Medifin Holding Limited

Annual Report

31 March 2014

Medifin Holding Limited

Medifin Holding Limited

Directors' Report
For the Year Ended 31 March 2014

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 2014. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

Board of Directors

The Directors of the Company who held office throughout the year ended 31 March 2014 were:

Mark Alexander Watson
Peter Bramwell Cartwright (resigned on 3 November 2014)
Benjamin Hollowood (appointed on 30 May 2013)
Finlay Stuart McFadyen (resigned on 30 June 2014)

Presentational changes in Financial Statements

One of the Group's subsidiaries, Mediterranean Global Advisory SA, was liquidated during the year ended 31 March 2014.

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 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 licence and a category 4 licence issued by the MFSA which authorise the Bank to provide investment services, to hold or control customers' money and to act as trustee or custodian of collective investment schemes.

Profitability has been achieved through the creation of 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.

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.

Mediterranean Research Limited was dormant and has been liquidated on 2 May 2014. 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 €27.330 million (2013: €30.135 million) while the Company reported a gain of €29.596 million (2013: €6.715 million).

Total equity at the reporting date amounted to €126.589 million (2013: €121.552 million) and €105.619 million (2013: €76.023 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 €94,283 (2013: loss before tax credit of €67,326). Shareholders' equity at the reporting date amounted to a negative €94,096 (2013: negative €32,813). 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, whereby acquisitions of property, plant and equipment and intangible assets would yield income after these are put to use and leased out.

On 27 June 2014, the Group disposed of its 99.99% shareholding in Medifin Leasing Limited. This was acquired by Medifin Investments Limited.

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

During the financial year ended 31 March 2014, the Bank continued to implement its business plan with the aim of sustaining the Bank's long-term profitability by building its customer base in the mass affluent market both in Malta and Belgium and also through a selected corporate sector in Malta. The Bank intends to continue to improve its banking, investment and wealth management services in Malta and internationally.

During the year, the Bank continued to make significant investment in technology that have allowed it to introduce new online banking and investment services, together with systems to support such services. The Bank has implemented (i) an e-banking system that enables the Bank's customers to execute banking transactions online and (ii) an e-brokerage system that enables the Bank's wealth management customers to execute online brokerage transactions in respect of equities, bonds and funds. The Bank offers online goal planning, research and market data as well as analytical tools and capabilities for customers through its wealth management platform.

The Bank's Total Operating Income for the year ended 31 March 2014 was €63.815 million (2013: €54.252 million). This was driven through the Bank's treasury operations 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 recorded a Profit after Tax for year ended 31 March 2014 of €19.396 million (2013: €20.483 million).

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

As of 31 March 2014, the Bank's Investment Portfolio stood at €1.427 billion (2013: €1.514 billion) consisting of Held-to-Maturity securities amounting to €933 million (2013: €307 million) net of collective impairment loss of €0.463 million (2013: nil), available-for-sale ("AFS") securities amounting to €492 million (2013: €1,207 million) and other equity instruments at fair value through profit or loss amounting to €2 million (2013: nil). 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.

The Bank's Corporate Loan portfolio stood at €622 million (2013: €452 million) as of 31 March 2014, net of collective impairment loss allowances of €0.872 million (2013: €0.676 million) and specific impairment loss allowances of €1.422 million (2013: nil).

In August 2013, the Bank launched its Belgian branch, which initially offered deposit and investment products including online execution of transactions in equities, bonds and funds. During September 2013, the Bank launched its eWealth platform in the Belgian market, including its suite of financial planning tools and its wide range of research and investment capabilities.

As part of its funding strategy, on 6 June 2013, the Bank issued €240 million Senior Secured Floating Rate notes maturing by 2026, through a fund structure situated in the Netherlands. During July 2013, the Bank repurchased €22 million of such Senior Secured Floating Rate notes.

During June 2013, the Bank issued an additional euro equivalent of €10 million of 7.50% Subordinated bonds due 2019, which during December 2013 were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

During the year, the Bank bought back a further €1.4 million (2013: €4.1 million) nominal value of its 6.25% Bonds due 2015 through market operations.

The final dividend for the year ended 31 March 2013 was in the form of a €21,000,000 bonus ordinary share issue that was executed on 10 May 2013.

On 28 June 2013 a shareholders' contribution of €1,250,000 was received.

As at 30 October 2013, the Bank's issued share capital was increased by €4,900,000 ordinary A shares and by a further €9,800,000 ordinary A shares on 28 November 2013.

Shareholders' equity at the reporting date amounted to €135.160 million (2013: €115.083 million).

The average number of employees increased from 163 for the year ended 31 March 2013 to 224 for the year ended 31 March 2014. Personnel expenses for the year ended 31 March 2014 amounted to €13.8 million (2013: €11.2 million). The number of employees increased from 194 as at 31 March 2013 to 227 as 31 March 2014.

Charts Investment Management Service Limited ('Charts')

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

Charts achieved a profit before taxation amounting to €394,406 (31 December 2012: €538,130). After deducting taxation thereon, the profit for the twelve months ended 31 December 2013 amounted to €270,595 (31 December 2012: €356,286).

Shareholders' equity at 31 December 2013 amounted to €1,305,223 (2012: €1,508,135).

Dividends and reserves

Retained earnings for the Group amounting €64.733 million (2013: €37.589 million), are carried forward to the next financial year. Retained Earnings of the Company amounts to €36.125 million (2013: €6.529 million). The Directors do not propose any dividends for distribution.

The Company did not receive any interim dividends from the Bank. However, the Directors of the Bank have proposed to distribute €19.4 million as a final dividend by way of a bonus share issue which was executed on 30 May 2014.

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.

Strategic developments

The Group's primary operation is that of its subsidiary Bank. Hence, this section considers the strategic developments in relation to the subsidiary Bank.

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

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

In addition to its efforts in respect of improving and diversifying its customer offering, the Bank continues to diversify its liability structure, while continuing to strengthen its deposit base. The Bank's core deposit offering is a range of attractively priced fixed-term and other savings products. As at 31 March 2014, the Bank's deposit base reached €777 million.

The Bank also continues to access the international wholesale funding markets through bilateral repo lines, access to the Eurex repo platform and a secured 3-year term funding facility with an international counterparty. In addition, as noted above, to support the growth of its lending activities, the Bank issued €240 million of secured notes through a Netherlands funding vehicle.

Supported by a robust liability structure, the asset base of the Bank has continued to grow, having reached €2.2 billion as at 31 March 2014. This growth has been concentrated primarily 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 also continues to focus on its treasury portfolio and its traditional strategy of investing in quality and liquid EU assets.

Mediterranean Bank plc remains committed to operating with strong regulatory ratios and a robust liquidity position. At 31 March 2014 the Bank's regulatory liquidity ratio stood at 148.7%, and it reported a Capital Adequacy Ratio of 14.25%. The growth of the Bank's corporate loan portfolio has resulted, and is expected to continue to result, in greater consumption of capital over the medium term.

As a result, it is expected that the Bank will continue to operate at or around its current Capital Adequacy Ratios rather than the higher ratios that have historically been the case. The Bank intends always to operate at Capital Adequacy Ratios that are comfortably in excess of regulatory requirements. Likewise, the Bank's regulatory liquidity ratio is also expected to remain comfortably in excess of regulatory requirements.

Outlook and future business developments

The two most significant events that have an immediate impact on the Bank's future outlook and future developments are noted below.

During the third quarter of 2013, the Bank launched its Belgian branch. Based on its investments and capabilities developed within the Maltese Market, the Bank has established a highly competitive online offering for the Belgian market. The Belgian branch is primarily operated from an efficient operating base enabling the delivery of competitive savings and wealth management products to the Belgian market in a cost effective, transparent and customer friendly manner.

As detailed in the "Events after the reporting date" section, during April 2014 the Bank entered into an agreement with VB-Holding Aktiengesellschaft and Mithra Holding Gesellschaft m.b.H. to acquire 100% of the share capital of Volksbank Malta Limited ("VBM") for cash consideration of €35.3 million. The Bank has also agreed to refinance existing debt of VBM to Österreichischen Volksbanken AG, as of the closing date. This acquisition was concluded in September 2014.

These two significant corporate developments enable the Board to look forward to the coming year with cautious optimism.

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

Events after the reporting date

On 11 April 2014 the Bank entered into an agreement to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank") for cash consideration of €35.3 million. In September 2014 the Bank concluded this acquisition and the acquired bank was renamed Mediterranean Corporate Bank Limited. This acquisition forms part of Mediterranean Bank's strategy to enhance and broaden its corporate lending portfolio of Maltese clients.

On 3 November 2014 the Bank announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 2019 early redemption option held by the issuer. These bonds were issued in Euro and Pounds Sterling. This was increased to Euro equivalent of €25 million as a result of an over subscription. The 6.25% debt securities in issue due to mature on 30 October 2015 were exchangeable with these bonds at a discount.

Subsequent to year end, the Bank bought back a further €229,600 nominal value of its 6.25% Bonds due 2015 through market operations.

On 25 November 2014, the Company repaid €16,536,586 of Shareholders Contribution to its shareholders, having received all required approvals from the Malta Financial Services Authority.

On 2 May 2014, Mediterranean Research Limited, a dormant subsidiary wholly owned by the Bank, was liquidated.

As previously described, the Bank distributed €19.4 million as a final dividend by way of a bonus share issue which was executed on 29 May 2014.

Directors' Report
For the Year Ended 31 March 2014

During the financial year ending 31 March 2015 the Bank reclassified the held-to-maturity financial assets to available-for-sale investments.

As from 27 June 2014 Medifin Holding Limited and Medifin Leasing Limited became a subsidiary of Medifin Investments Limited that now has a 99.99% shareholding in these companies.

There were no other events after the reporting date that would have a material effect on the financial statements.

Auditors
A resolution to re-appoint KPMG as auditors of the Bank will be proposed at the forthcoming annual general meeting.

Approval of Directors' Report

The Directors' Report is approved by the Board of Directors on the 28 January 2015 and signed on its behalf by:

Mark A. Watson
Director

Benjamin Hollowood
Director

Registered Office
10, St. Barbara Bastion
Valletta, VLT 1961
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 Company and 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 and the Group establish and maintain 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 to 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:

Mark A. Watson
Director

Benjamin Hollowood
Director

28 January 2015

Medifin Holding Limited

Statement of Financial Position
For the Year Ended 31 March 2014

		Group		Company	
		2014	2013	**2014**	2013
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	**18,091**	70,055	**-**	-
Loans and advances to financial institutions	14	**88,004**	19,847	**113**	354
Loans and advances to customers	15	**621,747**	452,661	**-**	-
Investments					
- Corporate	16	**293,235**	54,964	**-**	-
- Treasury	16	**1,134,826**	1,458,886	**-**	-
Derivative assets held for risk management	17	**404**	1,152	**-**	-
Derivative assets held for trading	18	**404**	-	**-**	-
Investments in subsidiaries	19	**-**	-	**122,751**	85,624
Property and equipment	20	**3,340**	4,053	**-**	-
Intangible assets	21	**13,604**	11,047	**-**	-
Other assets	22	**10,808**	10,183	**-**	-
Prepayments and accrued income	23	**24,464**	28,276	**-**	-
Current tax recoverable		**-**	96	**-**	77
Deferred tax assets	24	**608**	-	**-**	-
Total assets		**2,209,535**	2,111,220	**122,864**	86,055

Medifin Holding Limited

Statement of Financial Position
For the Year Ended 31 March 2014

	Notes	Group 2014 €000	Group 2013 €000	Company 2014 €000	Company 2013 €000
EQUITY					
Share capital	25	**55,738**	55,738	**55,738**	55,738
Share premium	25	**13,756**	13,756	**13,756**	13,756
Reserve for general banking risks	25	**91**	-	-	-
Retained earnings	25	**64,733**	37,589	**36,125**	6,529
Other reserves	25	**(8,294)**	14,008	-	-
Total equity attributable to equity holders of the Company		**126,024**	121,091	**105,619**	76,023
Non-controlling interest		**565**	461	-	-
Total equity		**126,589**	121,552	**105,619**	76,023
LIABILITIES					
Amounts owed to financial institutions	26	**1,008,976**	1,368,995	**1,496**	1,511
Amounts owed to customers	27	**776,106**	564,790	-	-
Debt securities in issue	28	**230,127**	15,664	-	-
Derivatives held for risk management	17	**2,973**	-	-	-
Subordinated liabilities	29	**22,335**	12,341	-	-
Current tax		**10,814**	7,661	-	-
Other liabilities	30	**16,927**	9,994	**15,190**	8,506
Accruals	31	**14,688**	9,483	**559**	15
Deferred tax liability	24	-	740	-	-
Total liabilities		**2,082,946**	1,989,668	**17,245**	10,032
Total equity and liabilities		**2,209,535**	2,111,220	**122,864**	86,055
Contingent assets	15/16	**27,700**	76,000		
Contingencies and commitments	15/33	**3,437**	13,285		

The notes on pages 16 to 98 are an integral part of these financial statements.

The financial statements on pages 8 to 98 were approved and authorised for issue by the Board of Directors on 28 January 2015 and signed on its behalf by:

Mark A. Watson
Director

B. Hollowood

Benjamin Hollowood
Director

Medifin Holding Limited

Statement of Comprehensive Income
For the Year Ended 31 March 2014

		Group		Company	
		2014	2013	2014	2013
	Notes	€000	€000	€000	€000
Interest income		64,576	50,956	-	-
Interest expense		(34,136)	(27,644)	(565)	(1)
Net interest income/(expense)	7	30,440	23,312	(565)	(1)
Net fee and commission income/(expense)	8	1,130	(849)	(300)	-
Net trading income	9.1	2,292	1,188	-	-
Net income from other financial instruments at fair value through profit or loss	9.2	1,883	4,156	-	-
Other operating income	9.3	28,031	27,484	41,783	10,288
Total operating income		63,776	55,291	40,918	10,287
Net impairment	4/16	(2,081)	(676)	-	-
Administrative and other expenses	10	(15,342)	(8,810)	(14)	(8)
Personnel expenses	11	(14,100)	(11,267)	-	-
Depreciation and amortisation	20/21	(3,390)	(2,576)	-	-
Operating expenses		(34,913)	(23,329)	(14)	(8)
Profit before income tax		28,863	31,962	40,904	10,279
Income tax expense	12	(1,533)	(1,827)	(11,308)	(3,564)
Profit for the year		27,330	30,135	29,596	6,715
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Exchange translation		-	3	-	-
Fair value reserve - available-for-sale assets					
Net change in fair value		1,483	44,515	-	-
Income taxes – net change in fair value		(73)	(2,226)	-	
Net amount transferred to profit or loss		(24,951)	(28,021)	-	-
Income taxes – net amount transferred to profit or loss		1,248	1,401	-	-
Other comprehensive income for the year (net of tax)		(22,293)	15,672	-	-
Total comprehensive income for the year		5,037	45,807	29,596	6,715

The notes on pages 16 to 98 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Comprehensive Income
For the Year Ended 31 March 2014

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Profit attributable to:				
Owners of the Company	**27,235**	30,010	**29,596**	6,715
Non-controlling interests	**95**	125	-	-
Profit for the year	**27,330**	30,135	**29,596**	6,715
Total comprehensive income attributable to:				
Owners of the Company	**4,933**	45,681	**29,596**	6,715
Non-controlling interests	**104**	126	-	-
Total comprehensive income for the year	**5,037**	45,807	**29,596**	6,715

The notes on pages 16 to 98 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2014

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	7,579	(3)	(1,660)	75,410	510	75,920
Total comprehensive income for the year								
Profit for the year	-	-	30,010	-	-	30,010	125	30,135
Other comprehensive income for the year								
Exchange translation	-	-	-	3	-	3	-	3
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	42,289	42,289	-	42,289
- Net amount transferred to profit or loss	-	-	-	-	(26,621)	(26,621)	1	(26,620)
Total comprehensive income for the year, net of tax	-	-	30,010	3	15,668	45,681	126	45,807
Transactions with owners, recorded directly in equity								
Contributions and distributions								
Dividends to equity holders	-	-	-	-	-	-	(175)	(175)
Balance as at 31 March 2013	55,738	13,756	37,589	-	14,008	121,091	461	121,552

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2014

Group	Share capital	Share premium	Retained earnings	Reserve for General Banking Risks	Fair value reserve	Total	Non-controlling interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Balance as at 1 April 2013	55,738	13,756	37,589	-	14,008	121,091	461	121,552
Total comprehensive income for the year								
Profit for the year	-	-	27,235	-	-	27,235	95	27,330
Transfer of Retained earnings to Reserve for General Banking Risks	-	-	(91)	91	-	-	-	-
Other comprehensive income for the year								
Available-for-sale assets:								
- Net change in fair value	-	-	-	-	1,400	1,400	10	1,410
- Net amount transferred to profit or loss	-	-	-	-	(23,702)	(23,702)	(1)	(23,703)
Total comprehensive income for the year, net of tax	-	-	27,144	91	(22,302)	4,933	104	5,037
Balance as at 31 March 2014	55,738	13,756	64,733	91	(8,294)	126,024	565	126,589

The notes on pages 16 to 98 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Changes in Equity
For the Year Ended 31 March 2014

Company	Share capital	Share premium	Retained earnings/ (Accumulated losses)	Total
	€000	€000	€000	€000
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**
Balance as at 1 April 2013	55,738	13,756	6,529	76,023
Total comprehensive income for the year				
Profit for the year	-	-	29,596	29,596
Balance at 31 March 2014	**55,738**	**13,756**	**36,125**	**105,619**

The notes on pages 16 to 98 are an integral part of these financial statements.

Medifin Holding Limited

Statement of Cash Flows
For the Year Ended 31 March 2014

	Group		Company	
	2014	2013	2014	2013
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	79,745	53,885	-	-
Interest and commission payments	(30,298)	(30,096)	(15)	(1)
Payments to employees and suppliers	(30,037)	(16,906)	(305)	-
Operating profit/(loss) before changes in operating assets/liabilities	19,410	6,883	(320)	(1)
(Increase)/decrease in operating assets:				
- reserve deposits with Central Bank of Malta	(855)	(1,360)	-	-
- loans advanced to customers and financial institutions	(200,774)	(292,290)	-	-
- investment securities	(670,319)	91,657	-	-
Increase/(decrease)/ in operating liabilities:				
- amounts owed to customers and banks	290,141	473,566	-	-
Tax refund/(paid)	1,498	(4,274)	9,544	-
Net cash (used in)/generated from operating activities	(560,899)	274,182	9,224	(1)
Cash flows from investing activities				
Capital subscribed in subsidiary	-	-	(14,700)	(6,320)
Acquisition of subsidiary	-	(200)	-	(200)
Acquisition of property and equipment	(171)	(431)	-	-
Acquisition of intangible asset	(4,797)	(5,090)	-	-
Disposal of property and equipment	10	-	-	-
Acquisition of available-for-sale assets	(336,422)	(1,170,856)	-	-
Disposal of available-for-sale assets	1,126,253	941,592	-	-
Acquisition of derivative assets held for risk management	(4,852)	(13,749)	-	-
Shareholders' contribution advanced to subsidiary	-	-	(1,250)	(9,325)
Repayment of shareholders' contribution	-	-	-	825
Dividends	-	-	-	6,646
Net cash from/(used in) investing activities	780,021	(248,734)	(15,950)	(8,374)
Cash flows from financing activities				
Proceeds from the issue of debt securities	237,359	-	-	-
Repurchase from the issue of debt securities	(22,912)	(4,095)	-	-
Issue of subordinated liabilities	9,907	12,341	-	-
Other amounts advanced by subsidiary bank	-	-	(15)	229
Loan from ultimate parent	15,000	9,325	15,000	9,325
Repayment of loan from ultimate parent	(8,500)	(825)	(8,500)	(825)
Cash dividends paid to minority	-	(175)	-	-
Net cash from financing activities	230,854	16,571	6,485	8,729
Net increase/(decrease) in cash and cash equivalents	449,976	42,019	(241)	354
Cash and cash equivalents at beginning of year	(574,322)	(616,341)	354	-
Cash and cash equivalents at end of year (note 32)	(124,346)	(574,322)	113	354

The notes on pages 16 to 98 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.

These consolidated financial statements of the Company as at and for the year ended 31 March 2014 comprise the Company and its subsidiaries, together referred to as the "Group". The Group is principally involved in the provision of market leading banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management, investments and corporate banking.

The end of the reporting period of the audited financial statements of Charts Investment Management Service Limited ("Charts") that have been utilised in the preparation of these consolidated financial statements is 31 December 2013, since the financial statements prepared as of this date constitute the most recent audited financial statements of Charts.

On 7 June 2013, the Group established a funding structure (Grand Harbour I B.V.) to issue notes secured by identifiable assets. The Group has retained substantially all risks and rewards of assets, liabilities and related income and expenditure, and as such, all assets, liabilities and related income and expenditure have been recognised within the Group's financial statements (note 28.3).

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (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;
- 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; and
- equity financial assets are measured at fair value.

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 prospectively.

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.

3 Significant accounting policies

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

3.1 Basis of consolidation

3.1.1 Subsidiaries

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

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

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

3.1.2 Transactions eliminated on consolidation

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

3 Significant accounting policies (continued)

3.2 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Group at the spot exchange rates at the date of the transactions.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial 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 and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

3.6 Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss. It includes all realised and unrealised fair value changes and foreign exchange derivatives.

3.7 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.

3.8 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.

3.9 Taxation

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.

3.9.1 Current tax

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.

3.9.2 Deferred tax

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)

3.9 Tax expense (continued)

3.9.2 Deferred tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

3.9.3 Tax exposure

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.

3.10 Financial assets and financial liabilities

3.10.1 Recognition and initial recognition

The Group initially recognises loans and advances to customers at the date of transfer of beneficial ownership. Investments and derivative assets and liabilities held for risk management are recognised on date of settlement. Amounts due to customers, debt securities and subordinated liabilities are 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.

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.

3.10.2 Classification

Financial assets

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

- Loans and advances;
- 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 3.13, 3.14, 3.15, 3.17 and 3.18.

3 Significant accounting policies (continued)

3.10 Financial assets and financial liabilities (continued)

3.10.2 Classification (continued)

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 3.15, 3.16 and 3.23.

3.10.3 Derecognition

Financial assets

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.

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.

Similarly, when assets are sold to a funding structure in which the Group is deemed to have retained all, or substantially all, risks and rewards, the transferred assets are not derecognised.

Financial liabilities

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

3 Significant accounting policies (continued)

3.10 Financial assets and financial liabilities (continued)

3.10.4 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.

3.10.5 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.

3.10.6 Fair value measurement (applicable from 1 April 2013)

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

3 Significant accounting policies (continued)

3.10 Financial assets and financial liabilities (continued)

3.10.6 Fair value measurement (applicable from 1 April 2013) (continued)

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

3.10.7 Identification and measurement of impairment of financial assets, including forbearance

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

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

The Group considers evidence of impairment for assets not measured at fair value through profit or loss 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. Assets 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 these financial assets, 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.

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.

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 Significant accounting policies (continued)

3.10 Financial assets and financial liabilities (continued)

3.10.7 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).

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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.

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, otherwise any increase in fair value should be recognised through Other Comprehensive Income.

Loans that have been identified as forborne retain this designation until payment performance has been observed for an extended period of time.

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.

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

3 Significant accounting policies (continued)

3.10 Financial assets and financial liabilities (continued)

3.10.8 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.

3.10.9 Designation at fair value through profit or loss

The Bank has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A description of the basis for each designation is set out in the note for the relevant asset or liability class.

3.11 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.

3.12 Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are accounted for at the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value.

Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

3 Significant accounting policies (continued)

3.13 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.

Loans and advances to customers, that are not acquired through a syndicate lending arrangements, are accounted for on acquired 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.

Syndicated loans and advances are accounted for on the acquired date, being the date of transfer of beneficial ownership.

3.14 Investment securities

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

3.14.1 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.

3.14.2 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.

3 Significant accounting policies (continued)

3.14 Investment securities (continued)

3.14.2 Available-for-sale (continued)

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.

3.14.3 Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in 3.10.

3.15 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.

3.16 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.

3 Significant accounting policies (continued)

3.16 Hedge Accounting (continued)

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.

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)

3.17 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities, including derivative assets and liabilities not acquired for risk management purposes, that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the Statement of Financial Position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.18 Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss.

3 Significant accounting policies (continued)

3.19 Property and equipment

3.19.1 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.

3.19.2 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.

3.19.3 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)

3.20 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 7 years.

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

3.21 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 Group did not have any finance leases during the years ended 31 March 2014 and 31 March 2013.

3.22 Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit ("CGU") 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 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.

3 Significant accounting policies (continued)

3.22 Impairment of non-financial assets (continued)

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.

3.23 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.

3.24 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.

3.25 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 Significant accounting policies (continued)

3.26 Changes in accounting policies

Except for the changes below, the Group consistently applied the accounting polices set in this note to all periods presented in these separate financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 April 2013.

A) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs (see below). Accordingly, the Bank has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

B) Amendments to IFRS 7, Financial Instruments: Disclosures

As a result of the amendments to IFRS, the Group has expanded disclosures about offsetting financial assets and financial liabilities (see note 4.3.7).

C) Presentation of items of Other Comprehensive Income ("OCI").

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

3.27 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 2014 and have not been applied in preparing these financial statements. Those relevant to the Group are as follows:

The Group is considering the implications of the EU adopted IFRS 10 Consolidated Financial Statements (issued in May 2011 and amended in June 2012 for its transitional provisions), a new standard with a date of initial application of 1 January 2014.

IFRS 10 (2011) introduces a new control model that focuses on whether an investor has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

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 Bank. As a result, this note presents information about the financial risk management of 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), supranational agencies and governments. 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 sovereign 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.

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 Treasury 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 Treasury 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 assets:

	2014		2013	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
	€000	€000	€000	€000
Balances with Central Bank of Malta and treasury bills	17,907	17,907	69,848	69,848
Cash	184	184	207	207
Loans and advances to financial institutions	87,714	87,714	20,131	20,131
Loans and advances to customers: corporate	621,222	618,928	450,763	450,087
Loans and advances to customers: retail	2,819	2,819	2,574	2,574
Investments	1,427,800	1,427,337	1,513,547	1,513,547
Derivative assets held for risk management	404	404	1,152	1,152
Derivative assets held for trading	404	404	-	-
Accrued income	19,164	19,164	23,778	23,778
Loans to related parties (included in other assets)	18,145	18,145	12,823	12,823
Other non-financial assets	10,642	10,642	7,771	7,771
	2,206,405	2,203,648	2,102,594	2,101,918

4.3.2 Impaired loans and advances and investment securities

All credit exposures have been reviewed on a case by case and collective basis (see accounting policy 3.10.7) in the light of current economic conditions and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment securities. 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.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.3 *Allowances for impairment*

The Bank established an allowance for impairment also at collective levels on its loans and advances to customers and investment securities that represent losses incurred but not yet identified.

	Individually assessed allowances	Collective allowances	Individually assessed allowances	Collective allowances
	2014	2014	2013	2013
	€000	€000	€000	€000
Loans and advances to customers: corporate				
At 1 April 2013	-	676	-	-
Additions	1,422	196	-	676
At 31 March 2014	1,422	872	-	676
Investment securities				
At 1 April 2013	-	-	-	-
Additions	-	463	-	-
At 31 March 2014	-	463	-	-
Total allowance for impairment	1,422	1,335	-	676

During the financial year ended 31 March 2014, there were no forbearance measures and practices undertaken (2013: nil). Accordingly no disclosure of the details of the type of forbearance measures and practices undertaken and how these are managed and monitored by management is applicable as would otherwise be required by ESMA.

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. No financial asset was written off during the year (2013: nil).

Included within "administrative and other expenses" there is a write off of €5 thousand which has been incurred upon the liquidation of a dormant subsidiary, Mediterranean Global Advisory SA during the year ended 31 March 2014. The subsidiary was domiciled in England and wholly owned by the Bank.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Exposure to sovereign debt of selected Eurozone countries

During the year ended 31 March 2014 the Bank continued to manage down its exposure to Eurozone government bonds not carrying an investment-grade credit rating, and as at 31 March 2014 this exposure was immaterial. The Bank's exposure to sovereign Eurozone government bonds is as follows:

	% of Total Debt Securities	
	2014	2013
Greece	**0.35%**	0.96%
Portugal	**-**	2.18%
Malta	**7.22%**	1.97%
	7.57%	5.11%

No impairment provisions in respect of these exposures were required during the year ending 31 March 2014 (2013: nil).

In addition, the Bank holds Treasury bills as disclosed in note 13.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Concentration of loans and advances and investment securities and derivative assets

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:

	Balances with Central Bank of Malta, Treasury bills and Loans and advances to financial institutions		Loans and advances to customers and related parties		Investments & derivative assets	
	2014	2013	**2014**	2013	**2014**	2013
	€000	€000	**€000**	€000	**€000**	€000
Concentration by type						
Net carrying amount						
Senior bank obligations	**99,624**	49,087	**-**	-	**104,580**	104,477
Covered bonds	**-**	-	**-**	-	**604,822**	1,000,290
Government securities	**5,997**	40,892	**50,603**	50,487	**106,075**	79,878
Supranationals and agencies	**-**	-	**-**	-	**312,524**	151,500
Pooled securities	**-**	-	**-**	-	**6,101**	117,433
Secured corporate lending	**-**	-	**568,325**	399,600	**248,059**	54,964
Unsecured corporate lending	**-**	-	**18,145**	12,823	**42,702**	5,005
Retail secured lending	**-**	-	**2,819**	2,574	**-**	-
Equity instruments	**-**	-	**-**	-	**2,474**	-
Warrants	**-**	-	**-**	-	**404**	-
Interest rate swaptions	**-**	-	**-**	-	**404**	-
Interest rate swap	**-**	-	**-**	-	**-**	279
Foreign exchange swaps	**-**	-	**-**	-	**-**	873
	105,621	89,979	**639,892**	465,484	**1,428,145**	1,514,699

Concentration by location

	Balances with Central Bank of Malta and Loans and advances to financial institutions		Loans and advances to customers		Investments & derivative assets	
	€000	€000	**€000**	€000	**€000**	€000
Net carrying amount						
Europe	**98,868**	49,087	**584,529**	435,648	**1,390,976**	1,481,533
North America	**440**	-	**37,218**	17,013	**37,169**	33,166
Australia	**316**	-	**-**	-	**-**	-
	99,624	49,087	**621,747**	452,661	**1,428,145**	1,514,699

All treasury book 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 €6.101 million (2013: €40.608 million). Either the securities themselves or the issuers of the securities are rated by at least one of Fitch, Standard & Poor's and Moody's. Senior bank obligations are held with central banks and financial institutions counterparties that are generally rated at least investment grade. Retail secured lending are collateralised by term deposits.

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

The Bank held investment securities with a net carrying amount of €1,428 million as at 31 March 2014 (2013: €1,514 million) net of impairment, an analysis of the credit quality based on rating agency ratings is as follows:

	2014	2013
	€000	€000
Government securities		
A+ or lower	55,471	80,181
Other securities		
AA- and higher	797,163	1,111,924
A+ or lower	575,427	321,745
Total	**1,428,061**	1,513,850

In addition, the Bank held treasury bills disclosed in note 13, with a rating of A+ or lower. Loans and advances to financial institutions disclosed in note 14 are classified as 'Regular' by the Bank and above investment grade by reputable credit rating agencies.

An analysis of Loans and advances to customers – corporate by internal credit classification is provided in the table below:

	2014	2013
	€000	€000
Neither past due nor impaired		
Regular	463,938	285,969
Focus	116,735	120,038
Under surveillance	32,984	47,330
Allowance for collective impairment	(872)	(676)
Doubtful	10,384	-
Allowance for individual impairment	(1,422)	-
Net carrying amount	**621,747**	452,661

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

Accrued income from investments securities amounting to €10.995 million (2013: €20.009 million) is related to assets classified above investment grade of €1.129 billion (2013: €1.404 billion) with the remaining related to the securities below investment grade.

4.3.7 Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements and global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the following tables unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements, with the exception of the principal clearing house netting arrangement, do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement of a right to set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle. In the case of the principal clearing house netting arrangement, the Bank is allowed to offset and settle its claims on a net basis at any time vis-à-vis the clearing counterparty.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives; and
- sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA *Credit Support annex.* This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Offsetting financial assets and financial liabilities (continued)

Below is a table showing financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

31 March 2014

There were no financial assets presented in the Statement of Financial Position in scope of offsetting disclosures.

				Related amounts not offset in the statement of financial position		
	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including) non-cash collateral)**	**Cash collateral pledged**	**Net amount**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Types of financial liabilities						
Repurchase agreements	(932,473)	4,347	(928,126)	1,061,705	-	133,579
Total Return Swaps	(98,267)	31,069	(67,198)	99,575	-	32,377
Derivatives held for risk management						
- Interest rate swaps	(2,798)	-	(2,798)	-	2,383	(415)
	(1,033,538)	**35,416**	**(998,122)**	**1,161,280**	**2,383**	**165,541**

31 March 2013

				Related amounts not offset in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including) non-cash collateral)	Cash collateral received	Net amount
	€000	€000	€000	€000	€000	€000
Types of financial assets						
Derivatives held for risk management						
- Interest rate swaps	279	-	279	-	6,308	6,587

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Offsetting financial assets and financial liabilities (continued)

31 March 2013

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments (including) non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
	€000	€000	€000	€000	€000	€000
Types of financial liabilities						
Repurchase agreements	(1,259,324)	-	(1,259,324)	1,448,320	-	188,996
Total Return Swaps	(82,063)	36,143	(45,920)	120,271	-	74,351
	(1,341,387)	**36,143**	**(1,305,244)**	**1,568,591**	**-**	**263,347**

Below is a table reconciling the above analysis to the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position.

31 March 2014

	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	Note
	€000		€000	€000	
Types of financial liabilities					
Repurchase agreements	928,126	Amounts owed to financial institutions	1,008,976	13,652	26
Total Return Swaps	67,198				
Derivatives held for risk management - Interest rate swaps	2,798	Derivative liabilities held for risk management	2,973	175	17

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Offsetting financial assets and financial liabilities (continued)

31 March 2013

	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures	Note
	€000		€000	€000	
Types of financial assets					
Derivatives held for risk management					
- Interest rate swaps	279	Derivative assets held for risk management	1,152	873	17

	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	Note
	€000		€000	€000	
Types of financial liabilities					
Repurchase agreements	1,259,324	Amounts owed to financial institutions	1,368,995	63,751	26
Total Return Swaps	45,920				

4.4 Liquidity risk

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

4.4.1 Management of liquidity risk

Management of liquidity risk is the responsibility of the Bank's Treasury Department and its Risk Office, under the oversight of its Management Asset-Liability Committee and its Board Risk Committee and under an approach set out in its Treasury Management Policy.

Treasury Management Policy ("TMP")

The Bank's TMP establishes the principles, standards, internal controls, high-level reporting requirements and escalation and approval processes that govern the ongoing management of:

- the Bank's liquidity and asset-liability mix;
- the Bank's market, interest rate and currency risk;
- any credit risk taken on in connection with the activities above.

It is also designed to ensure compliance with all national and international regulations and laws that are applicable to these activities.

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk (continued)

Management Asset and Liability Committee

The Bank has established a Management Asset and Liability Committee ("ALCO") which is responsible for the management of funding, liquidity, interest rate and currency risks. ALCO sets and reviews overall policies and objectives for asset and liability management, capital management and allocation; capital usage and efficiency; transfer pricing; risk management; and underwriting, dealing and trading activities according to the risk appetite set by the Board. It also decides on the level of any credit impairments to be taken on the Bank's investments, after receiving recommendations from the Management Credit Committee.

Board Risk Committee

The Board Risk Committee is responsible for setting policies of the Bank in respect of liquidity and funding, interest rate and currency risks of the Bank and for reviewing and approving any changes to the overall asset-liability management strategy of the Bank. As such, it is the board-level committee that oversees the TMP.

Roles and responsibilities

Management of the Bank's liquidity position and of its market risk is the joint responsibility of its Treasury and Risk functions (under the oversight of ALCO and of the Board Risk Committee), as is management of the credit risk that arises from these activities. In broad terms:

- Treasury has primary responsibility for managing and reporting the Bank's projected liquidity position (the "base case"), and for managing its market risk position on a day-to-day basis; and
- Risk has primary responsibility for defining potential adverse liquidity scenarios that should be considered and for reporting exposure to these scenarios (the "downside case"), as well as for regular formal reporting of the Bank's market risk position.

Funding Strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium-term, in order to invest in longer-term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near-universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled when they mature (which may be every day in the case of money held in current or savings accounts).

The Bank's strategy to mitigate this risk has three main components:

- Limiting its exposure to customer deposit withdrawal by use of term rather than overnight deposits as its primary instrument of customer funding;
- Limiting its exposure to wholesale funding withdrawal by locking in term funding against less liquid assets and by diversifying its sources of funding; and
- Maintaining a contingency source of funding by ensuring that the bulk of its Treasury portfolio is eligible for funding at the ECB if alternative sources are unavailable.

The Bank's objective is to maintain a prudent funding structure drawn from diverse funding sources while recognising its position as a regulated credit institution.

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 *Management of liquidity risk (continued)*

Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured, senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repo or TRS, or unsecured); and
- Central Bank funding.

4.4.2 *Residual contractual maturities of financial liabilities*

The below tables show the residual maturities of the Bank's financial liabilities.

31 March 2014

	Carrying amount	Gross nominal outflow	Less than 1 month	1 month 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 clearing houses	522,032	525,050	27,059	10,006	208,129	279,856	-
- Due to other banks	486,944	489,151	98,431	256,192	134,528	-	-
Amounts owed to customers	776,715	831,751	203,445	19,693	241,711	366,846	56
Debt securities in issue	14,341	16,456	-	-	958	15,498	-
Debt securities in issue through funding structure	215,786	263,633	-	-	3,532	14,230	245,871
Subordinated liabilities	22,385	32,748	-	-	1,711	6,830	24,207
	2,038,203	**2,158,789**	**328,935**	**285,891**	**590,569**	**683,260**	**270,134**
Derivative liabilities							
Derivative liabilities held for risk management							
- Interest rate swaps	2,798						
- Inflows		28,358	-	-	1,226	18,586	8,546
- Outflows		(30,993)	-	-	(3,808)	(21,801)	(5,384)
- Foreign exchange swaps	175	409	7	402	-	-	-
	2,973	**(2,226)**	**7**	**402**	**(2,582)**	**(3,215)**	**3,162**

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

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
Derivative liabilities	-	-	-	-	-	-	-

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

The table below sets out the availability of the Bank's financial assets to support future funding.

31 March 2014

	Encumbered		Unencumbered		
	Pledged as collateral	Other[†]	Available as collateral	Other[‡]	Total
	€000	€000	€000	€000	€000
Balances with Central Bank of Malta and treasury bills and cash	5,997	-	-	12,094	18,091
Loans and advances to financial institutions	-	-	-	87,714	87,714
Loans and advances to customers: corporate	389,076	-	50,603	179,249	618,928
Loans and advances to customers: retail	-	-	-	2,819	2,819
Investments	1,143,915	3,822	247,427	32,173	1,427,337
Derivative assets held for risk management	-	-	-	404	404
Derivative assets held for trading	-	-	-	404	404
Loans and advances to related entities[§]	-	-	-	18,145	18,145
	1,538,988	**3,822**	**298,030**	**333,002**	**2,173,842**

31 March 2013

	Encumbered		Unencumbered		
	Pledged as collateral	Other[†]	Available as collateral	Other[‡]	Total
	€000	€000	€000	€000	€000
Balances with Central Bank of Malta and treasury bills	40,892	-	-	28,956	69,848
Loans and advances to financial institutions	-	-	-	20,131	20,131
Loans and advances to customers: corporate	166,025	-	50,587	284,062	500,574
Loans and advances to customers: retail	-	-	-	2,574	2,574
Investments	1,399,905	2,678	55,472	5,005	1,463,060
Derivative assets held for risk management	-	-	-	1,152	1,152
Loans and advances to related entities[§]	-	-	-	12,823	12,823
	1,606,822	2,678	105,959	354,703	2,070,162

[†]Represents assets that are not pledged for funding purposes but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.
[‡]Represents assets that are not restricted for use as collateral, but the Bank would not consider them as readily available to secure funding in the normal course of business.
[§]included in other assets

Assets pledged as collateral include:

- Assets transferred to Total Return Swap which are not derecognised (note 15.7 and 16.6)
- Assets transferred to a collateralised funding structure which are not derecognised (note 15.6 and 16.5).

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

Liquidity Reporting

In order to ensure that the Bank has adequate liquidity to meet its near-term obligations, Treasury projects the Bank's expected liquidity position for each day over the next week, as well as estimating a "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) that fall outside this period. It reports using two key metrics:

- Before the relevant liquidity provisions under the Capital Requirements Regulations and Directive become effective in 2015, the Bank is required to maintain its liquid asset ratio of net cash to short-term customer liabilities, in excess of 30%. The calculation of this ratio is performed by Finance and submitted to the MFSA as part of the Bank's statutory monthly returns.

- Liquidity ratio, being the ratio of net cash to wholesale (margin-sensitive) funding. This cash buffer is designed to ensure that the Bank can meet any additional margin requirement that might be imposed by the ECB or by repo counterparties, resulting either from changes in market values of assets or from increases in applicable haircuts.

Liquidity Risk Reporting

The Risk Office is responsible for producing two key reports that describe the key risks to the Bank's liquidity position and quantify its ability to withstand the associated shocks:

- Scenario Analysis report, quantifying the potential liquidity impact of adverse market moves or rating agency actions on the Bank's asset base, and considering a number of scenarios of varying severity;

- Maximum Cumulative Outflow Report, projecting the Bank's cash position in an adverse scenario through time, allowing for the effect of remedial actions that can be taken but taking into account a wide range of potential cash drains including:

  i. Deposit flight (retail and corporate, specific and general)
  ii. Margin postings due to market moves and haircut changes
  iii. Failure of bilateral repo counterparties to roll financing
  iv. Loss of eligibility for ECB financing

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

As for liquidity risk, management of market risk is the responsibility of the Bank's Treasury Department and its Risk Office, under the oversight of its Management Asset-Liability Committee and its Board Risk Committee and under an approach set out in its Treasury Management Policy.

4.5.2 Currency risk

Currency risk is the risk that the value of the Bank's positions may fluctuate due to movements in underlying currency exchange rates. Although a large majority of the Bank's assets and liabilities is euro-denominated, the Bank does offer deposits in other major currencies and its loan portfolio includes a number of Sterling-denominated loan assets. The Bank seeks to minimise foreign exchange risk and thus hedges all material exposures in this area through the use of currency swaps and foreign exchange forward contracts.

The following table provides an analysis of the principal 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 2014			31 March 2013		
	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, treasury bills and cash	18,014	77	18,091	69,957	98	70,055
Loans and advances to financial institutions	79,717	7,997	87,714	13,538	6,593	20,131
Loans and advances to customers	481,772	139,975	621,747	397,213	55,448	452,661
Investments	1,342,326	85,011	1,427,337	1,508,814	4,733	1,513,547
Derivative assets held for risk management	404	-	404	279	-	279
Derivative assets held for trading	404	-	404	-	-	-
Accrued income	17,048	2,116	19,164	23,778	-	23,778
	1,939,685	235,176	2,174,861	2,013,579	66,872	2,080,451
Financial liabilities						
Amounts owed to financial institutions	949,593	59,383	1,008,976	1,331,241	37,754	1,368,995
Amounts owed to customers	649,650	127,065	776,715	469,132	96,915	566,047
Debt securities in issue	230,127	-	230,127	15,664	-	15,664
Derivative liabilities held for risk management	2,973	-	2,973	-	-	-
Subordinated liabilities	20,171	2,214	22,385	10,079	2,262	12,341
Accruals	8,587	1,031	9,618	5,842	-	5,842
	1,861,101	189,693	2,050,794	1,831,958	136,931	1,968,889

	2014 Other Currencies	2013 Other Currencies
Net financial position	45,483	(70,059)
Derivative instruments held for risk management	(44,905)	69,756
Exposure	578	(303)

The Bank uses derivative instruments to hedge movements in foreign currency. As a result the Bank is not materially exposed to fluctuations in foreign currency. The net exposure of all foreign currency amounts to a long position of €0.578 million (2013: short €0.303 million). As a result no currency sensitivity analysis is being presented.

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 Exposure to interest rate risk – non-trading portfolios

Interest Rate Risk Management

Interest rate risk arises as a consequence of the Bank's core businesses where there is a mismatch between the nature of rates received on the Bank's financial assets and the rates paid on the Bank's liabilities. For example, fixed-rate term deposits could be used to fund floating-rate loans, or floating-rate secured funding could be used to finance the purchase of fixed-rate securities.

Treasury, under the oversight of the Head of Treasury and Investment, manages interest rate risk within the prevailing interest rate risk strategy as set by ALCO, and subject to limits recommended by the Chief Risk Officer and approved by ALCO.

Interest Rate Risk Reporting and Analysis

The Risk Office prepares an interest rate risk report of the Bank monthly. The report outputs show the effects of potential yield curve moves on:

- Projected Net Interest Margin
- The Bank's capital position
- The Economic Value of the Bank's financial assets and liabilities, assuming that no fixed rate deposits are rolled
- The Economic Value of the Bank's financial assets and liabilities, incorporating assumptions around fixed-rate deposit rolls.

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, excluding the effect of interest rate hedging, is as follows:

31 March 2014		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	17,907	15,057	2,850	-
Loans and advances to financial institutions	87,714	87,714	-	-
Loans and advances to customers	621,747	588,029	31,285	2,433
Investments	1,427,741	190,215	19,402	1,218,124
	2,155,109	881,015	53,537	1,220,557
Amounts owed to financial institutions:				
- Due to clearing houses	522,032	37,032	207,000	278,000
- Due to other banks	486,944	353,966	65,595	67,383
Amounts owed to customers	776,715	222,527	236,859	317,329
Debt securities issued	14,341	-	-	14.341
Debt securities issued through funding structure	215,786	-	215,786	-
Subordinated liabilities	22,385	-	-	22,385
	2,038,203	613,525	725,240	699,438
Interest rate gap	116,906	267,490	(671,703)	521,119

4 Financial risk management (continued)

4.5 Market risks (continued)

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

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
Loans and advances to financial institutions	20,131	20,131	-	-
Loans and advances to customers	452,661	436,358	13,834	2,469
Investments	1,513,547	351,139	3,699	1,158,709
	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

Interest rate risk positions are managed by Treasury and Investment department, 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 Economic Value as a result of a 100 basis points (bps) parallel fall / rise in the yield curves would be as follows:

31 March 2014

- NIM would decrease by €5.12 million / increase by €4.10 million.
- Economic Value would decrease by €4.65 million / increase by €6.52 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 2013

- NIM would decrease by €7.91 million / increase by €8.96 million.
- Economic Value would decrease by €16.96 million / increase by €19.61 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 CRR. The capital requirement for operational risk under this method was calculated at €4,417,400 (31 March 2013: €4,387,500).

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.

The European Parliament has approved the new capital reforms, referred to as Capital Requirements Regulations (CRR) and Capital Requirements Directive (henceforth 'CRD IV'), on 26 June 2013. These reforms implement the Basel III into Europe with the sole objective to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress which in turn, mitigate spill-over damage to the real economy. The CRD IV legislation has been implement with an effective date of 1 January 2014.

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 CRR in respect of regulatory capital and it applies the standardised approach.

For regulatory purposes, the Bank's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common equity Tier 1 Capital, which includes ordinary share capital, share premium, retained earnings, shareholders' contribution, fair value reserve 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

- Tier 2 capital, consists of subordinated liabilities in issue, which rank behind the claims of all depositors (including financial institutions) and other creditors.

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.

As fully disclosed in note 25 and note 29, the Bank's Regulatory Own Funds was increased through various instruments, being

- increase in ordinary A share capital of €14.70 million;
- increase in shareholders' contribution by €1.25 million; and
- issue of subordinated liabilities €9.98 million.

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

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

The Bank's regulatory capital position was as follows:

	2014	2013
Common Equity Tier 1	**€000**	€000
Share capital	**98,050**	62,350
Share premium	**13,464**	13,464
Shareholders' contribution	**9,750**	8,500
Retained earnings brought forward	**191**	708
Profit for the year	**19,305**	20,483
Reserve for general banking risk	**91**	-
Intangible assets	**(128)**	(228)
Investment in subsidiaries	**(1)**	(65)
Other reserves	**(5,018)**	(3,429)
	135,704	101,783
Tier 2 Capital		
Subordinated liabilities	**22,385**	12,341
Fair value reserve	**(5,691)**	9,578
Total Own funds	**152,398**	123,702

Capital ratio

Regulatory capital as a % of total risk-weighted assets	**14.25%**	15.66%

5 Use of estimates and judgements

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

In the process of applying the Group's accounting policies, the Directors have made the following 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 3.14.1.

5.2 Estimated cash flows

As part of the calculation of the effective interest rate for financial assets and liabilities carried at amortised cost, the Group takes into account the estimated cash flows considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options), but without inclusion of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be redeemed or cancelled early, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability for the option being exercised will be assessed in determining the estimated cash flows. In the case of held-to-maturity instruments with call options, the estimated cash flows reflect a redemption price at or above its carrying amount.

5.3 Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3.10.7. The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received as described in 5.2. In estimating these cash flows, management also considers the net realisable value of any underlying collateral.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and investment securities 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 Use of estimates and judgements (continued)

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 Group 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

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

6 Financial assets and liabilities (continued)

6.1 Valuation

The tables shown in section 6.2 and 6.3 below analyse recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy which reflects the significance of the inputs used in making the valuation. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities that the Bank can access at the measurement date.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, 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 in which all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include less liquid debt securities and over-the-counter derivatives where the fair value is based on observable inputs.

- Level 3: unobservable inputs for the asset or liability. This category includes instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark interest rates, credit spreads, bond prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

6 Financial assets and liabilities (continued)

6.2 Financial instruments measured at fair value – fair vale hierarchy

The following table analyses financial instruments measured at fair value at 31 March 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

At 31 March 2014

	Level 1	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets				
Investments				
- Available-for-sale	486,195	6,101	-	492,296
- Fair value through profit or loss	2,474	-	-	2,474
Derivative assets held for trading	404	-	-	404
Derivative assets held for risk management	-	404	-	404
Total financial assets carried at fair value	**489,073**	**6,505**	**-**	**495,578**
Liabilities				
Derivative liabilities held for risk management	-	2,973	-	2,973
Total financial liabilities carried at fair value	**-**	**2,973**	**-**	**2,973**

At 31 March 2013

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets				
Investments				
- Available for sale	1,117,128	90,665	-	1,207,793
Derivative assets held for risk management	-	1,152	-	1,152
Total	1,117,128	91,817	-	1,208,945
Liabilities				
Derivative liabilities held for risk management	-	-	-	-
Total	-	-	-	-

6 Financial assets and liabilities (continued)

6.2 Financial instruments measured at fair value – fair value hierarchy (continued)

As at 31 March 2014 and at 31 March 2013, 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 16.5, which are classified as Level 2, under the fair value hierarchy in accordance with IFRS 7.

Level 2 includes fair value of:

- Investment securities that are valued on the basis of price quotations from an orderly transaction between market participants provided by reputable dealers; and

- Derivatives held for risk management that 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 (discounted cash flow – DCF). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from 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.

6.3 Financial instruments not measured at fair value

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

At 31 March 2014

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Investment securities at amortised cost	851,386	100,060	-	951,446	933,291
Total	**851,386**	**100,060**	**-**	**951,446**	**933,291**
Liabilities					
Debt securities in issue	14,860	-	-	14,860	14,341
Subordinated liabilities	22,628	-	-	22,628	22,335
Total	**37,488**	**-**	**-**	**37,488**	**36,676**

6 Financial assets and liabilities (continued)

6.3 Financial instruments not measured at fair value (continued)

At 31 March 2013

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Investment securities at amortised cost	175,246	124,429	-	299,675	306,057
Total	175,246	124,429	-	299,675	306,057
Liabilities					
Debt securities in issue	16,302	-	-	16,302	15,664
Subordinated liabilities	12,931	-	-	12,931	12,341
Total	29,233	-	-	29,233	28,005

Investment securities in inactive markets are based on:

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

The majority of the 'loans and advances to financial institutions' amounting to €87.714 million (2013: €20.131 million) re-price or mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Loans and advances to customers – retail amounting to €2.819 million (2013: €2.574 million) approximates their fair value because they are re-pricable at the Bank's discretion.

The fair value of 'loans and advances to customers – corporate' with a carry value of €50.603 million (2013: €50.478 million) amounts to €47.730 million (2013: €38.936 million)

The fair value of 'loans and advances to customers - corporate' with a carry value of €568.325 million (2013: € 399.600 million), net of impairment, and 'debt securities in issue through funding structure' €215.786 million (2013: € nil) cannot be reliably measured due to:

- insufficient publicly available information;
- inactive market; and
- reliable broker quotes are negotiated on a one-to-one basis.

6 Financial assets and liabilities (continued)

6.3 Financial instruments not measured at fair value (continued)

Notwithstanding this, the carrying amount of loans and advances to customers – corporate at the reporting date is deemed a fair approximation of their fair value on the basis that:

- all 'loans and advances to customers – corporate' have a short re-pricing maturity of less than 6 months hence any changes in fair value from market risk will be reflected in the carry value;
- terms and conditions of these loans generally contain interest rate adjustment covenants that provide for changes in interest rate receivable linked to the borrowers' performance and debt levels; and
- credit risk deterioration is assessed and reflected in the carry value as part of the impairment assessment process (Notes 3.10.7, 15.9). Specific impairment allowance of €1.422 million (2013: nil) is disclosed in note 4.3.3.

The Group does not have the intention to dispose the 'loans and advances to customers – corporate' in the short term and disposal of such instruments is only performed after due consideration is provided on a case by case basis of the underlying commercial viability. Loans and advances amounting to a carry value of €92.917 million were disposed during the year realising profits of €2.615 million.

The majority of the 'amounts owed to financial institutions' amounting to €1.009 billion (2013: €1.369 billion) re-price or mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. 'Amounts owed to customers' amounting to €776.715 million (2013: €566.047 million) are substantially local deposits where the interest rate market is stable.

6.4 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 March 2014.

7 Net interest income/(expense)

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Interest income				
Investment securities	**34,404**	36,190	-	-
Loans and advances to financial institutions	**60**	133	-	-
Loans and advances to customers	**30,112**	14,633	-	-
	64,576	50,956	-	-
Interest expense				
Amounts owed to customers	**23,417**	17,060	-	-
Amounts owed to financial institutions	**4,079**	8,996	-	1
Amounts owed to ultimate parent company	**565**	-	**565**	-
Debt securities in issue	**6,075**	1,588	-	-
	34,136	27,644	**565**	1
Net interest income/(expense)	**30,440**	23,312	**(565)**	(1)

7.1 Included within loans and advances to customers under interest income for the year ended 31 March 2014 is a total of €0.904 million (2013: €0.339 million) relating to impaired financial assets.

7.2 Included within interest income are fair value losses of €7.303 million (2013: €16.813 million) on derivatives held in a fair value hedge relationship and €7.443 million (2013: €17.282 million) representing net increases in the fair value of the hedged item attributable to the hedged risk. The gains and losses are included in the line item corresponding to where interest income on the hedged item is recognised.

8 Net fee and commission income/ (expense)

8.1 The Company incurred loan arrangement fees amounting to €0.3million (2013: Nil) in connection with the drawing of amounts borrowed from the shareholder.

8.2

	Group	
	2014	2013
	€000	€000
Fee and commission income		
Transaction fee income	**1,408**	1,339
Corporate secured lending fees	**1,245**	330
Investment services fees	**142**	-
Underwriting fee income	-	300
	2,795	1,969
Fee and commission expense		
Transaction and custody fees	**953**	635
Corporate secured lending fees	**230**	1,537
Other	**482**	646
	1,665	2,818
Net fee and commission income/(expense)	**1,130**	(849)

8 Net fee and commission income/(expense) (continued)

8.3 The net fee and commission expense excludes amounts used in determining the effective interest rates on financial assets and financial liabilities that are not at fair value through profit or loss but includes income of €1.245 million (2013: €0.330 million) and expenses of €0.230 million (2013: €1.537 million) relating to such financial assets and liabilities.

9 Net trading income and other operating income

9.1 Net trading income

	Group	
	2014	2013
	€000	€000
Foreign exchange income	**2,292**	1,188

Foreign exchange income includes gains from foreign exchange in retail.

9.2 Net income from other financial instruments at fair value through profit or loss

	Group	
	2014	2013
	€000	€000
Derivative assets/liabilities held for risk management		
- interest rate related	**(209)**	3,812
- foreign exchange related	**(786)**	344
Derivative assets held for trading	**404**	-
Equity instruments at fair value through profit or loss	**2,477**	-
	1,886	4,156

9.3 Other operating income

	Group	
	2014	2013
	€000	€000
Realised gains on disposal of investments	**24,917**	26,465
Realised gains on disposals of loans and advances	**2,615**	989
Realised gain on repurchase of debt securities issued through funding structure	**495**	-
Other income	**4**	30
	28,031	27,484

9 Net trading income and other operating income (continued)

9.3 Other operating income (continued)

Other income includes an amount of €32.308 million (2013: €10.210 million) which relates to dividends received from subsidiary.

10 Administrative and other expenses

Administrative and other expenses include:

	Group	
	2014	2013
	€000	€000
Operating lease charges (note 33)	**1,033**	662
Directors' fees (note 34.3)	**110**	110

Administrative and other expenses include fees charged by the Group's auditors for the year and are as follows:

	Audit services	**Other assurances services**	**Tax advisory services**	**Other non-audit services**
	€000	**€000**	**€000**	**€000**
Year to 31 March 2014				
Auditors' remuneration	**85**	**59**	**12**	**29**
Year to 31 March 2013				
Auditors' remuneration	78	34	9	39

11 Personnel expenses

11.1 Personnel expenses incurred are analysed as follows:

	Group	
	2014	2013
	€000	€000
Directors' emoluments:		
- salaries	**2,156**	328
- defined contribution social security costs	**8**	2
- other	**190**	-
Staff costs:		
- wages and salaries	**11,178**	10,670
- defined contribution social security costs	**460**	267
- other	**108**	-
	14,100	11,267

11 Personnel expenses (continued)

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

	Group	
	2014	2013
	No.	No.
Executive and senior management	**16**	16
Other managerial, supervisory and clerical	**203**	142
Other	**10**	10
	229	168

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

	Group	
	2014	2013
	No.	No.
Management and administration	**232**	199

12 Income tax expense

12.1

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Current tax expense	**330**	1,933	**11,308**	3,564
Deferred tax income	**1,203**	(106)	**-**	-
Income tax expense	**1,533**	1,827	**11,308**	3,564

12 Income tax expense (continued)

12.2 The income 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	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Profit for the year	**27,330**	30,135	**29,596**	6,715
Income tax expense	**1,533**	1,827	**11,308**	3,564
Profit before income tax	**28,863**	31,962	**40,904**	10,279
Tax at the applicable rate of 35%	**10,102**	11,187	**14,317**	**3,598**
Tax effect of:				
Tax rates in foreign jurisdictions	**-**	(6)	**-**	(10)
Non-deductible expenses	**530**	1	**307**	3
Exempt income	**(21)**	-	**(3,316)**	-
Untaxed dividends	**(74)**	(2)	**-**	-
Accrued tax refunds	**(9,004)**	(9,353)		
Other difference	**-**	-	**-**	(27)
Tax expense	**1,533**	1,827	**11,308**	3,564

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

13.1 Balances

	Group	
	2014	2013
	€000	€000
Balances with Central Bank of Malta	**11,910**	28,956
Malta Government Treasury Bills	**5,997**	40,892
Cash	**184**	207
	18,091	70,055

13.2 Balances with Central Bank of Malta include a reserve deposit of the Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €3.533 million (2013: €3.074 million) bearing interest at 0.25% (2013: 0.75%) per annum and an overnight deposit amounting to €7.122 million (2013: €25.0 million) bearing no interest (2013: no interest) 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 €1.255 million (2013: €0.857 million) 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.

As at 31 March 2014, in connection with the DCS, investment securities with a carrying amount of €3.822 million (2013: €2.603 million), nominal value €3.500 million (2013: €2.475 million) and a fair value of €3.832 million (2013: €2.678 million) as at 31 March 2014, are pledged in favour of the DCS.

13.4 Malta Government Treasury Bills amounting to €5.997 million (2013: €40.892 million) are expected to be recovered within twelve months after the reporting date.

14 Loans and advances to financial institutions

14.1 Balances

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**55,952**	8,150	**113**	354
Term loans and advances	**32,052**	11,697	**-**	-
	88,004	19,847	**113**	354

14.2 Balances of loans and advances to financial institutions up to €61,251 (2013: €69,578) are pledged in favour of other banks providing credit card facilities to customers.

14.3 An amount of €1 million (2013: €1 million) has been contributed to a clearing fund held by Eurex Clearing AG, of which the 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 2014 and 31 March 2013 were neither past due nor impaired and there were no forbearance activities.

14.5 The Company's loans and advances to financial institutions include cash balances amounting to €113 thousand (2013: €354 thousand) held at the Bank, and is unsecured, interest free and can be withdrawn on demand.

14.6 As at 31 March 2014, €3.542 million (2013: €7.303 million) are expected to be recovered after more than twelve months after the reporting date.

15 Loans and advances to customers

15.1 Balances

	Group	
	2014	2013
	€000	€000
At amortised cost:		
Loans and advances: retail	**2,819**	2,574
Loans and advances: corporate	**621,222**	450,763
Less allowance for impairment (note 15.9)	**(2,294)**	(676)
	621,747	452,661

15.2 Loans and advances amounting to €10.473 million (2013: nil) were deemed to be impaired. Specific impairment recorded on these loans and advances amounted to €1.422 million (2013: nil) (note 15.9). No other customers as at 31 March 2014 and 31 March 2013, were deemed to be past due or impaired and there were no forbearance activities.

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. These deposits are pledged in favour of the Bank.

15.4 Loans and advances to customers: retail includes €17,017 loan sanctioned to a Director of the Bank (2013: €100,000). This is secured by a general hypothec and carries an interest of 4.5% per annum.

15.5 As at 31 March 2014, €3.059 million (2013: €8.311 million) of "loans and advances to customers: corporate" and €0.324 million (2013: €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 The Group has established a Collateralised Loan Obligation ("CLO") structure (note 28.3). As risks and rewards are deemed to have been retained by the Bank, €322.846 million (2013: nil) loans and advances to customers are still recognised on the Statement of Financial Position.

15.7 Similarly a number of loans and advances were transferred under a Total Return Swap ("TRS") Facility (note 26). As risks and rewards are deemed to have been retained by the Bank, €66.229 million (2013: €115.538 million), loans and advances to customers are still recognised on the Bank's Statement of Financial Position.

15.8 As at 31 March 2014, €27.7 million (2013: €1 million) of "loans and advances to customers: corporate" were contracted but beneficial ownership was not yet transferred and not recorded as purchases.

There were no contingent disposals as at 31 March 2014 (2013: €10 million) which were disposed but beneficial ownership of which was not yet transferred.

15.9 A private placement with a carrying amount of €50.6 million (2013: €50.5 million) met the definition of Loans and Receivables on initial recognition. This financial asset was classified as Held-to-Maturity rather than Loans and Receivables. The statement of financial position for the current and the comparative year has been adjusted to reflect the correct classification of the financial asset as Loans and Receivables. There is no impact on the profit and loss as instruments under both classifications are carried at amortised cost less impairment.

15 Loans and advances to customers (continued)

15.9 Allowances for impairment

	Group	
	2014	2013
	€000	€000
Specific allowances for impairment		
Balance as at 1 April	**-**	-
Impairment charge for the year	**1,422**	-
Balance at 31 March	**1,422**	-
Collective allowances for impairment		
Balance as at 1 April	**676**	-
Impairment charge for the year	**196**	676
Balance at 31 March	**872**	676
Total allowances for impairment	**2,294**	676

16 Investments

	Group	
	2014	2013
	€000	€000
Corporate	**293,235**	54,964
Treasury	**1,134,826**	1,458,886
	1,428,061	1,513,850

16.1 Analysed as follows:

	Group	
	2014	2013
	€000	€000
Held-to-maturity investment securities	**933,291**	306,057
Available-for-sale investment securities	**492,296**	1,207,793
Equity instruments at fair value through profit or loss	**2,474**	-
	1,428,061	1,513,850

At 31 March 2014, €1.304 billion (2013: €1.442 billion) of investment securities are expected to be recovered after more than 12 months after the reporting date.

16 Investments (continued)

16.2 Held-to-maturity investment securities

16.2.1 Held-to-maturity investment securities net of collective impairment

	Group	
	2014	2013
	€000	€000
Investment securities	**933,754**	306,057
Collective impairment (note 4.3.3)	**(463)**	-
	933,291	306,057

16.2.2 Held-to-maturity investment securities by issuer

	Group	
	2014	2013
	€000	€000
Government securities	**44,417**	15,055
Other securities	**888,874**	291,002
	933,291	306,057

16.3 Available-for-sale investment securities

	Group	
	2014	2013
	€000	€000
Government securities	**11,566**	64,823
Non-government securities	**480,730**	1,142,970
	492,296	1,207,793

16.4 No evidence of specific impairment was identified on investment securities during year ended 31 March 2014.

16.5 The Group has established a Collateralised Loan Obligation ("CLO") structure (note 28.3). As risks and rewards are deemed to have been retained by the Bank, €53.143 million (2013: nil) investment securities are still recognised on the Statement of Financial Position.

16.6 Similarly a number of securities were transferred under a Total Return Swap ("TRS") Facility (note 26). As risks and rewards are deemed to have been retained by the Group, €33.346 million (2013: €4.733 million), investment securities are still recognised on the Bank's Statement of Financial Position.

16 Investments (continued)

16.7 Most of investment securities are pledged as collateral against the provision of borrowing facilities (note 26), except a carry value of €328.452 million (2013: €111.503 million) which are free and unencumbered securities at 31 March 2014.

Cash value of unutilised borrowing facilities (headroom) at 31 March 2014 amounted to €213.647 million (2013: €113.039 million).

16.4 As at 31 March 2014, the Bank had no commitment (2013: €75 million) to purchase further investment securities.

16.5 Reclassifications 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. During the year ending 31 March 2014, the Bank reclassified HTM investments to AFS and sold HTM investments.

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

The events that caused the Group to reclassify or sell included:

- unexpected withdrawal of eligibility for ECB repo financing that could not reasonably have been foreseen when the investments were originally classified as HTM and that has significantly altered the economic rationale at time of acquisition amounting to €25.159 million (2013: €163.967 million).
- significant credit deterioration in the issuer's creditworthiness since acquisition that could have not been anticipated when the investment was acquired amounting to €12.933 million (2013: Nil). There were no default events on the reclassified HTM positions. No specific impairment provisions were deemed necessary.

All the reclassified HTM investments during the year were disposed of at 31 March 2014.

16.6 Equity instruments at fair value through profit or loss

	Group	
	2014	2013
	€000	€000
Unlisted equities issued by a European corporation	**2,474**	-

16 Investments (continued)

16.7 A private placement with a carrying amount of €50.6 million (2013: €50.5 million) met the definition of Loans and Receivables on initial recognition. This financial asset was classified as Held-to-Maturity rather than Loans and Receivables. The statement of financial position for the current and the comparative year has been adjusted to reflect the correct classification of the financial asset as Loans and Receivables. There is no impact on the profit and loss as instruments under both classifications are carried at amortised cost less impairment.

17 Derivative assets and liabilities held for risk management

17.1 Derivative assets and liabilities held for risk management

	Group			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000
Instrument type:				
Interest rate swaps	-	2,798	279	-
Interest rate swaptions	404	-	-	-
Foreign exchange swaps	-	175	873	-
	404	2,973	1,152	-

17.2 The Group, principally through the 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.

17.3 The 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 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.

17 Derivative assets and liabilities held for risk management (continued)

17.4 The Group uses over the counter cross currency swaps to hedge its exposure to changes in the foreign exchange rates. Such derivatives are not held for trading purposes and are classified at fair value through profit or loss. All cross currency swaps have a maturity of less than three months.

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

	2014	2013
	€000	€000
Derivative financial instruments designated as fair value hedges		
Interest rate swaps: (liability)/asset	(2,798)	279
Notional Amounts		
More than 1 year	500,000	900,000

18 Derivative assets held for trading

18.1 Derivative assets held for trading

	Group	
	2014	2013
	€000	€000
Other instruments at fair value through profit or loss	404	-

18.2 Derivative assets held for trading represent warrants with a maturity of over five years.

19 Investment in subsidiaries

19.1

Name of the subsidiary	Incorporated in	Nature of business	Current equity interest %	Company 2014 €000	Company 2013 €000
Mediterranean Bank plc	Malta	Banking	100	111,514	75,814
Charts Investment Management Service Ltd	Malta	Investment	65	1,477	1,300
Medifin Leasing Limited	Malta	Investment	99	10	10
				113,001	77,124
Shareholders' contribution advanced to Mediterranean Bank Plc				9,750	8,500
				122,751	85,624

19 Investment in subsidiaries (continued)

19.2 Mediterranean Bank plc in turn owns the following subsidiaries:

Name of the subsidiary	Incorporated in	Nature of business	Current equity interest	Bank 2014	Bank 2013
			%	€	€
Mediterranean Global Advisory SA	Switzerland	Liquidated/Dormant	wholly owned	-	63,086
Mediterranean Research Limited	United Kingdom	Dormant	wholly owned	2	2
Medifin Estates (partnership)	Malta	Operating lease of branches	97%	1,450	1,450
				1,452	64,538

19.3 During the year ended 31 March 2014, Mediterranean Global Advisory SA, a company which was incorporated (and domiciled) in Switzerland and wholly owned by the Bank, was liquidated. This resulted in a loss of €4,925 recognised as impairment in the Statement of Comprehensive Income.

19.4 Mediterranean Research Limited was liquidated on 2 May 2014. The operations of Mediterranean Research Limited are being carried out by the Bank. Notwithstanding this, no impairment is deemed necessary.

19.5 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.

19.6 On 27 June 2014, the shares of Medifin Leasing Limited were transferred to Medifin Investments Limited, the immediate parent of Medifin Holding Limited. Medifin Investments Limited owns 99.99% shareholding of Medifin Leasing Limited.

19.7 On 11 April 2014, the Bank entered into an agreement to acquire Volksbank Malta Limited (note 36.1).

19.8 During the year ended 31 March 2014, by an extraordinary resolution dated 28 June 2013, it was resolved to provide the Bank a shareholders' contribution (Contribution) of €1.25 million, 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.

19.9 On 10 May 2013, the Bank distributed €21,000,000 from the retained earnings by way of bonus share issue, thereby increasing the ordinary A shares of the Bank from 62.35 million to 83.35 million.

19.10 As at 30 October 2013, the Company acquired €4.9 million 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 Bank's issued share capital from €83.35 million to €88.25 million.

19 Investment in subsidiaries (continued)

19.11 Further, on 28 November 2013, the Bank's issued share capital was increased by €9.8 million ordinary A shares divided into nine million eight hundred thousand shares, each with a nominal value of one Euro, through a cash contribution, thereby increasing the Bank's issued share capital from €88.25 million to €98.05 million.

19.12 On 30 May 2014, the shareholders of the Bank approved a net final dividend of €0.20 per share, representing a net amount of €19,400,000 in the form of a bonus share issue, thereby increasing the Bank's issued share capital from €98.05 million to €117.45 million.

19.13 On 25 November 2014, the Bank repaid €16,536,586 of Shareholders contribution to the Company having received all required approvals from the Malta Financial Services Authority.

19.14 The Group has a put option arrangement whereby the Group has the option to purchase the remaining shareholding of Charts subject to the terms and conditions specified in the agreement.

20 Property and equipment

20.1 Property and equipment

	Group					
	Leasehold property improvements	**Computer equipment**	**Other equipment**	**Fixtures and fittings**	**Motor vehicles**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Cost						
At 1 April 2012	1,154	2,607	285	1,364	175	5,585
Acquisitions	220	400	145	847	39	1,651
Disposals	-	-	-	(3)	-	(3)
At 31 March 2013	1,374	3,007	430	2,208	214	7,233
Acquisitions	36	153	27	212	10	438
Disposals	-	-	-	(14)	-	(14)
At 31 March 2014	**1,410**	**3,160**	**457**	**2,406**	**224**	**7,657**
Depreciation						
At 1 April 2012	598	601	95	598	142	2,034
Charge for the year	140	756	91	145	15	1,147
Release on disposal	-	-	-	(1)	-	(1)
At 31 March 2013	738	1,357	186	742	157	3,180
Charge for the year	147	622	97	263	17	1,146
Release on disposal	-	-	-	(9)	-	(9)
At 31 March 2014	**885**	**1,979**	**283**	**996**	**174**	**4,317**
Carrying amounts:						
At 1 April 2012	556	2,006	190	766	33	3,551
At 31 March 2013	636	1,650	244	1,466	57	4,053
At 31 March 2014	**525**	**1,181**	**174**	**1,410**	**50**	**3,340**

20 Property and equipment (continued)

20.2 The Group operates from nine immovable properties which are held under operating lease agreements (see note 33).

20.3 There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2013: nil).

20.4 As at 31 March 2014, property and equipment amounting to €3,093 in 'Furniture and fittings' were not available for use (31 March 2013: €39,372 in 'Computer hardware'). Accordingly no related depreciation was charged during the year.

20.5 An amount of €3,105 thousand classified as computer hardware acquired prior to 1 April 2012 has been reclassified to intangible assets as it has been reassessed to be more akin to software rather than computer hardware. The related accumulated depreciation as at 1 April 2012 and 31 March 2013 amounting to €298 thousand and €742 thousand were reclassified to accumulated amortisation on intangible assets. This reclassification has no effect on the total assets and net profit reported in prior periods.

21 Intangible assets

21.1 Intangible assets

	Group				
	Goodwill	Software under development	Computer software	Customer list	Total
	€000	€000	€000	€000	€000
Cost					
At 1 April 2012	331	1,860	7,295	474	9,960
Acquisitions	130	676	3,714	-	4,520
Developed transferred	-	(1,860)	1,860	-	-
At 31 March 2013	461	676	12,869	474	14,480
Acquisitions	-	90	4,711	-	4,801
Developed transferred	-	(676)	676	-	-
At 31 March 2014	**461**	**90**	**18,256**	**474**	**19,281**
Amortisation					
At 1 April 2012	-	-	1,910	94	2,004
Charge for the year	-	-	1,382	47	1,429
At 31 March 2013	-	-	3,292	141	3,433
Charge for the year	-	-	2,197	47	2,244
At 31 March 2014	-	-	**5,489**	**188**	**5,677**
Carrying amounts:					
At 1 April 2012	331	1,860	5,385	380	7,956
At 31 March 2013	461	676	9,577	333	11,047
At 31 March 2014	**461**	**90**	**12,767**	**286**	**13,604**

21 Intangible assets (continued)

21.2 There were no capitalised borrowing costs related to the acquisition of software during the year (2013: nil).

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

21.4 As disclosed in Note 20.5, the Group re-assessed the classification of certain assets amounting to €3,105 thousand acquired during the year ended 31 March 2012 as being more akin to software rather than computer hardware. The related accumulated depreciation as at 1 April 2012 and 31 March 2013 amounting to €298 thousand and €742 thousand were reclassified from accumulated depreciation. As also noted in note 20.5, this reclassification has no effect on the total assets and net profit reported in prior years.

21.5 Impairment assessment on goodwill

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

21.6 Key assumptions used in discounted cash flow projection calculations

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. The discount rate has been assumed to be 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%.

22 Other assets

	Group	
	2014	2013
	€000	€000
Accrued tax refund	**9,930**	9,886
Trade receivables	**96**	138
Other assets	**782**	159
	10,808	10,183

23 Prepayments and accrued income

	Group	
	2014	2013
	€000	€000
Prepayments	**2,957**	1,834
Deferred expense	**2,317**	23,777
Accrued income	**19,190**	2,665
	24,464	28,276

24 Deferred tax assets/liabilities

24.1 Deferred tax assets are attributable to the following:

	Group					
	Assets		Liabilities		Net	
	2014	2013	**2014**	2013	**2014**	2013
	€000	€000	**€000**	€000	**€000**	€000
Property and equipment	**8**	6	**(1,626)**	(940)	**(1,618)**	(934)
Available-for-sale securities	**438**	-	**-**	(738)	**438**	(738)
Tax losses carried forward	**-**	25	**-**	-	**-**	25
Capital allowances carried forward	**1,680**	919	**-**	-	**1,680**	919
Impairment allowances	**138**	34	**-**	-	**138**	34
Intangible asset (on acquisition)	**136**	120	**(166)**	(166)	**(30)**	(46)
	2,400	1,104	**(1,792)**	1,844)	**608**	(740)

24.2 Movement in temporary differences

	Group				
	Balance 1 Apr 13	Business combination	Recognised in profit or loss	Recognised in equity	Balance 31 Mar 14
	€000	€000	€000	€000	**€000**
Property and equipment	(934)	-	(684)	-	**(1,618)**
Available-for-sale securities	(738)	-	-	1,176	**438**
Tax losses carried forward	25	-	(25)	-	**-**
Capital allowances carried forward	919	-	761	-	**1,680**
Collective allowances	34	-	104	-	**138**
Intangible asset (on acquisition)	(46)	-	16	-	**(30)**
	(740)	-	172	1,176	**608**

	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	(366)	-	(568)	-	(934)
Available-for-sale securities	88	-	-	(826)	(738)
Tax losses carried forward	-	-	25	-	25
Capital allowances carried forward	319	-	600	-	919
Collective allowances	-	-	34	-	34
Intangible asset (on acquisition)	(132)	70	16	-	(46)
	(91)	70	107	(826)	(740)

25 Capital and reserves

25.1 Issue share capital

	Group and Company	
	2014	2013
	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**	3,000,000
Ordinary 'D' shares of €1 each	**15,000,000**	15,000,000
	59,403,547	59,403,547

- Holders Class A and Class B ordinary shares are entitled to one vote per A ordinary share and B ordinary share. 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.

  Following the change of the shareholders on 27th June 2014 (note 36.8) the issued share capital was amended as follows:

	No.
Ordinary 'A' shares of €1 each	**56,406,546**
Ordinary 'B' shares of €1 each	**1**
	56,406,547

- The holders of the Ordinary 'A' Shares shall be entitled to one vote in general meetings for each of such shares held, whilst the holders of the Ordinary 'B' Shares shall not be entitled to any vote in respect of those shares. Provided that the holders of the Ordinary 'A' Shares and the holders of the Ordinary B Shares shall be equally entitled to receive notice of general meetings of the Company.

- The Ordinary B Shares shall not carry any dividend entitlement.

- The holders of the Ordinary 'A' Shares shall be entitled to any surplus assets of the Company on a winding up whilst the holders of the Ordinary 'B' Shares shall not be entitled to any surplus assets of the Company on a winding up but shall have a prior claim over the holders of the Ordinary 'A' Shares for the return of the nominal value of the said Ordinary 'B' Shares.

25 Capital and reserves (continued)

25.1 Issue share capital (continued)

	Company	
	2014	2013
	€000	€000
At beginning and end of year	**55,738**	55,738

25.1.1 Share capital is stated net of share issue expenses amount to Eur 668,000.

25.2 Authorised share capital

	2014	2013
	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

25 Capital and reserves (continued)

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

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

25.5 In accordance with the Banking Rule BR/09/2013, credit institutions are required to maintain a reserve for General Banking Risks against non-performing loans to create an additional Pillar 2 buffer. The Bank's reserve was transferred out of the retained earnings. This reserve is distributable if the formal consent of the regulator is obtained. The reserve represents 40% of the regulatory allocation by virtue of paragraphs 38 and 57 of the Banking Rule. The remaining 60% will be split and set aside equally over a period of two years in terms of the Banking Rule. The reserve amounts to €90,327.

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

25.7 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

26 Amounts owed to financial institutions

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Repayable on call and at short notice	**13,651**	20,570	**1,496**	1,511
Term loans and advances	**995,325**	1,348,425	**-**	-
	1,008,976	1,368,995	**1,496**	1,511

26.1 An amount of €928 million (2013: €1,259 million) from Group term loans and advances are secured by a pledge over the investments (excluding Equity instruments) (note 16).

26.2 An amount of €67 million (2013: €46 million) from Group term loans represents total return swap payables which are recognised in the Group's Statement of Financial Position by virtue of the Group retaining the risks and rewards in the underlying portfolio of loans and advances to customers and investments (notes 15 and 16).

26.3 As at 31 March 2014 and 31 March 2013, the Company held balances with the Bank which were unsecured, interest free and payable on demand.

27 Amounts owed to customers

	Group 2014	2013
	€000	€000
Repayable on demand	175,676	139,142
Term deposits	600,430	425,648
	776,106	564,790

28 Debt securities in issue

28.1 Debt securities in issue

	Note	Group 2014	2013
	Note	€000	€000
At amortised cost:			
Debt securities in issue	28.2	14,341	15,664
Debt securities in issue through funding structure	28.3	215,786	-
		230,127	15,664

28.2 Movement in debt securities in issue

	2014	2013
	€000	€000
Balance at the beginning of the year	15,664	19,672
Debt securities repurchased and cancelled	(1,365)	(4,095)
Transaction cost amortised	42	87
Balance at end of year	14,341	15,664

28.2.1 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.

28 Debt securities in issue (continued)

28.2.2 The above liabilities will in the event of default or insolvency of the Bank, have a general claim on the assets of the Bank pari passu with other unsecured creditors. Bondholders therefore would rank after all interbank funding lines and repurchase agreements that are collateralised by investments securities through the said funding.

28.2.3 Movement in debt securities - repurchase

During the year ended 31 March 2014, the Bank purchased through market operations a nominal value of €1,403,000 (2013: €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 2014, the contractual amount due at maturity is €14,539,600 (2013: €15,904,800).

28.2.4 The carrying amount of the debt securities in issue is €198,600 lower than the contractual amount due at maturity (2013: €240,798).

28.2.5 The Bank has not had any defaults of interest or other breaches with respect to its debt securities in issue during the years ended 31 March 2014 and 31 March 2013.

28.3 Debt securities in issue through funding structure

28.3.1 Movement in Debt securities through funding structure

	2014	2013
	€000	€000
Balance at the beginning of the year	-	-
Debt securities issued	**240,000**	-
Debt securities repurchased and derecognised	**(22,000)**	-
Transaction costs	**(2,633)**	-
Transaction costs amortised to profit or loss	**419**	-
Balance at end of year	**215,786**	-

28.3.2 During the year ended 31 March 2014, as part of the funding strategy, the Bank established a collateral loan obligation in Netherlands: Grand Harbour I B.V.

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

28 Debt securities in issue (continued)

28.3 Debt securities in issue through funding structure (continued)

28.3.3 The funding structure has issued the following notes, maturing in 2026:

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

Of these notes, the €240 million Class A1 notes were issued to third parties, with the remaining €163.35 million being retained by the Bank.

In view of the Bank holding 40.50% of the funding of the structure, and in particular, the holding of the mezzanine and the subordinated notes, the Bank is deemed to have retained substantially all risks and rewards of the structure. It is the intention of the Bank to retain all the mezzanine and subordinated notes.

28.3.4 During July 2013, the Bank repurchased €22 million of the Senior Secured Floating Rate notes. An amount of €0.419 million transaction costs has been amortised to profit or loss.

28.3.5 The Bank did not have any defaults of interest or other breaches with respect to its debt securities in issue through the funding structure during the year ended 31 March 2014.

28.3.6 It is expected that the Debt securities issued through funding structure will be repaid within five years from date of issue.

29 Subordinated liabilities

29.1 Movement in balance

	Group	
	2014	2013
	€000	€000
At amortised cost:		
Balance at the beginning of the year	**12,341**	-
Issue of subordinated liabilities		
- nominal value (note 29.2)	**9,934**	12,500
- related transaction costs	**(77)**	(90)
- effect of foreign exchange revaluation	**96**	(69)
- transaction costs amortised to profit or loss	**41**	-
Balance at the end of the year	**22,335**	12,341

29 Subordinated liabilities (continued)

29.2 During June 2013, the Bank issued an additional euro equivalent of €10 million of 7.50% Subordinated bonds due 2019. 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 is redeemable at their nominal value. During December 2013 these subordinated bonds were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

29.3 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 2014.

29.4 As at 31 March 2014, the euro equivalent contractual amount due at maturity is €22.462 million (2013: €12.431 million).

29.5 The carrying amount of the subordinated debt securities in issue is €127 thousand (2013: €90 thousand) lower than the contractual amount due at maturity.

30 Other liabilities

30.1

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Amounts due to ultimate parent company	**15,000**	8,500	**15,000**	8,500
Amounts due to subsidiary	**-**	-	**6**	6
VAT payable	**557**	340	**-**	-
Other liabilities	**1,370**	1,154	**184**	-
	16,927	9,994	**15,190**	8,506

30.2 The Amounts due to ultimate parent company as at 31 March 2013 represented 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. The amounts were utilised to provide funds to the Bank as shareholders contribution. This amount was fully repaid during June 2013.

30.3 The Amounts due to ultimate parent company as at 31 March 2014 represent a loan agreement entered into on the 30 October 2013, fully drawn down through two tranches. The principal amount was of €15 million and repayable by 31 October 2020 and carried interest of 10%. The amounts were utilised to provide funds to the Bank as shareholders contribution. Subsequent to the end of the reporting year, the new parent company, Medifin Investments Limited agreed with the ultimate parent company to assume all the obligations of Medifin Holding Limited arising from this loan agreement.

31 Accruals

	Group		Company	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Accrued expenses	**5,070**	3,642	**559**	15
Accrued interest expense	**9,618**	5,841	**-**	-
	14,688	9,483	**559**	15

32 Cash and cash equivalents

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

		Group	
		2014	2013
		€000	€000
Analysis of cash and cash equivalents:			
Cash in hand		**184**	207
Call deposits		**63,683**	34,887
Repayable on call and at short notice		**(13,651)**	(20,570)
Amounts owed to financial institutions with contractual maturity less than 3 months		**(174,562)**	(588,846)
Per Statement of Cash Flows		**(124,346)**	(574,322)
Adjustment to reflect:			
Balance with Central Bank of Malta		**4,788**	3,934
Malta Government Treasury bills with maturity over 3 months		**5,997**	40,892
Deposits with maturity over 3 months		**32,052**	11,767
Amounts owed to financial institutions with maturity over 3 months		**(821,372)**	(761,364)
Per Statement of financial Position		**(902,881)**	(1,279,093)
	Notes		
Analysed as follows:			
Balances with Central Bank of Malta, treasury bills and cash	13	**18,091**	70,055
Loans and advances to financial institutions	14	**88,004**	19,847
Amounts owed to financial institutions	26	**(1,008,976)**	(1,368,995)
		(902,881)	(1,279,093)

	Company	
	2014	2013
Analysis of cash and cash equivalents:		
Repayable on call and at short notice	**113**	354
Cash and cash equivalents	**113**	354

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

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

	2014	2013
	€000	€000
Within one year	**476**	1,058
After one year but not more than five years	**1,873**	1,733
More than five years	**1,088**	627
	3,437	3,418

The amount of operating lease expenses recognised in profit or loss for the year is disclosed in note 10.

34 Related parties

34.1 Parent and ultimate parent company

The parent company is Medifin Investments Limited (following the change in shareholders, as explained in note 36.8), a company registered in Guernsey with its registered office situated at 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes , St. Peter Port, GY11EW, Guernsey.

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

34.2 Transactions with key management personnel

In addition to their salaries (note 11), the Group also provides non-cash benefits to key management personnel, relating to gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Bank amounting €190,258 (2013: €189,507).

34.3 Related party balances and transactions

During the course of its business, the Group conducted business on commercial terms with various related parties.

Related party balances are disclosed in note 14, 26 and 30.

The following table provides the total amount of transactions and balances, which have been entered into with related parties for the relevant financial year:

31 March 2014

Related party	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction type
	€000	€000	€000	€000	
Ultimate parent					
	-	168	-	-	Monitoring fees
Key management personnel					
	-	-	17	-	Loans and advances to customers
	-	-	-	200	Amounts owed to customers
	-	110	-	-	Directors' fees
	1	-	-	-	Interest income
	-	1	-	-	Interest expense
	-	1,994	-	-	Personnel expenses
Other companies controlled By key management personnel					
	-	-	-	491	Amounts owed to customers
	-	18	-	-	Interest expense
	-	9	-	-	Administration expenses

34 Related parties (continued)

34.3 Related party balances and transactions (continued)

31 March 2013

Related party	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction type
	€000	€000	€000	€000	
Ultimate parent					
	-	176	-	-	Monitoring fees
Key management personnel					
	-	-	100	-	Loans and advances to customers
	-	110	-	-	Directors' fees
	1	-	-	-	Interest income
	-	2,198	-	-	Personnel expenses

35 Capital commitments and contingencies

35.1 Capital commitments

At 31 March 2014, the Group had budgeted commitments of €5,644,590 (2013: €4,686,805) relating to software being developed.

36 Events after the reporting date

36.1 Acquisition of Volksbank Malta Limited

On 11 April 2014, the Bank entered into an agreement with VB-Holding Aktiengesellschaft and Mithra Holding Gesellschaft m.b.H. to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank Malta") for cash consideration of €35.3 million. Mediterranean Bank has also agreed to refinance existing debt of Volksbank Malta to Österreichischen Volksbanken AG ("Volksbank Austria") as of the closing date.

36 Events after the reporting date (continued)

36.1 Acquisition of Volksbank Malta Limited (continued)

On 25 September 2014, Mediterranean Bank received approval from the MFSA and concluded the acquisition of 100% of the issued share capital of Volksbank Malta. The acquired bank was renamed Mediterranean Corporate Bank Limited. The Group reorganised the activities of Mediterranean Corporate Bank Limited with the existing Corporate Banking services of Mediterranean Bank to form Malta's newest Bank focused exclusively on Corporates operating in Malta.

The following table summarises the recognised fair values of assets acquired and liabilities assumed as at the date of acquisition (September 2014):

	€000
Balances with Central Bank of Malta and cash	513
Loans and advances to financial institutions	12,189
Loans and advances to customers	81,230
Investment securities	18,509
Derivative assets held for risk management	886
Property and equipment	303
Intangible assets	5
Prepayments and accrued income	684
Other assets	1
Deferred tax assets	4,086
Current tax receivable	107
Amounts owed to financial institutions	(38,704)
Amounts owed to customers	(16,999)
Derivative liabilities held for risk management	(2,986)
Other liabilities	(367)
Accrual and deferred income	(1,427)
Contingent provisions	(316)
Fair value of identifiable net assets acquired	**57,714**

The contingent provisions relate to guarantees provided by Mediterranean Corporate Bank's on credit cards and a provision in relation to a severance payment. The recognised fair value of €316,000 is based on the expected pay-out for these items.

36 Events after the reporting date (continued)

36.1 Acquisition of Volksbank Malta Limited (continued)

The fair value of the acquired loans and advances to financial institutions and customers has been taken to approximate the amortised cost amount of the assets. These receivables are net of an impairment allowance of €9.8 million which represents the present value of the contractual cash flows not expected to be collected.

Gain arising from the acquisition has been recognised as follows in the financial year ended 31 March 2015:

	€000
Fair value of identifiable net assets	57,714
Total consideration	(35,300)
Gain on acquisition of subsidiary	**22,414**

As a consequence of a government bailout, Oesterreichische Volksbanken AG decided to dispose of its non-core operations and accordingly exit the Maltese market. This decision resulted in the acquisition of Volksbank Malta Limited at a price which is significantly lower than the fair value of the net assets and liabilities acquired.

36.2 Subordinated Unsecured Bonds

On 3 November 2014, the Bank announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 2019 early redemption option held by the issuer. These bonds are issued in Euro and Pounds Sterling. This was increased to Euro equivalent of €25 million as a result of an over subscription.

The 6.25% debt securities in issue due to mature on 30 October 2015 were exchangeable with these bonds at a discount. The Bank received from holders of these Exchangeable Bonds an aggregate total of €8,604,000, of which Exchangeable Bonds transferable to the Bank in exchange for Bonds amounted to €4,905,000 with the remaining balance of €3,699,000 represented by subscriptions for additional Bonds.

36.3 Debt securities repurchased

In addition to the above, the nominal amount of debt securities repurchased on the local exchange through market operations up to the date of issue of this report is €229,600. All repurchase securities were at current market prices with a weighted average price of 102.

36.4 Repayment of capital

The Company's shareholders have approved a further contribution to subsidiary Bank of EUR8.9 million on 18 August 2014, bringing total shareholders contribution to EUR16.5million

In addition, on 27 June 2014, the Group's shareholder has converted a loan of EUR15 million into a contribution, and has waived all accrued interest on the said loan

As a result of the issue of Subordinated Unsecured Bonds (Note 36.2) and, after seeking and obtaining formal regulatory approval by the Malta Financial Services Authority, the subsidiary Bank has repaid the contribution of EUR16.5 million. Following the repayment of the contribution by the subsidiary Bank, the Group has repaid EUR14.7 million of the contribution in November 2014.

36 Events after the reporting date (continued)

36.5 Mediterranean Research Limited

On 2 May 2014, Mediterranean Research Limited, a dormant subsidiary wholly owned by the Bank, was liquidated.

36.6 Bonus issue by subsidiary Bank

On 30 May 2014, the shareholders of the Bank approved a net final dividend of €0.20 per share, representing a net amount of €19,400,000 in the form of a bonus share issue, thereby increasing the Bank's issued share capital from €98.05 million to €117.45 million.

36.7 Reclassification of Held-to-maturity investments

During the month of December 2014, the Group reclassified its held-to-maturity financial assets portfolio into available-for-sale investments as a result of changes in the Group's intentions.

The Bank reclassified held-to-maturity financial assets with an amortised cost of €1.166 billion and fair value of €1.193 billion. The resultant adjustment to equity, net of deferred tax, upon reclassification amounted to €17.183 million.

36.8 Changes to the group structure

As at 31 March 2014, Medifin Holding Limited was a subsidiary of Anacap Financial Partners II L.P., the current ultimate parent company, which owned 99.99% shareholding of Medifin Holding Limited. On 27 June 2014, the shares in Medifin Holding Limited were transferred to Medifin Investments Limited.

As at 31 March 2014, Medifin Leasing Limited was a subsidiary of Medifin Holding Limited which owned 99.99% shareholding of Medifin Leasing Limited. On 27 June 2014, the shares in Medifin Leasing Limited were transferred to Medifin Investments Limited.

37 Comparative amounts

Certain comparatives have been reclassified to conform to the current year's presentation.

38 Prior year adjustment

Certain comparatives have been reclassified to conform with the current year's presentation.

During the year ended 31 March 2014, the Group determined that the current and deferred taxes accounted for in prior years were misstated with respect the applicable effective tax rate at Group level. The current and deferred tax rates applied in prior years represented the effective tax rates applicable for the individual subsidiaries rather than the overall group effective tax rate. The Group's tax rate has been adjusted to reflect applicable refunds on tax suffered by Mediterranean Bank plc and Charts Investment Management Service Limited. Previously refunds were being accounted for on a cash basis. These corrections resulted in a prior year adjustment increasing total equity by €14,224,623.

38 Prior year adjustment (continued)

31 March 2013 numbers have been restated to reflect the following changes:

	Original €'000	Change €'000	Restated €'000
Other operating income	27,561	(77)	27,484
Income tax expense	(11,206)	9,379	(1,827)
Impact on Profit after tax	**16,355**	**9,302**	**25,657**
Other assets	297	9,886	10,183
Deferred tax liability	(5,079)	4,339	(740)
Fair value reserve	(9,584)	(4,424)	(14,008)
Opening retained earnings	**(7,080)**	**(499)**	**(7,579)**
Profits attributable to holders of the Company	20,708	9,302	30,010
Closing retained earnings	**(27,788)**	**(9,801)**	**(37,589)**

Other prior year adjustments with no impact on total equity are shown in notes 15.9 and 16.7, and 20.5 and 21.4.

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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 98, which comprise the statements of financial position as at 31 March 2014 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 2014, 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

28 January 2015