Medifin Holding Limited

Annual Report

31 March 2013

Company Registration Number: C 34111

Medifin Holding Limited

Medifin Holding Limited

Directors' Report
For the Year Ended 31 March 2013

The Directors present their annual report, together with the financial statements of Medifin Holding Limited (the 'Company') and of the group ('the Group') of which it is the parent, for the year ended 31 March 2013.

Board of Directors

Mr. Mark Alexander Watson
Mr. Peter Bramwell Cartwright
Mr. Finlay Stuart McFadyen
Mr. Benjamin Hollowood (appointed on 30 May 2013)

Presentational changes in Financial Statements

- During the comparative period presented, the company changed its accounting reference period from 31 December 2011 to 31 March 2012. Accordingly, the comparative figures presented cover a fifteen-month period from 1 January 2011 to 31 March 2012. Subsequent accounting periods are twelve-month periods ending 31 March. Consequently, the current period presented and related financial information will cover the period from 1 April 2012 to 31 March 2013.
- One of the subsidiaries, Charts Investment Management Service Limited, has a reporting period which differs from the Group's. It was impracticable to prepare financial information with same reporting period for the consolidated financial statements. Since the latest financial statements of the subsidiary, having a period from 1 January 2012 to 31 December 2013, did not exceed three months from the Group's reporting period, these were used for consolidation purposes. Except for cash dividends paid by Charts Investment Management Service Limited after its year end but before the Group's year end, there were no significant transactions which would warrant an adjustment as per the International Financial Reporting Standards as adopted by the European Union.

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 subsidiaries, Mediterranean Global Advisory SA, Mediterranean Research Limited and Medifin Estates (the 'sub-subsidiaries')

The Company is mainly involved in the holding of shares.

The Bank was granted a licence by the Malta Financial Services Authority (MFSA) in terms of the Banking Act, Chapter 371 of the Laws of Malta, on 14 July 2005. The Bank is licensed amongst other things, to carry out the business of banking, to undertake money transmission services, to issue and administer means of payment, to issue guarantees and commitments, to trade on own account and/or for the account of customers in a number of instruments, to provide portfolio management and advice and to provide safe keeping services. The Bank also holds a category 2 and category 4 license issued by the MFSA which authorises the Bank to provide investment services, to hold or control clients' money and to act as trustee or custodian of collective investment schemes.

The Bank owns a diversified investment portfolio comprising a treasury book consisting of high quality, liquid securities, including senior financial instruments, bank covered bonds, public sector bonds and mortgage bonds and a corporate lending portfolio consisting primarily of senior secured loans and bonds. The corporate lending portfolio largely consists of Western European credits and all loans and bonds in the portfolio are denominated in euro or pounds sterling. All of the loans are floating rate instruments and do not bear material interest rate risk.

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

Medifin Holding Limited

Directors' Report
For the Year Ended 31 March 2013

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.

The Bank's two subsidiaries (Mediterranean Research Limited and Mediterranean Global Advisory SA) are dormant and have been placed into liquidation. On 5 June 2012, the Bank established a partnership (Medifin Estates) to enter into property leases on the Bank's branches and to lease them back to the Bank.

Review of business development and financial position

Profit after tax for the Group amounted to €20.833 million (2012: €0.930 million) while the Company reported a gain of €6.715 million (2012: loss €0.001 million).

Shareholders' equity at the reporting date amounted to €106.866 million (2012: €75.436 million) and €76.023 million (2012: €69.308 million) for the Group and the Company respectively.

Subsidiaries' review of business development and financial position

Medifin Leasing Limited ('Leasing')

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

Leasing made a loss before tax credit of €67,326 (2012: profit of €1,475). Shareholders' equity at the reporting date amounted to a negative €32,813 (2012: positive €11,474). However, the Directors of the subsidiary expect an increase in profitability in the foreseeable future. The negative outcome was expected during the first years of operation as a result of the structure.

The Directors do not envisage any changes in the principal activities of the Company; but anticipate profit generation in the coming years.

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

During the year ended 31 March 2013, the Bank recorded a profit before tax of €31.547 million. This was driven by the Bank's treasury management activities and its corporate credit investment portfolio which, combined with its low cost base and excellent customer service, have enabled the Bank to position itself as a market leading provider of savings and term deposit products, primarily in the Maltese market.

The Bank's Total Operating Income for the year ended 31 March 2013 was €54.252 million (15 months ended 31 March 2012: €80.299 million). This was created through the Bank's treasury operations and its corporate lending platform. In addition, during the 2012/13 financial year, the Bank underwrote two major local market debt issues earning fees of €300,000.

The Bank recorded a profit after tax for year ended 31 March 2013 of €20.483 million (15 months ended 31 March 2012: €0.708 million).

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

As of 31 March 2013, the Bank's investment securities stood at €1.564 billion (2012: €1.415 billion) consisting of held-to-maturity securities amounting to €357 million and available-for-sale (AFS) securities amounting to €1.207 billion. The fair value of the AFS book was risk managed through interest rate derivatives such as interest rate swaps where the hedge accounting methodology under IAS 39 was adopted over the last six months.

The Bank's loans and advances to customers stood at €402.174 million as of 31 March 2013 (2012: €27.666 million), net of impairment loss allowances of €0.676 million. At year end, all of the loans were performing and no specific provisions were required.

On 21 November 2012, the Bank successfully issued the euro equivalent of €12,500,000 of 7.50% subordinated bonds due 2019. The issue were oversubscribed and were admitted to the Malta Stock Exchange Official List on Thursday 27 December 2012. During the year, the Bank bought back €4.1 million nominal value of its 6.25% Bonds due 2015 through market operations.

Shareholders' equity at the reporting date amounted to €115.083 million (2012: €75.386 million).

At an extraordinary shareholders general meeting held on 15 March 2013, a resolution was approved for the issuance and allotment to Medifin Holding Limited of 6,320,000 ordinary A shares of €1.00 each that were fully paid in cash.

Also, during the year ended 31 March 2013, by an extraordinary resolution dated 27 March 2013, it was resolved to provide the Bank a shareholders' contribution of €8,500,000.

A net interim dividend of €7.146 million (17 cents per ordinary share) was paid in cash on 15 March 2013. An amount of €6.320 million has been re-invested in the Bank in the form of a fresh issue of ordinary A shares as stated above.

Retained earnings as at 31 March 2013 amounted to €21.191 million (2012: €7.029 million). The Directors proposed to distribute €21 million as a final dividend by way of a bonus share issue. The final dividend was executed on 10 May 2013.

Charts Investment Management Service Limited ('Charts')

Charts's financial year end differs from that of the Group and follows a calendar year.

Charts achieved a profit before taxation amounting to €538,130 (31 December 2011: €278,993). After deducting taxation thereon, the profit for the twelve months ended 31 December 2012 amounted to €356,286 (31 December 2011: €188,950).

Shareholders' equity at 31 December 2012 amounted to €1,508,135 (2011: €1,147,393).

Dividends and reserves

Retained earnings for the Group amounting €27.788 million (2012: €7.080 million), are carried forward to the next financial year. Retained Earnings of the Company amounts to €6.529 million (2012: losses €0.186 million). The Directors do not propose any dividends for distribution.

The Company received from the subsidiary Bank a net interim dividend of €7.146 million (17 cents per ordinary share) paid in cash on 15 March 2013. An amount of €6.320 million has been re-invested in the subsidiary Bank in the form of a fresh issue of ordinary A shares.

Furthermore, the Directors of the Subsidiary Bank have proposed to distribute €21 million as a final dividend by way of a bonus share issue which was executed on 10 May 2013.

Standard licence conditions and regulatory sanctions

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 were reported which were subject to administrative penalty or regulatory sanction.

Business developments

The Bank's primary strategic objective is to be a leading provider of savings, investment and wealth management products to the mass affluent markets, both in Malta and in other countries of Eurozone.

Having established its position in the Maltese market primarily through its core savings offering, the Bank has invested considerable resources in building e-Wealth Management platform (e-Wealth platform), which provides the Bank's customers with an information rich and cost efficient solution to deliver investment and savings products in a seamless, transparent and user friendly format. The platform allows the Bank to offer its services in both local and international markets providing investors with the ability to execute transactions in equities, bonds and funds in a cost efficient and easy to use manner. The platform provides customers with a large range of investment researches, analytical and financial planning tools that enable the customers to build portfolio designed to meet their investment goals and objectives. The underlying strategy is designed to meet the long-term savings and investment requirements of the core customer base.

In addition to the efforts of improving the range of products and services available for the customers, the Bank's intention is to continue diversification of its liability structure, while strengthening the deposit base. The Bank's core deposit offerings are a range of attractively priced fixed-term and other saving products. As per Interim Statements of the Bank for the six-months period ended 30 September 2013, the deposit base reached €649 million.

The Bank maintains its access to the international wholesale funding markets through bilateral repo lines, Eurex repo platform and a secured 3-year term funding facility with an international counterparty. After the reporting period, in order to support the growth of its lending activities, the Bank issued €240 million of secured notes through the Netherlands funding vehicle.

Supported with robust liability structure, the asset base of the Bank has been continuously growing, and reached €2.102 billion on 31 March 2013. This growth has been mostly concentrated in the Bank's portfolio of international senior secured corporate loans and bonds, which have been an increasingly important portion of the Bank's asset portfolio. The Bank keeps on investing in quality and liquid EU assets. Thus, the Bank's portfolio of corporate loans reached €460 million on 31 March 2013 (representing corporate credit assets purchased and traded).

Business developments (continued)

Mediterranean Bank remains committed to operating with strong regulatory ratios and a robust liquidity position. At 31 March the Bank's regulatory liquidity ratio stood at 90.13%, and it reported a Capital Adequacy Ratio of 15.66%. Evidently the Bank is comfortably in excess of regulatory requirements and intends to maintain the same level for both ratios.

Outlook

Despite the struggles faced by the Eurozone over the past five years, economic activity seems to have entered a phase of modest recovery as confidence is improving, financial market fragmentation declines and fiscal consolidation eases.

In August, the Bank launched its Belgian branch, which initially offered fixed term and savings products as well as online execution of transactions in equities, bonds and funds. The Bank launched its e-Wealth platform in the Belgian market. The launch of the Belgian branch and of a range of new products and services in Malta are expected to increase the non-interest income of the Bank.

Events after the reporting date

The sub-subsidiary of the Company, Mediterranean Global Advisors, a company registered in Switzerland, was liquidated in June 2013, which resulted in a write-down of €4,000.

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.

During the months of October and November 2013, the Company increased its investment in the subsidiary Bank by acquiring €14.7 million ordinary A shares, as reported in note 18.8 and 18.9 in the notes to the consolidated financial statements.

Two loans have been granted by the immediate parent to the Company of €5,000,000 and €10,000,000 on 30 October 2013 and 28 November 2013 respectively. These have been utilised to increase the share capital of the subsidiary Bank, as described above, net of €300,000 arrangement fees.

After the reporting date, the subsidiary Bank issued further subordinated debt securities, "the second issue". These are fungible in all respect, to the previous issue. During December 2013, the second issue was merged with the original issue which then formed both formed part of same listing on the Malta Stock Exchange. More detail is disclosed in the notes to the consolidated financial statements.

As disclosed further in the notes to the consolidated statement, a further €1,250,000 as shareholder's contribution was granted to the subsidiary Bank.

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

Medifin Holding Limited

Directors' Report
For the Year Ended 31 March 2013

Approval of Directors' Report

The Directors' Report is approved by the Board of Directors on the 29 January 2014 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 year 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 European Union.

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, chapter 386 of the Laws of Malta.

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

29 January 2014

Medifin Holding Limited

Statement of Financial Position
As at 31 March 2013

		Group		Company	
		31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	**70,055**	63,656	**-**	-
Loans and advances to financial institutions	14	**19,847**	28,168	**354**	-
Loans and advances to customers	15	**402,174**	27,666	**-**	-
Investment securities	16	**1,564,337**	1,415,799	**-**	-
Derivative assets held for risk management	17	**279**	2,572	**-**	-
Investments in subsidiaries	18	**-**	-	**85,624**	70,604
Property and equipment	19	**6,416**	6,359	**-**	-
Intangible assets	20	**8,684**	5,149	**-**	-
Other assets	21	**1,170**	6,544	**-**	-
Prepayments and accrued income	22	**28,276**	19,775	**-**	-
Current tax recoverable		**96**	36	**77**	-
Deferred tax assets	23	**-**	118	**-**	-
Total assets		**2,101,334**	1,575,842	**86,055**	70,604

The notes on pages 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Financial Position
As at 31 March 2013

	Notes	Group 31 Mar 2013 €000	Group 31 Mar 2012 €000	Company 31 Mar 2013 €000	Company 31 Mar 2012 €000
EQUITY					
Share capital	24	**55,738**	55,738	**55,738**	55,738
Share premium	24	**13,756**	13,756	**13,756**	13,756
Retained earnings/(accumulated losses)	24	**27,788**	7,080	**6,529**	(186)
Other reserves	24	**9,584**	(1,138)	**-**	-
Total equity attributable to equity holders of the Company		**106,866**	75,436	**76,023**	69,308
Non-controlling interest		**461**	510	**-**	-
Total equity		**107,327**	75,946	**76,023**	69,308
LIABILITIES					
Amounts owed to financial institutions	25	**1,368,995**	1,093,826	**1,511**	1,282
Amounts owed to customers	26	**564,790**	378,847	**-**	-
Debt securities in issue	27	**15,664**	19,672	**-**	-
Subordinated liabilities	28	**12,341**	-	**-**	-
Current tax payable		**7,661**	278	**-**	-
Other liabilities	29	**9,994**	1,495	**8,506**	6
Deferred tax liabilities	23	**5,079**	-	**-**	-
Accruals	30	**9,483**	5,778	**15**	8
Total liabilities		**1,994,007**	1,499,896	**10,032**	1,296
Total equity and liabilities		**2,101,334**	1,575,842	**86,055**	70,604

The notes on pages 16 to 81 are an integral part of these financial statements.

The financial statements on pages 8 to 81 were approved and authorised for issue by the Board of Directors on 29 January 2014 and signed on its behalf by:

Peter B. Cartwright
Director

Mark A. Watson
Director

Medifin Holding Limited

Statement of Comprehensive Income
For the Year Ended 31 March 2013

	Notes	Group		Company	
		1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	**1 Apr 2012 to 31 Mar 2013**	1 Jan 2011 to 31 Mar 2012
		€000	€000	**€000**	€000
Interest income		**50,956**	64,104	**-**	7
Interest expense		**(27,644)**	(34,315)	**(1)**	-
Net interest income/(expense)	7	**23,312**	29,789	**(1)**	7
Fee and commission income		**1,994**	1,240	**-**	300
Fee and commission expense		**(2,843)**	(798)	**-**	(300)
Net fee and commission (expense)/income	8	**(849)**	442	**-**	-
Net trading income	9.1	**5,344**	1,800	**-**	-
Other operating income	9.2	**27,561**	48,937	**10,288**	-
Total operating income		**55,368**	80,968	**10,287**	7
Net impairment loss on investment securities	4/16	**(676)**	(62,885)	**-**	-
Administrative and other expenses	10	**(8,810)**	(7,101)	**(8)**	(8)
Personnel expenses	11	**(11,267)**	(8,066)	**-**	-
Depreciation and amortisation	19/20	**(2,576)**	(1,427)	**-**	-
Operating expenses		**(23,329)**	(79,479)	**(8)**	(8)
Profit/(loss) before income tax		**32,039**	1,489	**10,279**	(1)
Income tax expense	12	**(11,206)**	(559)	**(3,564)**	-
Profit/(loss) for the year/period		**20,833**	930	**6,715**	(1)
Other comprehensive income					
Exchange translation		**3**	(8)	**-**	-
Fair value reserve (available-for-sale assets)					
Net change in fair value		**44,514**	37,080	**-**	-
Net amount transferred to profit or loss		**(28,021)**	(36,975)	**-**	-
Income taxes		**(5,773)**	147	**-**	-
Other comprehensive income for the year/period		**10,723**	244	**-**	-
Total comprehensive income for the year/period		**31,556**	1,174	**6,715**	(1)

The notes on pages 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Comprehensive Income
For the Year Ended 31 March 2013

	Group		Company	
	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	**1 Apr 2012 to 31 Mar 2013**	1 Jan 2011 to 31 Mar 2012
	€000	€000	**€000**	€000
Profit attributable to:				
Owners of the Company	**20,708**	864	**6,715**	(1)
Non-controlling interests	**125**	66	**-**	-
Profit for the year/period	**20,833**	930	**6,715**	(1)
Total comprehensive income attributable to:				
Owners of the Company	**31,430**	1,114	**6,715**	(1)
Non-controlling interests	**126**	60	**-**	-
Total comprehensive income for the year/period	**31,556**	1,174	**6,715**	(1)

The notes on pages 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2013

Group	Share capital	Share premium	Retained earnings	Exchange translation reserve	Fair value reserve	Total	Non Controlling Interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
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 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2013

Group	Share capital	Share premium	Retained earnings	Exchange translation reserve	Fair value reserve	Total	Non Controlling Interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Balance as at 1 April 2012	55,738	13,756	7,080	(3)	(1,135)	75,436	510	75,946
Total comprehensive income for the year								
Profit for the year	-	-	20,708	-	-	20,708	125	20,833
Other comprehensive income for the year								
Exchange translation	-	-	-	3	-	3	-	3
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	28,935	28,935	-	28,935
- Net amount transferred to profit or loss	-	-	-	-	(18,216)	(18,216)	1	(18,215)
Total comprehensive income for the year	-	-	20,708	3	10,719	31,430	126	31,556
Transactions with owners, recorded directly in equity								
Contributions by owners								
Dividends paid to equity holders	-	-	-	-	-	-	(175)	(175)
Balance as at 31 March 2013	55,738	13,756	27,788	-	9,584	106,866	461	107,327

The notes on pages 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2013

Company	Share capital	Share premium	Retained earnings/ (Accumulated Losses)	Total
	€000	€000	€000	€000
Balance as at 1 January 2011	40,738	13,756	(185)	54,309
Total comprehensive income for the period				
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**
Balance as at 1 April 2012	55,738	13,756	(186)	69,308
Total comprehensive income for the year				
Profit for the year	-	-	6,715	6,715
Balance at 31 March 2013	**55,738**	**13,756**	**6,529**	**76,023**

The notes on pages 16 to 81 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Cash Flows
For the Year Ended 31 March 2013

	Group		Company	
	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	53,885	60,741	-	5
Interest payments	(30,096)	(29,674)	(1)	(470)
Payments to employees and suppliers	(16,906)	(27,772)	-	(14)
Operating profit/(loss) before changes in operating assets/liabilities	6,883	3,295	(1)	(479)
(Increase)/decrease in operating assets:				
- reserve deposits with Central Bank of Malta	(1,360)	(68)	-	-
- loans advanced to customers and financial institutions	(292,290)	(45,475)	-	(15,000)
- investment securities	91,657	1,091,620	-	-
Increase/(decrease)/ in operating liabilities:				
- amounts owed to customers and banks	473,566	(156,407)	-	15,000
Tax paid	(4,274)	(3,968)	-	-
Net cash generated from/(used in) operating activities	274,182	888,997	(1)	(479)
Cash flows from investing activities				
Capital subscribed in subsidiary	-	-	(6,320)	-
Acquisition of subsidiary	(200)	-	(200)	(15,010)
Acquisition of property and equipment	(431)	(1,066)	-	-
Acquisition of intangible asset	(5,090)	(4,723)	-	-
Disposal of property and equipment	-	109	-	-
Disposal of intangible asset	-	5,401	-	-
Acquisition of available-for-sale assets	(1,170,856)	(3,183,936)	-	-
Disposal of available-for-sale assets	941,592	1,987,289	-	-
Acquisition of assets held for risk management	(13,749)	(4,728)	-	-
Shareholders' contribution advanced to subsidiary	-	-	(9,325)	-
Repayment of shareholders' contribution	-	-	825	-
Dividends	-	-	6,646	-
Net cash (used in)/generated from investing activities	(248,734)	(1,201,654)	(8,374)	(15,010)
Cash flows from financing activities				
Proceeds from the issue of share capital	-	15,000	-	15,000
Proceeds from the issue of debt securities	-	4,937	-	-
Repurchase from the issue of debt securities	(4,095)	-	-	-
Issue of subordinated liabilities	12,341	-	-	-
Payment of interest on debt securities	-	(1,083)	-	-
Other amounts advanced by subsidiary bank	-	-	229	-
Loan from ultimate parent	9,325	-	9,325	-
Repayment of loan from ultimate parent	(825)	-	(825)	-
Cash dividends paid to minority	(175)	-	-	-
Net cash from financing activities	16,571	18,854	8,729	15,000
Net increase/(decrease) in cash and cash equivalents	42,019	(293,803)	354	(489)
Cash and cash equivalents at beginning of year/period	(616,341)	(322,538)	-	489
Cash and cash equivalents at end of year/period (note 31)	(574,322)	(616,341)	354	-

The notes on pages 16 to 81 are an integral part of these financial statements.

1 Reporting entity

Medifin Holding Limited (the "Company") is domiciled and incorporated in Malta. The address of the Company's registered office is 10, St. Barbara Bastion, Valletta, VLT 1961, Malta. As described in note 2.5, during 2012, the Company changed its financial period-end from 31 December to 31 March.

These consolidated financial statements of the Company as at and for the year ended 31 March 2013 comprise the Company and its subsidiaries, together referred to as the "Group". The Group is principally involved in the provision of term savings and wealth management products which is supported by the acquisition of a high quality investment portfolio comprising EU sovereign and sovereign related credits, covered bonds and other similar credit quality instruments.

2 Basis of preparation

2.1 Statement of compliance

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

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

These consolidated financial statements have also been prepared and presented in accordance with the Companies Act, 1995, chapter 386 of the Laws of Malta.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except that:

- available-for-sale financial instruments are measured at fair value;
- derivative financial instruments are measured at fair value; and
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

2.3 Functional and presentation currency

These consolidated 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 Basis of preparation (continued)

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.

2.5 Comparative information

During the comparative period presented, the Company changed its accounting reference period from 31 December 2011 to 31 March 2012. Accordingly, the comparative figures presented are a fifteen-month period covering from 1 January 2011 to 31 March 2012. Subsequent accounting periods are twelve-month periods ending 31 March. Consequently, the current period presented and related financial information cover the period from 1 April 2012 to 31 March 2013.

For this reason, the comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes for the period ended on 31 March 2012, are not entirely comparable to the amounts disclosed for the year ended 31 March 2013.

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 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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.

3.2 Foreign currency

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.

3.3 Interest

Interest income and expense, including interest received on financial assets are 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 transaction costs that are incremental and are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- coupon received and amortisation of discount and/or premium on:
    1. financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
    2. available-for-sale investment securities calculated on an effective interest basis; and
- net cash settlement on interest rate swaps designated in a fair value hedge to hedge fair value changes in available-for-sale investment securities.

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;
- fair value changes on derivatives held for risk management purposes that are not designated as qualifying hedging instruments; and
- the effective and ineffective portion of fair value changes in the available-for-sale investment securities and qualifying hedging derivatives which are designated in fair value hedges on interest rate risk.

3.6 Other operating income

Other operating income mainly comprises of realised gains on disposal of available-for-sale, held-to-maturity investments and redemptions of loans and receivables. 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.

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.

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.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is changed.

3.9 Financial assets and financial liabilities

3.9.1 Recognition and initial recognition

The Group initially recognises loans and advances at 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. Amounts due to customers, debt securities and subordinated liabilities are also recognised on the date which they are originated. 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 or minus, in the case of instruments not classified as at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the asset or issue of the liability.

3.9.2 Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Loans and receivables;
- Held-to–maturity;
- Available-for-sale; or
- At fair value through profit or loss and within the category as:
  - Held-for-trading; or
  - Designated at fair value through profit or loss

See accounting policies 3.10, 3.12, 3.13, 3.14 and 3.15.

Financial liabilities

The Group classifies its non-derivative financial liabilities as measured at amortised cost and classifies its derivative liabilities at fair value through profit or loss. See accounting policy 3.14 and 3.20.

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged, 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 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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.

When available, 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.

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.

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.

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.

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.

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)

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

In assessing collective impairment on loans and advances to customers, 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.

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 investment 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).

The Group evaluates whether a loss event, including financial difficulties, has an impact on the estimated future cash flows of the financial asset. Accordingly, future estimated cash flows may need to be reduced or delayed, normally implying a decrease of their estimated present value and thus giving rise to an impairment loss which must be recognised.

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)

The Group measures the amount of the impairment loss as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate (i.e. the effective interest rate before modification of the terms of the contract).

3.9.8 Sale of a financial asset with a total return swap

The Group sells financial assets that are subject to a concurrent total return swap. In all cases, the Group retains substantially all the risks and rewards of ownership. Therefore, the Group continues to recognise the transferred assets in its statement of financial position. The cash received is recognised as a financial asset and a corresponding liability is recognised. The Group does not separately recognise the total return swap that prevents derecognition of the assets as a derivative because doing so would result in recognising the same rights and obligations twice. Because the Group sells the contractual rights to the cash flows of the assets it does not have the ability to use the transferred assets during the term of the arrangement.

3.10 Cash and cash equivalents

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

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

3.11 Investment in subsidiaries

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

3.12 Loans and advances to customers

Loans and advances to customers 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.

3 Significant accounting policies (continued)

3.12 Loans and advances to customers (continued)

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

3.13.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated as 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; and
- 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.

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 loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

3 Significant accounting policies (continued)

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 include:

- Derivatives which are designated as hedging instruments; and
- Derivatives used for risk management purposes but which do not qualify for hedge accounting.

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 trading income.

3.15 Hedge Accounting

For accounting purposes there are three possible types of hedges:

(1) Fair Value Hedges: hedges of changes in the fair value of assets, liabilities or unrecognised firm commitments;

(2) Cash Flow Hedges: hedges of the variability of future cash flows from highly probable forecast transactions and floating rate assets and liabilities; and

(3) Hedges of net investments in foreign operations: hedges of the translation adjustments resulting from translating the functional currency financial statements of foreign operations into the presentation currency of the parent.

The Group makes use of Fair Value Hedge accounting.

IAS 39 prescribes the use of hedge accounting for derivatives which serve to hedge the fair value of assets or liabilities against one or more defined risks. Interest rate swaps are primarily used to hedge fixed rate available-for-sale securities that are subject to interest rate risk. Any changes in the fair value of the hedged asset or hedged liability resulting from an opposite move in the hedged risk are also recognised in profit or loss under 'net trading income'. Any portion of the changes in fair value that are not attributable to the hedged risk are accounted for in accordance with the rules of the valuation category to which the hedged asset or liability belongs.

In fair value hedge accounting an underlying transaction is linked with one or more hedging transactions in a hedging relationship. The carrying amounts of the hedged transactions are adjusted through profit or loss in the event of changes in fair value attributable to the hedged risk.

The application of hedge accounting rules is tied to a number of conditions. These relate above all to the documentation of the hedging relationship and also to its effectiveness. Documentation must include, in particular, the identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged and how effectiveness of the hedge is assessed.

3 Significant accounting policies (continued)

3.15 Hedge Accounting (continued)

IAS 39 requires the effectiveness of a hedge to be demonstrated during the entire term of the hedge in order for hedge accounting rules to be applied. Effectiveness in this context means the relationship between the change in fair value of the hedged item and the change in fair value of the hedging instrument attributable to the risk being hedged.

If these changes offset each other almost fully, a high degree of effectiveness exists. Proof of effectiveness requires, firstly, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness); secondly, when a hedge exists, it must be regularly demonstrated that it was highly effective during the period under review (retrospective effectiveness). Both the retrospective and prospective effectiveness must be within a range of between 80% and 125%.

Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Hedge effectiveness is always assessed, even when the terms of the derivative and hedged item are matched.

Hedging derivatives are reported as "Derivative financial instruments designated as fair value hedges" within 'Derivative assets held for risk management' or 'Derivative liabilities held for risk management'. In the event that a derivative is subsequently de-designated from a hedging relationship, it is transferred to financial assets/liabilities at fair value through profit or loss and reported as 'Derivative assets held for risk management' or 'Derivative liabilities held for risk management'. Subsequent changes in fair value are recognised in net trading income.

Hedge ineffectiveness is reported in net trading income and is measured as the net effect of changes in the fair value of the hedging instrument and changes in the fair value of the hedged item arising from changes in the market rates that correspond to the hedged risk.

If a fair value hedge of a debt instrument is discontinued prior to the instrument's maturity (i.e.: the derivative is terminated, expired or the relationship is de-designated), any remaining fair value adjustments relating to the hedged risk is made to the carrying amount of the debt instrument which is amortised to interest income or expense over the remaining life of the instrument. For other types of fair value adjustments, and whenever a fair value hedged asset or liability is sold or otherwise derecognised, any such adjustments are included in the calculation of the gain or loss on de-recognition.

3 Significant accounting policies (continued)

3.16 Property and equipment

3.16.1 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, the major components are accounted for as separate items 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.

3.16.2 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. Ongoing repairs and maintenance property and equipment are recognised in profit or loss as incurred.

3.16.3 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 leasehold property	4 –10	years
• computer equipment	3 – 5	years
• other equipment	4	years
• fixtures and fittings	10	years
• motor vehicles	5	years

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

3 Significant accounting policies (continued)

3.17 Intangible assets

The Group's intangible assets represent 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.

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.

3.18 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.

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 generate 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").

3 Significant accounting policies (continued)

3.19 Impairment of non-financial assets (continued)

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.

3.20 Amounts owed to financial institutions, amounts owed to customers, debt securities issued and subordinated liabilities

Amounts owed to financial institutions and customers, debt securities issued and subordinated liabilities 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, debt securities and subordinated liabilities are initially measured at fair value less incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

3.21 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.

3.22 Employee benefits

The Group contributes towards the State Pension Defined Contribution plan in accordance with legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for this defined contribution plan are recognised as an employee benefit expense in profit or loss in the years during which services are rendered by employees.

3.23 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 Significant accounting policies (continued)

3.24 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 April 2013 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.

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 has adopted a comprehensive process that provides an appropriate balance between the fast growth of the Bank, maximising its profitability and managing the associated risks.

The Bank's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Bank and also to develop the tools needed to address those risks. This integrated approach is realised through the governance structure of the Bank and relies on three lines of defence – business units management, an independent risk management function, and independent on-going reviews by 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 debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk

The Bank's objective is to maximise its investment returns while maintaining a sound and prudent investment profile. To facilitate achieving this target, the Bank invests in a diversified portfolio including both high-quality assets with strong ratings stability and a highly granular portfolio of loans to corporations and securities issued by corporations, whose higher returns are viewed as justifying a greater level of risk.

Specifically, the Bank focuses on secured and unsecured debt securities issued by financial institutions (some of which may carry a government guarantee) and on debt securities issued by supranational agencies and governments, emphasising Eurozone issuers. The Bank also provides lending to corporate borrowers, either by subscribing to debt securities or by providing senior loans. The Bank's Credit and Investment Policy permits it, subject to the prior approval of the Board, to manage its credit risk through credit hedges, although to date it has not done so.

The Bank's investments are managed on a portfolio basis, taking into account correlations between asset classes. The Bank diversifies its financial and government exposures to avoid excessive concentration in particular countries or types of financial institutions and by including lending to corporate borrowers in the Bank's portfolio. In building and managing a portfolio of financial assets, the Bank's Credit and Investment department takes into account correlation between government and financial system risk in view of the financial system's dependence on government support.

The Management Credit Committee is responsible for approving credit recommendations and making other credit decisions under its authority delegated by the Board. This includes decisions on individual credits, reviewing and recommending credit and large exposures to the Board, consideration of credit hedging strategies and recommending other concentration limits for Board approval. It is also responsible for delegating transactional responsibility to the Credit and Investment department and within the parameters that the Management Credit Committee sets out, the Bank's investment portfolio is managed on a day to day basis by the Head of Credit and Investment.

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 2013		31 March 2012	
	Gross Exposure	**Net Exposure**	Gross Exposure	Net Exposure
	€000	**€000**	€000	€000
Balances with Central Bank of Malta and treasury bills	**69,848**	**69,848**	63,572	63,572
Loans and advances to financial institutions	**20,131**	**20,131**	27,804	27,804
Loans and advances to customers: corporate	**400,276**	**399,600**	27,081	27,081
Retail secured lending	**2,574**	**2,574**	585	585
Investment securities	**1,564,034**	**1,564,034**	1,478,378	1,415,493
Derivative assets held for risk management	**279**	**279**	2,572	2,572
	2,057,142	**2,056,466**	1,599,992	1,537,107

4.3.2 Impaired loans and advances and investment securities

The Management Credit Committee has reviewed all credit exposures on a case by case and collective basis (see accounting policy 3.9.7) and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment securities. Impaired investment securities and loans are those where a loss event has occurred and the Bank establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

4.3.3 Allowances for impairment

The Bank established a collective allowance for impairment losses on its loans and advances to customers that represents losses incurred but not yet identified. For the year ended 31 March 2013, such an allowance amounted to €0.676 million (2012: nil).

During the financial year ended 31 March 2013, there were no forbearance activities (2012: nil).

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Write-off policy

The Bank writes off a loan or an investment debt security balance and any related allowances for impairment losses, when the Bank 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 year ended 31 March 2013 significant concerns about the creditworthiness of certain Eurozone countries persisted. The Bank managed its exposure to the affected Eurozone markets very closely during the year ended 31 March 2013, adjusting the relevant limits where necessary.

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

	% of Total Investment Securities	
	31 Mar 2013	**31 Mar 2012**
Greece	**0.96%**	1.5%
Portugal	**2.18%**	3.7%
Malta	**1.97%**	0.6%
	5.11%	5.8%

On 25 April 2012, the Bank participated in the final phase of the Private Sector Involvement (PSI) covered by the provisions under the second support plan for Greece. The settlement terms consisted of the exchange of foreign-law governed bonds into new Greek sovereign bonds, European Financial Stability Facility notes and detachable GDP-linked securities issued by Greece. An impairment charge of €31.4 million in respect of foreign-law governed bonds was charged during the period ending 31 March 2012.

No impairment provisions in respect of these positions were required during the year ending 31 March 2013.

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 sector and by geographical 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 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000	**€000**	€000
Concentration by type						
Senior bank obligations	**49,087**	91,377	**-**	-	**104,477**	154,145
Covered bonds	**-**	-	**-**	-	**1,000,290**	910,317
Government securities	**-**	-	**-**	-	**130,365**	132,949
Sovereign agencies and supranationals					**151,500**	62,656
Pooled securities	**-**	-	**-**	-	**117,433**	155,426
Secured corporate lending	**-**	-	**399,600**	27,081	**54,964**	-
Unsecured corporate lending	**-**	-	**-**	-	**5,005**	-
Retail secured lending	**-**	-	**2,574**	585	**-**	-
	49,087	91,377	**402,174**	27,666	**1,564,034**	1,415,493
Concentration by location						
Europe	**49,087**	91,377	**385,161**	27,666	**1,530,868**	1,324,928
North America	**-**	-	**17,013**	-	**33,166**	90,565
	49,087	91,377	**402,174**	27,666	**1,564,034**	1,415,493

Concentration by location for investment securities is measured based on the location of issuer of the security. Concentration by location for loans and advances is based on the borrower's country of domicile. Government and government guaranteed securities include securities issued or guaranteed by regional governments, supranationals and sovereign agencies as well as sovereign governments themselves.

All securities in the portfolio are accepted by the European Central Bank (ECB) as collateral except for the pooled securities with an aggregate carry value of €40.608 million and the corporate lending portfolio. Either the securities themselves or the issuers of the securities are rated by at least two of Fitch, Standard & Poor's and Moody's.

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 securities of €1,564 million as at 31 March 2013 (2012: €1,415 million) net of impairment, an analysis of the credit quality based on rating agency ratings is as follows:

	31 Mar 2013	31 Mar 2012
	Net carrying amount	Net carrying amount
	€000	€000
Government securities		
A+ or lower	**130,365**	132,949
Other securities		
AA- and higher	**1,111,924**	926,158
A+ or lower	**321,745**	356,386
Total	**1,564,034**	1,415,493

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.

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 unencumbered 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. Longer bi-lateral term funding (for example in the form of total return swaps) is also in place 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 processes and 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 and not limited to, the Minimum Liquid-Asset Requirement and MFSA Banking 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 four key approaches:

1. Liquidity Ladder Analysis
2. Scenario Analysis: a forward-looking liquidity risk framework based on projected prices and credit ratings of assets in the Bank's base case scenario and a number of stress scenarios
3. Maximum Cumulative Outflow (MCO) Analysis
4. Key metrics including Net Cash and the Net Cash to Wholesale Funding Ratio

Inputs to these analyses and the analyses themselves, are provided by the Treasury and Risk Management groups, based both on expected and stressed cash flow profiles. 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. The majority of the Bank's customer deposit portfolio comprises term deposits rather than deposits that can be withdrawn at short notice and the Bank continues to develop new deposit products that will improve its liquidity risk position.

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 MFSA Banking Rule BR/05, which at the reporting date and during the reporting year/period was as follows:

	2013	2012
At 31 March	**90.13%**	134.59%
Average for the year/period	**128.76%**	86.73%
Maximum for the year/period	**162.05%**	134.59%
Minimum for the year/period	**90.05%**	60.38%

4.4.3 Residual contractual maturities of financial liabilities

31 March 2013	**Carrying amount**	**Gross nominal outflow**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to Central Bank of Malta	107,000	107,016	107,016	-	-	-	-
- Due to clearing houses	695,000	696,669	164,269	181,232	205,159	146,009	-
- Due to other banks	566,995	567,467	175,259	299,499	9,789	82,920	-
Amounts owed to customers	566,047	618,039	170,303	15,583	97,703	334,450	-
Debt securities in issue	15,664	18,887	-	-	994	17,893	-
Subordinated liabilities	12,341	18,936	-	-	931	3,725	14,280
	1,963,047	**2,027,014**	**616,847**	**496,314**	**314,576**	**584,997**	**14,280**

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Residual contractual maturities of financial liabilities (continued)

31 March 2012	Carrying amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
	€000	€000	€000	€000	€000	€000	€000
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	-

The table above shows the potential undiscounted cash flows on the Bank's non-derivative financial liabilities assuming that all liabilities are crystallised into cash at the earliest contractually permitted date. 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 material 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) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.1 Management of market risks

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 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.

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.

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.2 Currency risk (continued)

	31 March 2013			31 March 2012		
	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 treasury bills	69,957	98	70,055	63,640	16	63,656
Loans and advances to financial institutions	13,538	6,593	20,131	19,955	7,849	27,804
Loans and advances to customers	346,726	55,448	402,174	27,141	525	27,666
Investment securities	1, 559,301	4,733	1,564,034	1,415,493	-	1,415,493
Derivative assets	279	-	279	2,572	-	2,572
	1,989,801	66,872	2,056,673	1,528,801	8,390	1,537,191
Financial liabilities						
Amounts owed to financial institutions	1,329,240	37,754	1,368,995	1,093,753	-	1,093,753
Amounts owed to customers	469,132	96,915	566,047	269,284	110,271	379,555
Debt securities in issue	15,664	-	15,664	19,672	-	19,672
Subordinated liabilities	10,079	2,262	12,341	-	-	-
	1,824,115	136,931	1,963,047	1,382,709	110,271	1,492,980
Net financial position	163,686	(70,059)	93,626	146,092	(101,881)	44,211
Derivative instruments held for risk management	(69,756)	69,756		(101,973)	101,973	
Exposure		(303)			92	

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 exposure to moves in market interest rates, both through their effect on future cash flows and through their effect on the current economic values of financial instruments and by having pre-approved limits on these exposures. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its monitoring activities.

In order to evaluate the risk arising through fluctuations in future cash flows, such flows are projected for both assets and liabilities on a base case and stressed scenarios of the relevant yield curves. A comparison report demonstrates the effects of interest rate stresses on Net Interest Margin (NIM) over a number of years. The risk arising from fluctuations in fair value is calculated for each section of the Bank's portfolio, showing exposure to individual market rates to a high degree of granularity. It is then expressed both as a risk to reported income and capital and as an economic measure that can be compared to the risk reported using a cash flow approach.

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.

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:

31 March 2013		Re-pricing in:		
	Carrying amount	Less than 3 months	3 months to 1 year	More than 1 year
	€000	€000	€000	€000
Balances with Central Bank of Malta and treasury bills	69,848	45,975	19,941	3,932
Investment securities	1,564,034	401,626	3,699	1,158,709
Loans and advances to financial Institutions	20,131	20,131	-	-
Loans and advances to customers	402,174	385,871	13,834	2,469
	2,056,187	853,603	37,474	1,165,110
Amounts owed to financial institutions:				
- Due to Central Bank of Malta	107,000	107,000	-	-
- Due to clearing houses	695,000	345,000	205,000	145,000
- Due to other banks	566,995	551,609	14,649	737
Amounts owed to customers	566,047	185,465	94,932	285,650
Debt securities issued	15,664	-	-	15,664
Subordinated liabilities	12,341	-	-	12,341
	1,963,047	1,189,074	314,581	459,392
Interest rate gap	93,140	(335,471)	(277,107)	705,718

4 Financial risk management (continued)

4.5 Market risks (continued)

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

31 March 2012		Re-pricing in:		
	Carrying amount €000	Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
Balances with Central Bank of Malta and treasury bills	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 and Credit and Investment departments, in conjunction with Risk Management, by strategically positioning the asset and liability interest rate re-pricing profiles as well as by purchases of interest rate derivatives, primarily swaps. The use of derivatives to manage interest rate risk is described in note 17.

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.

4 Financial risk management (continued)

4.5 Market risks (continued)

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on 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 2013

- Net profit would decrease by €7.91 million / increase by €8.96 million.
- Economic Value would decrease by €16.96 million / increase by €19.61 million.

These values are presented after taking into account the impact of hedge accounting and it has been assumed in this calculation that market interest rates do not become negative.

31 March 2012

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

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- Fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.

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

4 Financial risk management (continued)

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 Bank 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 €4,387,500 (31 March 2012: €3,102,800).

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 Bank's regulatory capital consists of:

- core tier 1 capital, which includes ordinary share capital, share premium, retained earnings, shareholders' contribution and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including and deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and the carrying amounts of investment in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items; and

- core tier 2 capital, consisting of subordinated liabilities in issue and fair value reserve.

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 regulatory Own Funds was increased through an increase in share capital of €6.320 million on 15 March 2013 and a further €8.500 million as shareholders' contribution on 27 March 2013.

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

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

The Bank's regulatory capital position was as follows:

	31 Mar 2013	31 Mar 2012
Own funds	**€000**	€000
Share capital	**62,350**	56,030
Share premium	**13,464**	13,464
Retained earnings brought forward	**708**	6,321
Profit for the year/period	**20,483**	708
Other reserves	**(3,429)**	(1,836)
Intangible assets	**(228)**	(351)
Investment in subsidiaries	**(65)**	(63)
Fair value reserve	**9,578**	(1,137)
Shareholders' contribution	**8,500**	-
Subordinated liabilities	**12,341**	-
Own funds	**123,702**	73,136

Capital ratio

Regulatory capital as a % of total risk-weighted assets	**15.66%**	24.53%

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 Bank's accounting policies, the Directors have made the following judgements, 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 Bank 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 Bank 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 Bank 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 Bank's investments, the Credit and Investment department, together with the Back Office, track 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.

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 with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, 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.

5.4 Effectiveness testing under Hedge Accounting

The following effectiveness tests are performed under Hedge Accounting:

- A prospective effectiveness test. This is a forward-looking test of whether a hedging relationship is expected to be highly effective against market moves.
- A retrospective effectiveness test. This is a backward-looking test of whether a hedging relationship has actually been highly effective over a period: this is specifically defined in terms of an effectiveness ratio between 80% and 125%.

The Bank assesses the effectiveness under the dollar offset methodology; this is a quantitative method that compares the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged Item attributable to the hedged risk. The dollar offset method is performed using different approaches, as follows:

- Prospective effectiveness testing uses the sensitivity analysis approach. This method consists of measuring the effect of a hypothetical shift in the underlying hedged risk (for example, a 1% shift in the yield curve of the interest rate being hedged) on both the hedging Instrument and the hedged Item. Interest rates used in the prospective effectiveness test represent a reasonable proxy for the cost of funding. Bonds were modelled with coupons adjusted down by their credit spreads consistent with the aim of hedging purely the interest rate component of their price risk.
- Retrospective effectiveness testing uses the hypothetical derivative approach, which compares the change in the fair value or cash flows of the hedging Instrument with the change in the fair value or cash flows of a hypothetical derivative matching the terms of the hedged item. Valuations of both the hedging instruments themselves and the hypothetical derivatives, are calculated using a market-standard approach.

6 Financial assets and liabilities

6.1 Valuation

The Company 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.

As at 31 March 2013 and at 31 March 2012, the fair value of the available-for-sale (AFS) investment securities represents closing bid price quoted in an active market. These are classified as Level 1, with the exception for those investments securities reclassified to AFS as described in note 16.6, which are classified as Level 2, 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 and loans and advances to customers as shown in table below.

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.

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

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, dependant 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.

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

The table below sets out the gross carrying amounts and fair values of the Group:

At 31 March 2013

	Notes	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
		€000	€000	€000	€000	€000
Balances with Central Bank of Malta, treasury bills and cash	13	29,163	40,892	-	70,055	70,055
Loans and advances to financial institutions	14	19,847	-	-	19,847	19,847
Loans and advances to customers	15	402,174	-	-	402,174	397,187
Investment securities	16	356,847	1,207,490	-	1,564,337	1,546,387
Derivative assets held for risk management	17	-	-	279	279	279
		808,031	1,248,382	279	2,056,692	2,033,755
Amounts owed to financial institutions	25	1,368,995	-	-	1,368,995	1,368,995
Amounts owed to customers	26	564,790	-	-	564,790	564,790
Debt securities in issue	27	15,664	-	-	15,664	16,302
Subordinated liabilities	28	12,341	-	-	12,341	12,931
		1,961,790	-	-	1,961,790	1,963,018

At 31 March 2012

	Notes	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
		€000	€000	€000	€000	€000
Balances with Central Bank of Malta, treasury bills and cash	13	63,656	-	-	63,656	63,656
Loans and advances to financial institutions	14	28,168	-	-	28,168	28,168
Loans and advances to customers	15	27,666	-	-	27,666	27,666
Investment securities	16	559,953	855,846	-	1,415,799	1,357,498
Derivative assets held for risk management	17	-	-	2,572	2,572	2,572
		679,443	855,846	2,572	1,537,861	1,479,560
Amounts owed to financial institutions	25	1,093,826	-	-	1,093,826	1,093,826
Amounts owed to customers	26	378,847	-	-	378,847	378,775
Debt securities in issue	27	19,672	-	-	19,672	20,000
		1,492,345	-	-	1,492,345	1,492,601

7 Net interest income/(expense)

	Group		Company	
	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	**1 Apr 2012 to 31 Mar 2013**	1 Jan 2011 to 31 Mar 2012
	€000	€000	**€000**	€000
Interest income				
Investment securities	**36,657**	63,584	-	-
Loans and advances to financial institutions	**133**	345	-	7
Loans and advances to customers	**14,166**	175	-	-
	50,956	64,104	-	7
Interest expense				
Amounts owed to customers	**17,060**	11,726	-	-
Amounts owed to financial institutions	**8,996**	20,622	(1)	-
Debt securities in issue	**1,588**	1,484	-	-
Other	-	483	-	-
	27,644	34,315	(1)	-
Net interest income/(expense)	**23,312**	29,789	(1)	7

8 Net fee and commission (expense)/income

Group

	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000
Net portfolio and other management fees	**(1,149)**	442
Underwriting fee income	**300**	-
Net fee and commission (expense)/income	**(849)**	442

The company did not generate or incur fee and commission income or expense.

9 Net trading income and other operating income

9.1 Net trading income

Group

	1 Apr 2012 to 31 Mar 2013 €000	1 Jan 2011 to 31 Mar 2012 €000
Foreign exchange income		
- from derivative assets held for risk management	**344**	223
- from other activities	**1,111**	1,252
Gains on derivative assets/liabilities held for risk management	**3,812**	325
Other income	**77**	-
	5,344	1,800

'Foreign exchange income from derivative assets held for risk management' 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.

9.2 Other operating income

Group	1 Apr 2012 to 31 Mar 2013 €000	1 Jan 2011 to 31 Mar 2012 €000
Realised gains on disposal of investments	**26,466**	48,832
Realised gains on redemption of loans and advances	**989**	-
Other income	**106**	105
	27,561	48,937

Company

Other operating income represents the gross amount of dividends received from subsidiaries amounting to €10,211,000 and refund receivable of €77,000 in terms of the Income Tax Management Act.

10 Administrative and other expenses

Administrative and other expenses include:

Group	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000
Operating lease charges	**662**	235
Directors' fees	**35**	42

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

	Audit services	Other assurances services	Tax advisory services	Other non-audit services
	€000	€000	€000	€000
Period to 31 March 2013				
Auditors' remuneration	**78**	**34**	**9**	**39**
Year to 31 March 2012				
Auditors' remuneration	93	57	13	8

11 Personnel expenses

11.1 Personnel expenses incurred are analysed as follows:

Group	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000
Directors' emoluments:		
- salaries	**328**	514
- defined contribution social security costs	**2**	2
Staff costs:		
- wages and salaries	**10,670**	7,280
- defined contribution social security costs	**267**	270
	11,267	8,066

11 Personnel expenses (continued)

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

Group	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000
	No.	No.
Executive and senior management	16	18
Other managerial supervisory and clerical	142	71
Other	10	7
	168	96

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

	Group	
	31 Mar 2013	31 Mar 2012
	No.	No.
Management and administration	199	125

12 Income tax expense

12.1

	Group		Company	
	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012
	€000	€000	€000	€000
Current	11,712	271	3,564	-
Deferred	(506)	288	-	-
Income tax expense	11,206	559	3,564	-

12 Income tax expense (continued)

12.2 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		Company	
	1 Apr 2012 to 31 Mar 2013	1 Jan 2011 to 31 Mar 2012	**1 Apr 2012 to 31 Mar 2013**	1 Jan 2011 to 31 Mar 2012
	€000	€000	**€000**	€000
Profit/(loss) for the year/period	**20,833**	930	**6,715**	(1)
Income tax expense	**11,206**	559	**3,564**	-
Profit before income tax	**32,039**	1,489	**10,279**	(1)
Tax at the applicable rate of 35%	**11,214**	521	**3,597**	-
Tax effect of:				
Tax rates in foreign jurisdictions	**(6)**	(8)	**(10)**	-
Non-deductible expenses	**1**	2	**4**	-
Depreciation charges not deductible by way of capital allowances	**-**	46	**-**	-
Temporary differences not previously recognised	**(1)**	-	**-**	-
Tax effect of untaxed dividends	**(2)**	(2)	**-**	-
Other difference	**-**	-	**(27)**	-
Tax expense	**11,206**	559	**3,564**	-

13 Balances with Central Bank of Malta, treasury bills and cash

13.1 Group

	31 Mar 2013	31 Mar 2012
	€000	€000
Balances with Central Bank of Malta	**28,956**	63,572
Malta Government Treasury Bills	**40,892**	-
Cash	**207**	84
	70,055	63,656

13.2 Balances with Central Bank of Malta include a reserve deposit of the subsidiary Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €3.074 million, (2012: €2.123 million) bearing interest at 0.75% (2012: 1%) per annum and an overnight deposit amounting to €25.0 million (2012: €61.0 million) bearing no interest (2012: 0.25%) per annum.

13 Balances with Central Bank of Malta, treasury bills and cash (continued)

13.3 The Balances with Central Bank of Malta also include a balance of €857,347 (2012: €449,585) which is pledged in favour of the Depositor Compensation Scheme (DCS) in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta.

In connection with the DCS, investment securities with a carrying amount of €2,603,480 (2012: €1,380,069), nominal value €2,475,000 (2012: €1,330,000) and a fair value of €2,678,137 (2012: €1,391,313) as at 31 March 2013, are pledged in favour of the DCS.

14 Loans and advances to financial institutions

14.1

	Group		Company	
	31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**8,150**	16,688	**354**	-
Term loans and advances	**11,697**	11,480	**-**	-
	19,847	28,168	**354**	-

14.2 Balances of loans and advances to financial institutions up to €69,578 (2010: €80,740) are pledged in favour of other banks providing credit card facilities to customers.

14.3 An amount of €1 million 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.

14.4 Loans and advances to financial institutions as at 31 March 2013 and 31 March 2012 were neither past due nor impaired.

14.5 The Company's loans and advances to financial institutions include cash balances amounting to €353 thousand held at the subsidiary Bank, and is unsecured, interest free and can be withdrawn on demand.

15 Loans and advances to customers

15.1

	Group	
	31 Mar 2013	31 Mar 2012
	€000	€000
At amortised cost:		
Loans and advances: retail	**2,574**	585
Loans and advances: corporate	**399,600**	27,081
	402,174	27,666

15.2 Loans and advances to customers as at 31 March 2013 and 31 March 2012, were neither past due nor impaired.

15 Loans and advances to customers (continued)

15.3 Loans and advances to customers: "retail" are secured by an equivalent amount of customer deposits, included in "Amounts owed to customers", with the exception of what is described in note 15.4 below. These deposits are pledged in favour of the subsidiary Bank.

15.4 Loans and advances to customers: "retail" includes €100,000 loan sanctioned to a director of the subsidiary Bank (2012: nil). This is secured by general hypothecs and carry an interest of 4.5% per annum.

15.5 As at 31 March 2013, €8.311 million of "loans and advances to customers: corporate" and €0.105 million of the "loans and advances to customers: retail" are expected to be recovered within 12 months after the reporting date.

15.6 As at 31 March 2013, €1 million (2012: €nil) of "loans and advances to customers: corporate" were traded but beneficial ownership was not yet transferred and not recorded as purchases. Also, €10 million (2012: €nil) were sold but beneficial ownership was not yet transferred.

15.7 Allowances for impairment

	31 Mar 2013	31 Mar 2012
	€000	€000
Specific allowances for impairment	-	62,885
Collective allowances for impairment	**676**	-
Balance as at 1 April/ 1 January	-	-
Impairment *charge for the year/period*	**676**	-
Balance at 31 March	**676**	-

16 Investment securities

16.1 Investment securities analysis

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Held-to-maturity investment securities	**356,544**	609,918
Available-for-sale investment debt securities	**1,207,540**	805,636
Available-for-sale investment equity securities	**253**	245
	1,564,337	**1,415,799**

At 31 March 2013, €1,542 million (2012: €1,340 million) of investment securities are expected to be recovered after more than 12 months after the reporting date.

16.1.1 Held-to-maturity investment securities

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Government bonds	**65,542**	125,103
Non-government bonds	**291,002**	484,815
	356,544	609,918

16.1.2 Available-for-sale investment debt securities

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Government bonds	**64,823**	7,846
Non-government bonds	**1,142,717**	797,790
	1,207,540	805,636

16.1.3 Available-for-sale investment equity securities

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Non-government equities	**253**	245

16 Investment securities (continued)

16.2 Impairment analysis

As at 31 March 2013	Gross carrying amount	Individually impairment amount	Net carrying amount
	€000	€000	€000
Held-to-maturity investment securities	356,544	-	356,544
Available-for-sale investment debt securities	1,207,540	-	1,207,540
Available-for-sale investment equity securities	253	-	253
	1,564,337	**-**	**1,564,337**

As at 31 March 2012	Gross carrying amount	Individually impairment amount	Net carrying amount
	€000	€000	€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**

No evidence of impairment was identified on investment securities during year ended 31 March 2013.

16.3 Most of investment securities are pledged as collateral against the provision of borrowing facilities (note 25), except a carry value of €111.200 million (2012: €32.872 million) which are free and unencumbered securities at 31 March 2013.

Cash value of unutilised borrowing facilities (headroom) at 31 March 2013 amounted to €113.039 million (2012: €121.416 million).

16.4 As at 31 March 2013, the subsidiary Bank had a commitment amounting to €75.000 million (2012: €70.612 million) to purchase further investment securities.

16.5 Reclassifications and sales out of Held-to-Maturity (HTM) Investment Securities

A number of investment securities were identified for reclassification due to isolated and non-recurring events which could not have been reasonably anticipated. On 31 March 2013, as part of the year end assessment of the intention and ability to hold its existing HTM investments to maturity, the subsidiary Bank reclassified HTM investments to Available-for-sale (AFS) having an amortised cost of €163.967 million. There were no reclassifications of HTM investments securities to AFS in prior periods.

16 Investment securities (continued)

16.5 Reclassifications and sales out of Held-to-Maturity (HTM) Investment Securities (continued)

The events that caused the subsidiary Bank to reclassify or sell included:

- significant credit deterioration in the issuer's creditworthiness since acquisition
    - significant credit deterioration is represented by downgrades of 3 or more rating notches;
    - there were no default events on the reclassified HTM positions and no specific impairment provisions were deemed necessary;
    - a reduction in the carry value of the reclassified HTM positions of €2.356 million was recognised in other comprehensive income; and
- unexpected withdrawal of eligibility for ECB repo financing
    - that could not reasonably have been foreseen when the investments were originally classified as HTM;
    - that has significantly altered the economic rationale at time of acquisition;
    - an increase in the carry value of the reclassified HTM positions of €0.423 million was recognised in other comprehensive income.

At 31 March 2013, the fair value of the reclassified HTM investment was €162.034 million. A total fair value loss of €1.933 million was recognised in other comprehensive income that would not have been recognised if the reclassifications had not been made.

At 31 March 2013, the effective interest rates on reclassified HTM investment securities ranged from 1.3 percent to 4.8 percent.

16.6 Sensitivity analysis – equity price risk

All the equity financial instruments are listed on the Malta Stock Exchange. For such investments classified as AFS, an increase of 10 per cent at the reporting date would have increased equity by €25,219 (2012: €24,559); 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.

17 Derivative assets held for risk management

	Group	
	31 Mar 2013	31 Mar 2012
	€000	€000
Interest rate swaps	**279**	-
Interest rate swaptions	-	2,572
	279	2,572

The Group, principally the through the subsidiary Bank, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, futures and other appropriate instruments approved for hedging interest rate risk.

The subsidiary Bank uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate AFS securities attributable to changes in market interest rates. Interest rate swaps are matched to specific positions of fixed rate AFS securities. Such derivatives are not held for trading purposes and are classified at fair value through profit and loss and are designated in a fair value hedging relationships.

The fair values of derivatives designated as fair value hedges and the related notional amounts analysed by their remaining life, are as follows:

	31 Mar 2013	31 Mar 2012
	€000	€000
Derivative financial instruments designated as fair value hedges		
Interest rate swaps	**279**	-
Notional Amounts		
More than 1 year	**900,000**	-

18 Investment in subsidiaries

18.1

Name of the Company	Incorporated in	Nature of business	Current equity interest %	Company 31 Mar 2013 €000	31 Mar 2012 €000
Mediterranean Bank plc	Malta	Banking	100	**75,814**	69,494
Charts Investment Management Service Ltd	Malta	Investment	65	**1,300**	1,100
Medifin Leasing Limited	Malta	Investment	99	**10**	10
				77,124	70,604
Shareholders' contribution advanced to Mediterranean Bank Plc				**8,500**	-
				85,624	70,604

18 Investment in subsidiaries (continued)

18.2 Mediterranean Bank plc in turn owns the following subsidiaries:

Name of the subsidiary	Incorporated in	Nature of business	Current equity interest	Bank 31 Mar 2013	Bank 31 Mar 2012
			%	€	€
Mediterranean Global Advisory SA	Switzerland	Dormant	wholly owned	**63,086**	63,086
Mediterranean Research Limited	United Kingdom	Dormant	wholly owned	**2**	2
Medifin Estates (partnership)	Malta	Operating lease of branches	97%	**1,450**	-
				64,538	63,088

18.3 Mediterranean Global Advisory SA and Mediterranean Research Limited are in the process of liquidation. The operations of Mediterranean Research Limited are being carried out by the Bank.

18.4 Medifin Estates is a partnership set up on 5 June 2012. The subsidiary enters into operating leases for property to be used by branches which are leased back to the Bank.

18.5 During the year ended 31 March 2013, by an extraordinary resolution dated 27 March 2013, it was resolved to provide the subsidiary Bank a shareholders' contribution (Contribution) of €8,500,000, with the following terms:

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

Accordingly, this is treated as part of the investment in the subsidiary.

18.6 Following an extraordinary resolution dated 28 June 2013 (after reporting date), a further €1,250,000 as shareholder's contribution was granted to the subsidiary Bank with same terms and conditions.

18.7 On 10 May 2013, the subsidiary Bank distributed €21,000,000 from the retained earnings by way of bonus share issue, thereby increasing the ordinary A shares of the subsidiary Bank from 62,350,107 to 83,350,107.

18.8 As at 31 October 2013, the Company acquired €4,900,000 shares made up of four million nine hundred thousand Ordinary A shares with a nominal value of one Euro (€1) each, through cash, thereby increasing the subsidiary Bank's issued share capital from €83,350,107 to €88,250,107.

18.9 Further, in 28 November 2013, the subsidiary Bank's issued share capital was increased by €9,800,000 ordinary A shares divided into nine million eight hundred thousand shares, each with a nominal value of one Euro, wholly paid up in cash and fully subscribed to by the Company, thereby increasing the Bank's issued share capital from €88,250,107 to €98,050,107.

19 Property and equipment

19.1 Group

	Leasehold property improvements	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost:						
At 1 January 2011	928	1,984	110	966	146	4,134
Acquisitions	226	732	175	398	29	1,560
Reclassification (note 19.6)	-	3,105	-	-	-	3,105
Disposals	-	(109)	-	-	-	(109)
At 31 March 2012	1,154	5,712	285	1,364	175	8,690
Acquisitions	220	400	145	847	39	1,651
Disposals	-	-	-	(3)	-	(3)
At 31 March 2013	**1,374**	**6,112**	**430**	**2,208**	**214**	**10,338**
Depreciation:						
At 1 January 2011	464	199	36	477	131	1,307
Charge for the period	134	402	59	120	11	726
Reclassification (note 19.6)	-	298	-	-	-	298
At 31 March 2012	598	899	95	597	142	2,331
Charge for the year	140	1,200	91	146	15	1,592
Release on disposal	-	-	-	(1)	-	(1)
At 31 March 2013	**738**	**2,099**	**186**	**742**	**157**	**3,922**
Carrying amounts:						
At 1 January 2011	464	1,785	74	489	15	2,827
At 31 March 2012	556	4,813	190	767	33	6,359
At 31 March 2013	**636**	**4,013**	**244**	**1,466**	**57**	**6,416**

19 Property and equipment (continued)

19.2 The subsidiary Bank operates from ten immovable properties which are held under operating lease agreements (see note 32).

19.3 There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2012: nil).

19.4 As at 31 March 2013, property and equipment amounting to €39,372 in 'Computer hardware' were not available for use (31 March 2012: €4,462 in 'Other equipment' and €59,716 in 'Computer hardware'). Accordingly no related depreciation was charged during the year.

19.5 All property and equipment with the exclusion of those not available to use were leased under on operating lease arrangement to a related entity at both year ends (see note 32).

19.6 An amount of €3,105,104 reported as 'Software' for the year ended 31 March 2013 has been reclassified to 'Computer Hardware' as it has been assessed to be more akin to 'Computer Hardware' rather than 'Software'. Accordingly, an amount of €298,118 was transferred from 'amortisation' to 'depreciation'.

20 Intangible assets

20.1 **Group**

	Goodwill	Software under development	Computer software	Customer list	Total
	€000	**€000**	**€000**	**€000**	**€000**
Cost:					
At 1 January 2011	331	-	2,628	474	3,433
Acquisitions	-	1,860	4,666	-	6,526
Reclassification (note 20.4)	-	-	(3,105)	-	(3,105)
At 31 March 2012	331	1,860	4,189	474	6,854
Acquisitions	130	676	3,714	-	4,520
Developed transferred	-	(1,860)	1,860	-	-
At 31 March 2013	**461**	**676**	**9,763**	**474**	**11,374**

20 Intangible assets (continued)

	Goodwill	Software under development	Computer software	Customer list	Total
	€000	€000	€000	€000	€000
Amortisation:					
At 1 January 2011	-	-	1,255	47	1,302
Charge for the period	-	-	654	47	701
Reclassification (note 20.4)	-	-	(298)	-	(298)
At 31 March 2012	-	-	1,611	94	1,705
Charge for the year	-	-	938	47	985
At 31 March 2013	**-**	**-**	**2,549**	**141**	**2,690**
Carrying amounts:					
At 1 January 2011	331	-	1,373	427	2,131
At 31 March 2012	331	1,860	2,578	380	5,149
At 31 March 2013	**461**	**676**	**7,214**	**333**	**8,684**

20.2 There were no capitalised borrowing costs related to the acquisition of software during the year (2012: nil).

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

20.4 An amount of €3,105,104 reported as 'Software' for the period ended 31 March 2012 has been reclassified to 'Computer Hardware' in the current year, as disclosed in note 19.6.

20.5 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.

20.6 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 12.71% (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 15% and the terminal value growth rate used of 3%.

21 Other assets

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Amount receivable from ultimate parent company	**-**	153
Trade receivables	**138**	203
VAT recoverable	**-**	969
Other assets	**1,032**	5,219
	1,170	6,544

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

22 Prepayments and accrued income

	Group 31 Mar 2013	Group 31 Mar 2012
	€000	€000
Prepayments	**1,834**	1,368
Deferred expense	**23,777**	827
Accrued income	**2,665**	17,580
	28,276	19,775

23 Deferred tax assets/liabilities

23.1 Deferred tax assets are attributable to the following:

Group

	Assets		Liabilities		Net	
	31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000	**€000**	€000
Property and equipment	**6**	6	**(1,205)**	(687)	**(1,199)**	(681)
Available-for-sale securities	**-**	612	**(5,161)**	-	**(5,161)**	612
Tax losses carried forward	**170**	-	**-**	-	**170**	-
Capital allowances carried forward	**919**	319	**-**	-	**919**	319
Collective allowances	**238**	-	**-**	-	**238**	-
Intangible asset (on acquisition)	**120**	34	**(166)**	(166)	**(46)**	(132)
	1,453	971	**(6,532)**	(853)	**(5,079)**	118

23 Deferred tax assets/liabilities (continued)

23.2 Movement in temporary differences

Group

	Balance 1 Apr 12	Business combination	Recognised in profit or loss	Recognised in equity	Balance 31 Mar 13
	€000	€000	€000	€000	**€000**
Property and equipment	(681)	-	(518)	-	**(1,199)**
Available-for-sale securities	612	-	-	(5,773)	**(5,161)**
Tax losses carried forward	-	-	170	-	**170**
Capital allowances carried forward	319	-	600	-	**919**
Collective allowances	-	-	238	-	**238**
Intangible asset (on acquisition)	(132)	70	16	-	**(46)**
	118	70	506	(5,773)	**(5,079)**

	Balance 1 Jan 11	Business combination	Recognised in profit or loss	Recognised in equity	Balance 31 Mar 12
	€000	€000	€000	€000	**€000**
	€000	€000	€000	€000	**€000**
Property and equipment	(57)	-	(624)	-	**(681)**
Available-for-sale securities	759	-	-	(147)	**612**
Tax losses carried forward	-	-	-	-	**-**
Capital allowances carried forward	-	-	319	-	**319**
Collective allowances	-	-	-	-	**-**
Intangible asset (on acquisition)	(149)	-	17	-	**(132)**
	553	-	(288)	(147)	**118**

24 Capital and reserves

Group and Company

24.1.1 Issued share capital

	31 Mar 2013	31 Mar 2012
	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	**3,000,000**	2,550,000
Ordinary 'D' shares of €1 each	**15,000,000**	15,000,000
	59,403,547	58,953,547

- 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 2013	**31 Mar 2012**
	€000	€000
At beginning of year	**55,738**	40,738
Issued for cash during the year	**-**	15,000
At end of year – fully paid up	**55,738**	55,738

24.1.2 Authorised share capital

	31 Mar 2013	31 Mar 2012
	No.	No.
Ordinary 'A' shares of €1 each	**83,497,000**	83,497,000
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**	15,000,000
	102,997,000	102,997,000

24 Capital and reserves (continued)

24.1.3 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.

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

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

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

24.5 Share premium as at the reporting date represents the issue of shares as follows:

Issue type	Number of shares No.	Premium €	Share premium €000
Ordinary A shares	39,520,969	0.3407	13,464
Ordinary B shares	1,214,991	0.24	292
			13,756

25 Amounts owed to financial institutions

	Group		Company	
	31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000
Repayable on call and at short notice	**20,570**	562,660	**1,511**	1,282
Term loans and advances	**1,348,425**	531,166	**-**	-
	1,368,995	1,093,826	**1,511**	1,282

An amount €1,259 million from term loans and advances are secured by a pledge over the investment securities (note 16.3) and €82 million are secured by pledge over the loans and advances to customers: corporate.

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

26 Amounts owed to customers

Group

	31 Mar 2013	31 Mar 2012
	€000	€000
Repayable on demand	**139,142**	117,260
Term deposits	**425,648**	261,587
	564,790	378,847

27 Debt securities in issue

27.1 Group

	31 Mar 2013	31 Mar 2012
	€000	€000
At amortised cost:		
Debt securities in issued	**15,664**	19,672

	31 Mar 2013	31 Mar 2012
	€000	€000
Balance at the beginning of the year/period	**19,672**	14,735
Debt securities issued	**-**	4,937
Debt securities repurchased and cancelled	**(4,008)**	-
Balance at end of year/period	**15,664**	19,672

27.2 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 the debt securities are redeemable at their nominal value.

On 27 June 2011, the Bank 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.

27 Debt securities in issue (continued)

27.3 The above liabilities will in the event of default or insolvency of the issuer, have a general claim on the assets of the subsidiary 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 subsidiary Bank has not had any defaults of interest or other breaches with respect to its debt securities during the year ended 31 March 2013 and period ended 31 March 2012.

27.4 During the year ended 31 March 2013, the subsidiary Bank purchased through market operations a nominal value of €4,095,200 of its 6.25% debt securities in issue, for cancellation in accordance with the provisions of section 7.9.8 of the Security Note forming part of the prospectus dated 13 September 2010 (as supplemented on 30 May 2011). All bonds so purchased by the Bank were cancelled.

As at 31 March 2013, the contractual amount due at maturity is €15,904,800.

27.5 The carrying amount of the debt securities in issue is €240,798 lower than the contractual amount due at maturity (2012: €328,000).

27.6 The Bank has not had any defaults of interest or other breaches with respect to its debt securities in issue during both years ended 31 March 2013 and period ended 30 September 2013.

27.7 During the six-month period following 31 March 2013, as part of the funding strategy, the Bank issued €240 million Senior Secured Floating Rate notes maturing by 2026, through a fund structure situated in the Netherlands.

The subsidiary Bank has been assessed to have retained all risks and rewards of the structure.

During July 2013, the subsidiary Bank repurchased €22 million of the Senior Secured Floating Rate notes. An amount of €160,378 transaction costs has been amortised to the income statement.

28 Subordinated liabilities

28.1 Group

	31 Mar 2013	31 Mar 2012
	€000	€000
At amortised cost:		
Subordinated debt securities		
- nominal value	**12,500**	-
- related transaction costs	**(90)**	-
- effect of foreign exchange revaluation	**(69)**	-
Subordinated debt securities in issue	**12,341**	-

28.2 During the year under review, the Bank issued subordinated debt securities, "the original issue". The debt securities, which are unsecured, mature on 30 December 2019 and are listed on the Malta Stock Exchange. The interest payable is fixed at 7.50% per annum (effective interest rate 7.60%) and are redeemable at their nominal value.

28 Subordinated liabilities (continued)

28.3 The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the year ended 31 March 2013.

28.4 The carrying amount of the subordinated debt securities in issue is €158,610 lower than the contractual amount due at maturity.

28.5 After the reporting date, the subsidiary Bank issued further subordinated debt securities, "the second issue", as detailed in note 'Events after the reporting date'. These are fungible in all respect, to the previous issue. During December 2013, the second issue was merged with the original issue which then formed both formed part of same listing on the Malta Stock Exchange.

29 Other liabilities

29.1

	Group		Company	
	31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000
Amounts due to ultimate parent company	**8,500**	-	**8,500**	-
Amounts due to subsidiary	**-**	-	**6**	6
VAT payable	**340**	72	**-**	-
Other liabilities	**1,154**	1,423	**-**	-
	9,994	1,495	**8,506**	6

29.2 The Amounts due to ultimate parent company represent a loan agreement entered into on the 27 March 2013, fully drawn down on the same day. The principal amount was of €8.5 million and repayable within 6 months of utilisation and carried interest of 2.5% + LIBOR.

29.3 The amounts were utilised to provide funds to the subsidiary Bank as shareholders contribution. This amount was fully repaid during June 2013.

30 Accruals

	Group		Company	
	31 Mar 2013	31 Mar 2012	**31 Mar 2013**	31 Mar 2012
	€000	€000	**€000**	€000
Accrued expenses	**3,642**	1,241	**15**	8
Accrued interest expense	**5,841**	4,537	**-**	-
	9,483	5,778	**15**	8

31 Cash and cash equivalents

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

	Notes	Group	
		31 Mar 2013 €000	31 Mar 2012 €000
Analysis of cash and cash equivalents:			
Cash in hand		**207**	84
Call deposits		**34,887**	88,722
Repayable on call and at short notice		**(20,570)**	(562,659)
Amounts owed to financial institutions with contractual maturity less than 3 months		**(588,846)**	(142,488)
Cash and cash equivalents		**(574,322)**	(616,341)
Adjustment to reflect:			
Balance with Central Bank of Malta		**3,934**	2,572
Treasury bills		**40,892**	-
Deposits with maturity over 3 months		**11,767**	518
Amounts owed to financial institutions with contractual maturity over 3 months		**(761,364)**	(388,751)
		(1,279,093)	(1,002,002)
Analysed as follows:			
Balances with Central Bank of Malta, treasury bills and cash	13	**70,055**	63,656
Loans and advances to financial institutions	14	**19,847**	28,168
Amounts owed to financial institutions	25	**(1,368,995)**	(1,093,826)
		(1,279,093)	(1,002,002)

	Company	
	31 Mar 2013	31 Mar 2012
Analysis of cash and cash equivalents:		
Repayable on call and at short notice	**354**	-
Amounts owed to financial institutions with contractual maturity of less than 3 months	**-**	-
Cash and cash equivalents	**354**	-

32 Operating leases

During the period ended 31 March 2012, the Group entered into four rental agreements relating to immovable properties. These are for non-cancellable lease periods of three, four, five and nine years for annual rents of €25,550, €35,400, €14,160 and €14,640 respectively.

During the year ending 31 March 2013, the Group renewed the rental agreement for an immovable property for a period of 3 years at an annual rent of €70,000 with a further renewal period of 5 years at the same rate adjusted for inflation. Another agreement was revised for a thirty month period at an annual rent of €12,000. The Group also signed rental agreements for two other immovable properties for a term of 7 years and 5 years respectively at an annual cost of €32,075 and €96,000 respectively. The latter is renewable for a further five year period at an annual cost of €140,000.

In July 2012, the Bank entered into a five year lease agreement for immovable property in London at an annual rental cost of GBP 94,800, renewable for a further period of 5 years at an annual rental cost of GBP 189,600.

In March 2013 the Group entered into a 9 year lease for new premises in Belgium at an average yearly rent of €93,859. The lease can be terminated by the Group after the end of the sixth year incurring a penalty cost of €43,098.

During the year the subsidiary Bank leased IT-infrastructure and software from the leasing company. The lease term is renewable on a one-year rolling period.

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.

At the end of the reporting year/period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 Mar 2013	31 Mar 2012
	€000	€000
Within one year	**1,058**	445
After one year but not more than five years	**1,733**	668
More than five years	**627**	341
	3,418	1,454

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 11), 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 21, 25 and 28.

33.4 Related party transactions

Interest expense set out in note 7 includes interest payable to parent company of €1,415 (2011: €nil).

The comparative figures in note 8 include €300,000 fee paid to the parent company and €300,000 fee received from the subsidiary Bank. No similar transactions occurred during the year ended 31 March 2013.

34 Capital commitments and contingencies

34.1 Capital commitments

At 31 March 2013, the Group had budgeted commitments of €4,686,805 (2012: €4,514,820), €518,600 (2012: €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 €195,000, post-acquisition compensation costs relating to the acquisition of Charts Investment Management Service Limited.

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 (2012: €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

Subsidiaries
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 2014. This did not give rise to discontinued operations since the operations have been taken over by the subsidiary Bank through a UK establishment.

Repurchase of debt securities
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 during the year ended 31 March 2013 and continued after the reporting date. The number of debt securities repurchased up to the date of issue of this report is 1,373,000. All repurchase securities were at current market prices with a weighted average price of 105.

Investment in subsidiary bank
On 30 October 2013, the Company resolved to increase the capital of the Bank by up to €15 million by year end. As at 31 October, the Bank's issued share capital was increased by €4.9 million ordinary A shares divided into four million nine hundred thousand shares each with a nominal value of one Euro (€1). These were paid in cash, thereby increasing the Banks' issued share capital from €83,350,107 to €88,250,107.

Further, as at 28 November 2013, the Bank's issued share capital was increased by €9,800,000 ordinary A shares divided into nine million eight hundred thousand shares, each with a nominal value of one Euro €1), through a cash contribution, thereby increasing the Bank's issued share capital from €88,250,107 to €98,050,107.

By an extraordinary resolution dated 28 June 2013, it was resolved to provide the Bank a shareholders' contribution (Contribution) of €1,250,000. The following terms and conditions of the Contribution granted renders this instrument to be equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

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

The Contribution is also eligible as Own Funds in terms of MFSA Banking Rule 3.

All reserves at the reporting date, except for retained earnings and the shareholders' contribution, are non-distributable. However, the shareholders' contribution reserve is distributable only and only if, the regulatory ratios are not breached and if the terms and conditions permit.

Loan from ultimate parent

The parent has granted two loans to the Company of €5,000,000 and €10,000,000 on 30 October 2013 and 28 November 2013 respectively. These have been utilised to increase the share capital of the subsidiary Bank, as described above, net of €300,000 arrangement fees.

During July 2013, the Bank repurchased €22 million of the Senior Secured Floating Rate notes. An amount of €160,378 transaction costs has been amortised to the income statement.

The Bank has not had any defaults of interest or other breaches with respect to its debt securities in issue during both years ended 31 March 2013 and period ended 30 September 2013.

35 Events after the reporting date (continued)

Debt securities

The subsidiary Bank issued €240 million Senior Secured Floating Rate notes maturing by 2026, through a fund structure situated in the Netherlands.

The Bank has been assessed to have retained all risks and rewards of the structure.

Subordinated liabilities

After the reporting date, the subsidiary Bank issued further subordinated debt securities, "the second issue". The debt securities, which are unsecured, mature on 30 December 2019 and are listed on the Malta Stock Exchange. The interest payable is fixed at 7.50% per annum (effective interest rate 7.60%) and are redeemable at their nominal value. Total nominal value of the issue amounts to €8,673,000 and £1,133,000.

After the reporting date, the subsidiary Bank issued further subordinated debt securities, "the second issue". These are fungible in all respect, to the previous issue. During December 2013, the second issue was merged with the original issue which then formed both formed part of same listing on the Malta Stock Exchange.

Bonus issue

€21.0 million were distributed from the retained earnings of the subsidiary Bank as a final dividend by way of a bonus share issue and was executed on 10 May 2013. This increased the number of ordinary A shares of the subsidiary Bank from 62,350,106 to 83,350,106 ordinary A shares of €1 each.

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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 8 to 81, which comprise the statements of financial position as at 31 March 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"). They are also responsible 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 2013, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

Report on Other Legal and Regulatory Requirements

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

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- proper accounting records have not been kept by the Company; or

- 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

29 January 2014