Company Registration Number: C10175

MALTA GOVERNMENT INVESTMENTS LIMITED

Annual Report and Financial Statements

31 December 2018

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GENERAL INFORMATION

Registration

Malta Government Investments Limited (the "Company") is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The company's registration number is C 10175.

Directors

Mr. Michael Azzopardi
Mr. Stanley Mifsud
Mr. Adrian Said
Ms. Davina Sammut
Mr. Christopher Vassallo
Ms. Fleur Anne Vella

Company Secretary

Mr. Michael Azzopardi

Registered Office

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Auditor

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Malta Government Investments Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Malta Government Investments Limited (the "Company"), set on pages 6 to 27, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in equity and the 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws *of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Malta Government Investments Limited - continued

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Malta Government Investments Limited – continued

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Report on other legal and regulatory requirements

Matters on which we are required to report by the Companies Act

We have responsibilities under the Companies Act to report to you if in our opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

The partner in charge of the audit resulting in this independent auditor's report is Anthony Doublet for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

24 June 2020

Statement of financial position

	Notes	As at 31 December 2018 €	2017 €
ASSETS			
Non-current assets			
Investment property	4	**1,320,800**	402,952
Investment in subsidiary	5	**-**	-
Financial assets at fair value through profit and loss	6	**5,857,418**	7,774,247
Receivables	7	**153,582**	-
Total non-current assets		**7,331,800**	8,177,199
Current assets			
Receivables	7	**2,866,609**	3,757,699
Short-term deposits	8	**187,703**	208,786
Financial assets at fair value through profit and loss	6	**547,277**	-
Cash and cash equivalents	9	**4,122,112**	3,632,602
Current tax asset		**103,484**	242,701
Total current assets		**7,827,185**	7,841,788
Total assets		**15,158,985**	16,018,987
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**1,250,000**	1,250,000
Retained earnings		**2,065,100**	2,422,653
Total equity		**3,315,100**	3,672,653
Non-current liabilities			
Deferred tax liability		**132,080**	-
Borrowings	11	**8,358,248**	9,346,712
Total non-current liabilities		**8,490,328**	9,346,712
Current liabilities			
Borrowings	11	**1,233,513**	1,193,275
Other payables	12	**2,120,044**	1,806,347
Total current liabilities		**3,353,557**	2,999,622
Total liabilities		**11,843,885**	12,346,334
Total equity and liabilities		**15,158,985**	16,018,987

The notes on pages 9 to 27 are an integral part of these financial statements.

The financial statements on pages 5 to 27 were authorised for issued by the board on 24 June 2020 and were signed on its behalf by:

Adrian Said
Chairman

Michael Azzopardi
Director

Statement of comprehensive income

	Notes	For the year ended 31 December 2018 €	2017 €
Investment income	14	**308,223**	205,683
Other finance income and similar income	15	**393,940**	413,286
Finance costs and similar charges	16	**(354,792)**	(388,037)
Fair value gain on investment property	4	**922,009**	-
Rental Income from investment property		**300,000**	-
Gain on disposal of investment property	4	**-**	2,937,033
Impairment of investment in subsidiary	5	**-**	(1,160)
Administrative expenses	13	**(729,798)**	(647,782)
Recharges of expenses		**195,175**	-
Loss from changes in fair value of financial assets	6	**(1,243,722)**	(576,628)
(Loss)/Profit before tax		**(208,965)**	1,942,395
Tax expense	17	**(148,588)**	(291,194)
(Loss)/Profit for the year – total comprehensive (loss)/profit		**(357,553)**	1,651,201

The notes on pages 9 to 27 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share Capital €	Retained earnings €	Total €
Balance at 1 January 2017		1,250,000	1,771,452	3,021,452
Comprehensive income:				
Profit for the year		-	1,651,201	1,651,201
Transactions with owners:				
Dividends	19	-	(1,000,000)	(1,000,000)
Balance at 31 December 2017		1,250,000	2,422,653	3,672,653
Comprehensive income:				
Loss for the year			(357,553)	(357,553)
Transactions with owners:				
Dividends	19	-	-	-
Balance at 31 December 2018		**1,250,000**	**2,065,100**	**3,315,100**

The notes on pages 9 to 27 are an integral part of these financial statements.

Statement of cash flows

	Notes	For the year ended 31 December 2018 €	2017 €
Cash flows from operating activities			
Cash from operations	20	**820,743**	302,096
Income from financial assets		**308,223**	205,683
Other finance income		**393,940**	413,286
Finance costs		**(354,792)**	(388,037)
Tax refunded/(paid)		**122,709**	(357,069)
Net cash from operating activities		**1,290,823**	175,959
Cash flows from investing activities			
Additions of financial assets at fair value through profit or loss	6	**(331,881)**	(779,129)
Proceeds from disposal of financial assets	6	**457,711**	51,973
Movement in short term deposits		**21,083**	20,241
Proceeds from disposal of investment property	4	**-**	3,200,000
Net cash from investing activities		**146,913**	2,493,085
Cash flows used in financing activities			
Movement in bank borrowings	11	**(948,226)**	(914,358)
Dividends paid	19	**-**	(1,000,000)
Net cash used in financing activities		**(948,226)**	(1,914,358)
Net movement in cash and cash equivalents		**489,510**	754,686
Cash and cash equivalents at beginning of year		**3,632,602**	2,877,916
Cash and cash equivalents at end of year	9	**4,122,112**	3,632,602

The notes on pages 9 to 27 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. **Summary of significant accounting policies**

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

1.1 **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, 1995. They have been prepared under the historical cost convention, except for the revaluation of investment property which is measured in fair values.

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in the foreseeable future. As disclosed in Note 23, COVID-19 is not expected to have a significant impact on the going concern of the Company and its ability to continue operating for the foreseeable future.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the company's accounting policies (see Note 3 — Critical accounting estimates and judgements).

In terms of Section 173 of the Companies Act, 1995, the company is exempt from the obligation to prepare consolidated financial statements on the basis that, at its reporting date, the undertakings to be consolidated do not together exceed the limits set out in Section 185 of the said Act.

The principal function of the company is to hold investments as agent for the Government of Malta. The agency relationship which exists with the Government implies that although legal title to most of the investments is vested in the company, any dividends, interests or profits arising on disposal of these investments are treated as attributable to the Government. Similarly, any losses on disposal and provisions made to write down the investments to their underlying net asset values are also borne by Government. Consequently, these investments are not disclosed in the accounts of the company as such but in separate financial statements prepared to reflect the investment activities carried out by Malta Government Investments Limited as agent for the Government of Malta.

In view of the agency relationship described above, the investments held as agent for the Government of Malta are not taken into consideration in determining whether the limits set out in Section 185 of the Companies Act, 1995, referred to for the purposes of establishing whether the company is exempt from the preparation of consolidated financial statements, have been exceeded.

a) Standards, interpretations and amendments to published standards effective in 2018.

In 2017, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies – continued

1.2 Basis of preparation - continued

IFRS 9 resulted in changes in the accounting policies related to the classification and measurement and impairment of financial assets. The Company has taken advantage of the exemption in IFRS 9 allowing it not to restate comparative information for prior periods with respect to classification and measurement and impairment charges.

Classification
The transition from IAS 39 to IFRS 9 did not have material impact on the measurement of financial assets, the difference between IAS 39 and IFRS 9 consists solely of reclassifications. Reclassification adjustments reflect the movement of balances between categories of financial assets with no impact on shareholder equity. There is no change to the carrying value of financial instruments as a result of reclassifications.

Impairment
IFRS 9 replaced the incurred loss model in IAS 39 with an expected loss (ECL) model. The impact on the Company of this change in the impairment model is not significant in view of the high quality of the counterparties to which the Company is exposed to credit risk, and the loss allowance is not material.

b) Standards, interpretations and amendments to published standards that are not yet effective

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

c) Changes in accounting policy

The Company has re-assessed its accounting for investment property, which was previously being measured using cost model whereby, after initial recognition the assets were carried at cost less accumulated depreciation and accumulated impairment losses.

Effectively 31 December 2018, the Company elected to change the method of accounting for investment property to fair values since it believes that the fair value model better responds to the specifics of the Company's operations. The fair value model provides more relevant information to the users of financial statements as it gives a better representation of the value of the property owned by the company for investment purposes. In addition, available valuation techniques provide reliable estimates of the properties' fair value.

After initial recognition, the Company measures its investment property at fair value. A gain or loss from a change in the fair value of investment property is recognised in profit or loss for the period in which it arises.

The investment property is situated in an advantageous commercial area in Malta. However, it is occupied by Enemalta Plc (majority owned by the Government of Malta) which has an electric distribution centre built on it. The permanent nature of this long-standing building significantly affects the value of the investment property. Although the electric distribution centre has been built for a number of years there was no agreement in place regulating the occupancy of the land. To address this matter, during 2018 discussions commenced with the tenant to agree on the terms applicable in relation of the occupancy of the area and charges due. These discussions and finalisation of the agreement served to augment the commercial value of the site. Since the commercial value of the property changed as a result of the discussions and agreements entered into during the year, all the fair value gain is recognised in 2018; with no restatement of comparative figures.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies – continued

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement (statement of comprehensive income) within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement (statement of comprehensive income) within 'other income/(expense)'.

1.4 Investment property

As disclosed in Note 1.2(c), effective from 31 December 2018 the Company elected to change its method of accounting for investment property from the cost model to fair value method.

As a result, as from 2018, investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

As detailed in Note 1.2(c), due to the restrictions imposed on the use of land and since no cashflows were generated prior to reaching the agreement with the occupier of the investment property in 2018, fair value measurement is only applicable as from 2018 onwards and not for comparative figures.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies – continued

1.5 Investment in subsidiary

Investments in subsidiaries are accounted for by the cost method of accounting. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the impairment is identified.

The results of the subsidiaries are reflected in these financial statements only to the extent of dividends receivable.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

1.6 Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

1.7 Impairment of financial assets

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies – continued

1.8 Cash and cash equivalents

Cash and cash equivalents are carried at face value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdraft. In the statement of financial position, the bank overdraft is included in borrowings in current liabilities.

1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.10 Other payables

Other payables comprise obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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. Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

1.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement 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.

NOTES TO THE FINANCIAL STATEMENTS

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

1.13 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.14 Revenue recognition

The Company recognises revenue at the amount that reflects the consideration (transaction price) to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Rendering of Services

The Company recognises revenue from the provision of services over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Company.

Interest income

Interest income is recognised as the interest accrues, unless collectability is in doubt. Interest income is included in finance income in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Financial risk management

2.1 Financial risk factors

The company's activities potentially expose it to a variety of financial risks: market risk (including cash flow interest rate risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Cash flow and fair value interest rate risk

The company's cash flow interest rate risk arises from cash and cash equivalents that are short term in nature. Notes 6, 8, 9 and 11 incorporate interest rate and maturity information with respect to the company's assets and liabilities. Up to the end of the reporting period, the company did not have any hedging policy with respect to interest rate risk as exposure to such risk was not deemed to be significant by the directors. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Price risk

The company is exposed to price risk because of equity investments held by the company and classified as financial assets at fair value through profit or loss. The financial assets at fair value through profit or loss of the company represent equity instruments quoted on the Malta Stock Exchange and accordingly they are considered to be realisable.

(c) Credit risk

Assets bearing credit risk at the reporting date are analysed as follows:

	2018	2017
	€	€
Financial assets		
Financial assets at fair value through profit or loss	**2,625,136**	3,030,526
Loans and receivables		
Other receivables	**3,020,191**	3,757,699
Short term deposits	**187,703**	208,786
Cash at bank and in hand	**4,122,112**	3,632,602
Maximum exposure	**9,955,142**	10,629,613

The company's cash is placed with quality financial institutions. The company's credit risk in respect of investment in debt securities are externally rated A.

Credit risk in respect of receivables is limited since the company's principal receivables are subsidiary undertakings or undertakings in which investment is held by the company as agent for the Government of Malta.

NOTES TO THE FINANCIAL STATEMENTS

2. **Financial risk management - continued**

2.1 **Financial risk factors - continued**

(d) **Liquidity risk**

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally other payables and borrowings. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the company's obligations.

Management monitor liquidity risk and ensures that no additional financing facilities are expected to be required over the coming year. The company's liquidity risk is not deemed material in view of the company's committed borrowing facilities that it can access to meet liquidity needs.

2.2 **Capital risk management**

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the company may issue new shares or sell assets.

2.3 **Fair value estimation**

At 31 December 2018 and 2017, the carrying amounts of cash at bank, debtors, creditors and accrued expenses and short-term borrowings approximated their fair values due to the short-term maturity of these assets and liabilities. The fair values of long-term borrowings are not materially different from their carrying amounts.

The fair value of financial assets at fair value through profit or loss is based on quoted prices at the reporting date. IFRS 7 requires disclosures for financial instruments that are measured in the statement of financial position at fair value, of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the company's assets that are measured at fair value at 31 December.

	2018	2017
	€	€
Assets		
Financial assets at fair value through profit or loss - Level 1	**6,404,695**	7,774,247
Investment Property – Level 3	**1,320,800**	-

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and 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 directors, 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.

4. Investment property

	€
At 1 January 2017	
Cost	736,682
Accumulated depreciation	(66,602)
Net book amount	670,080
Year ended 31 December 2017	
Opening net book amount	670,080
Disposal	(262,967)
Depreciation charge	(4,161)
Closing net book amount	**402,952**
At 31 December 2017	
Cost	473,715
Accumulated depreciation	(70,763)
Net book amount	**402,952**
Year ended 31 December 2018	
Opening net book amount	402,952
Revaluation	922,009
Depreciation charge	(4,161)
Closing net book amount	**1,320,800**
At 31 December 2018	
Fair Value	1,320,800
Net book amount	**1,320,800**

NOTES TO THE FINANCIAL STATEMENTS

4. Investment Property - continued

Effectively 31 December 2018, the Company elected to change the method of accounting for investment property since it believes that the revaluation model better responds to the specifics of the Company's operations. The Property was revalued by professionally qualified architects on the basis of assessments of the fair value of the property in accordance with international valuations standards and professional practice.

As detailed in Note 1.2(c) the investment property has been occupied for a number of years by the electricity service provider on which it built an electric distribution centre. Prior to reaching an agreement with the tenant in 2018 regulating the terms and conditions of the occupancy of the area and the rental fees due no income was being earned from the property. This agreement served to augment the commercial value of the site.

Description of valuation techniques used and key inputs to valuation of lands and buildings and investment properties

The fair value was determined reference to market prices based on database of valuations and sales of properties in the relevant area adjusted for the restrictions of use imposed by the permanent structure built on the property and future cashflows expected to be earned from the lease agreement. The property has been determined to fall within level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy are defined in Note 2.3.

	Valuation technique	**Significant Unobservable Inputs**	**Value**	**Narrative Sensitivity**
Investment Property	Asset Based	Price per Square metre	EUR1,300/sqm	The higher the price per sqm, the higher the fair value

NOTES TO THE FINANCIAL STATEMENTS

5. Investment in subsidiary

	2018 €	2017 €
Year ended 31 December		
Opening net book amount	-	1,160
Impairment of investment	-	(1,160)
Closing net book value	-	-
At 31 December		
Cost	-	1,160

The investment in subsidiary represents shares in the following:

	Registered office	Class of shares held	Percentage of shares held
Malta Export Credit Insurance Company Limited	The Clock Tower Level 1, Tigné Point Sliema	Ordinary "A" Shares	99.9%

During the year ended 31 December 2017, the subsidiary was liquidated and no amount was recovered by the company upon its liquidation.

6. Financial assets at fair value through profit or loss

	2018 €	2017 €
Year ended 31 December		
Opening net book amount	**7,774,247**	7,623,719
Additions	**331,881**	779,129
Disposals	**(457,711)**	(51,973)
Loss from changes in fair value	**(1,243,722)**	(576,628)
Closing net book amount	**6,404,695**	7,774,247
At 31 December		
Cost	**5,477,101**	5,595,220
Fair value gains	**927,594**	2,179,269
Net book value	**6,404,695**	7,774,247

Financial assets at fair value through profit or loss, consisting of equity instruments and Malta Government Stocks quoted on the Malta Stock Exchange, are fair valued annually. The fair value of these investments is determined by reference to the Malta Stock Exchange quoted bid prices. Debt securities quoted in foreign markets are also fair valued annually and their fair value is determined by reference to the quoted prices on foreign markets.

NOTES TO THE FINANCIAL STATEMENTS

6. Financial assets at fair value through profit or loss — continued

	2018 €	2017 €
Analysed as follows:		
Equity securities	**3,540,437**	4,743,721
Debt securities	**2,625,136**	3,030,526
Fund	**239,122**	-
	6,404,695	7,774,247

Weighted average effective interest rates:

	2018 %	2017 %
Debt securities	**4.0%**	4.0%

Maturity of debt securities:

	2018 €	2017 €
Less than one year	**547,277**	-
Between two and three years	**165,150**	1,079,578
Between four and five years	**578,222**	539,649
More than five years	**1,334,487**	1,411,299
	2,625,136	3,030,526

7. Receivables

	2018 €	2017 €
Amounts owed by Government of Malta - M.G.I. L. as agent	**928,087**	2,157,204
Amounts owed by related parties - gross	**1,609,333**	1,570,211
Other receivables – gross	**177,199**	83,675
Less: expected credit losses	**(106,051)**	(106,051)
Net receivables	**2,608,568**	1,547,835
Accrued income and prepayments	**411,623**	52,660
	3,020,191	3,757,699

Amounts owed by M. G. I. L. as agent for the Government of Malta are unsecured, interest-free and repayable on demand. The amounts owed by related parties; being undertakings in which the company has invested as agent for the government of Malta fall due within one year and are unsecured and interest-free.

The Other receivables as at 31 December 2018 represent a loan advanced to the Ministry for Foreign Affairs. This loan is repayable through equal instalments over a period of 13 years with EUR 23,617 due in the next 12 months. The loan bears interest at the rate of 4% per annum.

NOTES TO THE FINANCIAL STATEMENTS

8. Short-term deposits

The company's short term deposits represent amounts held with brokers which mature within a period that varies from one month to one year from the end of the reporting period.

9. Cash and cash equivalents

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	2018 €	2017 €
Cash at bank	**4,122,112**	3,632,602

Cash at bank include € 32,917 (2017: €32,917) held on behalf of the Government of Malta in relation to the restructuring of an undertaking in which investment is held by the company as agent for the Government of Malta.

10. Share capital

	2018 €	2017 €
Authorised share capital:		
2,500,000 Ordinary shares of €1 each	**2,500,000**	2,500,000
Issued and fully paid:		
1,250,000 Ordinary shares of €1 each	**1,250,000**	1,250,000

11. Borrowings

	2018 €	2017 €
Current		
Bank loans	**1,233,513**	1,193,275
Non-current		
Bank loans	**8,358,248**	9,346,712
Total borrowings	**9,591,761**	10,539,987

The bank borrowings are subject to floating rates of interest and are secured by guarantees issued by the Government of Malta. All bank loans outstanding as at 31 December 2018 and 2017 are subject to interest rates which fluctuate with the bank's base rate.

NOTES TO THE FINANCIAL STATEMENTS

11. Borrowings - continued

The company has a banking facility in respect of the loan of €11,236,291 (2017: €12,414,539).

Weighted average effective interest rates as at the reporting date:

	2018	2017
	%	%
Bank loans	3.4%	3.4%

The following are the contracted undiscounted cash flows of the company's bank loan analysed into relevant maturity groupings based on the remaining period at the end of the reporting period to the maturity date:

	2018	2017
	€	€
Within 1 year	**1,623,135**	1,623,135
Between 1 and 2 years	**1,298,508**	1,298,508
Between 2 and 5 years	**6,492,540**	6,492,540
Over 5 years	**1,682,086**	2,973,923
	11,096,269	12,388,106
Carrying amount	**9,591,761**	10,539,987

12. Other payables

	2018	2017
	€	€
Current		
Amounts owed to a related party	**1,890,874**	1,651,789
Accruals	**229,170**	154,558
	2,120,044	1,806,347

Amounts owed to a related party are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

13. Expenses by nature

	2018	2017
	€	€
Auditor's remuneration	**6,000**	6,000
Directors' fees and emoluments (Note 18)	**119,221**	108,388
Depreciation of investment property (Note 4)	**4,161**	4,161
Provision for impairment of other receivables	**-**	(8,733)
Bad debts written off	**-**	167,404
Recharge of wages and salaries	**228,504**	228,504
Legal and professional fees	**289,843**	66,275
Insurance (i.)	**28,461**	20,105
Other expenses	**53,608**	55,678
Total administrative expenses	**729,798**	647,782

i. Insurance expense includes indemnity insurance in respect of the directors of the company.

14. Investment income

	2018	2017
	€	€
Income from financial assets at fair value through profit or loss:		
- Dividends receivable	**203,420**	91,539
- Interest receivable	**108,840**	118,273
Investment transaction costs	**(7,905)**	(4,720)
Gain on disposal of financial assets	**3,868**	591
	308,223	205,683

15. Other finance income and similar income

	2018	2017
	€	€
Bank finance income	**24,720**	38,163
Bank interest recoverable	**369,220**	375,123
	393,940	413,286

16. Finance costs and similar charges

	2018	2017
	€	€
Finance costs on bank loans and overdraft	**342,949**	375,123
Other finance charges	**11,843**	12,914
	354,792	388,037

NOTES TO THE FINANCIAL STATEMENTS

17. Tax expense

	2018 €	2017 €
Current tax expense	16,508	291,194
Deferred tax expense	132,080	-
	148,588	291,194

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018 €	2017 €
(Loss)/Profit before tax	(208,966)	1,942,395
Tax on profit at 35%	(73,138)	679,838
Tax effect of:		
- Income subject to reduced rates of tax	(243,012)	(831,694)
- Unrealised fair value movements	435,303	201,820
- Unrecognized deferred tax asset	23,927	231,344
- Expenses not deductible for tax purposes	5,508	9,886
Tax expense	148,588	291,194

18. Directors' emoluments

	2018 €	2017 €
Fees, emoluments and allowances	119,221	108,388

19. Dividends

	2018 €	2017 €
Net dividend	-	1,000,000
Net dividend per share	-	0.80

NOTES TO THE FINANCIAL STATEMENTS

20. Cash from operations

Reconciliation of profit before tax to cash from operations:

	2018 €	2017 €
Profit before tax	**(208,965)**	1,942,395
Adjustment for:		
Reversal of provision for impairment of other receivable	-	(8,733)
Depreciation of investment property (Note 4)	**4,161**	4,161
Investment income	**(308,223)**	(205,683)
Other finance income and similar income	**(393,940)**	(413,286)
Finance costs and similar charges	**354,792**	388,037
Loss on disposal of subsidiary	-	1,160
Loss from changes in fair value of financial assets	**1,243,722**	576,628
Gain on disposal of investment property	-	(2,937,033)
Gain from changes in fair value of investment property	**(922,009)**	-
Changes in working capital:		
Receivables	**598,295**	1,968,305
Payables	**452,910**	(1,013,855)
Cash from operations	**820,743**	302,096

21. Related party transactions

The company's shares are wholly owned by the Government of Malta. The Government of Malta provides considerable ongoing support to the company, particularly in terms of providing capital to finance the company's activities. In addition, as disclosed in Note 11 to these financial statements, the Government of Malta acts as a guarantor on the bank loans taken out by the company.

Due to common ultimate shareholding, the directors also consider Malta Investment Management Company Limited and other Government owned entities as being related parties. The balances due from/to the related party are included in Notes 7 and 12 to these financial statements.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 18.

22. Statutory information

Malta Government Investments Limited is a limited liability company and is incorporated in Malta.

23. Subsequent events

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world as most businesses were being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

NOTES TO THE FINANCIAL STATEMENTS

23. Subsequent events – continued

These events had a severe impact on the investment portfolio of the company and as at 31 March 2020, the fair value of the investment portfolio had declined significantly to €5,489,847 from €6,122,041 as at 31 December 2019. However, by the 30 April 2020, the decrease in the value of the investments had already been recovered and the loss incurred in the fair value movement of the investments reversed by the end of April 2020. The valuation of investment property is not expected to be significantly impacted by COVID-19 due to the long term lease of the property and the restrictions on its use. While governments and central banks have reacted with monetary interventions designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

From an operational perspective, investment income and dividends earned from the investment portfolio comprise a main income stream for the company. This includes the dividend income the company earns from its current direct equity holding of 2,797,022 Ordinary Shares in Bank of Valletta plc which is accounted for on a receipt basis.

In this respect, on 18 March 2020, Bank of Valletta announced the intention to propose, subject to regulatory approval, a final gross dividend of €0.026 per share (equivalent to a final net dividend of €0.017 per share) in respect of the year ended 31 December 2019. In the light of the COVID-19 pandemic and following a strong recommendation of the European Central Bank (ECB) of 27 March 2020 on dividend distributions applicable to all European banks, Bank of Valletta plc announced that they had decided to keep the initial proposal for distribution of the dividend but make the actual payment conditional to the reassessment of the situation once the uncertainties caused by COVID-19 disappear, the earliest of which, in line with the ECB's recommendation, would be 1 October 2020.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2018 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods. However, considering that the company is wholly owned by the Government of Malta and that the Government of Malta provides considerable ongoing support to the company, particularly in terms of providing capital to finance the company's activities and acts as a guarantor on the bank loans taken out by the company, the company is expected to continue operating as going concern for the foreseeable future.