

**Medifin Holding Limited**

**Annual Report**

**2010**

Company Registration Number: C 34111

# Medifin Holding Limited

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# Medifin Holding Limited

## Directors' Report

**For the Year Ended 31 December 2010**

The directors present their report, together with the financial statements of Medifin Holding Limited (the "Company"), and of the group of which it is the parent ("the Group"), for the year ended 31 December 2010.

### Board of directors

Mr. Mark Alexander Watson  
Mr. Peter Bramwell Cartwright  
Mr. Finlay Stuart McFadyen

### Principal activities

The Group comprises Medifin Holding Limited, a fully-owned subsidiary, Mediterranean Bank PLC (the 'Bank'), a majority shareholding in Charts Investment Management Service Limited ('Charts') (together the 'Subsidiaries') and the Bank's sub-subsidiaries, Mediterranean Global Advisory SA and Mediterranean Research Limited (the 'sub-subsidiaries').

The Company is mainly involved in the holding of shares.

The subsidiary Bank has a banking licence, a Category 2 investment services licence and a Category 4 investment services licence issued by the Malta Financial Services Authority (MFSA). The Bank is principally involved in the provision of term savings and wealth management products and has built a high quality investment portfolio comprising European Union (EU) sovereign and sovereign related credits, covered bonds and other similar credit quality instruments, which are classified as either held-to-maturity or available-for-sale and are measured at amortised cost and at fair value, respectively.

Charts is a licenced member of the Malta Stock Exchange and regulated by the MFSA. Charts is principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence.

### Review of business development and financial position

The Company completed the acquisition of 65% of Charts, a Maltese stock broking business in August 2010.

Profit after tax for the year for the Group amounted to €14.992 million (2009: loss €0.874 million) while for the Company this was a loss of €0.165 million (2009: €6.890 million profit, principally being the reversal of a previously recognised impairment). Shareholders' equity at reporting date amounted to €54.309 million (2009: €52.965 million) and €59.951 million (2009: €44.240 million) for the Company and the Group respectively.

### *Subsidiaries*

During 2010, the Bank began to execute its plans to develop new products for its mass affluent and high net worth customer base through the Company's acquisition of a majority shareholding in Charts Investment Management Service Limited, a premier Maltese stock broking, wealth management and corporate advisory firm.

# **Medifin Holding Limited**

## **Directors' Report**

**For the Year Ended 31 December 2010**

### **Dividends and reserves**

Retained earnings for the Group amounting €6.244 million (2009: accumulated losses €8.749 million), are carried forward to the next financial year. Accumulated losses for the Company amounting to €0.185 million (2009: losses €0.02 million) are carried forward to the next financial year. No dividends are available for distribution.

### **Future business developments**

The Bank's ongoing business strategy is based on:

- diversification of its funding sources and building of a stable customer base;
- development of a range of new products aimed at the mass affluent and high net worth markets;
- continuing the Bank's conservative, long-term value-oriented investment philosophy; and
- maintaining or improving long-term profitability.

As noted above, the Bank has embarked on its business strategy by developing a range of funding sources, building a stable customer base, both in Malta and internationally, and investing in a portfolio of highly rated investment securities. The Bank plans to continue its focus on the mass affluent and high net worth markets.

Over the medium term, the Bank plans to continue to execute its existing strategy. On 30 August 2010, the Bank established a branch office in Sliema and opened another in Paola on 21 February 2011. Other branches opened during 2011 are Valletta (South Street) and Mosta. The opening of other branches in Malta and abroad are also being considered.

### **Events after the reporting date**

The subsidiary Bank has been engaged in ongoing settlement discussions in respect to an action brought against it for alleged illegal use of the trade name "Mediterranean Bank". On 22 February 2011, the Bank has signed settlement agreement in respect of such action. In accordance with the said agreement, the Bank will retain the use of the said trade name and will also retain its registration thereof, and of the trade mark related thereto. As a result of this agreement, complainant's action has been withdrawn.

On 21 June 2011, the Bank successfully issued € 5,000,000 6.25% bonds 2015 having the same terms and conditions as the bonds issued by the Bank on 13 September 2010 other than with respect to the date of admissibility to listing. These bonds were oversubscribed and admitted to the Malta Stock Exchange Official List on Monday 27 June 2011.

Impairment charges of € 7.8 million relating to the exchange of Greek government bonds were recognised in the financial statements for the period ended 30 June 2011.

By an extraordinary resolution dated 12 August 2011, it was resolved to increase the fully paid up issued share capital by 15,000,000 ordinary shares of €1.00 each, to be fully paid in cash.

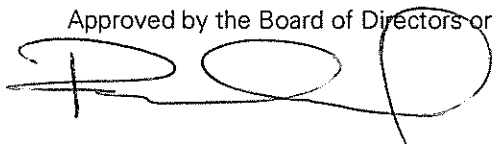
# Medifin Holding Limited

## Directors' Report

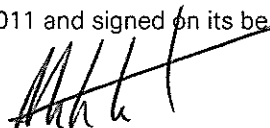
For the Year Ended 31 December 2010

Medifin Leasing limited, a fully owned subsidiary, was incorporated on 20 July 2011. The company is to be the leasing arm of the Group in respect of the Group's non-current assets held for sale and new non-financial assets. Medifin Leasing Limited will lease such assets to users within the Group.

Approved by the Board of Directors on the 25 October 2011 and signed on its behalf by:



Peter B. Cartwright  
Director



Mark A. Watson  
Director

### Registered Office

10, St. Barbara Bastion,  
Valletta,  
Malta

# Medifin Holding Limited

## Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of Medifin Holding Limited (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

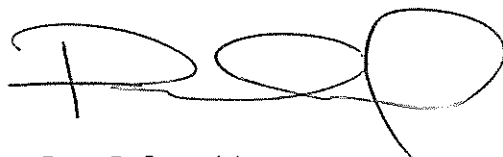
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995.

The directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Company and the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Company's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Peter B. Cartwright  
Director



Mark A. Watson  
Director

# Medifin Holding Limited

## Statement of Financial Position

As at 31 December 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	€000	€000	€000	€000
<b>ASSETS</b>					
Balances with Central Bank of Malta and cash	14	10,526	39,757	-	-
Loans and advances to banks	15	36,299	14,045	15,495	25,000
Loans and advances to customers	16	158	1	-	-
Investment securities	17	1,324,581	636,323	-	-
Investments in subsidiaries	18	-	-	55,594	52,985
Property and equipment	19	2,827	839	-	-
Intangible assets	20	2,128	246	-	-
Other assets	21	341	473	-	-
Prepayments and accrued income	22	14,698	5,750	9	86
Deferred tax assets	23	553	-	-	-
<b>Total assets</b>		<b>1,392,111</b>	<b>697,434</b>	<b>71,098</b>	<b>78,071</b>

The notes on pages 11 to 61 are an integral part of these financial statements.

# Medifin Holding Limited

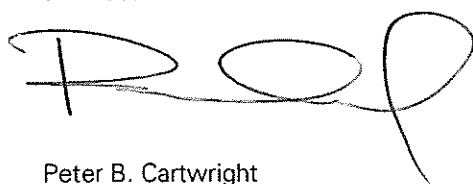
## Statement of Financial Position

As at 31 December 2010

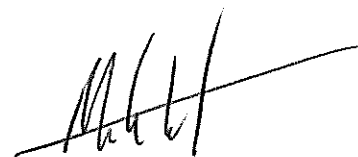
		Group		Company	
		2010	2009	2010	2009
	Notes	€000	€000	€000	€000
<b>EQUITY</b>					
Share capital	24	<b>40,738</b>	39,521	<b>40,738</b>	39,521
Share premium	24	<b>13,756</b>	13,464	<b>13,756</b>	13,464
Retained earnings/(accumulated losses)	24	<b>6,216</b>	(8,749)	<b>(185)</b>	(20)
Reserves	24	<b>(1,388)</b>	4	-	-
<b>Total equity attributable to equity holders of the Company</b>					
		<b>59,322</b>	44,240	<b>54,309</b>	52,965
Non-controlling interest	24	<b>450</b>	-	-	-
<b>Total equity</b>					
		<b>59,772</b>	44,240	<b>54,309</b>	52,965
<b>LIABILITIES</b>					
Amounts owed to banks	25	<b>1,134,986</b>	578,698	<b>1,228</b>	7
Amounts owed to customers	26	<b>157,352</b>	47,078	-	-
Debt securities in issue	27	<b>14,735</b>	-	-	-
Current tax		<b>3,974</b>	-	-	-
Other liabilities	28	<b>15,891</b>	25,859	<b>15,006</b>	25,006
Accruals	29	<b>5,401</b>	1,559	<b>555</b>	93
<b>Total liabilities</b>					
		<b>1,332,339</b>	653,194	<b>16,789</b>	25,106
<b>Total equity and liabilities</b>					
		<b>1,392,111</b>	697,434	<b>71,098</b>	78,071

The notes on pages 11 to 61 are an integral part of these financial statements.

The financial statements on pages 5 to 61 were approved and authorised for issue by the Board of Directors on 25 of October 2011 and signed on its behalf by:



Peter B. Cartwright  
Director



Mark A. Watson  
Director



# Medifin Holding Limited

## Statement of Comprehensive Income

For the Year Ended 31 December 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	€000	€000	€000	€000
Interest income		41,801	4,544	818	86
Interest expense		(14,188)	(1,357)	(855)	(86)
<b>Net interest income/(expense)</b>	8	<b>27,613</b>	3,187	<b>(37)</b>	-
Fee and commission income		481	114	-	-
Fee and commission expense		(1,159)	(176)	-	-
<b>Net fee and commission expense</b>	9	<b>(678)</b>	(62)	-	-
<b>Net trading income</b>		<b>347</b>	103	-	-
<b>Other operating income</b>	10	<b>3,280</b>	116	-	6,901
<b>Total operating income</b>		<b>30,562</b>	3,344	<b>(37)</b>	6,901
Administrative and other expenses	11	5,867	3,268	128	11
Personnel expenses	12	5,299	723	-	-
Depreciation and amortisation		424	227	-	-
<b>Operating expenses</b>		<b>11,590</b>	4,218	<b>128</b>	11
<b>Profit/(loss) before income tax</b>		<b>18,972</b>	(874)	<b>(165)</b>	6,890
Income tax expense	13	3,980	-	-	-
<b>Profit/(loss) for the year</b>		<b>14,992</b>	(874)	<b>(165)</b>	6,890
<b>Other comprehensive income</b>					
Exchange translation		1	-	-	-
Fair value reserve (available-for-sale assets)					
Net change in fair value		2,903	116	-	-
Net amount transferred to profit or loss		(5,046)	(116)	-	-
Income taxes		759	-	-	-
<b>Other comprehensive income for the year</b>		<b>(1,383)</b>	-	-	-
<b>Total comprehensive income for the year</b>		<b>13,609</b>	(874)	<b>(165)</b>	6,890
<b>Profit attributable to:</b>					
Owners of the Company		14,965	(874)	(165)	6,890
Non-controlling interests		27	-	-	-
<b>Profit for the year</b>		<b>14,992</b>	(874)	<b>(165)</b>	6,890
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		13,573	(874)	(165)	6,890
Non-controlling interests		36	-	-	-
<b>Total comprehensive income for the year</b>		<b>13,609</b>	(874)	<b>(165)</b>	6,890

The notes on pages 11 to 61 are an integral part of these financial statements.

# Medifin Holding Limited

## Statement of Changes in Equity

For the Year Ended 31 December 2010

Group	Share capital €'000	Share premium €'000	Retained earnings/ (Acc losses) €'000	Exchange translation reserve €'000	Fair value reserve €'000	Total €'000	Non Controlling Interest €'000	Total €'000
Balance as at 1 January 2010	39,521	13,464	(8,749)	4	-	44,240	-	44,240
<b>Total comprehensive income for the year</b>								
Profit for the year	-	-	14,965	-	-	14,965	27	14,992
Other comprehensive income for the year								
Exchange translation	-	-	-	1	-	1	-	1
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	1,887	1,887	9	1,896
- Net amount transferred to profit or loss	-	-	-	-	(3,280)	(3,280)	-	(3,280)
<b>Total comprehensive income for the year</b>	-	-	14,965	1	(1,393)	13,573	36	13,609
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by owners</b>								
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	414	414
Issue of share capital	1,217	292	-	-	-	1,509	-	1,509
<b>Balance as at 31 December 2010</b>	<b>40,738</b>	<b>13,756</b>	<b>6,216</b>	<b>5</b>	<b>(1,393)</b>	<b>59,322</b>	<b>450</b>	<b>59,772</b>
Balance as at 1 January 2009	10,402	-	(7,875)	4	-	2,531	-	2,531
<b>Total comprehensive income for the year</b>								
Loss for the year	-	-	(874)	-	-	(874)	-	(874)
<b>Other comprehensive income for the year</b>								
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	116	116	-	116
- Net amount transferred to profit or loss	-	-	-	-	(116)	(116)	-	(116)
<b>Total comprehensive income for the year</b>	-	-	(874)	-	-	(874)	-	(874)
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions owners</b>								
Issue of share capital	29,119	13,464	-	-	-	42,583	-	42,583
Balance as at 31 December 2009	39,521	13,464	(8,749)	4	-	44,240	-	44,240

The notes on pages 11 to 61 are an integral part of these financial statements.

# Medifin Holding Limited

## Statement of Changes in Equity

For the Year Ended 31 December 2010

Company	Share capital	Share premium	Retained earnings/ (Acc Losses)	Total
	€000	€000	€000	€000
Balance as at 1 January 2010	39,521	13,464	(20)	52,965
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	(165)	(165)
<b>Transactions with owners, recorded directly in equity</b>				
<b>Contributions by owners</b>				
Issue of share capital	1,217	292	-	1,509
<b>Balance at 31 December 2010</b>	<b>40,738</b>	<b>13,756</b>	<b>(185)</b>	<b>54,309</b>
Balance as at 1 January 2009	10,402	-	(6,910)	3,492
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	6,890	6,890
<b>Transactions with owners, recorded directly in equity</b>				
<b>Contributions by owners</b>				
Issue of share capital	29,119	13,464	-	42,583
Balance at 31 December 2009	39,521	13,464	(20)	52,965

The notes on pages 11 to 61 are an integral part of these financial statements.

# Medifin Holding Limited

## Statement of Cash Flows

For the Year Ended 31 December 2010

	Group		Company	
	2010	2009	2010	2009
Note	€000	€000	€000	€000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	38,508	1,642	896	-
Interest payments	(13,586)	(594)	(400)	-
Payments to employees and suppliers	(9,449)	(3,064)	(121)	(8)
Operating profit/(loss) before changes in operating assets/liabilities	15,473	(2,016)	375	(8)
(Increase)/decrease in operating assets:				
- reserve deposits with Central Bank of Malta	(1,971)	21	-	-
- loans advanced to customers and banks	183	343	10,000	(25,000)
- investment securities	(694,718)	(638,882)	-	-
Increase in operating liabilities:				
- amounts owed to customers and banks	290,510	616,229	(10,000)	25,000
<b>Net cash (used in)/generated from operating activities</b>	<b>(390,583)</b>	<b>(24,305)</b>	<b>375</b>	<b>(8)</b>
<b>Cash flows from investing activities</b>				
Capital subscribed in subsidiary	-	-	(1,509)	(42,584)
Acquisition of subsidiary	(1,100)	-	(1,100)	-
Acquisition of property and equipment	(2,142)	(41)	-	-
Acquisition of intangible asset	(1,191)	(197)	-	-
Acquisition of available-for-sale assets	(81,489)	(59,525)	-	-
Disposal of available-for-sale assets	84,768	59,641	-	-
Receipts from parent	(77)	-	-	-
<b>Net cash used in investing activities</b>	<b>(1,231)</b>	<b>(122)</b>	<b>(2,609)</b>	<b>(42,584)</b>
<b>Cash flows from financing activities</b>				
Proceeds from the issue of share capital	1,509	42,584	1,509	42,584
Proceeds from the issue of debt securities	14,735	-	-	-
Loan advanced by subsidiary bank	-	-	1,100	-
Other amounts advanced by subsidiary bank	-	-	121	-
<b>Net cash from financing activities</b>	<b>16,244</b>	<b>42,584</b>	<b>2,730</b>	<b>42,584</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(375,510)</b>	<b>18,157</b>	<b>496</b>	<b>(8)</b>
Cash and cash equivalents at 1 January	52,570	34,413	(7)	1
Cash and Cash equivalent s acquired on business combination	402	-	-	-
<b>Cash and cash equivalents at 31 December 30</b>	<b>(322,538)</b>	<b>52,570</b>	<b>489</b>	<b>(7)</b>

The notes on pages 11 to 61 are an integral part of these financial statements.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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# **Medifin Holding Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2010**

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### **1 Reporting entity**

Medifin Holding Limited (the "Company") is domiciled and incorporated in Malta. The financial statements of the Group as at and for the year ended 31 December 2010 comprise the Company, its subsidiaries and sub-subsidiaries (together referred to as the "Group" and individually as the "Group Entities"). The Group is principally involved in the provision of term savings and wealth management products which is supported by the acquisition of a high quality investment portfolio comprising EU sovereign and sovereign related credits, covered bonds and other similar credit quality instruments.

### **2 Basis of preparation**

#### **2.1 Statement of compliance**

These financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) (the "applicable framework").

All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

The financial statements have also been prepared and presented in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

#### **2.2 Basis of measurement**

The financial statements have been prepared on the historical cost basis except for available-for-sale assets which are measured at fair value.

#### **2.3 Functional and presentation currency**

These financial statements are presented in euro (€), which is the Company's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

#### **2.4 Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **2 Basis of preparation (continued)**

#### **2.4 Use of estimates and judgements (continued)**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of assumptions, estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 5, 20 and 28.6.

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

#### **3.1 Basis of consolidation**

##### **3.1.1 Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the Group's share in the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

##### **3.1.2 Transactions eliminated on consolidation**

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.2 Foreign currency**

##### **3.2.1 Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### **3.2.2 Foreign operations**

The assets and liabilities of foreign operations are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at spot exchange rates at the dates of the transactions.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. These differences are recognised in the translation reserve. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal. In partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

#### **3.3 Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.3 Interest (continued)**

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis and interest on available-for-sale investment securities calculated on an effective interest basis.

#### **3.4 Fees and commission**

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

Fee income is recognised as follows:

- on the execution of a significant act when the significant act has been completed; and
- as services are provided except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee income is recognised on an appropriate basis over the relevant period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

#### **3.5 Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

#### **3.6 Finance and dividend income**

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.7 Lease payments made**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### **3.8 Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.9 Financial assets and liabilities**

##### **3.9.1 Recognition**

The Group initially recognises loans and advances and deposits on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset, except for investments which are recognised on date of settlement.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

##### **3.9.2 Classification**

See accounting policies 3.10, 3.12 and 3.13.

##### **3.9.3 Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.9 Financial assets and liabilities (continued)**

##### **3.9.4 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

##### **3.9.5 Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### **3.9.6 Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received.

Assets are measured at a bid price. Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

##### **3.9.7 Identification and measurement of impairment of financial assets**

At each reporting date the Group assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 3 Significant accounting policies (continued)

#### 3.9 Financial assets and liabilities (continued)

##### 3.9.7 Identification and measurement of impairment of financial assets (continued)

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses published historical default rates relative to the credit quality of the issuer and the duration of the instrument, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical default rates. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.9 Financial assets and liabilities (continued)**

##### **3.9.7 Identification and measurement of impairment of financial assets (continued)**

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

The Group writes off loans and advances and investment securities when these are determined to be uncollectible (see note 4).

#### **3.10 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **3.11 Investment in subsidiaries**

Investment in subsidiaries is accounted for in the separate financial statements of the Company at cost less impairment.

#### **3.12 Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 3 Significant accounting policies (continued)

#### 3.13 Investment securities

The Group's investment securities primarily represent assets classified as held-to-maturity and available-for-sale.

##### 3.13.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- sales or reclassifications after the Group has collected substantially all of the asset's original principal.
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

##### 3.13.2 Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the held-to-maturity category once any tainting period has lapsed, or if the Group has the intention and ability to hold that financial asset until maturity.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 3 Significant accounting policies (continued)

#### 3.14 Property and equipment

##### 3.14.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

##### 3.14.2 Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### 3.14.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- |                                                       |             |
|-------------------------------------------------------|-------------|
| • improvements to premises and furniture and fittings | 10 years    |
| • computer equipment                                  | 3 – 5 years |
| • other equipment                                     | 4 – 5 years |
| • motor vehicles                                      | 5 years     |

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **3 Significant accounting policies (continued)**

#### **3.15 Intangible assets**

The Group's intangible assets represent software, customer list and goodwill.

##### **3.15.1 Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition see note 3.1.1.

##### **3.15.2 Software**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the software is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

##### **3.15.3 Other intangible assets**

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the other intangible assets, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the other intangible assets is 10 years.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 3 Significant accounting policies (continued)

#### 3.16 Leased assets - lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

#### 3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 3 Significant accounting policies (continued)

#### 3.18 Amounts owed to banks, amounts owed to customers and debt securities issued

Amounts owed to banks and customers are the Group's principal sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo"), the arrangement is accounted for as a secured loan, and the underlying asset continues to be recognised in the Group's financial statements.

Amounts owed to banks, amounts owed to customers and debt securities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### 3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### 3.20 Employee benefits

The Group contributes towards the State pension defined contribution plan in accordance with legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for this defined contribution plan are recognised as an employee benefit expense in profit or loss as they fall due.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### 3.21 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management

#### 4.1 Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operation risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

#### 4.2 Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. These risks principally relate to and are managed by the Board of Directors of the subsidiary Bank ('the Bank'). This Board has established its Asset and Liability (ALCO) and Management Credit Committees which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. The Bank's Board has set up an independent and comprehensive risk management function under the responsibility of the Chief Risk Officer. The aim of Risk Management is to create value for shareholders by supporting the institution in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

The Chief Risk Officer is responsible for the oversight of the risk management process including the identification, assessment, monitoring, mitigation/control and communication of material risks and assumes, monitors, and actively manages interest rate risk, price risk, foreign exchange risk, liquidity risk, credit risk, concentration risk, operational risk, strategic risk and reputational risk through an integrated approach.

Additionally, Risk Management extends to the provision of support to all other functions across the Bank and in particular, to the Board in the setting of the Bank's business strategy in order to ensure that material risks have been taken into account and that such risks fall within the tolerable limits and the appetite set by the Board itself.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.2 Risk management framework (continued)

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit & Risk Committee (the "Committee") was appointed by the Board of Directors (the "Board"), in the last quarter of 2010, to assist the Board in monitoring the:

- accounting and financial reporting processes of the Bank and audits of the financial statements of the Bank;
- integrity of the accounting and financial reporting process, systems of internal controls and financial statements of the Bank;
- performance of the Bank's internal audit function; and
- compliance by the Bank with legal and regulatory requirements.

The Committee serves as a Board level oversight role where it oversees the relationship with the independent auditor and with the Bank's internal auditor, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditors, and the experience of the Committee's members in business, financial and accounting matters. The Committee provides to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

#### 4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

##### 4.3.1 Management of credit risk

The Bank's Board of Directors has delegated the responsibility for the management of credit risk to the Management Credit Committee. ALCO has oversight of credit risk and approves impairment provisions. The Bank's principal assets comprise high credit quality debt securities. The Bank's exposure to credit risk is mitigated through the availability of collateral. Concentrations of exposures are also mitigated by geographical diversification and by investing only in debt instruments with sound credit ratings.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.3 Credit risk (continued)

##### 4.3.1 *Management of credit risk (continued)*

All securities in the portfolio undergo a thorough analytical credit research process. The research process reviews all securities not only from a credit perspective but also from a legal, financial and ratings perspective. The Credit and Investment department, which manages the research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the Fixed Income markets. The research process subjects potential investments to severe stress tests to determine whether they can withstand significant adverse credit and market events and multiple combinations of such events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities the performance of which requires increased monitoring.

The day-to-day management of credit risk is the responsibility of the Credit and Investments department, which includes:

- formulating credit policies
- establishing the authorisation structure
- reviewing and assessing credit risk
- limiting concentrations of exposure
- reviewing compliance with agreed exposure limits
- providing advice and guidance

The Chief Risk Officer reports on all credit related matters to the Management Credit Committee.

##### 4.3.2 *Impaired loans and advances and investment debt securities*

Impaired loans and debt securities are loans and advances and investment debt securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s).

The Management Credit Committee has reviewed all credit exposures on a case by case and collective basis (see accounting policy 3.9.7) in the light of current economic conditions and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment debt securities. No circumstances have emerged up to the date of approval of these financial statements which may indicate that an impairment allowance has become necessary. In view of this credit assessment, ALCO does not consider that an impairment allowance is necessary at the reporting date (however, please make reference to Note 34 'Events after balance sheet date').

The Bank monitors concentrations of credit risk by location. An analysis of the Bank's concentrations of credit risk at the reporting date is shown below.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 4 Financial risk management (continued)

#### 4.3 Credit risk (continued)

##### 4.3.2 Impaired loans and advances and investment debt securities (continued)

	Loans and advances to banks		Loans and advances to customers		Investment securities	
	2010	2009	2010	2009	2010	2009
	€'000	€'000	€'000	€'000	€'000	€'000
<b>Concentration by sector</b>						
Banks	35,801	14,045	-	-	585,235	374,409
Government and Government Guaranteed securities	-	-	-	-	474,828	141,336
Corporate	-	-	1,137	9	264,051	120,578
Retail Unsecured Lending	-	-	158	-	-	-
	<b>35,801</b>	<b>14,045</b>	<b>1,295</b>	<b>9</b>	<b>1,324,114</b>	<b>636,323</b>
	=====					
<b>Concentration by location</b>						
Europe	34,253	7,430	1,295	9	1,261,566	632,430
North America	1,548	6,615	-	-	62,548	3,893
	<b>35,801</b>	<b>14,045</b>	<b>1,295</b>	<b>9</b>	<b>1,324,114</b>	<b>636,323</b>
	=====					

Concentration by location for investment securities is measured based on the location of issuer of the security.

The investment portfolio is composed of Euro-denominated high credit quality government, government-guaranteed and non-government securities. All securities in the portfolio are accepted by the ECB as collateral and are rated by at least two of Moody's, Standard & Poor's and Fitch.

The Bank held investment assets of €1,324 million as at 31 December 2010 (2009: €636 million), an analysis of the credit quality based on rating agency ratings is as follows:

	2010	2009
	€'000	€'000
Government and Government guaranteed securities		
AA- and higher	132,033	236,873
A+ or lower	342,795	90,295
Non-Government securities		
AA- and higher	745,368	309,155
A+ or lower	103,918	-
<b>Total</b>	<b>1,324,114</b>	<b>636,323</b>
	=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.3 Credit risk (continued)

##### 4.3.2 *Impaired loans and advances and investment debt securities (continued)*

At reporting date the Bank's loans and advances and investment securities are neither past due nor impaired (however, please make reference to Note 34 'Events after balance sheet date'). In addition, the Bank did not have any renegotiated assets that would otherwise result to be past due.

##### 4.3.3 *Settlement risk*

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For all types of investment transactions the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

#### 4.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

##### 4.4.1 *Management of liquidity risk*

The Bank's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of the Bank are met through the international repo market and through ECB secured funding to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. In addition, deposits and issuance of debt securities provides further support to the bank's liquidity requirements.



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.4 Liquidity risk (continued)

##### 4.4.1 Management of liquidity risk (continued)

The Bank's daily and weekly liquidity positions are monitored and subject to regular liquidity stress testing conducted under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

The Bank relies on deposits from customers, banks, the wholesale funding market and issued debt securities as its primary sources of funding. The Bank actively manages the risk from short-term tenor of deposits through maintaining competitive pricing and constant monitoring of market trends. In addition to the bond issue (note 27), during 2010 new deposit products were offered by the Bank resulting in an increase in customer term deposits with weighted average life of over one year.

##### 4.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of the net liquid assets to wholesale funding. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market as a percentage to the actual wholesale funding of the Bank. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity requirement established by the Bank's lead regulator, the Malta Financial Services Authority. Details of the reported Bank's ratio of eligible liquid assets to eligible short term liabilities at the reporting date and during the reporting period were as follows:

	2010	2009
At 31 December	<b>70.56%</b>	137.02%
Average for the period	<b>78.75%</b>	116.88%

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 4 Financial risk management (continued)

#### 4.4 Liquidity risk (continued)

##### 4.4.3 Residual contractual maturities of financial liabilities

	Carrying amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
<b>31 December 2010</b>						
<i>Non-derivative liabilities</i>						
Amount owed to banks	1,134,986	1,137,600	463,197	674,403	-	-
Amounts owed to customers	172,847	184,702	70,665	3,710	46,718	63,609
Debt securities in issue	14,735	19,688	-	-	938	18,750
	<b>1,322,568</b>	<b>1,341,990</b>	<b>533,862</b>	<b>678,113</b>	<b>47,656</b>	<b>82,359</b>
=====						
<b>31 December 2009</b>						
<i>Non-derivative liabilities</i>						
Amount owed to banks	578,698	584,611	694	-	583,917	-
Amounts owed to customers	72,078	73,245	32,826	6,115	30,663	3,708
	<b>650,776</b>	<b>657,856</b>	<b>33,520</b>	<b>6,115</b>	<b>614,580</b>	<b>3,708</b>
=====						

The previous table shows the undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. The Bank does not expect that the disposal of such securities to cover possible liquidity gaps would result in losses.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### **4 Financial risk management (continued)**

#### **4.5 Market risks**

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

##### **4.5.1 Management of market risks**

With the exception of translation risk arising on the Bank's net investment in its foreign operations, all foreign exchange risk within the Bank is managed and hedged by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Bank's investment portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

##### **4.5.2 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to currency risk on foreign exchange movements relating to the US Dollar, GB Pound, Canadian Dollar, Swiss Francs, Australian Dollar, New Zealand Dollar, Japanese Yen, South African Rand, Swedish Kroner, Norwegian Kroner and Danish Kroner originating from the Bank's corporate banking business. In the majority of cases the Bank covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that can arise are monitored accordingly.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 4 Financial risk management (continued)

#### 4.5 Market risks (continued)

##### 4.5.2 Currency risk (continued)

The following table provides an analysis of the financial assets and financial liabilities of the bank into relevant currency groupings.

At 31 December	2010			2009		
	Euro Currency € 000	Other Currencies € 000 equivalent	Total € 000 equivalent	Euro Currency € 000	Other Currencies €000 equivalent	Total €000 equivalent
<b>Financial assets</b>						
Balances with Central Bank of Malta and cash	10,526	-	10,526	39,757	-	39,757
Investment securities	1,324,114	-	1,324,114	636,323	-	636,323
Loans and advances to banks	8,700	27,101	35,801	4,572	9,473	14,045
Loans and advances to customers	1,295	-	1,295	8	1	9
	<u>1,344,635</u>	<u>27,101</u>	<u>1,371,736</u>	<u>680,660</u>	<u>9,474</u>	<u>690,134</u>
	=====	=====	=====	=====	=====	=====
<b>Financial liabilities</b>						
Amounts owed to banks	1,132,043	2,943	1,134,986	578,210	488	578,698
Amounts owed to customers	149,189	23,958	173,147	63,210	8,935	72,145
Debt securities in issue	14,735	-	14,735	-	-	-
	<u>1,295,967</u>	<u>26,901</u>	<u>1,322,868</u>	<u>641,420</u>	<u>9,423</u>	<u>650,843</u>
	=====	=====	=====	=====	=====	=====

##### 4.5.3 Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 4 Financial risk management (continued)

#### 4.5 Market risks (continued)

##### 4.5.3 Exposure to interest rate risk – non-trading portfolios (continued)

	Carrying amount €'000	Less than 3 months €'000	3 months to 1 year €'000	More than 1 year €'000
<b>31 December 2010</b>				
Balances with Central Bank of Malta	10,526	8,022	-	2,504
Investment Securities	1,324,114	-	46,284	1,277,830
Loans and advances to banks	35,801	35,694	-	107
Loans and advances to customers	1,295	-	158	1,137
	<u>1,371,736</u>	<u>43,716</u>	<u>46,442</u>	<u>1,281,578</u>
Amounts owed to banks	1,134,986	1,134,986	-	-
Amounts owed to customers	172,847	74,238	45,463	53,146
Debt securities issued	14,735	-	-	14,735
	<u>1,322,568</u>	<u>1,209,224</u>	<u>45,463</u>	<u>67,881</u>
Interest rate gap	49,168	(1,165,508)	979	1,213,697
	=====	=====	=====	=====
<b>31 December 2009</b>				
Balances with Central Bank of Malta	39,757	39,226	-	531
Investment Securities	636,323	-	31,603	604,720
Loans and advances to banks	14,045	14,045	-	-
Loans and advances to customers	9	9	-	-
	<u>690,134</u>	<u>53,280</u>	<u>31,603</u>	<u>605,251</u>
Amounts owed to banks	578,698	698	578,000	-
Amounts owed to customers	72,078	40,569	31,109	400
	<u>650,776</u>	<u>41,267</u>	<u>609,109</u>	<u>400</u>
Interest rate gap	39,358	12,013	(577,506)	604,851
	=====	=====	=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.5 Market risks (continued)

##### 4.5.3 Exposure to interest rate risk – non-trading portfolios (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on Net Interest Margin (NIM) and Fair Value Reserve as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

- Net profit would decrease/increase by €3.942 million (2009: increase/decrease by €1.228 million).
- Fair Value Reserve would decrease/increase by €2.411 million (2009: nil).

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income; and
- Fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.

As the Bank's expectation is that it will increase its annual reserves by more than the calculated maximum loss under the most severe stress scenario of 100 bps noted above, the Bank will always generate a net positive increase of its reserves.

Overall non-trading interest rate risk positions are managed by the Treasury department, which uses advances to banks and deposits from banks to manage the overall position arising from the Bank's non-trading activities.

#### 4.6 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.6 Operational risks (continued)

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the Banking Rule 4. The capital requirement for operational risk under this method was calculated at €1,554,200 (2009: €72,900).

#### 4.7 Capital management

##### 4.7.1 Regulatory capital

The Company is not subject to externally imposed capital requirements. In view of Charts' investment services licence, the subsidiary is required to abide by the financial resources requirements stipulated by the Investment Services Rules for Investment Service Providers.

The capital requirement of the Bank is set and monitored by the Bank's Regulator, Malta Financial Services Authority ("MFSA"). In implementing current capital requirements, the MFSA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the bank book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.7 Capital management (continued)

##### 4.7.1 Regulatory capital (continued)

With effect from 1 January 2009 the Bank was required to comply with the provisions of the Basel II framework in respect of regulatory capital and it applies the standardised approach.

The Group's regulatory capital consists entirely of core tier 1 capital, which includes ordinary share capital, share premium, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including Other Comprehensive Income and deductions relating to Reserve for Depositor Compensation Scheme and the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

The Bank's policy is to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's share capital increased by €1,509,137 on 25 May 2010.

The Bank's regulatory capital position at 31 December was as follows:

	2010	2009
	€'000	€'000
Ordinary share capital	41,030	39,521
Share premium	13,464	13,464
Accumulated losses brought forward	(8,718)	(7,858)
Result for the year	15,039	(860)
Other reserves	(267)	-
Intangible assets	(1,371)	(246)
Other Comprehensive Income	(1,410)	-
Total	<u>57,767</u> =====	<u>44,021</u> =====



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 4 Financial risk management (continued)

#### 4.7 Capital management (continued)

##### 4.7.2 Capital ratios

	2010	2009
Regulatory capital as a % of total risk-weighted assets	36.83%	80.58%
	=====	=====

### 5 Use of estimates and judgements

The Directors considered the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. These disclosures supplement the disclosures on the financial risk management (see note 4).

Certain critical accounting judgements in applying the Group's accounting policies are described below.

#### 5.1 Financial assets and liabilities classification

In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3.13.1.

#### 5.2 Revision of estimated cash flows from investment securities

A substantial part of the investment securities has a pass-through principal repayment profile. This means that principal payments on the investment securities that are held by the group are driven by, and dependent on, the receipts from the underlying collateral pool.

Inherently, projections on principal receipts from a collateral pool are uncertain, and based on a number of assumptions. For this reason, the Group considers different scenarios in analysing the investment securities portfolio. Three of the scenarios are similar to the rating agency stress scenarios (AAA, AA, A) and the fourth approximates a prudent estimate of cash flows based on historical observations.

As part of the monitoring of the Group's investments, the Credit and Investment Department, together with the back office, tracks actual receipts on the investment securities. As new observations occur on due dates of the securities, actual cash flow receipts are compared to the estimated cash flows for the same date. The latter is an estimate and thus differences from actual cash flows are expected.

If the cash flows received deviate from those expected by more than 50%, the assumptions underlying the measurement of the investment security are reassessed and adjusted, if required.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 5 Use of estimates and judgements (continued)

#### 5.3 Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3.9.7. The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received as described in 5.2. In estimating these cash flows, management also considers the net realisable value of any underlying collateral.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but individually impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience (including loss emergence periods) and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

### 6 Acquisition of subsidiary

- 6.1 On 3 August 2010 the Group obtained control of Charts Investment Management Service Ltd ('Charts'), a stock broking business, by acquiring 65% of the shares and voting interests in the company.

The primary reason for the acquisition was due to the existing client relationships of Charts which would have taken a number of years for the Group to build up otherwise. The investment was also supported by the book value of Charts.

In the five months to 31 December 2010 Charts contributed an opening income of €356k and profit after tax of €76k to the Group's results. If the acquisition had occurred on 1 January 2010, management estimates that consolidated operating income would have been €31,053k and consolidated profit after tax for the year would have been €15,098k. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 6 Acquisition of subsidiary (continued)

#### 6.2 Consideration transferred

The total consideration transferred in terms of the acquisition was €1,100k in cash. A contingent payment, for which the fair value has been determined as €395k will be recognised as post-acquisition compensation cost.

As part of the consideration transferred, the Group also purchased an Option to acquire the remaining 35% of the business not owned by Medifin in August 2014 at a maximum of 15 times average PAT for 2011 – 2013. This option currently has a fair value of zero.

#### 6.3 Identifiable assets acquired and liabilities assumed

	€000
Property and equipment	157
Intangible assets	474
Prepayments and accrued income	45
Investment securities	441
Loans and advances to banks	402
Accruals	(171)
Deferred tax liability	(166)
	<hr/>
	<b>1,182</b>
	=====

The fair value of the intangible assets has been determined by projecting the future cash flows expected to be generated and the amount of these that are attributable to the intangible. These were then discounted to present value using an estimated weighted average cost of capital as a discounting factor.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 6 Acquisition of subsidiary (continued)

#### 6.4 Goodwill

Goodwill was recognised as a result of the acquisition as follows.

	Note	€000
Total consideration transferred		1,100
Fair value of Group's share of identifiable net assets		769
	21	<u>331</u>
		=====

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the Group's existing client offerings as well as the skills and knowledge of the employees. None of the goodwill recognised is expected to be deductible for tax purposes.

#### 6.5 Acquisition-related costs

The Group incurred acquisition-related costs of €120k related to external legal fees and due diligence costs. These costs have been recognised in administrative expenses in the Group's consolidated statement of comprehensive income.

### 7 Financial assets and liabilities

The fair value of the financial assets and liabilities, which are measured at amortised cost and have a short re-pricing maturity, is not materially different from their carrying amount in the balance sheet, except for held-to-maturity investments with an amortised cost of €1,242 million, the fair market value of which at year-end amounted to €1,144 million.

The fair value of debt instruments represents the closing bid price quoted in an active market and is classified as level 1 under the fair value hierarchy in accordance with IFRS7.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 8 Net interest income

8.1	Group	
	2010	2009
	€000	€000
<b>Interest income</b>		
Investment securities	41,694	4,376
Loans and advances to banks	100	168
Loans and advances to customers	7	-
	<u>41,801</u>	<u>4,544</u>
<b>Interest expense</b>		
Amounts owed to customers	3,722	278
Amounts owed to banks	10,263	1,079
Debt securities in issue	203	-
	<u>14,188</u>	<u>1,357</u>
<b>Net interest income</b>	<u>27,613</u>	<u>3,187</u>
	=====	=====

- 8.2 The Company had interest income amounting to €817,998 earned on a loan advances to its subsidiary bank. This loan was funded from a loan advances by the parent company on which the interest expense also amounted to €817,998. The Company also had interest expense of €36,667 payable on a loan advanced by the subsidiary bank. As a result, the Company had a net interest expense of €36,667.

### 9 Net fee and commission expense

Net fee and commission expense for the Group is made up of portfolio and other management fee expenses, and fee income from primary issues as well as commissions earned on local and foreign investments.

### 10 Other operating income

This represents gains achieved on disposal of available-for-sale investments, which were purchased at €413 million (2009: €59.5 million).

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 11 Administrative and other expenses

Administrative expenses include:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Operating lease charges	<b>202</b>	131
Directors' fees	<b>105</b>	34

Included in other administrative expenses are fees charged by the Group's auditors for the year as follows:

	<b>Audit Services</b>	<b>Other assurances Services</b>	<b>Tax advisory services</b>	<b>Other non-audit services</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>31 December 2010</b>				
Auditors' remuneration	43	13	6	48

### 12 Personnel expenses

12.1 Personnel expenses incurred are analysed as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Directors' emoluments:		
- salaries	<b>1,454</b>	168
- defined contribution social security costs	<b>8</b>	2
Staff costs:		
- wages and salaries	<b>3,691</b>	539
- defined contribution social security costs	<b>146</b>	14
	<b>5,299</b>	<b>723</b>
	<b>=====</b>	<b>=====</b>

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 12 Personnel expenses (continued)

12.2 The weekly average number of persons employed was as follows:

	Group	
	2010	2009
	No.	No.
Executive and senior management	14	2
Other managerial supervisory and clerical	32	6
Other	4	2
	<u>50</u>	<u>10</u>
	=====	=====

12.3 The number of persons employed at year end was as follows:

	Group	
	2010	2009
	No.	No.
Management and administration	69	23
	=====	=====

12.4 The Company had no employees during the year (2009: nil).

### 13 Tax expense

13.1

	Group	
	2010	2009
	€000	€000
Current	3,899	-
Deferred	81	-
	<u>3,980</u>	<u>-</u>
	=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 13 Tax expense (continued)

13.2 The tax expense and the result of accounting profit or loss multiplied by the tax rate applicable in Malta, the Company's country of incorporation, are reconciled as follows:

	Group	
	2010	2009
	€000	€000
Profit/(Loss) for the year	18,972	(874)
Tax expense	(3,980)	-
Profit/(Loss) before tax	14,992	(874)
	=====	=====
Tax at the applicable rate of 35%	6,640	306
Tax effect of:		
Tax rates in foreign jurisdictions	(8)	-
Non-deductible expenses	110	(21)
Depreciation charges not deductible by way of capital allowances	3	(40)
Temporary differences not previously recognised	(2,830)	-
Temporary difference not recognised	64	(245)
Other differences	1	-
Tax expense	3,980	-
	=====	=====

### 14 Balances with Central Bank of Malta and cash

	Group	
	2010	2009
	€000	€000
Balances with Central Bank of Malta	10,504	33,534
Malta Treasury Bills	-	6,137
Cash	22	86
	10,526	39,757
	=====	=====



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 14 Balances with Central Bank of Malta and cash (continued)

Balances with Central Bank of Malta include a reserve deposit of the subsidiary Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €2,504,295 (2009: €533,193) bearing interest at 1% (2009: 1%) per annum and an overnight deposit amounting to €8,000,000 bearing interest at 0.25% per annum.

### 15 Loans and advances to banks

15.1	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
At amortised cost:				
Repayable on call and at short notice	36,192	14,045	495	-
Term loans and advances	107	-	15,000	25,000
	<b>36,299</b>	14,045	<b>15,495</b>	25,000
	=====			

**15.2** Loans and advances to banks amounting to €559,427 (2009: €351,992) are pledged in favour of other banks providing credit card facilities to customers. None of the loans and advances was past due or impaired (2009: Nil).

### 16 Loans and advances to customers

16.1	Group	
	2010	2009
	€000	€000
At amortised cost:		
Loans and advances on demand	158	-
	=====	=====

**16.2** Loans and advances to customers as at the end of the current and comparative year were neither past due nor impaired.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 17 Investment securities

#### 17.1

	Group	
	2010	2009
	€000	€000
Held-to-maturity investment securities	1,241,514	636,323
Available-for-sale debt securities	82,799	-
Available-for-sale equity securities	268	-
	<u>1,324,581</u>	<u>636,323</u>
	=====	=====

At 31 December 2010, €1,278 million (2009: €636 million) of investment securities are expected to be recovered after more than 12 months after the reporting date. The available-for-sale investment securities include €267,937 equity investments.

#### 17.2.1 Held-to-maturity investment securities

	Group	
	2010	2009
	€000	€000
Government bonds	242,753	141,332
Non-Government bonds	998,761	494,991
	<u>1,241,514</u>	<u>636,323</u>
	=====	=====

17.2.2 Available-for-sale investments consist of non-government bonds.

17.3 No evidence of impairment was identified on debt securities.

17.4 All investment securities apart from €467k are pledged as collateral against the provision of facilities (note 25).

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 18 Investment in subsidiaries

18.1	Name of the Company	Incorporated In	Nature of Business	Current Equity Interest	Company 2010	Company 2009
				%	€000	€000
	Mediterranean Bank plc	Malta	Banking	100	54,494	52,985
	Charts Investment Management Service Ltd	Malta	Investment	65	1,100	-
					<u>55,594</u>	<u>52,985</u>
					=====	=====

18.2 Mediterranean Bank plc in turn owns the following subsidiaries:

Name of the Company	Incorporated In	Nature of Business	Current Equity Interest	2010	Bank 2009
			%	€	€
Mediterranean Global Advisory SA	Switzerland	Dormant	100	63,086	63,086
Mediterranean Research Limited	United Kingdom	Investment research	100	2	2
				<u>63,088</u>	<u>63,088</u>
				=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 19 Property and equipment

#### 19.1 Group

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
<b>Cost</b>						
At 1 January 2009	928	51	22	567	127	1,695
Acquisitions	-	33	2	5	-	40
At 31 December 2009	928	84	24	572	127	1,735
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	86	178	19	2,142
Acquisitions through business combination	-	41	-	216	216	257
<b>At 31 December 2010</b>	<b>928</b>	<b>1,984</b>	<b>110</b>	<b>966</b>	<b>146</b>	<b>4,134</b>
<b>Depreciation</b>						
At 1 January 2009	278	51	16	260	79	684
Charge for the year	93	2	6	86	25	212
At 31 December 2009	371	53	22	346	104	896
At 1 January 2010	371	53	22	346	104	896
Acquisitions through business combination	-	26	-	74	-	100
Charge for the year	93	120	14	57	27	311
<b>At 31 December 2010</b>	<b>464</b>	<b>199</b>	<b>36</b>	<b>477</b>	<b>131</b>	<b>1,307</b>
<b>Carrying amounts</b>						
At 1 January 2009	650	-	6	307	48	1,011
At 31 December 2009	557	31	2	226	23	839
At 1 January 2010	557	31	2	226	23	839
<b>At 31 December 2010</b>	<b>464</b>	<b>1,785</b>	<b>74</b>	<b>489</b>	<b>15</b>	<b>2,827</b>

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 19 Property and equipment (continued)

**19.2** The Group operates from four properties which are held under operating lease agreements (see note 31).

**19.3** There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2009: Nil).

### 20 Intangible assets

#### 20.1 Group

	Goodwill	Computer software	Customer list	Total
	€000	€000	€000	€000
<b>Cost</b>				
At 1 January 2009	-	1,178	-	1,178
Acquisitions	-	259	-	259
At 31 December 2009	-	1,437	-	1,437
At 1 January 2010	-	1,437	-	1,437
Acquisitions	-	1,191	-	1,191
Acquisitions through business combination	331	-	474	805
<b>At 31 December 2010</b>	<b>331</b>	<b>2,628</b>	<b>474</b>	<b>3,433</b>
<b>Amortisation</b>				
At 1 January 2009	-	1,176	-	1,176
Charge for the year	-	15	-	15
At 31 December 2009	-	1,191	-	1,191
At 1 January 2010	-	1,191	-	1,191
Charge for the year	-	67	47	114
<b>At 31 December 2010</b>	<b>-</b>	<b>1,258</b>	<b>47</b>	<b>1,305</b>
<b>Carrying amounts</b>				
At 1 January 2009	-	2	-	2
At 31 December 2009	-	246	-	246
At 1 January 2010	-	246	-	246
<b>At 31 December 2010</b>	<b>331</b>	<b>1,370</b>	<b>427</b>	<b>2,128</b>

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 20 Intangible assets (continued)

**20.2** There were no capitalised borrowing costs related to the acquisition of software during the year (2009: Nil).

**20.3** Computer software is inclusive of capitalised wages amounting to €60,120 (2009: Nil).

#### 20.4 Impairment assessment on goodwill

The recoverable amount of the investment in Charts was based on its value in use and was determined by discounting the future cash flows to be generated from its continuing operations taking into account synergies as well as the improved client platform being developed. The recoverable amount of the investment was determined to be higher than the carrying amount (consisting of the net assets and goodwill). As a result, no impairment was deemed necessary.

#### 20.5 Key assumptions used in discounted cash flow projection calculations

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. The discount rate has been assumed to be 24% (as implied based on the consideration paid for the future cash flows calculated on a general market participant basis), an average annual growth rate of 5.26% and the terminal value growth rate used of 3%.

Any adverse movement in one of these key assumptions could cause the carrying amount to exceed the recoverable amount thus leading to an impairment charge.

### 21 Other assets

21.1	Group	
	2010	2009
	€000	€000
Amount receivable from parent company	79	435
Other assets	262	38
	<u>341</u>	<u>473</u>
	=====	=====

**21.2** Amounts receivable from parent company are interest free, unsecured and repayable on demand.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 22 Prepayments and accrued income

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Prepayments	385	265	-	-
Accrued income	14,313	5,485	9	86
	<b>14,698</b>	<b>5,750</b>	<b>9</b>	<b>86</b>
	=====	=====	=====	=====

### 23 Deferred tax assets

23.1 Deferred tax assets are attributable to the following:

	Group	
	2010	2009
	€000	€000
Property and equipment	(64)	-
Available-for-sale securities	766	-
Intangible asset	(149)	-
	<b>553</b>	<b>-</b>
	=====	=====

23.2 Movement in temporary differences

	Group				
	Balance 01 Jan 10	Business combinations	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 10
	€000	€000	€000	€000	€000
Property and equipment	-	-	(64)	-	(64)
Available-for-sale securities	-	-	-	766	766
Intangible asset	-	(166)	17	-	(149)
	<b>-</b>	<b>(166)</b>	<b>(47)</b>	<b>766</b>	<b>553</b>
	=====	=====	=====	=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 24 Capital and reserves

		Group and Company	
		2010	2009
		No.	No.
<b>24.1.1 Share capital</b>			
Issued and fully paid up:			
Shares of €1 each			
Ordinary 'A' shares of €1 each		40,188,556	39,520,969
Ordinary 'B' shares of €1 each		1,214,991	1
Ordinary 'C' shares of €0.001 each		2,550,000	-
		<b>43,953,547</b>	<b>39,520,970</b>
		=====	=====

- Holders Class A and Class B ordinary shares are entitled to one vote per A ordinary shares and B ordinary shares. C ordinary shares do not confer these rights on the holders thereof.
- The holders of a majority in nominal value of A ordinary shares shall be entitled to nominate and approve to the Board of the Company at any time any number of directors.
- Class A and Class B ordinary shareholders are entitled to receive declared cash dividends in proportion to an agreed pre-defined formula.

**24.1.2** At 31 December 2010 the authorised share capital consisted of 98,497,000 'A' ordinary shares of €1 each, 1,500,000 'B' shares of €1 ordinary and 3,000,000 'C' ordinary shares of €0.001 each. All issued shares are fully paid-up. As at 31 December 2009, the authorised share capital consisted of 100,000,000 shares of €1 each.

		Group and Company	
		2010	2009
		€000	€000
		Note	
At beginning of year		39,521	10,402
Issued for cash during the year	24.1.4	1,885	29,119
Directly attributable transaction costs		(668)	-
		<b>40,738</b>	<b>39,521</b>
		=====	=====

**24.1.3** The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**24.1.4** By an extraordinary resolution dated 30 January 2010, it was resolved to increase the issued share capital by 667,587 ordinary shares to 40,188,556 issued ordinary shares of €1 each.



# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 24 Capital and reserves (continued)

These shares were issued at a premium of €0.45 per share. Furthermore, by an extraordinary resolution dated 31 March 2010, it was resolved to increase the issued share capital by 1,214,990 ordinary shares to 41,403,546 issued ordinary shares of €1 each. These shares were issued at a premium of €0.24 per share. By the same resolution dated 31 March 2010, it was resolved to increase the issued share capital by 2,550,000 ordinary shares to 41,403,546 issued ordinary shares of €1 each and 2,550,000 issued ordinary shares of €1 each.

- 24.2** Exchange translation reserve arises as a result of the translation of the foreign subsidiary financial position and operational results.
- 24.3** 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.
- 24.4** All reserves at reporting date, except for retained earnings, are non-distributable.
- 24.5** As set out in note 34, by an extraordinary resolution dated 12 August 2010, it was resolved to increase the fully paid up issued share capital by 15,000,000 ordinary shares of €1.00 each, to be fully paid in cash. This injection was used to fund the increase in share capital of the subsidiary Bank.

### 25 Amounts owed to banks

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Repayable on call and at short notice	<b>618</b>	360	<b>128</b>	7
Term loans and advances	<b>1,134,368</b>	578,338	<b>1,100</b>	-
	<b>1,134,986</b>	578,698	<b>1,228</b>	7
	=====			

Term loans and advances, excluding an amount of €6.2 million, are secured by a pledge over the investment securities (note 17.4).

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 26 Amounts owed to customers

	Group	
	2010	2009
	€000	€000
Repayable on demand	33,898	17,759
Term deposits	123,454	29,319
	<u>157,352</u>	<u>47,078</u>
	=====	=====

### 27 Debt securities in issue

	Group	
	2010	2009
	€000	€000
At amortised cost:		
Debt securities in issue	14,735	-
	=====	=====

The debt securities, which are unsecured, are denominated in euro, mature on 30 October 2015 and are listed on the Malta Stock Exchange. The interest payable is fixed at 6.25% per annum. The fair value of these debt securities as at 31 December 2010 is €15.4 million.

The above liabilities will in the event of default or insolvency of the issuer, have a general claim on the assets of the Bank *pari passu* with other unsecured creditors. Bondholders therefore would rank after all interbank funding lines and repurchase agreements that are collateralised by investments securities through the said funding. The group has not had any defaults of interest during the current year.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 28 Other liabilities

28.1	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Other liabilities	385	467	-	-
Amounts due to subsidiary	-	-	6	6
Loan due to parent company	15,000	25,000	15,000	25,000
VAT payable	506	392	-	-
	<b>15,891</b>	<b>25,859</b>	<b>15,006</b>	<b>25,006</b>
	=====			

**28.2** Other liabilities include the nominal value of the special preference shares and the fair value of the option to acquire these shares, representing the difference between the agreed consideration and the face value of the special preference shares (see note 17.3).

**28.3** A subsidiary has issued 5 special preference shares ('Shares') on 3 August 2010 at €2.329373 to a trustee on behalf of two shareholders.

The Group shall have a right to redeem the totality of the Shares upon exercise by the Class A Shareholders of its option by the payment to the holder of the Shares of the agreed consideration of €1,000 which shall be payable upon the redemption of the Shares. The Group has the right to redeem upon the holders ceasing their employment with the Group.

**28.4** In the directors' judgment, it is reasonable to assume that the option will be exercised by the Group as this is linked with the services provided by the holders (see note 28.3). As a result, any changes in the shareholding or employment with the company would trigger the exercise of the option.

**28.5** The holders of the special preference shares shall collectively be entitled to an annual dividend equivalent to 20% of the Operating profit provided that these exceed a specified amount. The dividend for the year which is included in administrative expenses amounted to €63,724.

**28.6** The fair value of the Company's option to redeem the preference shares is determined with reference to the undiscounted intrinsic value based on the agreed consideration as it is already exercisable.

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

### 29 Accruals

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Accrued expenses	2,657	720	8	7
Accrued interest expense	2,744	839	547	86
	5,401	1,559	555	93
	=====		=====	

### 30 Cash and cash equivalents

Balances of cash and cash equivalents as shown in the cash flow statement are analysed below:

	Notes	Group	
		2010	2009
		€000	€000
<b>Analysis of cash and cash equivalents:</b>			
Cash in hand		22	86
Call deposits		44,192	14,045
Malta Treasury Bills		-	6,137
Term deposits		-	33,000
Repayable on call and at short notice		(618)	(360)
Amounts owed to banks with maturity less than 3 months		(366,134)	(338)
Cash and cash equivalents		(322,538)	52,570
Adjustment to reflect:			
Balance with Central Bank of Malta		2,504	534
Term deposits with maturity over 3 months		107	-
Amounts owed to banks with maturity over 3 months		(768,234)	(578,000)
		(1,088,161)	(524,896)
		=====	=====
Analysed as follows:			
Balances with Central Bank of Malta and Cash	14	10,526	39,757
Loans and advances to banks	15	36,299	14,045
Amounts owed to banks	25	(1,134,986)	(578,698)
		(1,088,161)	(524,896)
		=====	=====

# Medifin Holding Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2010

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### 30 Cash and cash equivalents (continued)

	Company	
	2010	2009
	€000	€000
<b>Analysis of cash and cash equivalents:</b>		
Repayable on call and at short notice	(7)	(7)
Amounts owed to banks with maturity less than 3 months	496	-
	<u>489</u>	<u>(7)</u>
Cash and cash equivalents	=====	=====

### 31 Operating leases

The Bank signed a rent agreement in 2005 for its main premises, which agreement runs for an initial fixed period of 5 years for an annual rent of €65,000, with an additional period of 5 years for an annual rent of €70,000, and a further period of 5 years for an annual rent of €70,000 in addition to inflation adjustment. In 2010, the Bank signed two agreements for the rent of three other immovable properties. These agreements run for an initial period of one to four years for an annual rent of €15,340, €21,535 and €28,320 respectively. These agreements are renewable for a further period ranging from two to four years.

### 32 Related parties

#### 32.1 Parent company

Medifin Holding Limited prepares consolidated financial statements of the Group of which Medifin Holding Limited and its subsidiaries form part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

The ultimate parent company is Anacap Financial Partners II L.P. Their registered office is situated at Carinthia House, 9-12 The Grange, St Peter Port, GY1 4BF, Guernsey.

#### 32.2 Transactions with key management personnel

In addition to their salaries (disclosed in note 12), the Group also provides non-cash benefits to directors in the form of insurance and use of car and accommodation.

# **Medifin Holding Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2010**

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### **32 Related parties (continued)**

#### **32.3 Related party balances**

Other liabilities set out in note 28 include amounts due to parent company of €15,494,794 (2009: €25,000,000) and an amount owed to a director amounting to €141,367 (2009: €8,694).

Other assets set out in note 21 include amounts receivable from the ultimate parent company of €78,975 (2009: €434,503).

Loans and advances to customers set out in note 16 include loans to directors.

#### **32.4 Related party transactions**

Interest expense set out in note 8 includes interest payable to parent company of €819,999 (2009: €86,111) and interest payable to directors of €847 (2009: Nil). Interest income set out in note 8 includes interest receivable from directors of €8,839 (2009: Nil).

Administrative expenses include directors' fee amounting to €105,001 (2009: €34,275), consultancy fees charged by directors amounting to €112,000 (2009: €280,000), professional fees payable to related parties amounting to €34,705 (2009: Nil) and fees charged by the ultimate parent company amounting to €120,000 (2009: €53,253).

### **33 Capital commitments and contingencies**

#### **33.1 Capital commitments**

At reporting date the Group had capital commitments amounting to €4.6 million in connection with the acquisition of a new Core Banking IT system and €0.2 million in respect of the setting up of a new branch.

### **33 Capital commitments and contingencies (continued)**

#### **33.2 Other commitments**

At reporting date, the Group had a commitment of €395,000, post-acquisition compensation costs relating to the acquisition of Charts Investment Management Service Ltd.

#### **33.3 Contingencies**

In terms of the Malta Stock Exchange Bye-Laws 3.03.03, a subsidiary had an outstanding pledge on a listed security amounting to €50,000 in favour of the Malta Stock Exchange.

# **Medifin Holding Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2010**

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### **34 Events after reporting date**

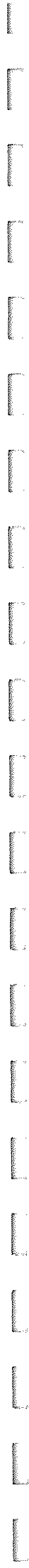
The subsidiary Bank has been engaged in ongoing settlement discussions in respect to an action brought against it for alleged illegal use of the trade name "Mediterranean Bank". On 22 February 2011, the Bank has signed settlement agreement in respect of such action. In accordance with the said agreement, the Bank will retain the use of the said trade name and will also retain its registration thereof, and of the trade mark related thereto. As a result of this agreement, complainant's action has been withdrawn.

On 21 June 2011, the Bank successfully issued € 5,000,000 6.25% bonds 2015 having the same terms and conditions as the bonds issued by the Bank on 13 September 2010 other than with respect to the date of admissibility to listing. These bonds were oversubscribed and admitted to the Malta Stock Exchange Official List on Monday 27 June 2011.

Impairment charges of € 7.8 million relating to the exchange of Greek government bonds were recognised in the financial statements for the period ended 30 June 2011.

By an extraordinary resolution dated 12 August 2010, it was resolved to increase the fully paid up issued share capital by 15,000,000 ordinary shares of €1.00 each, to be fully paid in cash. This injection was used to fund the increase in share capital of the subsidiary Bank.

Medifin Leasing limited, a fully owned subsidiary, was incorporated on 20 July 2011. The company is to be the leasing arm of the Group in respect of the Group's non-current assets held for sale and new non-financial assets. Medifin Leasing Limited will lease such assets to users within the Group.







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## **Independent Auditors' Report**

### **To the Members of Medifin Holding Limited**

#### **Report on the Financial Statements**

We have audited the financial statements of Medifin Holding Limited (the "Company") and of the Group of which the Company is the parent, as set out on pages 5 to 61, which comprise the statements of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act and may not be appropriate for any other purpose.

In addition, we read the Directors' Report and consider the implications for our report if we become aware of any apparent material misstatements of fact.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## **Independent Auditors' Report (continued)**

### **To the Members of Medifin Holding Limited**

#### *Opinion on Financial Statements*

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Company's financial position as at 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

#### **Report on Other Legal and Regulatory Requirements**

*Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act")*

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- proper accounting records have not been kept by the Company or proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit; or
- certain disclosures of directors' remuneration specified by the Act are not made.

Noel Mizzi (Partner) for and on behalf of

**KPMG**  
Registered Auditors

25 October 2011

