

Medifin Holding Limited

Annual Report

31 March 2012

Medifin Holding Limited

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Medifin Holding Limited

Directors' Report

For the Period Ended 31 March 2012

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 period ended 31 March 2012.

Board of directors

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

Change of the accounting reference period

The Company changed its accounting reference period to 31 March 2012. Accordingly, the Annual Report 2012 and the related financial statements cover a fifteen-month period from 1 January 2011 to 31 March 2012. The comparative figures presented are a twelve-month period for the year ended 31 December 2010. Subsequent accounting periods will be twelve-month periods ending 31 March.

Principal activities

The Group comprises Medifin Holding Limited, its two fully-owned subsidiaries, Mediterranean Bank plc (the 'Bank') and Medifin Leasing Limited ('Leasing'), 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. The principal activities of the Bank comprise the following:

- The provision of term savings and wealth management products;
- The receipt and acceptance of customers' monies for deposit in savings and fixed term deposit accounts denominated in euro and other major currencies;
- Trading for own account and for account of customers in foreign exchange;
- The provision of money transmission services;
- The provision of safe custody services with a wide range of custom-tailored solutions as well as administration and safekeeping of securities;
- The provision of investment advice to customers of the Bank;
- The provision of portfolio management services; and
- The provision of senior secured loans.

Medifin Leasing Limited's primary activity is to lease out immovable and movable property and intangible assets, including software.

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

Medifin Holding Limited

Directors' Report

For the Period Ended 31 March 2012

Review of business development and financial position

Profit after tax for the Group amounted to €0.930 million (2010: €14.992 million) while the Company sustained a loss of €0.001 million (2010: €0.165 million).

Shareholders' equity at reporting date amounted to €75.436 million (2010: €59.322 million) and €69.308 million (2010: €54.309 million) for the Group and the Company respectively.

Subsidiaries' review of business development and financial position

Medifin Leasing Limited ('Leasing')

During the period the Leasing leased its equipment and software to a related entity in accordance with an agreement signed on 25 October 2011.

Leasing changed its accounting period to 31 March 2012. Accordingly, the Annual Report 2012 and the related financial statements cover a period from 20 July 2011 to 31 March 2012.

Leasing achieved a profit before taxation amounting to €1,475 and profit after tax amounting to €1,484.

Shareholders' equity at the reporting date amounted to €11,474.

Mediterranean Bank plc and its subsidiaries (the 'Bank')

During the period ended 31 March 2012, the Bank continued to implement its business plan which has the aim of sustaining the Bank's long-term profitability through the development of the Bank as a savings and wealth management institution. Its target customer base is the mass affluent market both in Malta and internationally as well as the corporate sector in Malta.

Through the development of a range of new products, the Bank continued to grow its retail and corporate customer base. During the period, the Bank attained membership of one of the leading electronic repo market providers, Eurex. Through such membership and in conjunction with access to the bi-lateral repo market, the open market operations of the European Central Bank, proceeds of the Bank's bond issues, the Bank's deposit base and its capital, the Bank is able to successfully pursue its diversification of funding sources strategy.

The Total Operating Income for the 15 month period ended 31 March 2012 was €80.299 million (2010: €30.242 million) for the Bank. This was created through the Bank's focus on its treasury management capabilities which, combined with its low cost base and superior customer service, has enabled it to position itself as a market leading provider of savings and term deposit products, primarily in the Maltese market. As at 31 March 2012, the Bank's Investment Portfolio stood at €1.415 billion (2010: €1.324 billion). Impairment losses of €62.885 million (2010: nil) related to the exchange of Greek government bonds as analysed in note 4 and note 17 to these financial statements. During the period ended 31 March 2012, the Bank mitigated such impairment losses through the realisation of a series of macro hedges against European peripheral risk.

Profit after tax for the period for the Bank €0.773 million (2010: profit after tax: €15.111 million). Shareholders' equity at the reporting date amounted to €75.509 million (2010: €59.471 million) for the Bank.

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.

Medifin Holding Limited

Directors' Report

For the Period Ended 31 March 2012

Subsidiaries' review of business development and financial position (continued)

Mediterranean Bank plc and its subsidiaries (the 'Bank') (continued)

At an extraordinary shareholders general meeting held on 12 August 2011, a resolution was approved for the issuance and allotment to Medifin Holding Limited of 15,000,000 (fifteen million) ordinary A shares of €1.00 each that were fully paid in cash.

During the first half of 2011, the Bank also successfully completed the first and most significant phase of the installation of a new, state of the art core banking system.

Charts Investment Management Service Limited ('Charts')

Charts achieved a profit before taxation amounting to €278,993 (1 May 2010 to 31 December 2010: €248,934). After deducting taxation thereon, the profit for the twelve months ended 31 December 2011 amounted to €188,950 (1 May 2010 to 31 December 2010: €162,554).

Shareholders' equity at 31 December 2011 amounted to €1,147,393 (2010: €977,064).

Dividends and reserves

Retained earnings for the Group amounting €7.080 million (2010: €6.216 million), are carried forward to the next financial year. Accumulated losses for the Company amounts to €0.186 million (2010: €0.185 million). No dividends are available for distribution.

Standard licence conditions

In accordance with the Investment Services Rules for Investment Services providers regulated by the MFSA, licence holders are required to include in the Directors' Report breaches of standard licence conditions or other regulatory requirements. Accordingly, the directors confirm that no breaches of standard licence conditions or other breach of regulatory requirements, which were subject to administrative penalty or regulatory sanction, were reported.

Future business developments

Mediterranean Bank plc maintains its prime strategic objective as being a leading provider of savings and wealth management products to the mass affluent market, both in Malta and other EU countries. This is underpinned by a proactive treasury management function, focused on high quality EU assets, which will enable the Bank to be competitive in the deposit market on an ongoing basis.

Through its access to the European Capital markets, the Bank is confident that it can continue to grow its assets base in view of the ongoing funding needs of the European financial, public and corporate sectors and the fact that the Bank's portfolio represents a de-minimis proportion of the markets for European public and financial sector bonds.

Over the medium term, the Bank plans to continue to execute its existing strategy both in Malta and internationally. During the period ended 31 March 2012, the Bank expanded its local branch network to five opening branches in Paola, Valletta and Mosta. The Bank opened a branch in Qormi in May 2012 and in Gozo in August 2012. The subsidiary Bank is also considering opening other branches abroad.

The Bank remains committed to operating with strong regulatory ratios in terms of capital and liquidity and to continue to import market leading risk management practices for the benefit of its customers, shareholders and all stakeholders.

The directors do not envisage any changes in the principal activities of the Subsidiaries.

Medifin Holding Limited

Directors' Report

For the Period Ended 31 March 2012

Outlook

The Bank foresees continued difficulties for the Eurozone in the near term, but ultimately a stronger monetary union, and expects significant volatility along the way. The Bank is confident that as it grows its customer base, it can broaden its relationship with those customers, which should lead to consistently growing revenues through the course of time.

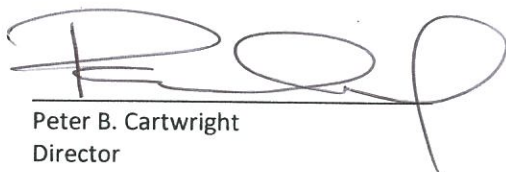
Events after the reporting date

The sub-subsidiary of the Company, Mediterranean Research Limited, a company registered in the United Kingdom is expected to be liquidated by the end of the financial year ending 31 March 2013. This did not give rise to discontinued operations since the operations have been taken over by the subsidiary Bank through a UK establishment.

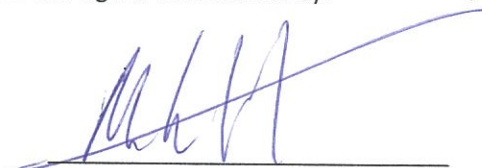
In August 2012, 450,000 new C ordinary shares of €0.001 each were issued and fully paid in cash.

There were no other events after the reporting date that would otherwise have required adjustments to or disclosure in this Annual Report.

Approved by the Board of Directors on the 31 October 2012 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.

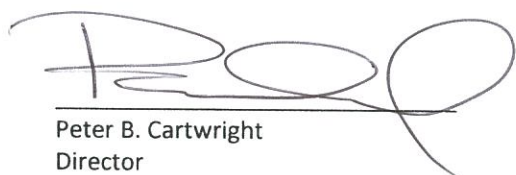
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the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

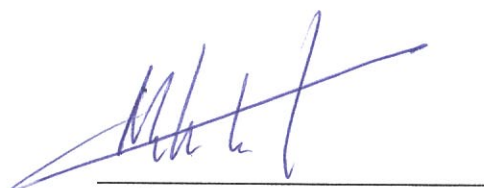
The directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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 March 2012

		Group		Company	
		31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	Notes	€000	€000	€000	€000
ASSETS					
Balances with Central Bank of					
Malta and cash	14	63,656	10,526	-	-
Loans and advances to					
financial institutions	15	28,168	36,299	-	15,495
Loans and advances to customers	16	27,666	158	-	-
Investment securities	17	1,415,799	1,324,581	-	-
Derivative assets held for					
risk management	18	2,572	-	-	-
Investments in subsidiaries	19	-	-	70,604	55,594
Property and equipment	20	3,552	2,827	-	-
Intangible assets	21	7,955	2,128	-	-
Other assets	22	6,544	341	-	-
Prepayments and accrued income	23	19,776	14,698	-	9
Current tax recoverable		36	-	-	-
Deferred tax assets	24	118	553	-	-
Total assets		1,575,842	1,392,111	70,604	71,098

The notes on pages 13 to 69 are an integral part of these financial statements.

Medifin Holding Limited

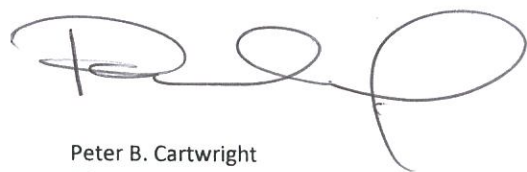
Statement of Financial Position

As at 31 March 2012

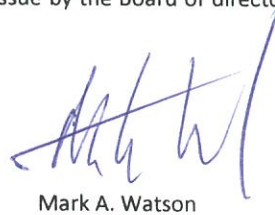
		Group		Company	
		31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	Notes	€000	€000	€000	€000
EQUITY					
Share capital	25	55,738	40,738	55,738	40,738
Share premium	25	13,756	13,756	13,756	13,756
Retained earnings/(accumulated losses)	25	7,080	6,216	(186)	(185)
Other reserves	25	(1,138)	(1,388)	-	-
Total equity attributable to equity holders of the Company		75,436	59,322	69,308	54,309
Non-controlling interest		510	450	-	-
Total equity		75,946	59,772	69,308	54,309
LIABILITIES					
Amounts owed to financial institutions	26	1,093,826	1,134,986	1,282	1,228
Amounts owed to customers	27	378,847	157,352	-	-
Debt securities in issue	28	19,672	14,735	-	-
Current tax payable		278	3,974	-	-
Other liabilities	29	1,495	15,891	6	15,006
Accruals	30	5,778	5,401	8	555
Total liabilities		1,499,896	1,332,339	1,296	16,789
Total equity and liabilities		1,575,842	1,392,111	70,604	71,098

The notes on pages 13 to 69 are an integral part of these financial statements.

The financial statements on pages 6 to 69 were approved and authorised for issue by the Board of directors on 31 October 2012 and signed on its behalf by:



Peter B. Cartwright
Director



Mark A. Watson
Director

Medifin Holding Limited

Statement of Comprehensive Income

For the Period Ended 31 March 2012

		Group		Company	
		1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	Notes	€000	€000	€000	€000
Interest income		64,104	41,801	7	818
Interest expense		(34,315)	(14,188)	-	(855)
Net interest income/(expense)	8	29,789	27,613	7	(37)
Fee and commission income		1,240	481	300	-
Fee and commission expense		(798)	(1,159)	(300)	-
Net fee and commission expense	9	442	(678)	-	-
Net trading income	10	1,800	347	-	-
Other operating income	10	48,937	3,280	-	-
Total operating income		80,968	30,562	7	(37)
Net impairment loss on investment					
Securities	4/17	(62,885)	-	-	-
Administrative and other expenses	11	(7,102)	(5,867)	(8)	(128)
Personnel expenses	12	(8,066)	(5,299)	-	-
Depreciation and amortisation	20/21	(1,426)	(424)	-	-
Operating expenses		(79,479)	(11,590)	(8)	(128)
Profit/(loss) before income tax		1,489	18,972	(1)	(165)
Income tax expense	13	(559)	(3,980)	-	-
Profit/(loss) for the period/year		930	14,992	(1)	(165)
Other comprehensive income					
Exchange translation		(8)	1	-	-
Fair value reserve (available-for-sale assets)					
Net change in fair value		37,080	2,903	-	-
Net amount transferred to profit or loss		(36,975)	(5,046)	-	-
Income taxes		147	759	-	-
Other comprehensive income for the period/year		244	(1,383)	-	-
Total comprehensive income for the period/year		1,174	13,609	(1)	(165)

Medifin Holding Limited

Statement of Comprehensive Income

For the Period Ended 31 March 2012

	Group		Company	
	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
Notes	€000	€000	€000	€000
Profit attributable to:				
Owners of the Company	864	14,965	(1)	(165)
Non-controlling interests	66	27	-	-
Profit for the period/year	930	14,992	(1)	(165)
Total comprehensive income attributable to:				
Owners of the Company	1,114	13,573	(1)	(165)
Non-controlling interests	60	36	-	-
Total comprehensive income for the period/year	1,174	13,609	(1)	(165)

The notes on pages 13 to 69 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity

For the Period Ended 31 March 2012

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
Total comprehensive income for the year								
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)
Total comprehensive income for the year	-	-	14,965	1	(1,393)	13,573	36	13,609
Transactions with owners, recorded directly in equity								
Contributions by owners								
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	414	414
Issue of share capital	1,217	292	-	-	-	1,509	-	1,509
Balance as at 31 December 2010	40,738	13,756	6,216	5	(1,393)	59,322	450	59,772
Balance as at 1 January 2011	40,738	13,756	6,216	5	(1,393)	59,322	450	59,772
Total comprehensive income for the period								
Profit for the period	-	-	864	-	-	864	66	930
Other comprehensive income for the period								
Exchange translation	-	-	-	(8)	-	(8)	-	(8)
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	24,293	24,293	(7)	24,286
- Net amount transferred to profit or loss	-	-	-	-	(24,035)	(24,035)	1	(24,034)
Total comprehensive income for the period	-	-	864	(8)	258	1,114	60	1,174
Transactions with owners, recorded directly in equity								
Contributions by owners								
Issue of share capital	15,000	-	-	-	-	15,000	-	15,000
Balance as at 31 March 2012	55,738	13,756	7,080	(3)	(1,135)	75,436	510	75,946

The notes on pages 13 to 69 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity

For the Period Ended 31 March 2012

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
Total comprehensive income for the year				
Profit for the year	-	-	(165)	(165)
Transactions with owners, recorded directly in equity				
Contributions by owners				
Issue of share capital	1,217	292	-	1,509
Balance at 31 December 2010	40,738	13,756	(185)	54,309
Balance as at 1 January 2011	40,738	13,756	(185)	54,309
Total comprehensive income for the year				
Loss for the period	-	-	(1)	(1)
Transactions with owners, recorded directly in equity				
Contributions by owners				
Issue of share capital	15,000	-	-	15,000
Balance at 31 March 2012	55,738	13,756	(186)	69,308

The notes on pages 13 to 69 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Cash Flows

For the Period Ended 31 March 2012

	Notes	Group		Company	
		1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
		€000	€000	€000	€000
Cash flows from operating activities					
Interest and commission receipts		60,741	38,508	5	896
Interest payments		(29,674)	(13,586)	(470)	(400)
Payments to employees and suppliers		(27,772)	(9,449)	(14)	(121)
Operating profit/(loss) before changes in operating assets/liabilities		3,295	15,473	(479)	375
(Increase)/decrease in operating assets:					
- reserve deposits with Central Bank of Malta		(68)	(1,971)	-	-
- loans advanced to customers and financial institutions		(45,475)	183	(15,000)	10,000
- investment securities		1,091,620	(694,718)	-	-
(Decrease)/increase in operating liabilities:					
- amounts owed to customers and banks		(156,407)	290,510	15,000	(10,000)
Tax paid		(3,968)	-	-	-
Net cash (used in)/generated from operating activities		888,997	(390,523)	(479)	375
Cash flows from investing activities					
Capital subscribed in subsidiary		-	-	-	(1,509)
Acquisition of subsidiary		-	(1,100)	(15,010)	(1,100)
Acquisition of property and equipment		(1,066)	(2,142)	-	-
Acquisition of intangible asset		(4,723)	(1,191)	-	-
Disposal of property and equipment		109	-	-	-
Disposal of intangible asset		5,401	-	-	-
Acquisition of available-for-sale assets		(3,183,936)	(81,489)	-	-
Disposal of available-for-sale assets		1,987,289	84,768	-	-
Acquisition of assets held for risk management		(4,728)	-	-	-
Repayment of advances from parent		-	(77)	-	-
Net cash used in investing activities		(1,201,654)	(1,231)	(15,010)	(2,609)
Cash flows from financing activities					
Proceeds from the issue of share capital		15,000	1,509	15,000	1,509
Proceeds from the issue of debt securities		4,937	14,735	-	-
Payment of interest on debt securities		(1,083)	-	-	-
Loan advanced by subsidiary bank		-	-	-	1,100
Other amounts advanced by subsidiary bank		-	-	-	121
Net cash from financing activities		18,854	16,244	15,000	2,730
Net (decrease)/increase in cash and cash equivalents		(293,803)	(375,510)	(489)	496
Cash and cash equivalents at 1 January		(322,538)	52,570	489	(7)
Cash and cash equivalents acquired on business combination		-	402	-	-
Cash and cash equivalents at end of period	31	(616,341)	(322,538)	-	489

The notes on pages 13 to 69 are an integral part of these financial statements.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

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Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

1 Reporting entity

Medifin Holding Limited (the "Company") is domiciled and incorporated in Malta. As described in note 2.5, the Group changed its financial period-end from 31 December to 31 March. The financial statements of the Group for the fifteen month period ended 31 March 2012 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, loans and advances to customers and wealth management products which are 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 principal accounting policies applied in the preparation of these financial statements are set out below, and in the relevant notes to the financial statements.

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 financial instruments and derivative financial instruments 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 the 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.

Estimates and underlying assumptions are reviewed on an on-going 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 estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

2 Basis of preparation (continued)

2.5 Comparative information

The Group changed its accounting reference period to 31 March. Accordingly, the Annual Report 2012 and the related financial statements will cover a fifteen-month period from 1 January 2011 to 31 March 2012. The comparative figures presented are a twelve-month period ended 31 December 2010. Subsequent accounting periods will be twelve-month periods ending 31 March. For this reason, the amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable to the amounts disclosed for the year ended on 31 December 2010.

The accounting reference period for Charts remained unchanged at 31 December 2011 and the current and comparative amounts taken for consolidation cover accounting years ending 31 December. This is in line with IAS 27, Consolidated and Separate Financial Statements, since the period between the date of the subsidiary's financial statements and that of the consolidated financial statements is less than three months.

The Group changed its accounting reference period in order to reduce the uncertainty relating to the accounting treatment of the de-recognition of investment securities as disclosed in note 4.

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 re-measured 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 Period Ended 31 March 2012

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 dates of the transactions. 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, including interest received on financial assets measured at amortised cost, 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.

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.

Fair value changes on other derivatives held for risk management purposes are presented in 'Net trading income' in the statement of comprehensive income.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

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.

Other fees and commission income, including servicing fees and investment management fees are recognised as the related services are performed.

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 includes foreign exchange differences.

3.6 Other operating income

Other operating income mainly comprises of realised gains on disposal of available-for-sale and held-to-maturity investments. Dividend income, which is recognised when the right to receive income is established, is reflected as a component of other operating income.

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 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate 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 period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current tax payable also includes any tax liability arising from the declaration of dividends.

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 temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.8 Tax expense (continued)

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 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.

3.9 Financial assets and financial liabilities

3.9.1 Recognition and initial recognition

The Group initially recognises loans and advances, deposits and debt securities issues on the date at which they are originated, except for corporate loans and advances which are initially recognised on the date of transfer of beneficial ownership. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes part to the contractual provisions of the instrument, except for investments and derivative assets and liabilities held for risk management which are recognised on date of settlement.

A financial asset or liability is measured initially at fair value plus, in the case of assets not classified as at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.9.2 Classification

See accounting policies 3.10, 3.12, 3.13 and 3.14.

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.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.3 Derecognition (continued)

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

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.

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. For subsequent measurement, assets are measured at a bid price.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.6 Fair value measurement (continued)

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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.

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 investment securities at both a specific asset and collective level. All individually significant loans and advances and investment securities are assessed for specific impairment. All individually significant loans and advances and 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 investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities with similar risk characteristics.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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

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 and investment securities as appropriate. 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.

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 comprise cash balances and deposits with contractual maturity of less than three months. Loans and advances to banks and Amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows. Subsequent to initial recognition cash and cash equivalents are measured at amortised cost.

3.11 Investment in subsidiaries

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

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

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 accounted for on settlement date and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The Bank participates in syndicated lending. Such loans and advances are accounted for on the agreement date, being the date of transfer of beneficial ownership.

3.13 Investment securities

The Bank'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 measured 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 measured at fair value.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.13 Investment securities (continued)

3.13.2 Available-for-sale (continued)

Any foreign exchange gains or losses on available-for-sale investment securities are recognised in profit or loss. 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.

3.14 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative financial assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. All changes in its fair value are recognised immediately in profit or loss as a component of net interest income.

3.15 Property and equipment

3.15.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any 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 operating income in profit or loss.

3.15.2 Subsequent costs

The cost of replacing a component 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 component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.15 Property and equipment (continued)

3.15.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component 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	4 – 10 years
• furniture and fittings	10 years
• computer equipment	3 – 5 years
• other equipment	4 years
• motor vehicles	5 years

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

3.16 Intangible assets

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

3.16.1 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.

3.16.2 Software

Software acquired by the Group is stated at cost less accumulated amortisation and any 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.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in a specific asset to which it relates. All other expenditure is expensed as incurred.

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 period-end and adjusted if appropriate.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.16 Intangible assets (continued)

3.16.3 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.

3.17 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.

3.18 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 estimated recoverable amount. Impairment losses are recognised in profit or loss.

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 Period Ended 31 March 2012

3 Significant accounting policies (continued)

3.19 Amounts owed to financial institutions, amounts owed to customers and debt securities issued

Amounts owed to financial institutions 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 financial institutions, 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.

3.20 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.

3.21 Employee benefits

3.21.1 Defined Contribution plan

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 in the periods during which services are rendered by employees.

3.21.2 Short-term employee benefits

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 obligations can be estimated reliably.

3.22 Preference share capital

Preference share capital is classified as a financial liability if it is redeemable by a specific date or at the option of the shareholders, or if dividends are non-discretionary. Dividends thereon are recognised in profit or loss as accrued.

3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2011 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 Period Ended 31 March 2012

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
- operational 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. These risks principally relate to and are managed by the Board of Directors of the subsidiary Bank ('the Bank').

4.2 Risk management framework

The Bank recognises the need to have an effective and efficient risk management function, and therefore it adopted a comprehensive process that provides a right balance between a fast growth of the Bank, maximising its profitability and undertaken related risks.

The Bank's objective is to deploy an integrated risk management approach that is to ensure an awareness of, and accountability for, the risks taken throughout the Bank, and also to develop the tools needed to address those risks. Such integrated approaches is realised through the governance structure of the Bank and relies on three lines of defence – business units management, independent risk management function, and independent on-going reviews of internal audit.

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 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).

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 *Management of credit risk*

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

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 Investments 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 Head of Risk Management reports on all credit related matters to the Management Credit Committee.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

Set out below is an analysis of the gross and net of impairment of the Bank's financial assets:

	31 March 2012		31 December 2010	
	Gross	Net	Gross	Net
	Exposure	Exposure	Exposure	Exposure
	€000	€000	€000	€000
Loans and advances to financial institutions	27,804	27,804	35,801	35,801
Loans and advances to customers	27,666	27,666	-	-
Investment securities	1,478,378	1,415,493	1,324,114	1,324,114
Derivative assets held for risk management	2,572	2,572	-	-
	1,536,420	1,473,535	1,359,915	1,359,915

4.3.2 Impaired loans and advances and investment securities

Impaired loans and investment securities are loans and advances and investment 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 securities.

4.3.3 Allowances for impairment

The Group established an allowance for impairment losses on its investment securities that represents its estimate of incurred losses. This allowance represents a specific loss component that relates to individually significant exposures.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 *Write-off policy*

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Group determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

4.3.5 *Exposure to sovereign debt of selected Eurozone countries*

During the period ended 31 March 2012 significant concerns emerged over sovereign credit risk in some Eurozone countries. The Group managed its exposure to the affected Eurozone markets very closely during the period, adjusting the relevant limits where necessary.

The Group acquired an available-for-sale portfolio specifically as a macro-hedge instrument. The characteristics of this portfolio are low or negative correlation with Eurozone peripheral risk. During the period, the Bank crystallised a proportion of the portfolio to realise profits which mitigated losses recognised through provisioning of impairment.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Exposure to sovereign debt of selected Eurozone countries (continued)

The Bank's exposure to sovereign Eurozone government bonds to be as follows:

	% of Total Portfolio	
	31 Mar 2012	31 Dec 2010
Greece	1.5%	6.9%
Portugal	3.7%	4.1%
Malta	0.6%	3.6%
	-----	-----
	5.8%	14.6%
	=====	=====

During March 2012, the Bank tendered its exposures to Greek sovereign debt under an offer to private sector holders (referred to as Private Sector Involvement ("PSI")) covered by the provisions under the second support plan for Greece.

The exchange offer permitted private sector holders to exchange bonds for:

- (i) new Greek sovereign bonds having a face amount equal to 31.5% of the face amount of their exchanged bonds,
- (ii) European Financial Stability Facility notes with a maturity date of two years or less from the PSI settlement date and having a face amount equal to 15% of the face amount of their exchanged bonds, and
- (iii) detachable GDP-linked securities issued by Greece having a notional amount equal to the face amount of each holder's new bonds.

On the PSI settlement date, Greece delivered short-term EFSF notes in discharge of all unpaid interest accrued up to 24 February 2012.

As at 31 March 2012, those bonds written under Greek law were recorded at a carrying amount of €15.1 million after an impairment charge of €31.5m and those written under English law were recorded at a carrying amount of €13.4 million after an impairment allowance of €31.4m.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Concentration of loans and advances and investment securities

The Bank monitors concentrations of credit risk by location. An analysis of concentrations of credit risk (net) at the reporting date is shown below.

	Loans and advances to financial institutions		Loans and advances to customers		Investment securities	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000	€000	€000
Concentration by type						
Senior bank obligations	91,377	35,801	-	-	4,056	11,682
Covered bonds	-	-	-	-	885,136	573,553
Government and government guaranteed securities	-	-	-	-	370,875	474,828
Corporate secured lending	-	-	-	-	155,426	264,051
Senior corporate lending	-	-	27,081	-	-	-
Retail secured lending	-	-	585	-	-	-
Retail unsecured lending	-	-	-	-	-	-
	91,377	35,801	27,666	-	1,415,493	1,324,114
=====						
Concentration by location						
Europe	91,377	34,253	27,666	-	1,324,928	1,261,566
North America	-	1,548	-	-	90,565	62,548
	91,377	35,801	27,666	-	1,415,493	1,324,114
=====						

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 government, government-guaranteed, covered, pooled and senior financials. Other than as disclosed in note 17.4, all securities in the portfolio are accepted by the European Central Bank ("ECB") as collateral and are rated by at least two of Fitch, Standard & Poor's and Moody's.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Concentration of loans and advances and investment securities (continued)

The Bank held investment assets of €1,415 million (net) as at 31 March 2012 (2010: €1,324 million), an analysis of the credit quality based on rating agency ratings is as follows:

	31 Mar 2012	31 Dec 2010
	Net	Net
	carrying	carrying
	amount	amount
	€000	€000
Government and government guaranteed securities		
AA- and higher	137,638	132,033
A+ or lower	233,235	342,795
Non-government securities		
AA- and higher	788,520	745,368
A+ or lower	256,100	103,918
Total	1,415,493	1,324,114

4.3.7 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. Furthermore, the Bank has a number of master netting agreements covering repurchase transactions and securities with its counterparties.

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.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

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.

Treasury maintains a portfolio of short-term liquid assets to ensure that there is sufficient liquidity within the Bank. The liquidity requirements of the Bank are met through the international repo market, the Eurex repo market and also through ECB secured funding to cover any short-term fluctuations and also 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.

The Bank has designed its liquidity risk management systems to ensure that at all times the Bank maintains a sufficient stock of cash and liquid assets to meet all of its liquidity requirements in the short term and over time. The Bank will at all times ensure that it is in full compliance with all applicable regulatory requirements, including, the Minimum Liquid-Asset Requirement, and not limited to, the MFSA Rule BR/05/2007 ("Rule BR/05").

In order to ensure that the Bank has adequate liquidity to meet its obligations, the Bank analyses its liquidity using three key metrics:

1. Maximum Cumulative Outflow ("MCO") Analysis
2. Liquidity Ladder Analysis
3. Net Cash to Wholesale Funding Ratio

Liquidity risk associated with the Bank's assets is managed based on:

- (i) A Value at Risk ("VaR") model which incorporates historical time series of market volatility, and
- (ii) A forward looking liquidity risk framework based on internal ratings of assets in the Bank's projected base case and stress scenarios

All of such analyses are undertaken by the Head of Treasury, based both on expected and stressed cash flow profiles. In respect of the Bank's assets, both expected cash flows and liquidity of assets are stressed based on parameters proposed by the Chief Risk Officer and Investments and agreed by the Head of Treasury. Potential material changes in future liquidity requirements are discussed in ALCO.

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 existing bond issue, during the fifteen month period ended 31 March 2012 new deposit products were offered by the Bank resulting in an increase in customer term deposits with a weighted average life of over one year.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

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 the liquidity ratio as reported in line with BR/05, which at the reporting date and during the reporting period was as follows:

	2012	2010
At 31 March / 31 December	134.59%	70.56%
Average for the period/year	86.73%	78.75%
Maximum for the period/year	134.59%	122.24%
Minimum for the period/year	60.38%	50.93%

4.4.3 Residual contractual maturities of financial liabilities

	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2012							
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to Central Bank of Malta	70,000	70,014	70,014	-	-	-	-
- Due to clearing houses	468,000	470,455	52,033	125,486	292,936	-	-
- Due to other banks	555,753	556,293	261,753	196,618	97,922	-	-
Amounts owed to customers	379,555	410,200	147,434	9,276	58,614	194,876	-
Debt securities in issue	19,672	25,274	-	-	1,336	23,938	-
	1,492,980	1,532,236	531,234	331,380	450,808	218,814	-

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Residual contractual maturities of financial liabilities (continued)

	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 December 2010							
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to Central Bank of Malta	714,500	715,942	188,537	140,354	387,051	-	-
- Due to other banks	420,486	421,658	274,660	534,049	-	-	-
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	-
	1,322,568	1,341,990	533,862	678,113	434,707	82,359	-

The table above shows the expected undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's cash flows on these instruments may 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.

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.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.5 Market risks (continued)

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.

The 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.

The Bank's Treasury Management Policy ("TMP") provides the framework within which treasury prudently manages interest rate, foreign exchange, funding, liquidity, counterparty and investment risk, and any other associated risks related to managing the assets and liabilities presented on the statement of financial position. Regular reviews of the TMP are conducted to test robustness of the policy's risk control limits within both normalised and stressed environments.

The Management Credit Committee is responsible for setting policies in respect of liquidity and funding, interest rate and currency risks and for reviewing and approving any changes to the overall asset-liability management policy of the Bank. The Management Credit Committee will also be responsible for monitoring the Bank's capital situation and ensuring that the Bank at all times maintains adequate capital to support its operations and investment activities as presently constituted and as expected to evolve.

The Bank's Asset-Liability Management Policy establishes the standards, internal controls, reporting requirements and approval processes that govern the ongoing management of (i) the liquidity and asset-liability mix of the Bank and (ii) the Bank's market, interest rate and currency risk.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.5 Market risks (continued)

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 along with the parameters set by the TMP. 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.

The Bank focuses its activities largely on euro denominated assets and liabilities, thus it runs a limited foreign exchange risk. The Bank seeks to minimise foreign exchange risk and thus seeks to hedge all major exposures in this area in accordance with the prevailing ALCO strategy. All foreign currency forward contracts, option contracts or foreign exchange spot deals are executed only with banks on the approved foreign exchange counterparty list set by ALCO.

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

	31 March 2012			31 December 2010		
	Euro currency	Other currencies	Total	Euro currency	Other currencies	Total
	€ 000	€000 equivalent	€000 equivalent	€000	€ 000 equivalent	€ 000 equivalent
Financial assets						
Balances with Central Bank of Malta and cash	63,640	16	63,656	10,526	-	10,526
Loans and advances to financial institutions	19,955	7,848	27,803	8,700	27,101	35,801
Loans and advances to customers	27,141	526	27,667	-	-	-
Investment securities	1,415,493	-	1,415,493	1,324,114	-	1,324,114
Derivative assets	2,572	-	2,572	-	-	-
	1,528,801	8,390	1,537,191	1,343,340	27,101	1,370,441
Financial liabilities						
Amounts owed to financial institutions	1,093,753	-	1,093,753	1,132,043	2,943	1,134,986
Amounts owed to customers	269,284	110,271	379,555	149,189	23,958	173,147
Debt securities in issue	19,672	-	19,672	14,735	-	14,735
	1,382,709	110,271	1,492,980	1,295,967	26,901	1,322,868
Net financial position	146,092	(101,881)	44,211	47,373	200	47,573
Derivative Instruments held for risk management	(101,973)	101,973	-	-	-	-
Exposure		92				

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.5 Market risks (continued)

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.

The Bank primarily invests in fixed interest rate assets that are sensitive to interest rate changes. The Bank has developed an interest rate risk management framework and interest rate risk report aimed at presenting and managing the major sources and measurements of interest rate risk. Cash flows are projected for both assets and liabilities on a base case and stressed scenarios of the relevant yield curves. The report outputs depict effects of interest rate stresses on:

- Projected Net Interest Margin
- Economic Value
- Duration Gap
- DV01 Exposure
- Asset Liability Gap Profile
- Rate Reset Profile

The outputs from the interest rate reports are used by ALCO to determine the appropriateness of the Bank's interest rate risk exposure and manage the assets and liabilities accordingly.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.5 Market risks (continued)

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

A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount €000	Re-pricing in:		
		Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
31 March 2012				
Balances with Central Bank of Malta	63,572	61,001	-	2,571
Loans and advances to financial institutions	27,804	27,804	-	-
Loans and advances to customers	27,666	27,081	25	560
Investment securities	1,415,493	423,433	57,830	934,230
	1,534,535	539,319	57,855	937,361
Amounts owed to financial institutions:				
- Due to Central Bank of Malta	70,000	70,000	-	-
- Due to clearing houses	470,455	177,519	292,936	-
- Due to other banks	553,298	457,555	95,743	-
Amounts owed to customers	379,555	156,742	57,155	165,658
Debt securities issued	19,672	-	-	19,672
	1,492,980	861,816	445,834	185,330
Interest rate gap	41,555	(322,497)	(387,979)	752,031

Interest rate risk positions are managed by Treasury, which strategically position the asset and liability interest rate re-pricing profiles as well as purchases of interest rate derivatives, including swaptions, to manage the Banks tradable interest rate risk position. The use of derivatives to manage interest rate risk is described in note 18.

In addition, Treasury uses advances to financial institutions and deposits from financial institutions to manage the overall position arising from the Bank's non-trading activities.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

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	Re-pricing in:		
		Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
31 December 2010				
Balances with Central Bank of Malta	10,526	8,022	-	2,504
Loans and advances to financial institutions	35,801	35,694	-	107
Investment securities	1,324,114	309,426	132,682	882,006
	1,370,441	353,142	132,682	884,617
Amounts owed to financial institutions:				
- Due to Central Bank of Malta	714,500	714,500	-	-
- Due to other banks	420,486	420,486	-	-
Amounts owed to customers	172,847	74,238	45,463	53,146
Debt securities issued	14,735	-	-	14,735
	1,322,568	1,209,224	45,463	67,881
Interest rate gap	47,873	(856,082)	87,219	816,736

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) as a result of a 100 basis points ("bps") movement and on Fair Value Reserve as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

31 March 2012

- Net profit would decrease by €0.872 million / €0.502 million.
- Fair Value Reserve would increase by €9.084 million / decrease by €8.153 million.

The asymmetrical impact is a result of the different interest rate hedges put in place during the period.

31 December 2010

- Net profit would increase/decrease by €3.942 million.
- Fair Value Reserve would increase/decrease by €2.411 million.

On the basis of reasonable symmetry, one directional impact is shown.

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.

4 Financial risk management (continued)

4.5 Market risks (continued)

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

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.

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.

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 €3,102,800 (2010: €1,554,200).

4 Financial risk management (continued)

4.7 Capital management – regulatory capital

The Bank's regulator, the MFSA, sets and monitors capital requirements for the Bank.

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 banking 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.

The Bank complies 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 investment 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 was increased by €15,000,000 on 12 August 2011.

The Bank has complied with all externally imposed capital requirements throughout the period.

Medifin Holding Limited

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For the Period Ended 31 March 2012

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

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

	31 Mar 2012	31 Dec 2010
<i>Own funds</i>	€000	€000
Share capital	56,030	41,030
Share premium	13,464	13,464
Retained earnings/(accumulated losses) brought forward	6,321	(8,718)
Result for the period/year	708	15,039
Other reserves	(1,836)	(267)
Intangible assets	(351)	(1,371)
Investment in subsidiaries	(63)	-
Other comprehensive income	(1,137)	(1,410)
Own funds	73,136	57,767
	=====	
<i>Capital ratio</i>		
Regulatory capital as a % of total risk-weighted assets	24.53%	36.83%
	=====	

5 Use of estimates and judgements

The preparation of the financial statements requires the directors to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. These disclosures supplement the disclosures on the financial risk management (see note 4).

In the process of applying the Group's accounting policies, the directors have made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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 Period Ended 31 March 2012

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 Financial assets and liabilities

6.1 Valuation

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

As at 31 March 2012 and at 31 December 2010, the fair value of the available-for-sale debt instruments represents closing bid price quoted in an active market. These are classified as Level 1 under the fair value hierarchy in accordance with IFRS 7.

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 statement of financial position, except for held-to-maturity investments with an amortised cost of €423 million (2010: €1,242 million), the fair market value of which at 31 March 2012 amounted to €387 million (2010: €1,144 million).

The fair value of derivatives held for risk management are based on valuation models and the methodology is to calculate the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discount cash flow, DCF). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

However, where valuations include significant unobservable inputs, the transaction price is deemed to provide the best evidence of initial fair value for accounting purposes. For valuations that include significant unobservable inputs, the difference between the model valuation and the initial transaction price is recognised in profit or loss.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include, for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling etc.

To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

Such derivatives held for risk management are classified as Level 2 under the fair value hierarchy in accordance with IFRS 7.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

The table below sets out the carrying amounts and fair values of the subsidiary Bank which holds almost all financial assets and liabilities of the Group:

At 31 March 2012

		Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
	Notes	€000	€000	€000	€000	€000
Balances with Central Bank of						
Malta and cash	14	63,656	-	-	63,656	63,656
Loans and advances to financial institutions	15	27,804	-	-	27,804	27,804
Loans and advances to customers	16	27,666	-	-	27,666	27,666
Other financial assets						
- Investment securities	17	559,647	855,846	-	1,415,493	1,357,192
- Derivative assets	18	-	-	2,572	2,572	2,572
		678,773	855,846	2,572	1,537,191	1,478,890
Amounts owed to financial institutions	25	1,093,753	-	-	1,093,753	1,093,753
Amounts owed to customers	26	379,483	-	-	379,483	379,483
Debt securities in issue	27	19,672	-	-	19,672	20,000
		1,492,908	-	-	1,492,908	1,493,236

At 31 December 2010

		Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
	Notes	€000	€000	€000	€000	€000
Balances with Central Bank of						
Malta and cash	14	10,526	-	-	10,526	10,526
Loans and advances to financial institutions	15	35,801	-	-	35,801	35,801
Other financial assets						
- Investment securities	17	1,241,514	82,600	-	1,324,114	1,143,532
- Derivative assets	18	-	-	-	-	-
		1,287,841	82,600	-	1,370,441	1,189,859
Amounts owed to financial institutions	25	1,134,986	-	-	1,134,986	1,134,986
Amounts owed to customers	26	172,847	-	-	172,847	172,847
Debt securities in issue	27	14,735	-	-	14,735	15,400
		1,322,568	-	-	1,322,568	1,323,233

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

7 Acquisition of subsidiary

- 7.1 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 €31,060k 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.

7.2 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.

7.3 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)

	1,182
	=====

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 Period Ended 31 March 2012

7 Acquisition of subsidiary (continued)

7.4 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	331
		=====

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.

7.5 Acquisition-related costs

During 2010, 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.

8 Net interest income/(expense)

	Group		Company	
	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	€000	€000	€000	€000
Interest income				
Investment securities	63,584	41,694	-	-
Loans and advances to financial institutions	345	100	7	818
Loans and advances to customers	175	7	-	-
	64,104	41,801	7	818
Interest expense				
Amounts owed to customers	11,726	3,722	-	-
Amounts owed to financial institutions	20,622	10,263	-	855
Debt securities in issue	1,484	203	-	-
Other	483	-	-	-
	34,315	14,188	-	855
Net interest income/(expense)	29,789	27,613	7	(37)
	=====	=====	=====	=====

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

9 Net fee and commission income/expense

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Included in net fee and commission		
Portfolio and other management fees	442	(678)
	=====	=====

With respect to the Company's Net fee income, refer to note 33.4.

10 Net trading income and other operating income

10.1 Net trading income

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Foreign exchange		
- from derivatives	547	-
- from other activities	1,253	347
	=====	=====
	1,800	347
	=====	=====

'Foreign exchange income from derivatives' includes gains and losses from spot and forward contracts and other currency derivatives.

'Foreign exchange income from other activities' includes gains from foreign exchange in retail.

10.2 Other operating income

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Realised gains on disposal of investments	48,826	3,280
Other income	111	-
	=====	=====
	48,937	3,280
	=====	=====

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

11 Administrative and other expenses

Administrative expenses include:

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Operating lease charges	235	202
Directors' fees	42	43
	<hr/>	

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

	Audit services €000	Other assurances services €000	Tax advisory services €000	Other non-audit services €000
Period to 31 March 2012				
Auditors' remuneration	93	57	13	8
	<hr/>			
Year to 31 December 2010				
Auditors' remuneration	43	13	6	48
	<hr/>			

12 Personnel expenses

12.1 Personnel expenses incurred are analysed as follows:

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Directors' emoluments:		
- salaries	514	600
- defined contribution social security costs	2	1
Staff costs:		
- wages and salaries	7,280	4,542
- defined contribution social security costs	270	153
	<hr/>	
	8,066	5,299
	<hr/>	

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

12 Personnel expenses (continued)

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

	Group	
	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	No.	No.
Executive and senior management	18	14
Other managerial supervisory and clerical	71	32
Other	7	4
	96	50
	=====	=====

12.3 The number of persons employed at the reporting date was as follows:

	Group	
	31 Mar 2012	31 Dec 2010
	No.	No.
Management and administration	125	69
	=====	=====

13 Income tax expense

13.1

	Group		Company	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Current	271	3,899	-	-
Deferred	288	81	-	-
	=====	=====	=====	=====
Income tax expense	559	3,980	-	-
	=====	=====	=====	=====

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

13 Income 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 Group's country of incorporation, are reconciled as follows:

	Group	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Profit for the period/year	930	14,992
Income tax expense	559	3,980
Profit before income tax	1,489	18,972
=====		
Tax at the applicable rate of 35%	521	6,640
Tax effect of:		
Tax rates in foreign jurisdictions	(8)	(8)
Non-deductible expenses	2	110
Depreciation charges not deductible by way of capital allowances	46	3
Temporary differences not previously recognised	-	(2,830)
Temporary difference not recognised	-	64
Tax effect of untaxed dividends	(2)	-
Other difference	-	1
Tax expense	559	3,980
=====		

14 Balances with Central Bank of Malta and cash

14.1

	Group	
	31 Mar 2012 €000	31 Dec 2010 €000
Balances with Central Bank of Malta	63,572	10,504
Cash	84	22
	63,656	10,526
=====		

- 14.2 Balances with Central Bank of Malta include a reserve deposit of the Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €2,122,670 (2010: €2,504,295) bearing interest at 1% (2010: 1%) per annum, and an overnight deposit amounting to €61,000,000 (2010: €8,000,000) bearing interest at 0.25% (2010: 0.25%) per annum.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

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

- 14.3** The Balances with Central Bank of Malta also include a balance of €449,585 (2010: €338,250) which is pledged in favour of the Depositor Compensation Scheme in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta. In connection with the Depositor Compensation Scheme ("DCS"), investment securities with a carrying amount of €1,380,069 (nominal value €1,330,000) and a fair value of €1,391,313 as at 31 March 2012, are pledged in favour of DCS.

15 Loans and advances to financial institutions

15.1

	Group		Company	
	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	€000	€000	€000	€000
At amortised cost:				
Repayable on call and at short notice	16,688	36,192	-	495
Term loans and advances	11,480	107	-	15,000
Term loans and advances	28,168	36,299	-	15,495

- 15.2** Balances of loans and advances to financial institutions up to €80,740 (2010: €559,427) are pledged in favour of other banks providing credit card facilities to customers.

- 15.3** An amount of €1m has been contributed to a clearing fund held by Eurex Clearing AG, of which the subsidiary Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

- 15.4** None of the loans and advances was past due or impaired (2010: Nil).

16 Loans and advances to customers

16.1

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
At amortised cost:		
Loans and advances: retail	585	-
Loans and advances: corporate	27,081	158
	27,666	158

- 16.2** Loans and advances to customers as at the end of the period were neither past due nor impaired.

- 16.3** Loans and advances to customers: "retail" are secured by an equivalent amount of customer deposits, included in "Amounts owed to customers". These deposits are pledged in favour of the Group.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

17 Investment securities

17.1 Investment securities analysis

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Held-to-maturity investment securities	609,918	1,241,514
Available-for-sale investment debt securities	805,636	82,799
Available-for-sale investment equity securities	245	268
	1,415,799	1,324,581
	=====	=====

At 31 March 2012, €1,340 million (2010: €1,278 million) of investment securities are expected to be recovered after more than 12 months after the reporting date.

17.2.1 Held-to-maturity investment securities

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Government bonds	225,389	242,753
Non-government bonds	384,529	998,761
	609,918	1,241,514
	=====	=====

17.2.2 Available-for-sale investment debt securities

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Government bonds	145,484	-
Non-government bonds	660,152	82,799
	805,636	82,799
	=====	=====

17.2.3 Available-for-sale investment equity securities

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Non-government equities	245	268
	=====	=====

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

17 Investment securities (continued)

17.3 Impairment analysis

As at 31 March 2012

	Gross carrying amount €000	Individually impairment amount €000	Net carrying amount €000
Held-to-maturity investment securities	672,803	62,885	609,918
Available-for-sale investment debt securities	805,636	-	805,636
Available-for-sale investment equity securities	245	-	245
	1,478,684	62,885	1,415,799
	=====	=====	=====

The individually impairment amount represents amounts written-off at the end of the financial period. These are recorded in the subsidiary Bank's accounts. Total investment portfolio owned by the subsidiary Bank amounts to €1,415,493,000.

No evidence of impairment was identified on investment securities during year ended 31 December 2010.

17.4 Most of investment securities of the subsidiary Bank are pledged as collateral against the provision of borrowing facilities (note 26).

Cash value of unutilised borrowing facilities (headroom) of the subsidiary Bank at 31 March 2012 amounted to €121.416 million.

The value of free and unencumbered securities of the subsidiary Bank at 31 March 2012 stood at €32.872 million.

17.5 As at 31 March 2012, the Bank has a commitment amounting to €70.612 million to purchase further investment securities.

17.6 Following is a reconciliation of the movement in the net carrying amount of investment securities:

	Net carrying amount €000
Balance of investment securities prior impairment	1,478,684
Less Impairment charge	(62,885)
Net carrying amount at 31 March 2012	1,415,799
	=====

As noted in 4.3.5, the Group acquired an available-for-sale portfolio specifically as a macro-hedge instrument. The characteristics of this portfolio are low or negative correlation with Euro-zone peripheral risk. During the period, the Bank crystallised a proportion of the portfolio to realise profits which mitigated losses recognised through provisioning of impairment.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

17 Investment securities (continued)

- 17.7 All the equity financial instruments are listed on the Malta Stock Exchange. These are classified as available-for-sale. An increase of 4 per cent in the Malta Stock Exchange price index at the reporting date would have increased equity by €9,823 (2010: €10,717); an equal change in the opposite direction would have decreased equity by same amount. This analysis is performed on the same basis for the comparative period and assumes that all other variables remain constant.

18 Derivative assets held for risk management

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Instrument type:		
Interest rate	2,572	-
	=====	

In order to manage interest rate risks, the subsidiary Bank established derivative lines with counterparties to purchase interest rate caps, swaps, swaptions, futures and other appropriate instruments approved for hedging interest rate risk.

19 Investment in subsidiaries

19.1	Name of the Company	Incorporated in	Nature of business	Current equity interest %	Company 31 Mar 2012 €000	31 Dec 2010 €000
	Mediterranean Bank plc	Malta	Banking	100	69,494	54,494
	Charts Investment Management Service Ltd	Malta	Investment	65	1,100	1,100
	Medifin Leasing Limited	Malta	Investment	99	10	-
					70,604	55,594
					=====	=====

19.2 Mediterranean Bank plc in turn owns the following subsidiaries:

	Name of the Company	Incorporated in	Nature of business	Current equity interest %	31 Mar 2012 €	31 Dec 2010 €
	Mediterranean Global Advisory SA	Switzerland	Dormant	100	63,086	63,086
	Mediterranean Research Limited	United Kingdom	Investment research	100	2	2
					63,088	63,088
					=====	=====

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

20 Property and equipment

20.1 Group

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost:						
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	86	178	19	2,142
Acquisition through business Combination	-	41	-	216	-	257
At 31 December 2010	928	1,984	110	966	146	4,134
Acquisitions	226	732	175	398	29	1,560
Disposals	-	(109)	-	-	-	(109)
At 31 March 2012	1,154	2,607	285	1,364	175	5,585
=====						
Depreciation:						
At 1 January 2010	371	53	22	346	104	896
Charge for the year	93	120	14	57	27	311
Acquisition through business Combination	-	26	-	74	-	100
At 31 December 2010	464	199	36	477	131	1,307
Charge for the period	134	402	59	120	11	726
At 31 March 2012	598	601	95	597	142	2,033
=====						
Carrying amounts:						
At 1 January 2010	557	31	2	226	23	839
At 31 December 2010	464	1,785	74	489	15	2,827
At 31 March 2012	556	2,006	190	767	33	3,552
=====						

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

20 Property and equipment (continued)

- 20.2** The Subsidiary Bank operates from seven immovable properties which are held under operating lease agreements (see note 32).
- 20.3** There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (2010: Nil).
- 20.4** An amount of €985,386 relating to computer and other equipment cost were not put to use as at 31 December 2010. Accordingly, no depreciation was charged. Property and equipment amounting to €4,462 in 'Other equipment' and €59,716 in 'Computer hardware', were not put into use by 31 March 2012, and accordingly no related depreciation was charged for the period.

21 Intangible assets

21.1 Group

	Goodwill	Software under development	Computer software	Customer list	Total
	€000	€000	€000	€000	€000
Cost:					
At 1 January 2010	-	-	1,437	-	1,437
Acquisitions	-	-	1,191	-	1,191
Acquisition through business combination	331	-	-	474	805
At 31 December 2010	331	-	2,628	474	3,433
Acquisitions	-	1,861	4,666	-	6,527
At 31 March 2012	331	1,861	7,294	474	9,960
Amortisation:					
At 1 January 2010	-	-	1,191	-	1,191
Charge for the year	-	-	67	47	114
At 31 December 2010	-	-	1,258	47	1,305
Charge for the period	-	-	653	47	700
At 31 March 2012	-	-	1,911	94	2,005
Carrying amounts:					
At 1 January 2010	-	-	246	-	246
At 31 December 2010	331	-	1,370	427	2,128
At 31 March 2012	331	1,861	5,383	380	7,955

Medifin Holding Limited

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21 Intangible assets (continued)

21.2 There were no capitalised borrowing costs related to the acquisition of software during the period (2010: Nil).

21.3 Computer software assets are inclusive of capitalised wages amounting to €nil (2010: €60,120).

21.4 'Software under development' includes software which was not available for use and accordingly, no amortisation was charged for the period.

21.5 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.

21.6 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 14.25% (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 14% and the terminal value growth rate used of 3%.

22 Other assets

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Amount receivable from ultimate parent company	153	79
Trade receivables	203	-
VAT recoverable	969	-
Other assets	5,219	262
	<hr/> 6,544	<hr/> 341
	=====	=====

"Amounts receivable from ultimate parent company" are interest free, unsecured and repayable on demand.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

23 Prepayments and accrued income

	Group		Company	
	31 Mar 2012 €000	31 Dec 2010 €000	31 Mar 2012 €000	31 Dec 2010 €000
Prepayments	1,368	385	-	9
Accrued income	18,408	14,313	-	-
Term loans and advances	19,776	14,698	-	9

24 Deferred tax assets

24.1 Deferred tax assets are attributable to the following:

Group

	Assets		Liabilities		Net	
	31 Mar 2012 €000	31 Dec 2010 €000	31 Mar 2012 €000	31 Dec 2010 €000	31 Mar 2012 €000	31 Dec 2010 €000
Property and equipment	6	7	(368)	(64)	(362)	(57)
Available-for-sale securities	612	759	-	-	612	759
Intangible asset (on acquisition)	34	17	(166)	(166)	(132)	(149)
	652	783	(534)	(230)	118	553

24.2 Movement in temporary differences

Group

	Balance 01 Jan 11 €000	Business combination €000	Recognised in profit or loss €000	in equity €000	Balance 31 Mar 12 €000
Property and equipment	(57)	-	(305)	-	(362)
Available-for-sale securities	759	-	-	(147)	612
Intangible asset (on acquisition)	(149)	-	17	-	(132)
	553	-	(288)	(147)	118

	Balance 01 Jan 10 €000	Business combination €000	Recognised in profit or loss €000	in equity €000	Balance 31 Dec 10 €000
Property and equipment	-	-	(57)	-	(57)
Available-for-sale securities	-	-	-	759	759
Intangible asset (on acquisition)	-	(166)	17	-	(149)
	-	(166)	(40)	759	553

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

25 Capital and reserves

Group and Company

25.1.1 Issued share capital

	31 Mar 2012	31 Dec 2010
	No.	No.
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	40,188,556	40,188,556
Ordinary 'B' shares of €1 each	1,214,991	1,214,991
Ordinary 'C' shares of €0.001 each	2,550,000	2,550,000
Ordinary 'D' shares of €1 each	15,000,000	-
	58,953,547	43,953,547
	=====	=====

- Holders Class A and Class B ordinary shares are entitled to one vote per A ordinary shares and B ordinary shares. C ordinary shares and D 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 D are entitled to €20,000,000 as cash dividend and rank before other classes of ordinary shares. Class A and Class B ordinary shareholders are entitled to receive declared cash dividends in proportion to an agreed pre-defined formula. The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Group and Company

		31 Mar 2012	31 Dec 2010
	Note	€000	€000
At beginning of year		40,738	39,521
Issued for cash during the year	25.1.3	15,000	1,885
Directly attributable transaction costs		-	(668)
		55,738	40,738
		=====	=====

25.1.2 Authorised share capital

		31 Mar 2012	31 Dec 2010
		No.	No.
Ordinary 'A' shares of €1 each		83,497,000	98,497,000
Ordinary 'B' shares of €1 each		1,500,000	1,500,000
Ordinary 'C' shares of €0.001 each		3,000,000	3,000,000
Ordinary 'D' shares of €1 each		15,000,000	-
		102,997,000	102,997,000
		=====	=====

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25 Capital and reserves (continued)

25.1.3 By a joint resolution by all the shareholders and all the directors dated 12 August 2011, it was resolved to increase the fully paid up issued share capital by 15,000,000 ordinary D 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.

By a joint resolution by all the shareholders and all the directors dated 26 April 2012, it was resolved to increase the fully paid up issued share capital to issue 450,000 new C ordinary shares of €0.001 each, to be fully paid in cash.

25.2 Exchange translation reserve arises as a result of the translation of the foreign subsidiary financial position and operational results.

25.3 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.

25.4 All reserves at reporting date, except for retained earnings, are non-distributable.

26 Amounts owed to financial institutions

	Group		Company	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000
Repayable on call and at short notice	562,660	618	1,282	128
Term loans and advances	531,166	1,134,368	-	1,100
	1,093,826	1,134,986	1,282	1,228
	=====			

The company held balances with the subsidiary Bank which is unsecured, interest free and is payable on demand.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

27 Amounts owed to customers

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Repayable on demand	117,260	33,898
Term deposits	261,587	123,454
	378,847	157,352
	=====	=====

28 Debt securities in issue

28.1

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
At amortised cost:		
Debt securities in issued	19,672	14,735
	=====	=====

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Balance at the beginning of the period/year	14,735	-
Debt securities issued	4,937	14,735
Balance at end of period/year	19,672	14,735
	=====	=====

- 28.2** 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 and are redeemable at their nominal value.

On 27 June 2011, the Group issued €5 million of debt securities which are fully fungible, and consequently have the same terms and conditions, with the debt securities issued during the previous year.

- 28.3** 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 or other breaches with respect to its debt securities during the period ended 31 March 2012 and year ended 31 December 2010.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

29 Other liabilities

29.1

	Group		Company	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000
Amounts due to ultimate parent company	-	15,000	-	15,000
Amounts due to subsidiary	-	-	6	6
VAT payable	72	506	-	-
Other liabilities	1,423	385	-	-
	1,495	15,891	6	15,006
	=====			

30 Accruals

	Group		Company	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000
Accrued expenses	1,241	2,657	8	8
Accrued interest expense	4,537	2,744	-	547
	5,778	5,401	8	555
	=====			

31 Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group	
Notes	31 Mar 2012	31 Dec 2010
Analysis of cash and cash equivalents:		
Cash in hand	84	22
Call deposits	88,722	44,192
Repayable on call and at short notice	(562,659)	(618)
Amounts owed to financial institutions with contractual maturity less than 3 months	(142,488)	(366,134)
	(616,341)	(322,538)
Cash and cash equivalents		
Adjustment to reflect:		
Balance with Central Bank of Malta	2,572	2,504
Deposits with maturity over 3 months	518	107
Amounts owed to financial institutions with contractual maturity over 3 months	(388,751)	(768,234)
	(1,002,002)	(1,088,161)
	=====	

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

31 Cash and cash equivalents (continued)

		Group	
	Notes	31 Mar 2012	31 Dec 2010
Analysed as follows:			
Balances with Central Bank of Malta and cash	14	63,656	10,526
Loans and advances to financial institutions	15	28,168	36,299
Amounts owed to financial institutions	26	(1,093,826)	(1,134,986)
		(1,002,002)	(1,088,161)
=====			
		Company	
	Notes	31 Mar 2012	31 Dec 2010
Analysis of cash and cash equivalents:			
Repayable on call and at short notice		-	(7)
Amounts owed to financial institutions with contractual maturity of less than 3 months		-	496
		-	489
Cash and cash equivalents		-	489
		-	489
=====			

32 Operating leases

The Group 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 Group 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.

During the period 31 March 2012, the Bank has also entered into four rental agreements relating to immovable properties. As prior agreements, these run for a non-cancellable lease period of one to four years for an annual rent of €25,550, €35,400, €14,160 and €14,640 respectively.

Charts has a rental agreement of an annual rent for €18,939.24 which is increased yearly by the Maltese Inflation Index. The agreement will terminate on 30 June 2018.

Furthermore, the Group has contracted for the use of premises in Europe with yearly rent payments of €28,320. The agreement is renewable on a two-year rolling period.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

32 Operating leases (continued)

Future minimum rentals payable under non-cancellable operating leases as at 31 March/December are as follows:

	Group	
	31 Mar 2012	31 Dec 2010
	€000	€000
Within one year	445	63
After one year but not more than five years	668	480
More than five years	341	443
	-----	-----
	1,454	986
	=====	=====

33 Related parties

33.1 Parent company

The 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.

33.2 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.

33.3 Related party balances

Related party balances are disclosed in note 22, 26 and 29.

Other liabilities set out in note 29 shows the amounts due to parent company as €nil since the balance included for the year ended 31 December 2010 amounting to €15,000,000 have been capitalised as Ordinary 'D' shares. This balance was unsecured, interest free and repayable on demand.

33.4 Related party transactions

Interest expense set out in note 8 includes interest payable to parent company of €nil (2009: €819,999).

Note 9 Net fee and Commission income includes €300,000 fee paid to the parent company and €300,000 fee received from the subsidiary Bank.

Medifin Holding Limited

Notes to the Financial Statements

For the Period Ended 31 March 2012

34 Capital commitments and contingencies

34.1 Capital commitments

At 31 March 2012, the Group had budgeted commitments of €4,514,820, €717,300 of which relates to property and equipment whereas the remaining relates to software being developed.

34.2 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 Limited. €200,000 has been paid in September 2012.

34.3 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 (2010: €50,000) in favour of the Malta Stock Exchange.

In terms of the Second Schedule of the Investor Compensation Scheme Regulations 2003, the Company had an outstanding pledge on a bank account amounting to €1,873 in favour of the Scheme.

35 Events after the reporting date

The sub-subsidiary of the Company, Mediterranean Research Limited, a company registered in the United Kingdom, has been placed into liquidation. It is expected to be liquidated by the end of the financial year ending 31 March 2013. This did not give rise to discontinued operations since the operations have been taken over by the subsidiary Bank through a UK establishment.

In view that the subsidiary Bank is currently operating in excess of its liquidity over the target ratios, the subsidiary Bank embarked in market operations to re-purchase the debt securities in issue after the financial reporting date. The number of debt securities repurchased up to the date of issue of this report is 1,366,000. All repurchase securities were at current market prices with a weighted average price of 101.

There were no other events after the reporting date that would otherwise required adjustment to or disclosure in these financial statements.



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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 6 to 69, which comprise the statements of financial position as at 31 March 2012 and the statements of comprehensive income, changes in equity and cash flows for the period 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 5, 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 March 2012, and of their financial performance and their cash flows for the period 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
- the Company's financial statements are not in agreement with the accounting records; 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

31 October 2012