

Mediterranean Bank plc

**Condensed Consolidated
Interim Financial Statements
30 September 2016**

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Interim Directors' Report pursuant to Listing Rules 5.74 et seq

Principal Activities

The principal activities of Mediterranean Bank plc ("MedBank") and its principal subsidiaries, MeDirect S.A. and Mediterranean Corporate Bank Limited (together referred to as the "Group") comprise corporate lending and the provision of market leading banking services primarily to the mass affluent sector, focusing primarily on term deposit savings, wealth management, investments and corporate banking in Malta and Belgium.

Financial Performance

The Group reported a profit before tax of €9.3 million for the six months ended 30 September 2016 compared with €16.4 million for the same period last year. The comparative period's performance was positively impacted by non-recurring realised gains on disposal of investments amounting to €11.3 million.

During the six-months ended 30 September 2016, the Group registered net interest income of €28.4 million (30 September 2015: €22.2 million). Total operating income amounted to €32.4 million (30 September 2015: €36.7 million). Total operating expenses amounted to €20.3 million (30 September 2015: €21.1 million).

The Group continued to build its corporate lending activities both internationally and domestically. As at 30 September 2016, the Group's Lending Portfolio (international and domestic) stood at €1.4 billion (31 March 2016: €1.2 billion), net of collective impairment loss allowances of €5.1 million (31 March 2016: €4.4 million) and specific impairment loss allowances of €14.5 million (31 March 2016: €12.4 million). In addition the Group had commitments of €166.3 million under revolving credit facilities as at 30 September 2016 (31 March 2016: €144.1 million) and other undrawn credit facilities of €35.7 million (31 March 2016: €33.3 million). As at 30 September 2016, the Group's investment portfolio, consisting mainly of available-for-sale securities stood at €798.2 million (31 March 2016: €872.5 million).

Business Development

The Group's primary strategic objective is to increase its corporate lending activities and to enhance its banking, investment and wealth management services, both in Malta and Belgium.

On 1 June 2015, the National Bank of Belgium issued a credit institution licence to MeDirect S.A. ("MeDirect"), a wholly owned subsidiary. The relevant assets and liabilities were transferred from the branch within MedBank to MeDirect on 1 June 2015. As of such date, MeDirect became a member of the Belgian depositor protection plan.

MeDirect has a well diversified corporate lending portfolio and is currently an online provider of term deposit savings and investment products. Through its online platform for term deposit savings, e-brokerage and e-wealth management, MeDirect provides its Belgian client base with the following services, amongst others: online discretionary wealth management; low cost trade execution for funds, stocks, bonds and ETFs; access to model portfolios of funds; access to online investment analysis and tools; and competitive term deposit savings rates.

MedCorp continues to develop the corporate banking platform of the MedBank group in Malta and to broaden and deepen its relationships with corporate customers in the Maltese market.

The Group continues to make significant investments in technology that have allowed it to provide online banking and investment services for its customers, together with systems to support such services. Investment services include online execution of brokerage transactions in respect of equities, bonds and funds as well as foreign exchange execution capabilities model portfolios. The Group also offers online retirement and investment planning capabilities, analytical tools to enable customers to analyse portfolio and investment alternatives and a broad range of research and market data resources.

Interim Directors' Report pursuant to Listing Rules 5.74 et seq - continued

The Group has a diversified Investment Portfolio comprising a treasury book consisting of high quality, liquid securities, including primarily bank-covered bonds and public sector bonds.

The Group's Lending Portfolio consists principally of senior secured loans and bonds, substantially all of which are denominated in Euro or Pounds Sterling and the loans are floating rate instruments and do not bear material interest rate risk. The Group's Lending Portfolio is diversified geographically and across industries, with most lending focused on the UK and core European countries.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base, both in Malta and internationally (primarily in Belgium), has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform provides efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other term deposit savings products. As at 30 September 2016, the Group's deposit base reached €1.6 billion (31 March 2016: €1.4 billion). Growth of the Group's deposit base has also provided a potential customer base for investment and wealth services products.

The Medifin Holding Group (the "Regulatory Group"), which comprises Medifin Holding Limited and its subsidiaries, the MedBank Group and Charts Investment Management Service Limited, remains committed to operating with strong regulatory ratios and a robust liquidity position. At 30 September 2016, the Regulatory Group's consolidated Capital Adequacy Ratio stood at 13.9% (31 March 2016: 15.6%).

Under the Single Supervisory Mechanism ("SSM"), as from January 2016, the Regulatory Group came under the direct supervision of the European Central Bank ("ECB"). Before taking full supervisory responsibility, the ECB conducted a comprehensive assessment ("CA") of the Regulatory Group's consolidated statement of financial position. The assessment comprised a supervisory risk assessment, an asset quality review and a stress test. This exercise started in May 2015 and was completed in November 2015. The overall result emanating from the CA confirms the Regulatory Group's solid capital position even under the theoretical stress conditions. The Regulatory Group will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Regulatory Group is faced with.

The SSM is expected to result in further strengthening of the controls and corporate governance of the Regulatory Group. It is also a good opportunity to continue strengthening the reputation of the Regulatory Group both in Malta and internationally. The Regulatory Group is confident that it will meet the high expectations of the ECB.

The Central Bank of Malta has reclassified the MedBank Group as a core domestic bank following a reassessment of banks of systemic relevance. In June 2015, the Central Bank of Malta announced that MedBank has further increased its domestic relevance, mainly through targeting resident deposits, higher holdings of domestic securities, and through the takeover of Volksbank, rebranded as MedCorp, in 2014. In this regard, the Central Bank of Malta's Financial Stability Committee agreed that the MedBank Group will be considered as a core domestic bank.

Interim Directors' Report pursuant to Listing Rules 5.74 et seq - continued

Dividends and reserves

At an extraordinary general meeting held on 30 September 2015, the Bank approved and paid an interim dividend of €15.0 million. On the same date, the Bank paid the dividend amounting to €7.0 million that was approved throughout the Annual General Meeting dated 29 July 2015.

Retained earnings as at 30 September 2016 amounted to €24.8 million (31 March 2016: €18.3 million).

Outlook and future business developments

The on-going robustness of capital and liquidity ratios provide a stable foundation from which to produce attractive and sustainable returns. The strategy that has been defined by the Board of Directors over the last few years has resulted in significant growth whilst producing attractive returns and an ability to invest in the capabilities of the Group notwithstanding the low interest rate environment.

The relative overall stability of the European markets and the reduction of interest rates by the ECB have had an overall positive effect on the Group's funding cost and securities portfolios. Such stability in the international capital markets results in a positive effect on the Group's wealth management and investment services businesses since greater investor confidence would lead to increased customer interest in the investment products offered by the Group.

The above should be construed in light of the fact that the Eurozone macroeconomic environment remains challenging, especially following the UK Brexit referendum results, and that any reversal of the positive trends described above would have a corresponding negative effect on the Group's asset portfolios and businesses. Despite these ongoing challenges, the Group remains confident that its underlying strategy will continue to result in profitable growth.

On 1 June 2015, MedBank's wholly owned subsidiary MeDirect obtained a full banking licence from the National Bank of Belgium. The Group has established a highly competitive online offering for the Belgian market through its Belgian Branch and such operations were transferred to this subsidiary in Belgium on 1 June 2015. MeDirect's operations are based on:

- Online client delivery;
- Competitive and cost effective term deposit savings and wealth management products; and
- Transparent and customer friendly products and delivery.

The Group has grown, and plans to continue to grow, its corporate lending activities and therefore the aggregate Lending Portfolio held by Medbank and MeDirect should grow as a percentage of the Group's overall asset base. The Group operates with a relatively low leverage ratio and intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements determined by CRD IV and also in conformity with any other guidance issued by the Group's regulator, the ECB's joint Supervisory Team (the "JST").

The developments mentioned above enable the Board of Directors to look forward to the future with cautious optimism.

Interim Directors' Report pursuant to Listing Rules 5.74 et seq - continued

Related parties

On 30 September 2015, the Group paid a dividend of €22.0 million and advanced a loan of €6.0 million to its parent entity. This loan was settled in 2016.

Other than the above, there were no material changes in related party transactions from those detailed in the financial statements for the period ended 31 March 2016. During this period no further related party transactions materially affected the financial position or liquidity of the Group.

Statement by the directors pursuant to Listing Rule 5.75.3 issued by the Listing Authority

We, the undersigned, declare that to the best of our knowledge:

- the condensed consolidated interim financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities and financial position as at 30 September 2016 of MedBank and its subsidiaries included in the consolidation taken as a whole, as well as of their financial performance and cash flows for the period then ended in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the commentary includes a fair review of the information required under Listing Rule 5.81 to 5.84.

Approved by the Board on 28 November 2016 and signed on its behalf by:



Michael Walker
Director and Acting Chairman



Mark A. Watson
Director and Chief Executive

Condensed Consolidated Interim Statement of Financial Position

	As at 30 September 2016 €000	As at 31 March 2016 €000
ASSETS		
Balances with Central Banks, treasury bills and cash	60,373	33,280
Derivative financial instruments	4,739	3,964
Loans and advances to financial institutions	66,453	59,558
Loans and advances to customers	1,411,600	1,238,966
Investments		
- Corporate	20,886	21,293
- Treasury	777,307	851,204
Property and equipment	801	923
Intangible assets	27	27
Deferred tax assets	12,653	15,000
Current tax assets	8,886	5,633
Prepayments and accrued income	17,066	17,720
Other assets	24,395	26,733
Total assets	2,405,186	2,274,301

Condensed Consolidated Interim Statement of Financial Position - continued

	As at 30 September 2016 €000	As at 31 March 2016 €000
EQUITY		
Called up issued share capital	117,450	117,450
Share premium	13,464	13,464
Shareholders' contributions	60,803	60,803
Reserve for general banking risks	1,194	1,194
Fair value reserve	(3,750)	(7,580)
Retained earnings	24,778	18,348
Total equity	213,939	203,679
LIABILITIES		
Derivative financial instruments	341	7,337
Amounts owed to financial institutions	483,471	541,925
Amounts owed to customers	1,615,814	1,447,355
Subordinated liabilities	46,957	47,380
Current tax liabilities	69	69
Accruals and deferred income	26,360	23,321
Other liabilities	18,235	3,235
Total liabilities	2,191,247	2,070,622
Total equity and liabilities	2,405,186	2,274,301
Memorandum items		
Commitments to purchase financial assets	98,425	152,962
Commitments to extend credit, guarantees and other similar commitments	211,096	187,324

The notes on pages 12 to 22 are an integral part of these interim financial statements.

The condensed consolidated interim financial statements on pages 5 to 22 were approved and authorised for issue by the Board of directors on 28 November 2016 and signed on its behalf by:



Michael Walker
Director and Acting Chairman



Mark A. Watson
Director and Chief Executive Officer

Condensed Consolidated Interim Statement of Comprehensive Income

	Period from 1 April to 30 September 2016 €000	Period from 1 April to 30 September 2015 €000
Interest income	44,857	40,731
Interest expense	(16,437)	(18,495)
Net interest income	28,420	22,236
Fee and commission income	2,109	1,289
Fee and commission expense	(747)	(713)
Net fee and commission income	1,362	576
Net trading income	991	1,060
Net income from financial instruments at fair value through profit or loss	-	1,117
Other operating income		
– Realised gains on disposal of investments	367	11,318
– Realised gains on disposal of loans and advances	1,206	203
– Other income	9	153
Total operating income	32,355	36,663
Personnel expenses	(8,785)	(8,850)
Depreciation and amortisation	(129)	(316)
Other administrative expenses	(11,339)	(11,896)
Total operating expenses	(20,253)	(21,062)
Net operating income before impairment charges	12,102	15,601
Net (impairment charges)/reversal of impairment charges	(2,802)	773
Profit before tax	9,300	16,374
Tax expense	(2,870)	(4,081)
Profit for the period	6,430	12,293
Other comprehensive income <i>Items that may be subsequently reclassified to profit or loss</i>		
Fair valuation of available-for-sale financial assets:		
- Net change in fair value, before tax	6,258	(7,788)
- Net amount reclassified to profit or loss, before tax	(367)	(11,318)
Income tax relating to other comprehensive income	(2,061)	6,685
Other comprehensive income, net of tax	3,830	(12,421)
Total comprehensive income, net of tax	10,260	(128)
Earnings per share (cents)	5c	11c

The notes on pages 12 to 22 are an integral part of these interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital €000	Share premium €000	Shareholders' contribution €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000
Balance at 1 April 2015	117,450	13,464	2,103	1,029	6,022	29,197	169,265
Total comprehensive income							
Profit for the period	-	-	-	-	-	12,293	12,293
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year – net of tax	-	-	-	-	(5,063)	-	(5,063)
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	-	-	-	-	(7,358)	-	(7,358)
Total other comprehensive income, net of tax	-	-	-	-	(12,421)	-	(12,421)
Total comprehensive income, net of tax	-	-	-	-	(12,421)	12,293	(128)
Transactions with owners:							
Dividends paid	-	-	-	-	-	(22,000)	(22,000)
Transfer to Reserve for general banking risks	-	-	-	473	-	(473)	-
Balance at 30 September 2015	117,450	13,464	2,103	1,502	(6,399)	19,017	147,137

The notes on pages 12 to 22 are an integral part of these interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity - continued

	Share capital €000	Share premium €000	Shareholders' contribution €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000
Balance at 1 April 2016	117,450	13,464	60,803	1,194	(7,580)	18,348	203,679
Total comprehensive income	-	-	-	-	-	6,430	6,430
Profit for the period	-	-	-	-	-	6,430	6,430
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year – net of tax	-	-	-	-	4,068	-	4,068
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	-	-	-	-	(238)	-	(238)
Total other comprehensive income, net of tax	-	-	-	-	3,830	-	3,830
Total comprehensive income, net of tax	-	-	-	-	3,830	6,430	10,260
Balance at 30 September 2016	117,450	13,464	60,803	1,194	(3,750)	24,778	213,939

The notes on pages 12 to 22 are an integral part of these interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

	Period from 1 April to 30 September 2016 €000	Period from 1 April to 30 September 2015 €000
Cash flows from operating activities		
Interest and commission receipts	50,020	49,444
Interest and commission payments	(17,473)	(19,760)
Payments to employees and suppliers	(22,053)	(20,594)
	10,494	9,090
Cash flows generated from operating activities before changes in operating assets/liabilities		
(Increase)/decrease in operating assets:		
- Reserve deposit with Central Banks	(1,369)	6,339
- Loans and advances to financial institutions and customers	(189,444)	(149,251)
Increase/(decrease) in operating liabilities:		
- Amounts owed to financial institutions and customers	140,598	105,549
- Other payables	15,330	-
- Derivatives	(11,674)	(623)
Tax paid	(5,836)	(6,296)
Net cash used in operating activities	(41,901)	(35,192)

The notes on pages 12 to 22 are an integral part of these interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows - continued

	Period from 1 April to 30 September 2016 €000	Period from 1 April to 30 September 2015 €000
Net cash used in operating activities	(41,901)	(35,192)
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Cash flows from investing activities		
Net acquisitions of property and equipment and intangible assets	(7)	(16)
Net disposals and maturities of available-for-sale assets	78,599	466,148
Net disposals of investments held at fair value through profit or loss	81	3,636
Advances from/(to) parent	658	(7,925)
Advances from related parties	1,983	-
Net cash from investing activities	81,314	461,843
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Cash flows from financing activities		
Dividends paid	-	(22,000)
Re-purchase of debt securities	-	(148,075)
Shareholders' contribution	-	-
Net cash used in financing activities	-	(170,075)
<hr/>		
Net change in cash and cash equivalents	39,413	256,576
Cash and cash equivalents at the beginning of the period	(36,518)	(202,219)
Cash and cash equivalents at the end of the period	2,895	54,357

The notes on pages 12 to 22 are an integral part of these interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

Mediterranean Bank plc (“MedBank”) is domiciled and incorporated in Malta. These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 30 September 2016 comprise MedBank and its subsidiaries, MeDirect S.A. and Mediterranean Corporate Bank Limited (together referred to as the “Group”).

The financial statements of the Group as at and for the year ended 31 March 2016 are available upon request from MedBank’s registered office and are available for viewing on its website at www.medbank.com.mt.

The principal activities of the Group comprise corporate lending and the provision of market leading banking services primarily to the mass affluent sector, focusing primarily on term deposit savings, wealth management, investments and corporate banking in Malta and Belgium.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (IAS 34 ‘Interim Financial Reporting’). They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements as at and for the year ended 31 March 2016.

The condensed consolidated interim financial statements have been extracted from Mediterranean Bank plc’s unaudited Group management accounts for the six months ended 30 September 2016, and have been reviewed in terms of ISRE 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’. The half-yearly results are being published in terms of Chapter 5 of the Listing Rules of the Malta Financial Services Authority.

3. Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied in the financial statements for the year ended 31 March 2016.

There were no new standards adopted during the six month period ended 30 September 2016. However, the Group adopted interpretations and amendments to standards which had an insignificant effect on the interim consolidated financial statements.

As required by IAS 34 ‘Interim Financial Reporting’, these interim financial statements include a comparative statement of financial position presenting information as at the previous financial year end, and comparative statements of comprehensive income presenting information for the comparable interim periods of the immediately preceding financial year.

Certain comparative amounts have been reclassified to comply with the current period’s presentation. These reclassifications were between items of total operating income.

4. Critical accounting estimates and judgements in applying the Group's accounting policies

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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty impacting the preparation of these interim financial statements are the same as those that applied to the preparation of the financial statements as at and for the year ended 31 March 2016, as disclosed in these financial statements.

5. Operating segments

At present, the Group has principally a single reportable segment represented by the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related risk and corporate secured lending. The Group's products and services and geographical areas are comparable to those as at 31 March 2016. Information about financial risks, credit risk concentration by sector and location, and revenues from the reportable segment can be obtained from the financial statements for the year ended 31 March 2016. The investment portfolio is spread across a large number of exposures diversified within the following sections: government, financial institutions and other corporates.

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the financial year applied to the pre-tax income of the interim period.

7. Financial instruments

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 March 2016.

7.1 Impairment allowances – Loans and advances to customers

	Specific allowances €000	Collective allowances €000	Total €000
Year ended 31 March 2015			
At 1 April 2015	9,614	3,977	13,591
Impairment allowance for the period			
Write-downs	204	4,378	4,582
Reversal of write-downs	(1,862)	(3,977)	(5,839)
At 30 September 2015	7,956	4,378	12,334
Impairment allowance for the period			
Write-downs	4,781	4,439	9,220
Reversal of write-downs	(320)	(4,378)	(4,698)
Exchange differences	(48)	-	(48)
At 31 March 2016	12,369	4,439	16,808
Period ended 30 September 2016			
At 1 April 2016	12,369	4,439	16,808
Impairment allowance for the period			
Write-downs	3,663	5,094	8,757
Reversal of write-downs	(1,516)	(4,439)	(5,955)
Exchange differences	23	-	23
At 30 September 2016	14,539	5,094	19,633

7.2 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if the transaction for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

7. Financial instruments – continued

7.2 Fair value measurement - continued

7.2.1 Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include over-the-counter derivatives where the fair value is based on observable inputs.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

7.2.2 Use of valuation techniques

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require minimal management judgement and estimation.

Fair value of investment securities in inactive markets are based on:

- quoted prices of similar instruments, performing numerical procedures such as interpolation when input values do not directly correspond to the most active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

7. Financial instruments – continued

7.2 Fair value measurement - continued

7.2.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, by the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the Condensed Consolidated Interim Statement of Financial Position.

	As at 30 September 2016			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
Assets				
Investments				
- Available-for-sale	798,193	-	-	798,193
Derivative financial instruments	-	4,739	-	4,739
Total financial assets	798,193	4,739	-	802,932
Liabilities				
Derivative financial instruments	-	341	-	341
Total financial liabilities	-	341	-	341
	As at 31 March 2016			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
Assets				
Investments				
- Available-for-sale	872,415	-	-	872,415
- Fair value through profit or loss	-	82	-	82
Derivative financial instruments	-	3,964	-	3,964
Total financial assets	872,415	4,046	-	876,461
Liabilities				
Derivative financial instruments	-	7,337	-	7,337
Total financial liabilities	-	7,337	-	7,337

As at 30 September 2016 and 31 March 2016, the fair value of the available-for-sale (AFS) investment securities represents the closing bid price quoted in an active market.

Level 2 assets principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

7. Financial instruments – continued

7.2 Fair value measurement - continued

7.2.4 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the period from 1 April 2016 to 30 September 2016 and during the financial year ended 31 March 2016.

7.3 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the respective level within the fair value hierarchy into which the respective fair value measurement is categorised.

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
As at 30 September 2016					
Assets					
Loans and advances to customers	-	1,389,045	-	1,389,045	1,411,600
Total financial assets	-	1,389,045	-	1,389,045	1,411,600
Liabilities					
Subordinated liabilities	50,525	-	-	50,525	46,957
Total financial liabilities	50,525	-	-	50,525	46,957
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
As at 31 March 2016					
Assets					
Loans and advances to customers	-	1,204,173	-	1,204,173	1,238,966
Total financial assets	-	1,204,173	-	1,204,173	1,238,966
Liabilities					
Subordinated liabilities	51,561	-	-	51,561	47,380
Total financial liabilities	51,561	-	-	51,561	47,380

7. Financial instruments – continued

7.3 Financial instruments not measured at fair value - continued

The Level 1 fair values reflected in the tables above consist of quoted market prices of debt securities issued which are traded in active markets.

The Level 2 fair value disclosures mainly comprise price quotations in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to municipalities amounting to €49.8 million (31 March 2016: €49.8 million), included within the amounts in the table, have been valued by reference to an actively traded instrument of the same issuer adjusted to reflect lack of active trading in this instrument.

The carrying amount for local loans and advances to customers amounting to €61.8 million (31 March 2016: €61.6 million) approximates their fair value because these loans are replicable at the Group's discretion.

All trade receivables amounting to €4.3 million (31 March 2016: €9.0 million), within loans and advances to customers, mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

The Group's financial instruments not measured at fair value comprise balances with Central Banks, loans and advances to financial institutions and customers, and amounts owed to financial institutions and customers. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature. Fair values are estimated using discounted cash flows, applying market rates. These estimates are considered Level 2 fair value estimates.

'Loans and advances to financial institutions' of the Group amounting to €66.5 million (31 March 2016: €59.6 million) re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

The majority of the 'Amounts owed to financial institutions' of the Group amounting to €483.5 million (31 March 2016: €511.9 million) re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. 'Amounts owed to customers' of the Group amounting to €1.6 billion (31 March 2016: €1.4 billion) are sourced from the Maltese and Belgian markets. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 2 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

8. Capital and reserves

Share capital

	30 September 2016 No.	31 March 2016 No.
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	117,450,106	117,450,106
Ordinary 'B' shares of €1 each	1	1
	117,450,107	117,450,107

As at 30 September 2016 and 31 March 2016, the authorised share capital consisted of 300,000,000 ordinary shares of €1 each. All issued shares are fully paid up.

Rights and entitlements attached to ordinary shares

The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. Ordinary 'B' shareholders are not entitled to vote or to receive any dividends distributed.

Share premium

Issue date	Number of shares	Premium per share €	Share premium	
			30 September 2016 €000	31 March 2016 €000
10 August 2010	10,000,000	0.9155	9,155	9,155
29 September 2010	19,119,470	0.2254	4,309	4,309
			13,464	13,464

Shareholders' contributions

By virtue of board resolutions dated 30 September 2015, 11 December 2015 and 30 March 2016 the MedBank Group accepted capital contributions from Medifin Holding amounting to €28.7 million, €14.0 million and €16.0 million respectively.

The terms and conditions of the contributions granted render this instrument to be equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Bank has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and
- The Bank has no obligation to repay the contributions.

The contribution is also eligible as own funds in terms of the new capital requirements.

8. Capital and reserves - continued

Reserve for general banking risks

In accordance with Banking Rule BR/09/2013, credit institutions are required to maintain a reserve for general banking risks against non-performing loans to create an additional Pillar 2 capital buffer. This reserve was transferred out of the retained earnings. As at 30 September 2016, the reserve for general banking risks of the Group was equivalent to €1.2 million (31 March 2016: €1.2 million).

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation.

All reserves at the reporting date, except for the Bank's retained earnings and the shareholders' contribution, are non-distributable.

Dividends

At an extraordinary general meeting held on 30 September 2015, the Bank approved an interim dividend of €15.0 million. On the same date, the Bank paid the dividend amounting to €7.0 million that was approved throughout the Annual General Meeting dated 29 July 2015.

No dividends were proposed throughout the financial period ended 30 September 2016.

9. Debt securities in issue

Debt securities in issue

	Period from 1 April to 30 September 2016 €000	Year ended 31 March 2016 €000
At beginning of period/year	-	9,204
Nominal amount of debt securities repurchased and cancelled	-	(9,255)
Transaction costs amortised	-	51
At end of period/year	-	-

The debt securities, which were unsecured, denominated in euro and listed on the Malta Stock Exchange, matured on 30 October 2015. The interest payable was fixed at 6.25% per annum and the debt securities were redeemable at their nominal value.

In the event of default or insolvency of the Bank, the holders of the above liabilities had a general claim on the assets of the Bank *pari passu* with other unsecured creditors. Bondholders therefore would have ranked after all interbank funding lines and repurchase agreements that are collateralised by investment securities.

During the year ended 31 March 2015, MedBank purchased a nominal value of €5.2 million of its 6.25% debt securities in issue, through market operations, for cancellation in accordance with the provisions of section 7.9.8 of the Security Note forming part of the prospectus dated 13 September 2010 (as supplemented on 30 May 2011).

9. Debt securities in issue - continued

Debt securities in issue - continued

As part of the issue of the 6% subordinated unsecured bonds 2019 – 2024 in November 2014, the holders of the 6.25% debt securities were given preference to subscribe to the former class of bonds at a discount of 4% by surrendering all or part of their holding in the latter class bonds. As a result, €5.0 million 6.25% debt securities were transferred to MedBank in exchange for the new subordinated unsecured bonds 2019 – 2024.

The Bank has not had any defaults of interest or other breaches with respect to its debt securities in issue during the year ended 31 March 2016.

Debt securities in issue through controlled special purpose entity

	Period from 1 April to 30 September 2016 €000	Year ended 31 March 2016 €000
At beginning of period/year	-	147,933
Nominal amounts of debt securities repurchased and derecognised	-	(148,000)
Transaction costs amortised to profit or loss	-	67
At end of period/year	-	-

During the year ended 31 March 2014, as part of the Group's funding strategy, MedBank set up GH I, a controlled special purpose entity, since the Group retained all the risks and rewards of the structure.

The controlled special purpose entity issued the following notes, maturing in 2026, although MedBank envisaged that the debt securities issued through the controlled special purpose entity would be repaid within five years from date of issue:

- €240 million Class A1 Senior Secured Floating Rate Notes;
- €15 million Class A2 Senior Secured Floating Rate Notes;
- €35 million Class B Senior Secured Deferrable Floating Rate Notes;
- €22.5 million Class C Senior Secured Deferrable Floating Rate Notes;
- €32.5 million Class D Senior Secured Deferrable Floating Rate Notes;
- €10 million Class E Senior Secured Deferrable Floating Rate Notes;
- €48.35 million Subordinated Notes.

During March 2015, MedBank repurchased €70 million of the Senior Secured floating rate notes. The amortisation of transaction costs has been adjusted to reflect these developments.

In the period February to May 2015, MedBank repurchased €121 million Senior Secured Floating rate notes that originally were due to mature by 2026. On 7 July 2015, MedBank as holder of the Subordinated Notes of GH I caused GH I to redeem all remaining outstanding claims.

The Group did not have any defaults of interest or other breaches with respect to its debt securities in issue through the controlled special purpose entity during the year ended 31 March 2016.

10. Contingent liabilities and commitments

Guarantee obligations

As at 30 September 2016, the Group held cash secured guarantee obligations amounting to €7.7 million (31 March 2016: €6.5 million).

Non-cancellable lease operating commitments

As at the reporting date, the future minimum lease payments under non-cancellable operating lease agreements amount to €1.4 million (31 March 2016: €3.3 million).

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other commitments to lend. As at 30 September 2016, the Group had commitments amounting to €166.3 million (31 March 2016: €144.1 million) under revolving credit facilities. The Group also had undrawn facilities on term loans amounting to €35.7 million (31 March 2016: €33.3 million).

11. Related party transactions

On 30 September 2015, the Group paid a dividend of €22.0 million and advanced a loan of €6.0 million to its parent entity. This loan was settled in 2016.

Other than the above, there were no significant transactions with related parties during the six month period ended 30 September 2016 which would significantly alter the balances with related parties from those disclosed in the annual report for the year ended 31 March 2016.

12. Comparative financial information

Certain amounts in the statement of comprehensive income of the comparative financial period have been reclassified to comply with the current year's presentation. These reclassifications were between items of total operating income.



Independent auditor's review report

To the Board of Directors of Mediterranean Bank p.l.c.

Report on the review of the condensed consolidated interim financial statements

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Mediterranean Bank p.l.c. as at 30 September 2016, the related condensed consolidated income statement and the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended and the explanatory notes ('the interim financial information'). The directors are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 'Interim Financial Reporting'). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in black ink that reads 'Fabio Axisa'.

Fabio Axisa
Partner

28 November 2016