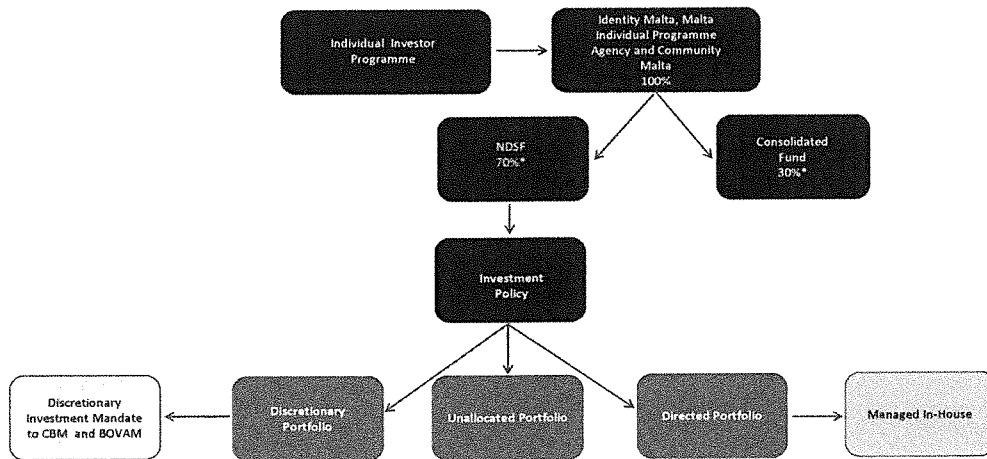
The Board of Governors of the NDSF is autonomous but coordinates closely with government through the Ministry, to ensure that it acts in line with government policies.

**Review of operations**

The following Review highlights the main activities and achievements of the Agency during 2021 which are sub-divided as follows:

- Funding and Investment Strategy
- Economic Overview for 2021
- Investment Performance Review for 2021
- Funding targeted towards Social Projects since inception
- Consolidated Position
- Market Outlook for 2021

**1. Funding and Investment Strategy**



**NDSF**

*\*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%).*

## **Board of Governors' Report - continued**

### **1. Funding and Investment Strategy - continued**

The NDSF Investment Policy establishes three main portfolios:

- i. Discretionary Portfolio
- ii. Directed Portfolio
- iii. Unallocated Portfolio

#### **ESG Statement**

Conscious of the global importance of sustainability factors that need to be taken into consideration when investing, the National Development and Social Fund aims to gradually introduce a comprehensive sustainability approach to its investments over time. To this effect, the first step is to implement progressively, and where possible, Environmental, Social, and Governance (ESG) criteria across the Fund's various portfolios. NDSF's portfolio managers shall consider the ESG credentials of companies, inter alia, their carbon footprint, their efficient use of resources, the fair treatment of employees, the investment in upskilling their workforce and the governance structure of the respective companies.

#### **Discretionary Portfolio**

The Discretionary Portfolio will target investment levels of up to 30% (Actual FY2021:19.16%) of all funds received from Identity Malta, the Malta Individual Investor Programme Agency (MIIPA), Community Malta and Residency 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 investment 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 targets around 70% (Actual FY2021:54.18%) 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.

## **Board of Governors' Report - continued**

### **1. Funding and Investment Strategy - continued**

#### **Directed Portfolio - continued**

The Directed Portfolio is used to fund social and economic initiatives which may or may not provide 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 2021**

The economic recovery from the shock of Covid-19 was faster and stronger than anticipated. During 2021, restrictions started to be lifted as vaccination campaigns progressed, labour market conditions improved, and many workers exited job retention schemes. As economies were virtually back to their pre-crisis levels, the economic recovery was uneven across countries. However, while the positive sentiment in demand was revived, the supply-side of the economies was struggling to keep up with the pent-up demand. Global economies will enter 2022 in a weaker position than expected. Countries have reimposed mobility restrictions in response to the new Omicron COVID-19 variant spreads, and rising energy prices together with supply-chain disruptions have resulted in higher and broader-based inflation than anticipated. With inflation above targets, it is still unclear if the rise in inflation is due to transitory factors that will fade out in the subsequent years.

With the pandemic continuing to maintain its grip, the risks to the global baseline are tilted to the downside. Emergence of potential new COVID-19 variants could prolong the pandemic with further supply chain disruptions and energy price volatility. If central banks respond to rising inflation by raising interest rates and by withdrawing quantitative easing, or even engaging in quantitative tightening, there is the risk of prolonging the economic recovery, or even generating a slowdown in economic activity.

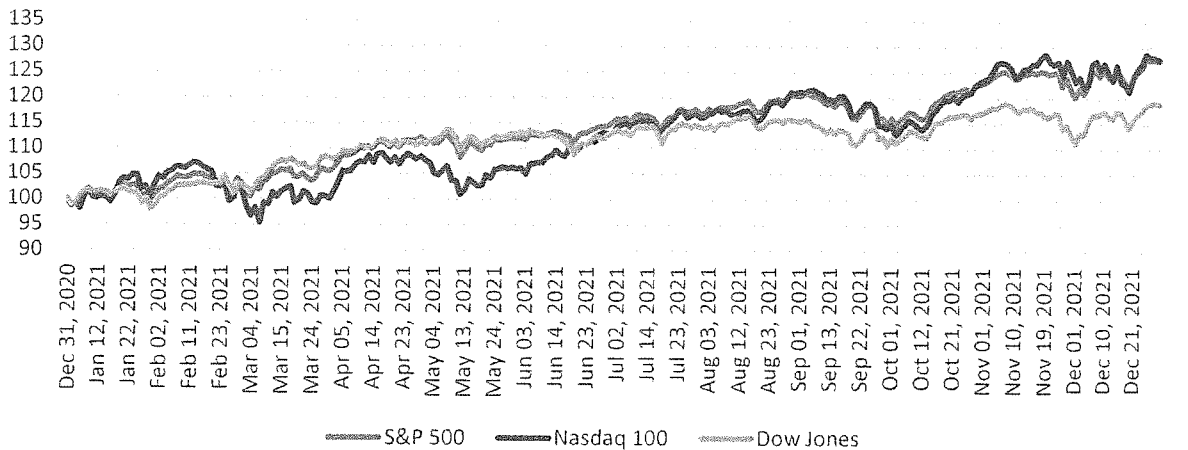
In 2021, the stock markets turned in a solid performance. With a combination of large-scale government support, accommodative monetary policy by central banks, and returning confidence of investors, stock markets made a sustained performance over 2020, and continued to grow strongly since the dramatic fall at the onset of the pandemic. With the exception of a few and brief selloffs, the S&P 500 gained 27% for the year. The Dow Jones Industrial Average (DJIA) gained 19% in 2021, while the Nasdaq 100 gained 27%. European markets also registered gains during 2021. Euro Stoxx 50 closed out the year on a strong 21% gain, the German DAX increased by 16%, and the British FTSE increased by a further 15% over 2020. However, the Shanghai Composite gained just under 5% in the past year

Gains in China were somewhat weaker, with the Shanghai Composite gaining less than 5 per cent in the past year. By contrast, Japanese stocks enjoyed a rise of approximately 10% whilst, Hong Kong's Hang Seng index sunk more than 14%. The MSCI World Index, which captures large and mid-cap representation across 23 Developed Markets countries gained over 22% in 2021, while the MSCI Emerging Markets and MSCI ACWI Markets registered an annual performance of -2.5% and 19%, respectively. The Malta Stock Exchange Equity Index declined by a 3% during 2021.

**Board of Governors' Report - continued**

**2. Economic Overview for 2021 - continued**

Stock Market Performance in 2021



The global bond markets were characterised by mixed developments, particularly the elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron Covid-19 variant. During the last quarter of 2021, sovereign bond yields continued their upward trajectory particularly as fears over Omicron variant eased and energy prices soared. The Bloomberg Barclays U.S. Aggregate Total Return index fell by 1.5% for the year. In addition, the U.S. yield on the 10-year Treasury note increased from 0.93% to 1.52%. In the same vein, the 10-year yield of EA AAA rated bond increased from -0.57% to -0.185%.

The Fund is invested 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 FY2021**

**(i) Revenue Generation**

During 2021 NDSF received €15,276,750 million from the Malta Individual Investor Programme (MIIP) (2020: €27.8 million; 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 €614.6 million. The agency also received € 4,266,000 from Residency Malta Agency.

The Fund also received €628,511 through government subvention which covered NDSF's operational, administrative, and capital expenditure for the year.



**Board of Governors' Report - continued**

**3. Investment Performance Review for FY2021 - continued**

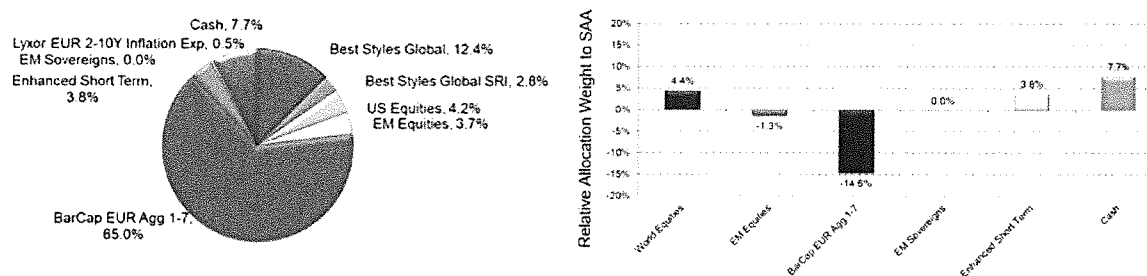
**(ii) Discretionary Portfolio (CBM)**

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 2021 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%	6.2%
Foreign bonds	80%	70.8%
Foreign equity	20%	23.0%
Alternative investments	0%	0%
Total	100%	100%

**(b) Discretionary Portfolio Allocation as at 31st December 2021**



Source: Allianz Global Investors

The Portfolio has an effective duration of 3.42 years and an average rating of 'A+'. The Net Asset Value of the Portfolio as at 31st December 2021 stood at €106.4 million (2020: €102.6 million), thus representing a year-on-year gain of approximately €3.8 million. The largest contributor being the positive Fair Value Movement to Profit and Loss of €3.0 million and a generation in income of €1.2 million.

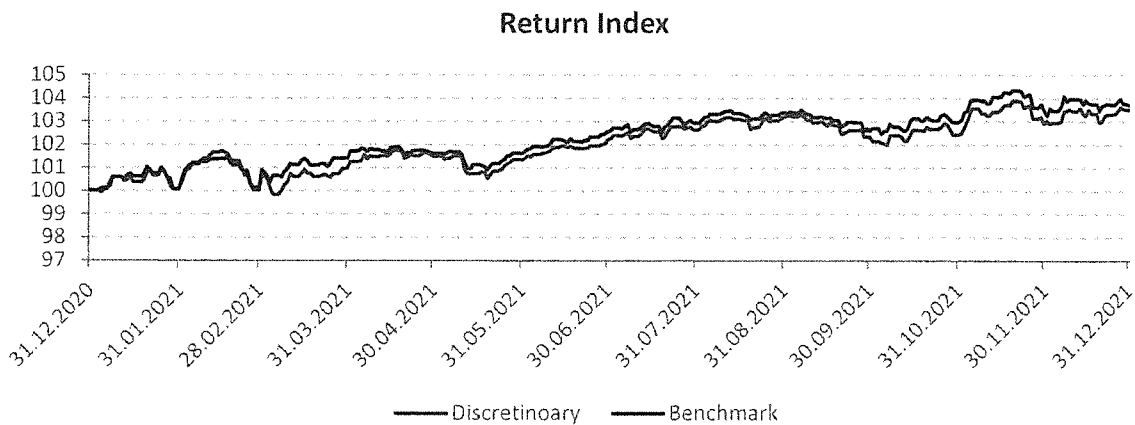
Board of Governors' Report - continued

3. Investment Performance Review for FY2021 - continued

(ii) Discretionary Portfolio (CBM) - continued

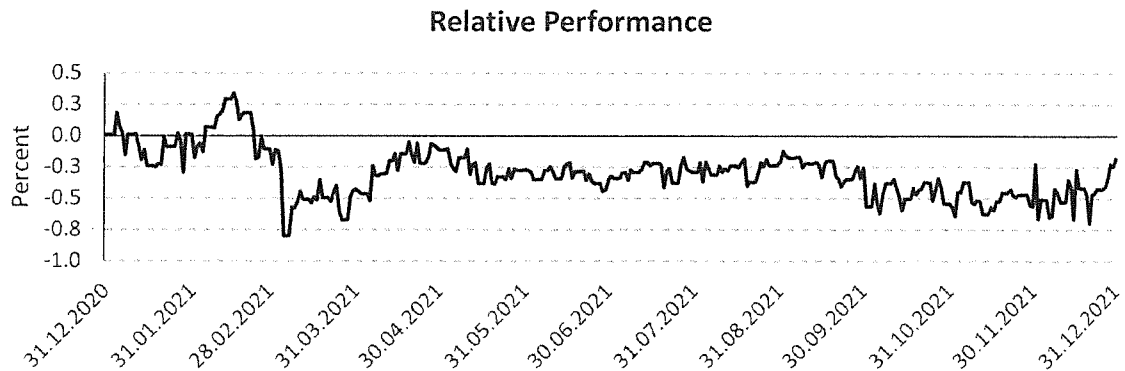
The absolute and relative performance against their respective benchmarks is provided below.

(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

Source: Allianz Global Investors



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

Source: Allianz Global Investors

**Board of Governors' Report - continued**

**3. Investment Performance Review for FY2021 - continued**

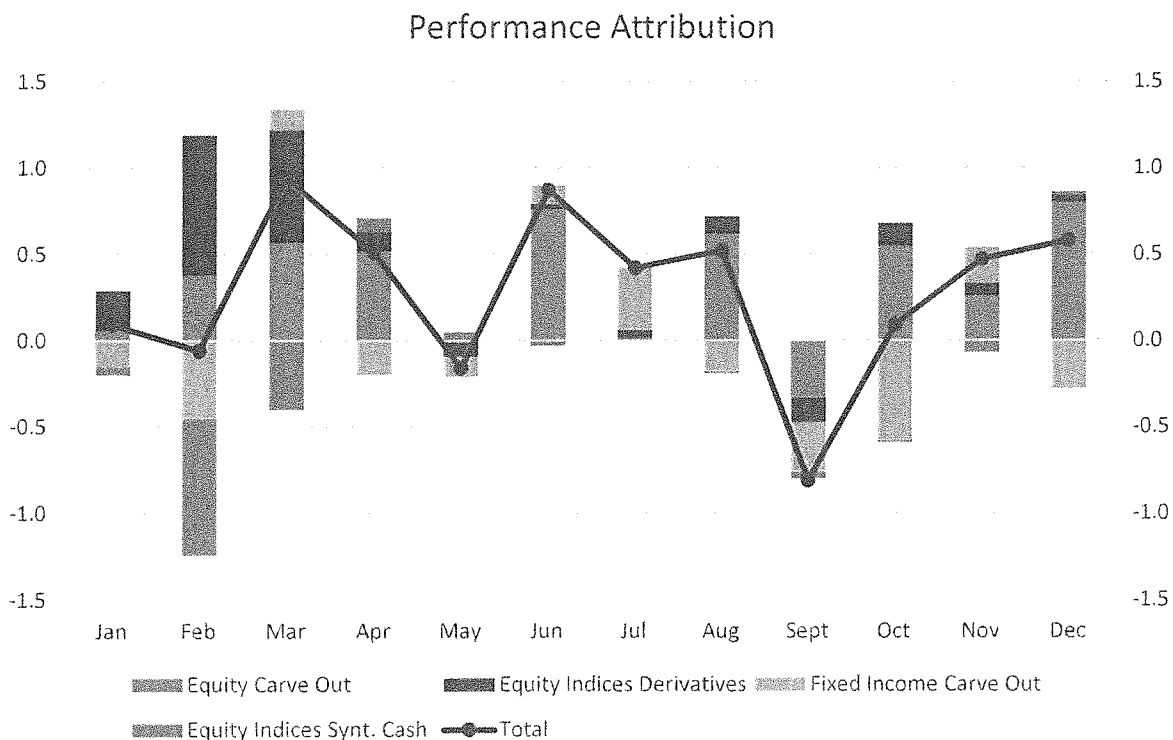
**(ii) Discretionary Portfolio (CBM) - continued**

During the second quarter of the year, the Fund adopted a 6% volatility cap instead of a 6% risk budget due to the expected elevated level of volatility. This was primarily instigated by the March-April 2020 episode that triggered a need for a temporary increase in the allocated risk budget. The studies carried out by the sub-investment manager's AGI showed that the switch to a volatility cap, in times of an evaluated market volatility, and an upturn, would improve the annualised performance of the Fund relative to the status quo. In addition, the investment managers also ring-fenced €4 million from the portfolio to the euro money market within the same portfolio to protect any market gains against volatility, and possible downside risk.

**(d) Performance Attribution by Asset Class**

The Fund's performance was broadly in-line with the benchmark into 2021 and closed just 0.2 percentage points below the benchmark. Turning to performance by asset class, the equity carveout registered a positive of performance of 19.2% against a benchmark performance of 21.0%. By contrast, the fixed income carveout finished slightly in negative territory, at -0.61%, being very close to the benchmark rate of -0.59%.

The chart below provides a summary of discretionary portfolio returns by asset class for each monthly period and shows the overall positive performance for most months. While Fixed Income's performance was negative over the period, the positive performance of Equities contributed to an overall positive portfolio performance.



Source: Allianz Global Investors

**Board of Governors' Report - continued**

**3. Investment Performance Review for FY2021 - continued**

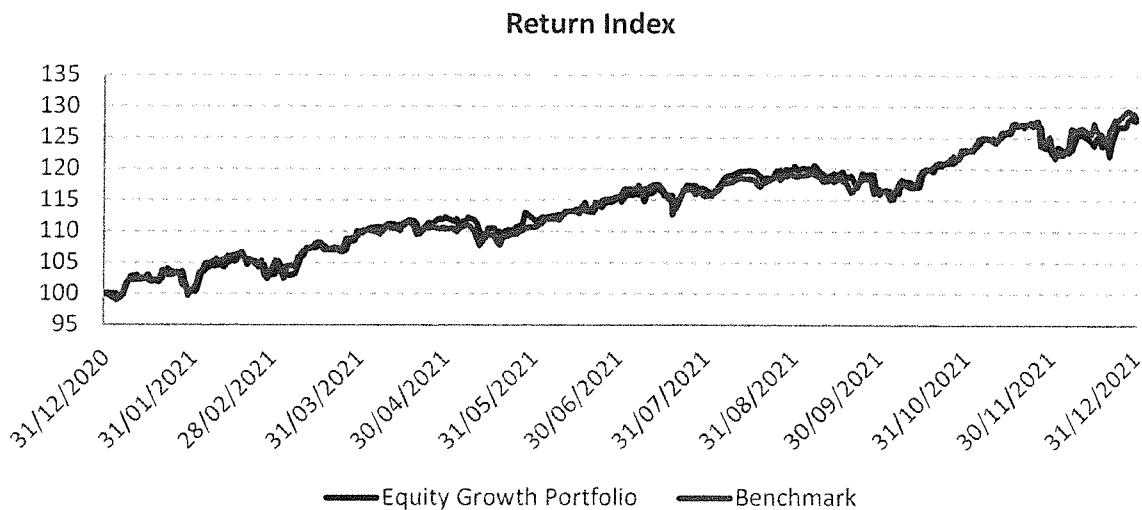
**(ii) Discretionary Portfolio (CBM) - continued**

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

Detail	Amount in €
Realised gain/losses	3,671,574
Unrealised fair value gains/losses	(718,478)
Interest and dividends	1,219,775
Fees	(384,615)
Profit/(Loss)	3,788,252

**(iii) Discretionary Portfolio (BOVAM)**

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 (GEP). The investment activity of the €6 million portfolio commenced on the 1 December 2020. The value of equity holdings as at 31 December 2021 stood at €12.2 million, reflecting a positive return of 27.7%, outperforming the benchmark index by 0.5 percentage points. It is important to note that during FY2021, €4 million in new capital was added to the portfolio. The Chart below provides the performance of the GEP against the composite benchmark.



Comparison: MSCI World EUR  
Source: BOVAM

**Board of Governors' Report - continued**

**3. Investment Performance Review for FY2021 - continued**

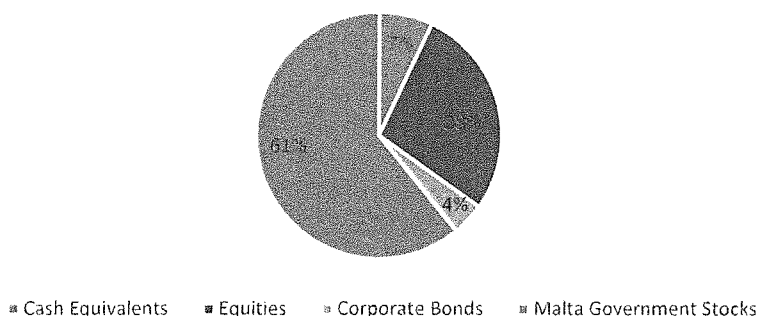
**(iii) Discretionary Portfolio (BOVAM) - continued**

Detail	Amount in €
Realised gain/losses	292,616
Unrealised fair value gains/losses	1,669,982
Interest and dividends	120,971
Fees	(66,210)
<b>Profit/(Loss)</b>	<b>2,017,359</b>

**iv) Directed Portfolio**

The Directed Portfolio had a market value of €288.2 million as at 31 December 2021. The Directed Portfolio consists solely of domestic assets, the majority of which, are listed on the Malta Stock Exchange. Total net additions on the Directed Portfolio for the year amounted to €139 million. This was brought about by net acquisition of €2.6 million in local equities, €4.5 million in corporate bonds, €21 million in an unlisted debt security; €81 million in Malta Government Stock and €30 million in Treasury Bills. During the year, the Fund generated €2.0 million in dividends and interest received. At year-end 2021, in terms of amount invested as a proportion to total fair value, the Directed Portfolio comprised of 27.8% in local equities, main exposures out of which were Lombard (15%) and BOV (5%), as well as 4.3% in local corporate bonds and 67.9% in MGS and T-Bills.

Composition of Directed Portfolio



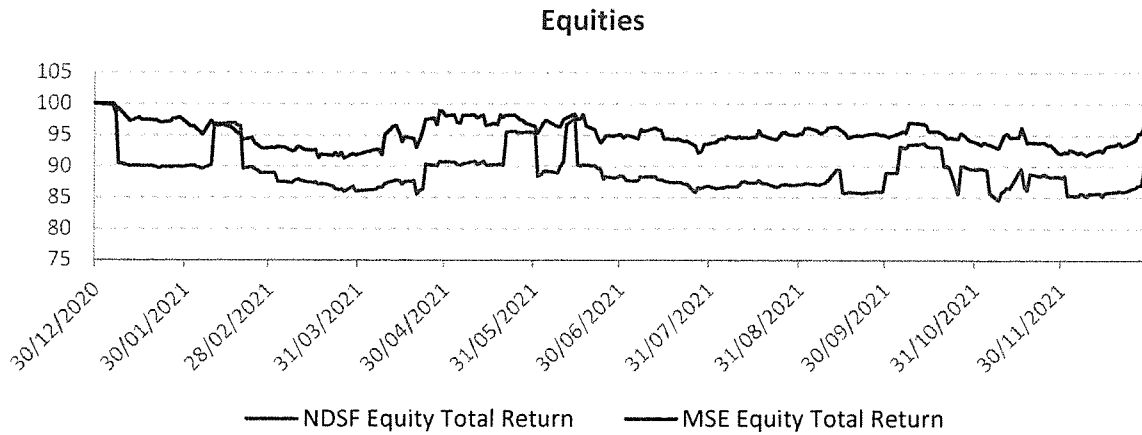
The Chart below shows the NDSF Equity Total Return index's relative performance against the MSE Equities Total Return Index benchmark. When including the dividends distributed by various companies, the NDSF index increased by 2.1% compared to an increase in the MSETRX index of 5.2% over the course of 2021. During the period under review, the market was relatively subdued, with considerably less trading activity and underperformance of the larger-capitalised companies.

The result being that the local equity market underperformed compared to larger developed global stock markets.

Board of Governors' Report - continued

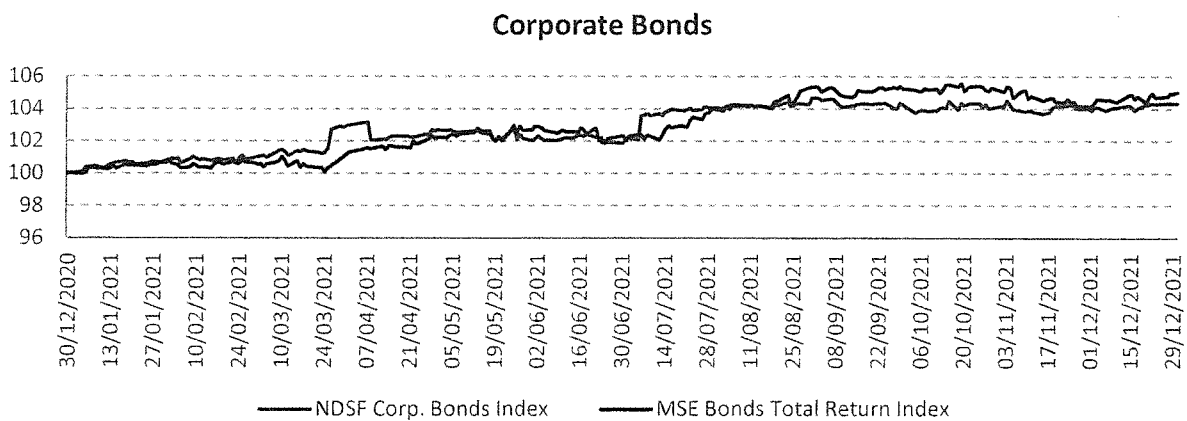
3. Investment Performance Review for FY2021 - continued

iv) Directed Portfolio - continued



Source: NDSF (2021)

The NDSF Corporate Bond Index registered an annualised return of 0.3% against the respective MSE Corporate Bond performance of 0.8%. NDSF holdings in Malta Government Stocks gained 0.1%, whereas the government stocks listed on the Malta Stock Exchange registered a positive performance of 0.9%.



Source: NDSF (2021)

## Board of Governors' Report - continued

### 3. Investment Performance Review for FY2021 - continued

#### iv) Directed Portfolio - continued

##### a. Heritage Assets

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, and has been loaned out for an indefinite period to Heritage Malta for the benefit of present and future generations.

##### b. 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. A 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.

#### (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 31st December 2021 stood at €152,436,107.

### 4. Consolidated Position

The financial results of the Fund for the year ending 31 December 2021 are summarised in the table below. The consolidated total investment return on the Discretionary as well as Directed Portfolio produced a net loss of €2.2 million 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 €0.84 million or (-3%), and Lombard Bank Malta p.l.c. €7.9 million or (-16%) on other equity holdings. The marginal total negative return of the Fund for the period under review, was mainly mitigated by the favourable market movements, in both Discretionary Portfolios, that is CBM/Allianz of €3.79 million or 4% and BOVAM of €2 million, or 21%. A detailed breakdown of the consolidated investment performance is provided in the table below.

Board of Governors' Report - continued

4. Consolidated Position - continued

	Initial Investments at Cost (€)	Fair Value to Profit and Loss (€)	Total Return Net of Income and Fees (€)	Gain/loss %
Discretionary (CBM/Allianz)	100,000,000	(718,478)	3,788,256	4%
Discretionary (BOVAM)	10,000,000	1,669,982	2,017,359	20%
Directed Portfolio	-			
BOV p.l.c. Equity	29,346,226	(840,357)	(840,357)	-3%
Lombard Bank Malta p.l.c. Equity	47,967,233	(8,386,443)	(7,892,061)	-16%
Other Local Equities	24,410,323	(204,736)	137,569	1%
Local Corporate Bonds	12,397,496	132,883	627,021	5%
Malta Govt. Securities	195,654,557	(20,716)	( 391,389)	-0.2%
Unallocated portfolio			(6,410)	
Receivables				
MREL.3 year Special Term Deposit	25,000,000		67,808	0%
Unlisted Debt Securities*	21,004,873	(114,478)	224,173	2%
<b>Total</b>	<b>465,780,709</b>	<b>(8,482,343)</b>	<b>(2,268,031)</b>	<b>-0.02%</b>

\*Consisting primarily in the participation by NDSF in an Euro denominated non-listed Transferable Loan Note Instrument.

5. Market Outlook in 2021

Local Market Outlook

After a considerable decline in GDP, Malta's economic activity rebounded strongly in 2021, when improvement in the Covid-19 situation allowed for a significant relaxation of restriction measures and pick up in international tourism.

- The negative interest rate environment, together with prudent fiscal policy stance, has ensured that government's intervention does not jeopardise public finance sustainability.
- Given the Islands' small size and open economy, Malta's outlook is closely tied to the economic performance of its main trading partners. Albeit the announced budgetary plan for 2022 is highly dependent on the local and European economic situation.
- In 2021, real GDP growth is forecast to reach 5.0%, and to continue on a stable growth path in 2022 and 2023. The forecasted economic growth is mainly driven by domestic consumption and investment. The outlook remains uncertain, however, particularly subject to the evolution of the pandemic and expected inflation.
- Moody's most recent Malta credit rating was reported at A2 with a negative outlook. Fitch's credit rating for Malta was last set at A+ with a stable outlook. DBRS's Malta credit rating is A (high) with a stable outlook while Standard and Poor's (S&P) credit rating for Malta stands at A-/Stable/A-2.



## Board of Governors' Report - continued

### 5. Market Outlook in 2021 - continued

- The 2022 Annual Borrowing Requirement is not expected to exceed €1.2 billion. This amount will be raised mainly through the issuance of Malta Government Securities and Debt Instruments with maturity of more than one year.

### Global Economic Outlook

#### Equities

- The outlook continues to be affected by high uncertainty due to the COVID-19 pandemic, depending on the rollout of the vaccine and the path of the economic recovery.
- Equities are forecast to provide more moderate return in 2022, than in 2021 and 2020, while continue to provide an attractive risk premium over fixed income instruments.
- The anticipation is that equity segments that lagged the global recovery from the pandemic shock to emerge as bright spots alongside industries that benefit from secular growth trends.
- European markets have also underperformed the US for most of 2021. Unless the investor risk sentiment deteriorates, European markets are expected to perform well.

#### Bonds

- Improving economic and labour market conditions, together with higher inflation expectations, has created a more hawkish attitude environment.
- In 2022, central banks are likely to raise interest rates and coupled also with the tapering of quantitative easing resulting in a gradual withdrawal of monetary stimulus. Risks are therefore tilted towards higher yields, against a pickup in inflation and post COVID economic growth. Spreads in the Euro-zone sovereign periphery offer attractive carry.
- Looking ahead, the outlook remains cautious on sovereign debt as the growth and inflation backdrop do not appear fully priced in.
- Spread markets namely US High Yield and Emerging Market Debt offer an attractive carry, however, duration risks at least partially offset their attractiveness

### 6. Post-balance Sheet Events

The Board of Governors wishes to confirm that there were no non-adjusting post balance sheet events:

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

### 7. Statement of Governors' responsibilities for the financial statements

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

In preparing the financial statements, the Governors are responsible for:

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

**Board of Governors' Report** - continued

**7. Statement of Governors' responsibilities for the financial statements** - continued

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 2021 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.

**Board of Governors' Report - continued**

**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)

Chief Executive Officer  
And 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

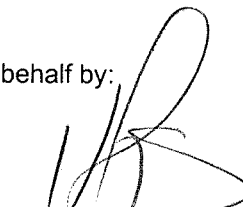
Financial Accounting  
Advisors PricewaterhouseCoopers  
78 Mill Street,  
Zone 5, Central Business District  
Qormi CBD 5090  
Malta

Auditors: RSM Malta  
Mdina Road,  
Zebbug ZBG9015  
Malta

RSM Malta were appointed as auditors of the Fund following a call for tenders in 2021, in line with NDSF's internal policy to rotate auditors every 5 years. The auditors 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

29 January 2024

## **Chief Executive Officer's Review of Operations**

The following review highlights the main activities and achievements during 2021 which are sub-divided as follows:

- A. Operations and Governance
- B. Investments
- C. Financial Highlights and Consolidated Position FY2021
- D. Funds targeted towards Social Projects since inception
- E. Proposed Programmes and Activities for 2022

### **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 enhance its risk management capabilities by engaging consultants RSM Malta to carry out a risk assessment of the Fund with a view assist NDSF draw up a comprehensive Risk Management Policy and Framework. The consultancy firm is also assisting NDSF in the public procurement process of an Enterprise Risk Management System as well as a state-of-the-art Investment and Risk Management solution.
- NDSF has continued to monitor the performance of its investment managers as well as to keep track of the risk-return performance of its investments in the current highly volatile and challenging financial and capital markets.
- The Board of Governors has met 75 times since its first meeting on the 7th December 2015 up to the end of December 2021. Furthermore, the Agency's Advisory Board which was set up in 2018 and is chaired by the CEO has met 21 times.
- The Agency, through the Department of Contracts, will be publishing a tender for the engagement of a Project Technical Monitor (PTM) on all social projects funded by NDSF. The PTM will provide independent assurance to the NDSF Board of Governors that all projects are undertaken according to applicable regulations, best practice, and within the respective cost budgets.
- NDSF has concluded for publishing other tenders related to the procurement of the Fund's Enterprise Risk Management System, and Auditing and Tax Advisory services.

### **B. Investments**

The year has yet again been highly conditioned by the COVID-19 pandemic crisis and as expected, the focus of the NDSF Board of Governors and Management was to maintain the economic momentum in these challenging and unique circumstances.

To this end, the Fund has continued with its social investment programme as well increasing its investment activity in its Directed Portfolio by investing in local listed securities, particularly by participating successfully in several Malta Government Stock and Treasury Bill auctions. The value of local investments as at the end of December 2021 has reached €288,154,547 while that of the Discretionary Portfolio, consisting of foreign listed securities, has reached €113,940,273 in the same period. The Unallocated Portfolio consisting of cash deposits with the Central Bank of Malta stood at €152,436,111. Total investments at fair value excluding cash balances have therefore reached **€423,233,792** Further details on NDSF's current Investments as at the end of December 2021 is provided below.

**Chief Executive Officer's Review of Operations - continued**

**(a) Discretionary Portfolio with CBM/Allianz AG and BOVAM**

The Discretionary Portfolio holds investments of around 30% of all funds received from Identity Malta, the Malta Individual Investor Programme Agency (MIIPA), Community Malta and Residency Malta, all being other government agencies.

The original cost of investment in both portfolios amounted to around €110,000,000, which have been invested across a wide range of foreign financial instruments in line with the Fund's investment policy.

During the period under review, a further €4 million was invested in the Global Equity Portfolio managed by BOV Asset Management. The Total Net Asset Value of the discretionary portfolios as at 31 December 2021 stood at €118,561,346 as per Table 1 below. The Year-on-Year change in Net Asset Value stood at €5,825,614;

**Table 1: Change in Discretionary Portfolio Net Asset Value**

	Original cost of investment (€)	NAV as at 31.12.2020 (€)	NAV as at 31.12.2021 (€)	Y-o-Y change in NAV (€)
BOVAM	10,000,000	6,108,360	12,125,719	2,017,359
CBM	100,000,000	102,647,371	106,435,626	3,808,255
<b>Total</b>	<b>110,000,000</b>	<b>108,755,731</b>	<b>118,561,346</b>	<b>5,825,614</b>

**(b) Directed Portfolio (In-house)**

During 2021 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 locally listed equity holdings amounting to €80.2 million and locally listed corporate bonds amounting to €12.3 million. The Fund's holdings in Malta Government Stock and Treasury bills have reached a total of €196 million. Total fair value of the local income portfolio after Net Additions of €38.8 million as at 31st December 2021 stood at €288,154,547, representing a Year-on-Year change in NAV of €3,678,623. A breakdown of these holdings is provided in Table 2 below.

**Table 2: Local Listed Securities at Fair Value**

Financial Assets	Net Additions (€) 01.01.2021 to 31.12.2021	Market Value (€) as 31.12.2021
BOV p.l.c.equity	0	15,126,426
Lombard Bank (Malta) equity	0	42,783,850
Other local equity	2,601,650	22,285,778
Local corporate bonds	4,486,100	12,323,387
MGS & TBs	31,757,783	195,635,106
<b>Total</b>	<b>38,845,535</b>	<b>288,154,547</b>

NATIONAL DEVELOPMENT AND SOCIAL FUND  
Annual Report and Financial Statements - 31 December 2021

Chief Executive Officer's Review of Operations - continued

**C. Main Financial Highlights and Consolidated Position FY2021** – continued

**(i) Consolidated Position of the Fund as at 31st December 2021**

The consolidated position of the Fund at Fair Value as at 31st December 2021 is given in Table 5 below. Net Assets of the Fund stood at €608,894,716 with major assets being Financial Investments of €422,895,141, other non-current assets of €25,000,000 and Cash and Cash Equivalents of €152,436,107.

**Table 5: Consolidated Position of Fund as at 31<sup>st</sup> December 2021**

	Unallocated Portfolio		Discretionary Portfolio		Directed Portfolio		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	€	€	€	€	€	€	€	€
<b>ASSETS</b>								
<b>Non-current assets</b>								
Property and equipment	73,822	149,588	-	-	-	-	73,822	149,588
Heritage asset	1,480,503	1,480,503	-	-	-	-	1,480,503	1,480,503
Other non-current assets	10,000	10,000	-	-	2,500,000	-	25,010,000	10,000
<b>Total non-current assets</b>	<b>1,564,325</b>	<b>1,640,091</b>	<b>-</b>	<b>-</b>	<b>25,000,000</b>	<b>-</b>	<b>26,564,325</b>	<b>1,640,091</b>
<b>Current assets</b>								
Financial investments	-	-	113,940,516	104,930,623	309,329,519	260,032,376	422,895,141	364,962,999
Other current assets	-	-	4,369,538	3,608,269	-	-	4,369,538	3,608,269
Receivables and prepayments	2,415,863	-	434,883	468,710	1,030,054	217,904	3,880,800	700,184
Cash and cash equivalents	152,436,107	227,194,596	-	-	-	-	152,436,107	227,194,596
<b>Total Current Assets</b>	<b>154,851,970</b>	<b>227,208,166</b>	<b>118,708,694</b>	<b>109,007,602</b>	<b>310,020,922</b>	<b>260,250,280</b>	<b>583,581,586</b>	<b>596,466,048</b>
<b>Total Assets</b>	<b>15,616,295</b>	<b>228,848,257</b>	<b>118,708,694</b>	<b>109,007,602</b>	<b>335,020,922</b>	<b>260,250,280</b>	<b>610,145,911</b>	<b>598,106,139</b>
<b>LIABILITIES</b>								
<b>Non-current liability</b>								
Lease liability	21,393	79,887	-	-	-	-	21,393	79,887
<b>Current Liabilities</b>								
Lease liability	60,510	70,800	-	-	-	-	60,510	70,800
Accruals and other liabilities	21,944	27,371	147,348	251,871	-	-	169,292	279,242
<b>Total Current Liabilities</b>	<b>82,454</b>	<b>98,171</b>	<b>147,348</b>	<b>251,871</b>	<b>-</b>	<b>-</b>	<b>229,802</b>	<b>350,042</b>
<b>Total Liabilities</b>	<b>103,847</b>	<b>178,058</b>	<b>147,348</b>	<b>251,871</b>	<b>-</b>	<b>-</b>	<b>251,195</b>	<b>429,929</b>
<b>Net Assets Year as at 31st December 2021</b>	<b>159,346,612</b>	<b>228,670,199</b>	<b>118,597,589</b>	<b>108,755,731</b>	<b>335,135,400</b>	<b>260,250,280</b>	<b>610,009,194</b>	<b>597,676,210</b>
<b>Other comprehensive loss</b>					<b>(114,478)</b>		<b>(114,478)</b>	
<b>Total Net Assets Year as at 31st December 2021</b>	<b>156,312,448</b>	<b>228,670,199</b>	<b>118,561,346</b>	<b>108,755,731</b>	<b>335,020,922</b>	<b>260,250,280</b>	<b>608,894,716</b>	<b>597,676,210</b>

**Chief Executive Officer's Review of Operations - continued**

**(c) Unallocated Portfolio**

The Fund's Unallocated Portfolio consists of a Cash balance amounting to €152,436,107 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 2021**

Cash Balance (€) held with CBM as at 31st December 2020	Cash Balance (€) held with CBM as at 31st December 2021
227,194,596	152,436,107

**C. Main Financial Highlights and Consolidated Position FY2021**

Total funding received from the Individual Investor Programme from inception to 31 December 2021 amounted to €618,656,874, while total funding for the year amounted to €19,542,750. Total funds invested from inception to end FY2021 at fair value amounted to €423,270,033 representing a net increase of €58.3 million over the previous year. The Fund registered a Consolidated Loss for the year under review of €2.2 million (FY2020: Profit of €0.06 million) brought about mainly by Realised Investment Gains of €3.4 million, Net Income after Fees and Taxes of €3.6 million and Unrealised Losses from Fair Value Movement of €9.2 million.

**Table 4: Financial Highlights FY2021**

Financial highlights	As at 31 December 2020 (€)	As at 31 December 2021 (€)
Total Revenue as at date	599,375,449	618,656,874
Funding received from Community Malta & Residenza Malta Agencies	27,763,851	19,542,750
Cash and Cash Equivalents	227,194,596	152,436,107
Total Assets	598,106,139	614,707,498
Fair Value of Consolidated Investments	364,962,999	423,270,033
Realised Investment Gain/(Losses)	(2,096,495)	3,480,290
Unrealised Gain/(Losses)	776,900	(9,230,699)
Endowment from Government	490,372	678,558
Operating Expenses	(495,480)	(670,401)
Expected Credit Loss	-	(54,076)
<b>Net Profit/(Loss)</b>	<b>59,049</b>	<b>(2,165,600)</b>
Other Comprehensive Income	-	(114,478)
<b>Total Comprehensive income</b>	<b>59,049</b>	<b>(2,280,078)</b>

**Chief Executive Officer's Review of Operations - continued**

**C. Main Financial Highlights and Consolidated Position FY2021 – continued**

**(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 2021 amounted to €670,401 and for the FY2022 the total expenditure is estimated to reach €800,000. A breakdown of the main expenditure items is given in Table 6 below.

**Table 6: Contribution by Government to NDSF as at 31<sup>st</sup> December 2021**

Headline	2021 (Actual) €	2022 (Budgeted) €
Human Resources Costs	378,511	584,460
Operational and Maintenance	101,241	37,740
Contractual Services	70,800	80,000
Professional Services	119,849	97,800
<b>Totals</b>	<b>670,401</b>	<b>800,000</b>

Around €584,460 or 58% 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 2022.

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 and Initiatives since inception**

NDSF has committed in excess of €109 million as the 31<sup>st</sup> December 2021 to wards the wellbeing of society in a variety of important areas ranging from health, social accommodation, urban greening and sports. The major part of this allocation will be directed towards providing a substantial number of social housing units over a 4-year period. The second largest allocation of funds will go towards the Primary Healthcare sector. Other major projects funded by NDSF include the St. Michael Hospice Palliative Care Centre, the Puttinu Cares London Apartments and the upgrading of Caritas Malta's San Blas Drug Rehabilitation Unit and Community Centre in Blata I-Bajda.

*Solidarity Contributions*

During the year under review, the Fund also allocated in excess of €1 million towards Solidarity Contributions. The contributions were made to alleviate the financial difficulties faced by a number of voluntary organisations following a technical glitch which overstated pledges made by the general public during the respective fund-raising telethons. The main beneficiaries were the Malta Community Chest Fund ( €500,000); Dar Tal-Providenza (€350,000) and Caritas (€150,000).



Table 7 below provides a breakdown of the targeted funding since inception to 31<sup>st</sup> December 2021 which are further explained in Note 17 to the financial statements.

**Chief Executive Officer's Review of Operations** - continued

**C. Main Financial Highlights and Consolidated Position FY2021** - continued

*Solidarity Contributions - continued*

**Table 7: Targeted funding towards Social Projects and Initiatives as at 31<sup>st</sup> December 2021**

<b>NDSF Committed Funding towards Social Initiatives</b>	<b>€</b>
Social Housing Project	66,000,000
Primary Health Care	10,000,000
St.Michael Hospice	8,000,000
Caritas: San Blas	540,000
Caritas: Community Centre	1,000,000
Catheterisation Suites: Cardiology Dept MDH	950,000
Puttinu Cares London Apartments	5,000,000
Sport Malta: GSSE 2023	4,910,500
Urban Greening Projects	4,500,000
Embellishment of Buildings	1,907,000
CT Scanner	1,600,000
New Hope Guarantee Scheme	3,000,000
KIDS Project-Richmond Foundation	700,000
Solidarity Contributions to various V.O's	1,183,000
<b>Total</b>	<b>109,290,500</b>

**Total funding committed by means of signed agreement towards Social Projects as at end December 2021 stood at €109,290,500.**

**(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 and 10% contingency on construction would reach €66 million.

The process of finalising the legal documentation securing this funding was concluded in Q4 2021.

- The number of optimal sites to be developed have been revised to 16 across 11 different localities.
- Detailed plans and permits are already at an advanced stage on a significant number of sites therefore allowing the Housing Authority to issue tenders to commence excavation and civil works in the Q2 2022.
- Total disbursements during FY2021 amounted to €2,402,292 being advance payments.

**Chief Executive Officer's Review of Operations - continued**

**D. Funding targeted towards Social Projects since inception – continued**

**(b) Primary Health Care Upgrading and Refurbishment Project**

- On the 20th May 2019, a Memorandum of Agreement was signed between the Primary Health Care division and NDSF for a €10 million grant towards the co-funding of an upgrading programme of €14 million in total covering over 50 clinics and 8 Health Centres across Malta and Gozo.
- The purpose of the NDSF grant is to accelerate the repositioning of primary healthcare as a first point of contact in the community and decentralising a number of important outpatient services.
- The project entails creating Centres of Excellence and other services which will alleviate pressures on Mater Dei and reduce inconvenience to patients.
- Total disbursements to Primary Health Care as at end December 2021 reached €866,151.

**(c) NDSF Social Grants to Voluntary Organisations (VOS) and Public entities**

- 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 2021.
- In June 2021, the Fund entered into a Memorandum of Agreement with Hospice Malta for a social grant of €8 million towards the development of the St Michael Hospice Palliative Care Centre in Sta Venera on the ex-Adelaide Cini Institute premises. Total disbursements as at 31.12.2022 stood at € 726,645.
- On the 14<sup>th</sup> June 2021 the Fund entered into a Memorandum of Agreement with SportMalta on the NDSF Social Grant of €4,910,500 towards the financing of technical support in the preparation of Maltese Athletes for the Games of Small States of Europe (GSSE) in 2023. Total disbursements as at 31.12.2021 stood at € 1,346,160.
- During FY2021, the Board received various proposals for social projects in: Urban Greening (€4,500,000); Embellishment of Buildings of National Historic and Architectural importance (€1.9 million); New Hope Impaired Lives Guarantee Fund (€3,000,000); Centre for Children with Behavioural problems (€700,000) and CT scan at St Vincent De Paul Hospital (estimate €1,600,000) to an aggregate of € 11,700,000 (2019: €14,000,000, 2020: €26,500,000). All the projects have received an 'in principle' approval by the NDSF Board of Governors, yet some of the agreements will be concluded during the next financial year. Total commitments on other sundry projects as at 31.12.2021 amounted to €2,133,000.

**E. Proposed Programmes and Activities for 2022**

- (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 strengthen the governance of the fund by launching its Risk Management Framework and Policy in line with international best practice, a Policy on the Acquisition of Works of Art and another Policy on Withdrawals and Grants. These new policies are in line with the Santiago Principles.

**Chief Executive Officer's Review of Operations - continued**

**E. Proposed Programmes and Activities for 2022 - continued**

- It will seek 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 also 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 and risk management 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

29 January 2024

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## INDEPENDENT AUDITORS' REPORT

To the stakeholders of National Development and Social Fund

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of National Development and Social Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), 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).

#### 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements of both the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **INDEPENDENT AUDITORS' REPORT – continued**

### **Report on the Audit of the Financial Statements – continued**

#### **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 is 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.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the Board of Governors for the Financial Statements**

The board of governors is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS 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.

## **INDEPENDENT AUDITORS' REPORT – continued**

### **Report on the Audit of the Financial Statements – continued**

#### **Responsibilities of the Board of Governors for the Financial Statements - continued**

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.

The board of governors is responsible for overseeing the Fund's financial reporting process.

#### **Auditors' 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 auditors' 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 Fund'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.

**INDEPENDENT AUDITORS' REPORT – continued**

**Report on the Audit of the Financial Statements – continued**

**Auditors' Responsibilities for the Audit of the Financial Statements – continued**

- 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in black ink, appearing to read 'Roberta West Falzon'.

*This copy of the audit report has been signed by  
Roberta West Falzon (Principal)  
for and on behalf of*

RSM Malta  
Registered Auditors

29 January 2024

### Statement of financial position

	Notes	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
		€	€	€	€	€	€	€	€
<b>ASSETS</b>									
<b>Non-current assets</b>									
Property and equipment	5	73,822	149,588	-	-	-	-	73,822	149,588
Heritage asset	7	1,480,503	1,480,503	-	-	-	-	1,480,503	1,480,503
Other non current assets	6	10,000	10,000	-	-	-	-	10,000	10,000
Financial investments						25,000,000	-	25,000,000	-
<b>Total non-current assets</b>		<b>1,564,325</b>	<b>1,640,091</b>	<b>-</b>	<b>-</b>	<b>25,000,000</b>	<b>-</b>	<b>26,564,325</b>	<b>1,640,091</b>
<b>Current assets</b>									
Financial investments	8	-	-	113,904,273	104,930,623	308,990,868	260,032,376	422,895,141	364,962,999
Other current assets	9	-	-	4,369,538	3,608,269	-	-	4,369,538	3,608,269
Receivables and prepayments	11	2,415,863	13,570	434,883	468,710	1,030,054	217,904	3,880,800	700,184
Cash and cash equivalents	12	152,436,107	227,194,596	-	-	-	-	152,436,107	227,194,596
<b>Total current assets</b>		<b>154,851,970</b>	<b>227,208,166</b>	<b>118,708,694</b>	<b>109,007,602</b>	<b>310,020,922</b>	<b>260,250,280</b>	<b>583,581,586</b>	<b>596,466,048</b>
<b>Total assets</b>		<b>156,416,295</b>	<b>228,848,257</b>	<b>118,708,694</b>	<b>109,007,602</b>	<b>335,020,922</b>	<b>260,250,280</b>	<b>610,145,911</b>	<b>598,106,139</b>



**Statement of financial position - continued**

	Notes	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
		€	€	€	€	€	€	€	€
<b>LIABILITIES</b>									
<b>Non-current liability</b>									
Lease liability	14	21,393	79,887	-	-	-	-	21,393	79,887
<b>Current Liabilities</b>									
Lease liability	14	60,510	70,800	-	-	-	-	60,510	70,800
Accruals and other liabilities	13	21,944	27,580	147,348	251,871	-	-	169,292	279,451
Total current liabilities		82,454	98,380	147,348	251,871	-	-	229,802	350,251
<b>Total liabilities</b>		103,847	178,267	147,348	251,871	-	-	251,195	430,138


**Statement of financial position - continued**


	Note	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
		€	€	€	€	€	€	€	€
<b>Net assets of the Fund at the end of year</b>									
Net funds available to the agency		156,312,448	228,669,990	118,561,346	108,755,731	335,135,400	260,250,280	610,009,194	597,676,001
Other comprehensive loss		-	-	-	-	(114,478)	-	(114,478)	-
<b>Total net assets of the Fund at the end of year</b>		<b>156,312,448</b>	<b>228,669,990</b>	<b>118,561,346</b>	<b>108,755,731</b>	<b>335,020,922</b>	<b>260,250,280</b>	<b>609,894,716</b>	<b>597,676,001</b>
<b>Memorandum items</b>									
Commitments	18	109,290,500	-	-	-	-	81,936,875	109,290,500	81,936,875

The notes on pages 37 to 64 from an integral part of these financial statements.

The financial statements on pages 30 to 64 were approved and authorised for issue by the Board of Governors and signed on its behalf on 29<sup>th</sup> January 2024:

  
Jonathan Cardona  
Chairman

  
Ray Sladden  
Deputy Chairman

  
Raymond Eilful  
Chief Executive Officer

### Statement of comprehensive income

Notes	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	€	€	€	€	€	€	€	€
<b>Investment income</b>								
Net fair value gains/(losses) on financial assets through profit or loss	8	-	1,071,806	-	(10,182,173)	(294,906)	(9,230,669)	776,900
Realised gains/(losses) on investment	8	-	(2,096,495)	-	(483,900)	-	3,480,290	(2,096,495)
Interest income on debt securities	8	-	1,037,232	-	1,942,456	515,669	3,283,202	1,552,901
Dividend income on equities	8	-	55,367	-	811,749	197,010	811,749	252,377
<b>Other income</b>								
Endowment from the Government of Malta	16	628,511	-	490,372	-	-	628,511	490,372
Other income		50,000	-	-	-	-	50,000	-
<b>Net (loss)/income</b>		<b>678,511</b>	<b>67,910</b>	<b>490,372</b>	<b>(7,911,868)</b>	<b>417,773</b>	<b>(976,917)</b>	<b>976,055</b>
<b>Expenses</b>								
Operating expenses	15	(670,354)	-	(495,480)	(54,076)	-	(724,430)	(495,480)
Investment charges	16	-	(421,387)	-	(13,428)	(139)	(464,253)	(421,526)
<b>Total expenses</b>		<b>(670,354)</b>	<b>(421,387)</b>	<b>(495,480)</b>	<b>(67,504)</b>	<b>(139)</b>	<b>(1,188,683)</b>	<b>(917,006)</b>
<b>(Loss)/profit for the financial year</b>		<b>8,157</b>	<b>(353,477)</b>	<b>(5,108)</b>	<b>(7,979,372)</b>	<b>417,634</b>	<b>(2,165,600)</b>	<b>59,049</b>

**Statement of comprehensive income - continued**

	Note	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
	€	€	€	€	€	€	€	€	€
<b>(Loss)/profit for the financial year</b>	<b>8,157</b>	<b>(5,108)</b>	<b>5,805,615</b>	<b>(353,477)</b>	<b>(7,979,372)</b>	<b>417,634</b>	<b>(2,165,600)</b>	<b>59,049</b>	
<b>Other comprehensive loss</b>									
Net losses in fair value on financial assets designated at fair value through other comprehensive income (FVOCI)	-	-	-	-	(114,478)	-	(114,478)	-	-
	-	-	-	-	(114,478)	-	(114,478)	-	-
<b>Total comprehensive (loss)/income</b>	<b>8,157</b>	<b>(5,108)</b>	<b>5,805,615</b>	<b>(353,477)</b>	<b>(8,093,850)</b>	<b>417,634</b>	<b>(2,280,078)</b>	<b>59,049</b>	

The notes on pages 37 to 64 form an integral part of these financial statements.

### Statement of changes in net assets

	Note	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
		€	€	€	€	€	€	€	€
<b>Net assets at the beginning of the year</b>		<b>228,669,990</b>	<b>371,871,585</b>	<b>108,755,731</b>	<b>103,109,208</b>	<b>260,250,280</b>	<b>95,205,942</b>	<b>597,676,001</b>	<b>570,186,735</b>
<b>Net funds available to the agency</b>		<b>8,157</b>	<b>(5,108)</b>	<b>5,805,615</b>	<b>(353,477)</b>	<b>(7,979,372)</b>	<b>417,634</b>	<b>(2,165,600)</b>	<b>59,049</b>
(Loss)/profit for the year		<b>19,553,127</b>	<b>27,763,851</b>	-	-	-	-	<b>19,553,127</b>	<b>27,763,851</b>
Funds received from MIIPA, ReisdENZA Malta and Community Malta Agency		<b>(86,864,492)</b>	<b>(170,626,704)</b>	<b>4,000,000</b>	<b>6,000,000</b>	<b>82,864,492</b>	<b>164,626,704</b>	<b>(5,054,334)</b>	<b>(333,634)</b>
Transfer between portfolios		<b>(5,054,334)</b>	<b>(333,634)</b>	-	-	-	-	<b>(5,054,334)</b>	<b>(333,634)</b>
Contributions paid out of the Fund	17	<b>(72,357,542)</b>	<b>(143,201,595)</b>	<b>9,805,615</b>	<b>5,646,523</b>	<b>74,885,120</b>	<b>165,044,338</b>	<b>12,333,193</b>	<b>27,489,266</b>
<b>Other comprehensive income</b>		-	-	-	-	<b>(114,478)</b>	-	<b>(114,478)</b>	-
Investment revaluation reserve		-	-	-	-	<b>(114,478)</b>	-	<b>(114,478)</b>	-
<b>Net assets to the fund at end of year</b>		<b>156,312,448</b>	<b>228,669,990</b>	<b>118,561,346</b>	<b>108,755,731</b>	<b>335,020,922</b>	<b>260,250,280</b>	<b>608,894,716</b>	<b>597,676,001</b>

The notes on pages 37 to 64 form an integral part of these financial statements.

## Statement of cash flows

Notes	Unallocated portfolio		Discretionary portfolio		Directed portfolio		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	€	€	€	€	€	€	€	€
<b>Cash flows from operating activities</b>								
Interest income received	-	-	-	-	791,655	422,987	791,655	422,987
Income received	50,000	-	-	-	811,749	197,010	861,749	197,010
<b>Cash generated from operations</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,603,404</b>	<b>619,997</b>	<b>1,653,404</b>	<b>619,997</b>
<b>Cash flows from investing activities</b>								
Net proceeds from purchases of financial investments	(146,703,314)	(171,246,700)	-	-	-	-	(146,703,314)	(171,246,700)
Disposal of investments	80,792,628	-	-	-	-	-	80,792,628	-
Amounts paid on placement of fixed deposit	(25,000,000)	(1,480,503)	-	-	-	-	(25,000,000)	(1,480,503)
Purchase of heritage asset	-	-	-	-	-	-	-	-
Contributions paid out of the Fund	(5,054,334)	(333,634)	-	-	-	-	(5,054,334)	(333,634)
<b>Cash flows used in investing activities</b>	<b>(96,965,020)</b>	<b>(173,060,837)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(95,965,020)</b>	<b>(173,060,837)</b>
<b>Cash flows from financing activities</b>								
New funds from MIIPA, Residenza Malta & Community Malta Agency	19,553,127	27,763,851	-	-	-	-	19,553,127	27,763,851
Opening cash and cash equivalents	226,574,599	371,871,585	-	-	619,997	-	227,194,596	371,871,585
<b>Closing cash and cash equivalents</b>	<b>150,212,706</b>	<b>226,574,599</b>	<b>-</b>	<b>-</b>	<b>2,223,401</b>	<b>619,997</b>	<b>152,436,107</b>	<b>227,194,596</b>

The notes on pages 37 to 64 form an integral part of these financial statements.

## Notes to the financial statements

### 1. General information

The National Development and Social Fund was ("The Fund") established on 6 January 2015, by virtue of Subsidiary Legislation 188.03, Individual Investor Programme of the Republic of Malta Regulations.

Subsidiary Legislation 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 2021 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 2020. 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 2021*

In 2021, the Fund adopted amendments and interpretations to existing standards that are mandatory to the Fund's accounting period beginning on 1 January 2021. 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.

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

### 2.1 Basis of preparation - *continued*

#### *b. New standards, amendments and interpretations effective after 1 January 2021 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 2021. 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

#### 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 and OCI.

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

### 2.3 Financial assets and financial liabilities - *continued*

#### 2.3.3 Measurement

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

#### *Debt instruments*

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

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

#### *Equity instruments*

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

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

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

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

### 2.3 Financial assets and financial liabilities - *continued*

#### 2.3.4 Impairment

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

### 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.

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

### 2.5 Heritage assets - *continued*

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), Residenza Malta 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.

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

**2.10 Accrued expenses and other liabilities - *continued***

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. Fund Portfolios - continued**

*3.4 Awarding of grants*

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

**4. Critical accounting estimates and judgements**

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

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

## 5. Property and equipment

Details and movements of property and equipment, excluding the right-of-use asset, as at December 31, 2021 and 2020 are as follows:

### Unallocated portfolio

	Computer equipment €	Computer software €	Office equipment €	Total €
<b>At 1 January 2020</b>				
Cost	4,607	2,617	15,200	22,424
Accumulated depreciation	(1,455)	(1,005)	(5,946)	(8,406)
Net book amount	3,152	1,612	9,254	14,018
<b>Year ended 31 December 2020</b>				
Opening net book amount	3,152	1,612	9,254	14,018
Additions	692	-	1,211	1,903
Depreciation charge	(2,522)	(242)	(2,101)	(4,865)
<b>Closing net book amount</b>	<b>1,322</b>	<b>1,370</b>	<b>8,364</b>	<b>11,056</b>
<b>At 31 December 2020</b>				
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
<b>Year ended 31 December 2021</b>				
Opening net book amount	1,322	1,370	8,364	11,056
Depreciation charge (Note 15)	(1,059)	(523)	(3,384)	(4,966)
<b>Closing net book amount</b>	<b>263</b>	<b>847</b>	<b>4,980</b>	<b>6,090</b>
<b>At 31 December 2021</b>				
Cost	5,299	2,617	16,411	24,327
Accumulated depreciation	(5,036)	(1,770)	(11,431)	(18,237)
Net book amount	263	847	4,980	6,090

**5. Property and equipment - continued**

The details of the right-of-use asset which are accounted for within property and equipment as at December 31, 2021 and 2020 are as follows:

**Unallocated portfolio**

	2021 €	2020 €
Opening net book amount	138,532	209,332
Depreciation	(70,800)	(70,800)
<b>Closing net book amount</b>	<b>67,732</b>	138,532
Cost	280,132	280,132
Depreciation	(212,400)	(141,600)
<b>Net book amount</b>	<b>67,732</b>	138,532

The details of the related lease liability are disclosed in Note 14. Further detail 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 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.



## 6. Lease agreements - continued

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 14.

#### (ii) *Amounts recognised in the statement of comprehensive income*

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

### **Unallocated portfolio**

	2021 €	2020 €
Depreciation charge of right of use asset (note 5)	<b>70,800</b>	70,800
Finance cost	<b>3,085</b>	5,108
	<b>73,885</b>	75,908

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

## 7. Heritage asset

In 2020, 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. According to the Social Grant Agreement, the masterpiece has been loaned out to Heritage Malta for the benefit of present and future generations. The painting will be permanently exhibited at the President's palace in Valletta once the major restoration project of the Palace has been completed.

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.

7. **Heritage asset** - continued

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

**Unallocated portfolio**

	2021	2020
	€	€
Opening balance	1,480,503	-
Addition	-	1,480,503
<b>Balance as at 31 December</b>	<b>1,480,503</b>	<b>1,480,503</b>

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. During the year, the Fund invested additional €4,000,000 in this portfolio.

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

	2021	2020
	€	€
<i>Financial assets designated at fair value through profit or loss at Inception</i>		
Quoted equity	39,164,441	25,546,406
Debt securities	74,739,832	79,384,217
	<b>113,904,273</b>	<b>104,930,623</b>

8. **Financial investments** – continued

**Discretionary portfolio** – continued

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

	2021 €	2020 €
<b>Year ended 31 December</b>		
At beginning of year	<b>108,755,731</b>	103,109,208
Net additions	<b>4,000,000</b>	6,000,000
Interest income on debt securities	<b>1,340,746</b>	1,037,232
Dividend income equities	-	55,367
Realised gain/(loss) on investment	<b>3,964,190</b>	(2,096,495)
Investment charges	<b>(450,825)</b>	(421,387)
Net fair value gains	<b>951,504</b>	1,071,806
Net asset value of the portfolio	<b>118,561,346</b>	108,755,731
Restricted cash (Note 9)	<b>(4,369,538)</b>	(3,608,269)
Accrued interest receivable (Note 11)	<b>(434,883)</b>	(468,710)
Deferred investment charges (Note 13)	<b>147,348</b>	251,871
	<b>113,904,273</b>	104,930,623

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, 2021 and 2020 are as follows:

	Notes	2021 €	2020 €
<i>Financial assets designated at fair value through profit or loss at inception (FVPL)</i>			
Quoted equity		<b>80,196,059</b>	87,025,944
Debt securities		<b>207,958,490</b>	173,006,432
		<b>288,154,549</b>	260,032,376
<i>Financial assets designated at fair value through other comprehensive income (FVOCI)</i>			
Debt investment		<b>20,836,319</b>	-
Total		<b>308,990,868</b>	260,032,376

The above equity and debt securities under the FVPL are composed of listed and unlisted securities on the Malta Stock Exchange.

In 2021, the Fund acquired a secured Transferable Loan Note Instrument ("TLNI") issued by a local company which is 100% owned by the Government of Malta. The USD 25 million equivalent TLNI bears an annual coupon rate of 3.75% per annum and for a fixed term until July 2023. The Fund has an option to transfer the investment to another investor. This non-listed debt instrument is held within a business model whose objective is to achieve by both holding the financial assets to collect contractual cash flows and selling financial assets. The management designated this investment as FVOCI.

8. **Financial investments** – continued

**Directed portfolio** – continued

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

**Equity securities**

	2021 €	2020 €
<b>Year ended 31 December</b>		
At beginning of year	87,025,944	88,336,916
Additions	2,601,652	1,743,015
Net fair value losses	(9,431,537)	(3,053,987)
	80,196,059	87,025,944

**Debt securities**

	2021 €	2020 €
<i>Financial assets designated at fair value through profit or loss</i>		
<b>Year ended 31 December</b>		
At beginning of year	173,006,432	6,743,804
Additions	116,495,322	163,503,547
Disposals	(80,792,628)	-
Net fair value (losses)/gains	(750,636)	2,759,081
	207,958,490	173,006,432

	2021 €
<i>Financial asset designated at fair value through other comprehensive income</i>	
<b>Year ended 31 December</b>	
Initial measurement	21,004,873
Change in fair value measurement	(168,554)
	20,836,319

During 2021, various local equity investments and debt securities amounting to €2,601,652 (2020 - €1,743,015) and €116,495,322 (2020 - €163,503,547), respectively were acquired.

During the year ended December 2021, the Fund disposed of debt securities including maturities under the directed portfolio valued for a consideration of €80,308,727 resulting in a loss of €483,900. There were no such transactions during the year ended 31 December 2020.

Interest income earned on the above equity and debt securities earned by Fund in 2021 amounted to €1,942,456 (2020 - €515,669). Dividend income earned and received during the year amounted to €811,749 (2020 - €197,010).

**9. Other current assets**

**Discretionary portfolio**

	2021	2020
	€	€
Restricted cash (Note 8)	<b>4,369,538</b>	3,608,269

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. Directed portfolio**

	2021	2020
	€	€
Fixed deposit	<b>25,000,000</b>	-

The fixed deposit pertains to the redeemable deposit agreement entered by the Fund with Bank of Valletta p.l.c. It is subject to a fixed rate of 1.375% interest per annum and is repayable on 20th October 2024

**11. Receivables and prepayments**

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

**Discretionary portfolio**

	2021	2020
	€	€
Accrued interest receivable (Note 8)	<b>434,883</b>	468,710

**Directed portfolio**

	2021	2020
	€	€
Accrued interest receivable (Note 8)	<b>1,030,054</b>	217,904

**Unallocated portfolio**

	2021	2020
	€	€
Other receivable	<b>50,000</b>	-
Prepaid rent	<b>13,570</b>	13,570
Other prepayments	<b>2,365,863</b>	-
<b>Total receivables and prepayments</b>	<b>2,415,863</b>	13,570

Other prepayments represents advance payments for housing projects.

**12. 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**

	2021 €	2020 €
Cash and cash equivalents	<b>152,436,107</b>	227,194,596

**13. Accrued expenses and other liabilities**

**Discretionary portfolio**

	2021 €	2020 €
Accrued investment charges (Note 8)	<b>147,348</b>	251,871

**Unallocated portfolio**

	2021 €	2020 €
Deferred grants	<b>4,010</b>	4,010
Others	<b>17,934</b>	23,570
	<b>21,944</b>	27,580
Total accrued expenses and other liabilities	<b>169,292</b>	279,451

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

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.

#### 14. Lease liability

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

##### Unallocated portfolio

	2021	2020
	€	€
Current	60,510	70,800
Non-current	21,393	79,887
	81,903	150,687

Details of the movement of lease liabilities as at December 31 are as follows:

##### Unallocated portfolio

	2021	2020
	€	€
At the beginning of year	150,687	216,379
Principal elements of lease liabilities		
– annual lease payments	(71,869)	(70,800)
– interest	3,085	5,108
At end of year	81,903	150,687

Further disclosure on leases is disclosed in Note 6.

#### 15. Operating expenses

##### (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

	2021	2020
	€	€
Statutory audit	10,030	10,000
Other services	12,463	5,000
Total	22,376	15,000

**15. Operating expenses – continued**

*(b) Remuneration*

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

<b>Unallocated portfolio</b>	<b>2021</b>	<b>2020</b>
	€	€
Governors' honoraria	<b>53,226</b>	42,895
Wages and salaries	<b>324,785</b>	293,487
<b>Total</b>	<b>378,511</b>	336,382

The average number of employees during the year was 5 (2020: 5).

*(c) Other operating expenses*

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

<b>Unallocated portfolio</b>	<b>2021</b>	<b>2020</b>
	€	€
Professional fees	<b>99,427</b>	28,561
Depreciation and amortisation (Note 5)	<b>75,766</b>	75,665
Marketing and advertising	<b>23,063</b>	4,246
Finance cost	<b>3,085</b>	5,108
Other expenses	<b>70,126</b>	30,518
<b>Total</b>	<b>269,467</b>	144,098
<b>Total unallocated portfolio</b>	<b>670,354</b>	495,480

<b>Directed portfolio</b>	<b>2021</b>	<b>2020</b>
	€	€
Provision for impairment of financial asset	<b>54,076</b>	-
<b>Total operating expenses</b>	<b>724,430</b>	495,480

**16. Endowment and investment charges**

*(a) 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.

*(b) Investment charges incurred by the Fund*

During the year, the Fund incurred investment management expense amounting to €450,825 (2020: €421,387) and €13,428 (2020: €139) on its discretionary and directed portfolios, respectively.



## 17. Contributions paid out

During the year, the Fund paid out grants in line with the Memorandum of Agreement made during the same year as follows:

### Unallocated portfolio

	2021 €	2020 €
Primary Healthcare (Ministry for Health)	866,151	28,504
Embellishment of Buildings of National and Architectural Importance	259,787	-
Urban Greening projects	1,124,923	-
Hospice	366,746	-
SportsMalta	673,080	-
Caritas Malta	752,417	305,130
Donations to various projects	1,011,230	-
<b>Total contributions paid out</b>	<b>5,054,334</b>	<b>333,634</b>

The total amount of committed funds which have not been fully utilised as of 31 December 2021 to the above-mentioned organisations is disclosed in Note 18.

## 18. Commitments

- 18.1 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 2021. In 2021, total disbursements amounted to €2,402,292 and recorded as prepayments.
- 18.2 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 signed in May 2020. Such centre will house all non-residential Caritas community services. 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 2021, €305,130 and €216,000 were disbursed in 2020 and 2019, respectively. In 2021, total disbursements to Caritas reached €1,273,547.
- 18.3 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 €866,159, €28,504 and €53,491 were disbursed in 2021, 2020 and 2019, respectively. In 2021, total disbursements to Primary Health Care amounted to €948,154.
- 18.4 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 2021.
- 18.5 In June 2021, the Fund entered into a Memorandum of Agreement with Hospice Malta for a social grant of €8 million towards the development of the St Michael Hospice Palliative Care

**18. Commitments – continued**

Centre in Sta Venera on the ex-Adelaide Cini Institute premises. Disbursements from the grant to Hospice Malta during 2021 amounted to €366,746.

18.6 On the 14th June 2021 the Fund entered into a Memorandum of Agreement with SportMalta on the NDSF Social Grant of €4,910,500 towards the financing of technical support in the preparation of Maltese Athletes for the Games of Small States of Europe (GSSE) in 2023. Total disbursements as at 31 December 2021 stood at €673,080.

18.7 During 2021, the Board received various proposals for social projects in: Urban Greening (€4,500,000); Embellishment of Buildings of National Historic and Architectural importance (€1,907,600); New Hope Impaired Lives Guarantee Fund (€3,000,000); Centre for Children with Behavioural problems (€700,000) and CT scan at St Vincent De Paul Hospital (estimate €1,600,000) to an aggregate of € 11,707,000. All the projects have received an 'in principle' approval by the NDSF Board of Governors, yet some of the agreements will be concluded during the next financial year. Total disbursements on the sundry projects as at 31.12.2021 amounted to €1,385,940, while Solidarity Contributions to Community Chest Fund € 500,000, Dar tal-Providenza € 350,000, Caritas € 150,000 and Dar Bjorn € 10,000.

Total contracted commitments towards Social Projects as at end December 2021 stood at €109,290,500.

**19. 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.

**20. 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 deposits held with the CBM are disclosed in Note 12.

The balance due from MIIPA and Community Malta Agency is nil for the year ended 31 December 2021 and 2020.

Note 18 discloses the commitment entered into by the fund with the Housing Authority, which is another Government agency, Primary Health Care, WasterServ, Infrastructure Malta and Sports Malta. and another local company which is 100% owned by the Government of Malta

Note 15 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 2021, the Fund held investments in the form of debt securities having a fair value of €531,435 (2020: €1,173,573) and no equity securities held during the year (2020 - €3,278,296), issued by local entities over which one of the governors have significant influence, which declared their interest and refrained from participating in the discussion on the acquisition of such investments.

## 20. Related parties – continued

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 2021 was €15,126,427 (2020: €15,966,784). During 2021, the Fund acquired a € 25 million 3-year special term fixed deposit.

During the year the Fund acquired a \$25,000,000 equivalent Secured Transferable Loan Note Instrument. The total interest amounted to €318,655 as disclosed in Note 8.

## 21. Financial risk management

### *Financial risk factors*

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

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian.

Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired. As explained in Note 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). 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 €6,000,000 amount of investments which will be managed on a discretionary basis. During the year, the Fund invested additional €4,000,000 in this portfolio. 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 manage 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

## 21. Financial risk management – continued

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	
	2021	2020
	€	€
Quoted equities - Directed	80,196,059	87,025,944
Quoted equities - Discretionary	39,164,441	25,546,406
	<b>119,360,500</b>	<b>112,572,350</b>

### (a) Price risk - continued

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	
	2021	2020
	Fund's equity portfolio (%)	Fund's equity portfolio (%)
Financial	78	64
Industrial	5	3
Consumer	3	3
Communication services	5	4
Collective investment schemes	-	17
Property	2	3
Hospitality	2	1
Transport	-	4
Other	5	1
	<b>100</b>	<b>100</b>

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

## 21. Financial risk management – *continued*

### (a) *Price risk - continued*

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 €42,327,003 (2020 - €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.

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.

As at 31 December 2021, the Fund's exposure to foreign exchange risk pertains only to the Fund's monetary assets, which are denominated in a currency other than the functional currency. The Fund's monetary assets are the foreign currency denominated investments, principally represented a mix of USD and GBP, amounted to €6,037,690 (2020 €1,834,510). The Fund's exposure to foreign exchange risk as at 31 December 2021, mainly arose in respect to USD and GBP. The strengthening or weakening of the functional currency by 10% against other currencies with all other variables held constant, would result in an impact on profit for the year of €633,608 (2020 - €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.

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.

21. Financial risk management - *continued*

	Less than 30 days	1-6 months	6-12 months	More than 12 months
<i>2021</i>				
Foreign debt securities	-	-	-	74,739,832
Local debt securities	20,042,000	-	-	208,747,802
	20,042,000	-	-	283,487,634
<i>2020</i>				
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 listed debt securities and the exposure with the Central Bank of Malta, BOV Asset Management and a non-listed debt instrument (TLNI) issued by 100% owned government company. The Fund is also exposed to counterparty credit risk on amounts due from Identity Malta and other receivables.

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

	2021 €	2020 €
Debt securities	303,534,641	252,390,649
Cash and cash equivalents	152,436,107	227,194,596
Accrued interest receivable	1,464,937	686,614
	<b>457,435,685</b>	<b>480,271,859</b>

*Credit risk*

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	2021 €	2020 €
AAA	209,527,594	183,283,351
AA	14,879,858	18,656,811
A/A	16,301,654	13,915,865
BBB	29,665,355	28,830,218
Unrated	33,160,180	7,704,404
	<b>303,534,641</b>	<b>252,390,649</b>

21. Financial risk management - *continued*

*Credit risk - continued*

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

Sector	At 31 December	
	2021 Fund's equity portfolio (%)	2020 Fund's equity portfolio (%)
Government activity	80	75
Financials	12	15
Hospitality	-	2
Consumer cyclicals	1	1
Healthcare	1	1
Real estate	-	1
Consumer non-cyclicals	-	1
Industrials	1	1
Others	5	3
	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 2021, the Fund carried no exposure with MIIPA and Community Malta Agency.

All other receivables and cash and cash equivalents are held by the Government of Malta which are also subject to the impairment requirements of IFRS 9, 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.

Debt investments at fair value through other comprehensive income (FVOCI) includes unlisted debt securities. The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The loss allowance for debt investments at FVOCI as at 31 December reconciles to the opening loss allowance as follows:

	2021 €
	-
<b>Loss allowance as at 1 January</b>	-
Increase in loan loss allowance recognised in profit or loss	54,076
	54,076
<b>Closing loss allowance as at 31 December</b>	54,076
	54,076

## 21. Financial risk management - continued

### *Credit risk - continued*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The fund uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the fund's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

### *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 who 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.

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



21. Financial risk management - continued

*Fair value estimation - continued*

The table below presents the financial assets recognised in the statements of financial position at fair value by level of the fair value measurement hierarchy at 31 December:

2021	Level 1 €	Level 2 €	Level 3 €	Total €
<b>Financial assets</b>				
<i>Discretionary portfolio</i>				
Financial assets at fair value through profit or loss (FVPL)				
Listed equity securities	39,164,441	-	-	39,164,441
Listed debt securities	74,739,832	-	-	74,739,832
	<b>113,904,273</b>	<b>-</b>	<b>-</b>	<b>113,904,273</b>
<i>Directed portfolio</i>				
Financial assets at fair value through profit or loss (FVPL)				
Listed equity securities	80,196,059	-	-	80,196,059
Listed debt securities	207,958,490	-	-	207,958,490
Financial assets at fair value through other comprehensive income (FVOCI)				
Unlisted debt securities	-	-	20,863,319	20,863,319
	<b>288,154,549</b>	<b>-</b>	<b>20,863,319</b>	<b>308,990,868</b>
<hr/>				
2020	Level 1 €	Level 2 €	Level 3 €	Total €
<b>Financial assets</b>				
<i>Discretionary portfolio</i>				
Financial assets at fair value through profit or loss (FVPL)				
Listed equity securities	25,546,406	-	-	25,546,406
Listed debt securities	79,384,217	-	-	79,384,217
	104,930,623	-	-	104,930,623
<i>Directed portfolio</i>				
Financial assets at fair value through profit or loss (FVPL)				
Listed equity securities	87,025,944	-	-	87,025,944
Listed debt securities	173,006,432	-	-	173,006,432
	260,032,376	-	-	260,032,376

There were no transfers between level 1, level 2 and level 3 during the year ended 31 December 2021 and 2020.

**21. Financial risk management - continued**

*Fair value estimation - continued*

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.

**22. 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.