

Medifin Holding Limited

**Annual Report
31 March 2015**

Company Registration Number: C 34111

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Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

The directors present their annual report of Medifin Holding Limited (the "Company" or "Medifin Holding") and of the Company and its subsidiaries ("the Group") for the year ended 31 March 2015. 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 2015 were:

Mark A. Watson
Benjamin Hollowood
Finlay Stuart McFadyen – resigned on 30 June 2014
Peter Bramwell Cartwright – resigned on 3 November 2014

Presentational changes in Financial Statements

The Group's results reflect the consolidated position of Medifin Holding and its principal subsidiaries, namely Mediterranean Bank plc ("MedBank"), MedBank's wholly owned subsidiary, Mediterranean Corporate Bank Limited ("MedCorp") and Charts Investment Management Service Limited ("Charts") (together the "Subsidiaries"). These financial statements report the consolidated financial results of Medifin Holding that include the results of MedBank for the financial year ended 31 March 2015 and the financial results of MedCorp (previously Volksbank Malta Limited) following the latter company becoming a subsidiary of MedBank on 25 September 2014.

As of 31 March 2014, Medifin Leasing Limited was a subsidiary of Medifin Holding with a 99.99% shareholding. On 27 June 2014, the shares in Medifin Leasing Limited were transferred to Medifin Investments Limited ("Medifin Investments" or "immediate parent company"), the newly established parent company of Medifin Holding. The consolidated financial statements include the results of Medifin Leasing till the date of disposal.

In prior years, the financial year end of Charts differed from that of the Group and followed a calendar year. On 8 April 2015, Charts altered the reference period starting 1 January 2014 and ending 31 December 2014 to run from 1 January 2014 to 31 March 2015. As a result, the consolidated financial statements include Charts' results for a 15-month period compared to a 12-month period included in the comparatives.

Mediterranean Research Limited, a dormant subsidiary wholly owned by MedBank was liquidated on 2 May 2014.

The operations of Medifin Estates, a property leasing partnership, are deemed to be insignificant and, consequently not included in the consolidated financial statements.

Principal activities

The Company is mainly involved in the holding of shares.

The principal activities of the Group are to provide banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management, investments and corporate banking in Malta and Belgium.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Principal activities (continued)

MedBank is licensed by the Malta Financial Services Authority ("MFSA") in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta) 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. MedBank holds a Category 2 licence and also a Category 4 licence issued by the MFSA which authorise MedBank to provide investment services, to hold or control customers' money and to act as trustee or custodian of collective investment schemes.

The principal customer-related activities of MedBank include the following:

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

MedBank's principal subsidiary, MedCorp, is focused on providing a full range of banking services to corporate clients in Malta, including corporate lending, deposit taking, foreign exchange services and payment services.

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.

On 1 June 2015, MeDirect S.A. ("MeDirect" or "the Belgian Bank"), a wholly-owned subsidiary in Belgium, was authorised as a Belgian credit institution, which will, going forward, carry out all of the Group's activities in Belgium.

Business review

During the financial year ended 31 March 2015, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its customer base in the mass affluent market both in Malta and Belgium and also with a selected corporate sector in Malta. The Group intends to continue to enhance its banking, investment and wealth management services in Malta and internationally.

On 11 April 2014, MedBank entered into an agreement to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank"). Following regulatory approval by the MFSA, on 25 September 2014, MedBank acquired 100% of the share capital of Volksbank for cash consideration of €35.3 million. Volksbank was re-named Mediterranean Corporate Bank Limited.

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

The Group recorded a profit before tax for year ended 31 March 2015 of €36.6 million (2014: €28.9 million) representing an increase of 26.6%.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Business review (continued)

The Group's performance was positively affected by a gain of €22.4 million recorded on the acquisition of MedCorp on 25 September 2014. Further profitability has been achieved through the Group's corporate lending activities – lending through primarily senior secured loans and bonds and treasury management activities – managing a diversified portfolio of liquid securities, including, bank covered bonds, public sector bonds and mortgage bonds and senior financial instruments. MedBank's Lending Portfolio largely consists of loans and bonds issued by corporate borrowers domiciled in Western Europe. All loans and bonds in the portfolio are denominated in euro or pounds sterling. Substantially all of the loans are floating rate instruments (some have interest rate floors embedded within the contracts) and would not be adversely affected by material increases in interest rates.

The Group's total operating income for the year ended 31 March 2015 was €78.4 million (2014: €63.8 million). This was driven by the Group's treasury operations and its Lending Portfolio which, combined with its low cost base and customer service focus, have enabled the Group to position itself as a leading provider of savings and term deposit products, primarily in the Maltese and Belgian markets.

Mediterranean Bank plc and its subsidiaries ("the MedBank Group")

The MedBank Group is made up as follows:

- Mediterranean Bank p.l.c., that includes the following:
 - MeDirect branch in Belgium - carried out banking operations in Belgium till end of May 2015.
 - Grand Harbour I B.V. ("GH I") - a non-derrecognised controlled entity established in The Netherlands as part of the Group's funding strategy.
- MeDirect S.A. - a wholly owned subsidiary by MedBank that took over the operations in Belgium as from June 2015.
- Mediterranean Corporate Bank Limited
- Mediterranean Research Limited – liquidated on 2 May 2014
- Medifin Estates

The MedBank Group continued to build its corporate lending activities both internationally and domestically. As of 31 March 2015, MedBank's investment portfolio stood at €1.5 billion (2014: €1.4 billion) consisting of available-for-sale ("AFS") securities amounting to €1.5 billion (2014: €492.3 million) and equity instruments at fair value through profit or loss amounting to €2.6 million (2014: €2.5 million). 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. During the month of December 2014, MedBank reclassified its held-to-maturity financial assets portfolio into available-for-sale investments as a result of changes in MedBank's intentions. As at 31 March 2014, MedBank's treasury portfolio also included held-to-maturity securities amounting to €933.3 million net of collective impairment loss of €0.5 million.

MedBank Group's Lending Portfolio (international and domestic) stood at €1.0 billion (2014: €621.7 million) as of 31 March 2015, net of collective impairment loss allowances of €4.0 million (2014: €0.9 million) and specific impairment loss allowances of €9.6 million (2014: €1.4 million). In addition the Group had commitments of €74.5 million under revolving credit facilities as at 31 March 2015 and other undrawn credit facilities of €16.8 million (2014: nil)

As part of its funding and capital strategy, on 3 November 2014, MedBank announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024. These bonds were issued in Euro and Pounds Sterling. This was increased to €25 million Euro equivalent as a result of an over subscription. The 6.25% senior debt securities issued by MedBank due to mature on 30 October 2015 were exchangeable for these bonds at a discount.

In addition to the above, throughout the financial year, the nominal amount of 6.25% senior debt securities repurchased on the local exchange through market operations was €5.2 million. All repurchases of securities were at current market prices with a weighted average price of €102.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Business review (continued)

Mediterranean Bank plc and its subsidiaries ("the MedBank Group") (continued)

During the year ended 31 March 2014, as part of the Group's funding strategy, MedBank set up GH I, a non derecognised controlled entity since the Group retained all the risks and rewards of the structure. In February and March 2015, MedBank repurchased €70 million Senior Secured Floating Rate notes that originally were due to mature by 2026. Subsequent to the end of the financial reporting period, the Group repurchased €51 million of the Senior Secured Floating Rate notes. On 5 June 2015, MedBank as holder of the Subordinated Notes of GH I notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes are expected to be redeemed on 7 July 2015.

During prior financial years, the Company advanced €9.8 million to MedBank, with a view that this may be repaid only if MedBank's financial position and cash flow permits. By an extraordinary resolution dated 18 August 2014, the Company approved a further contribution to MedBank amounting to €8.9 million. After seeking and obtaining formal regulatory approval by the MFSA, €16.5 million of such shareholders' contributions were repaid on 25 November 2014.

On 3 April 2014, by an extraordinary resolution of the shareholders of MedBank, it was resolved to increase the authorised share capital of MedBank by €200 million, to €300 million.

The final dividend declared for the year ended 31 March 2014 was in the form of a €19.4 million bonus ordinary share issue that was executed on 29 May 2014.

MedBank Group's shareholders' equity at the reporting date amounted to €169.3 million (2014: €135.2 million).

The average number of employees increased from 224 for the year ended 31 March 2014 to 252 for the year ended 31 March 2015. Personnel expenses for the year ended 31 March 2015 amounted to €15.8 million (2014: €13.8 million).

Charts Investment Management Service Limited ("Charts")

In prior years, the financial year end of Charts differed from that of the Group and followed a calendar year. On 8 April 2015, Charts altered the reference period starting 1 January 2014 and ended 31 December 2014 to run from 1 January 2014 to 31 March 2015.

During the financial period ended 31 March 2015, Charts achieved a profit before tax amounting to €1.4 million (Year ended 31 December 2013: €0.4 million). After deducting taxation thereon, the profit for the fifteen months ended 31 March 2015 amounted to €0.9 million (12 months ended 31 December 2013: €0.3 million).

Shareholders' equity of Charts as at 31 March 2015 amounted to €2.2 million (31 December 2013: €1.3 million).

Strategic development

The Group'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 Belgium.

The acquisition of MedCorp was intended to develop the corporate banking platform of the Group in Malta and to broaden and deepen its relationships with corporate customers in the Maltese market.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Strategic development (continued)

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

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

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

Supported by a robust liability structure, the asset base of the Group has continued to grow, having reached €2.8 billion as of 31 March 2015. The Group has an increasingly diversified investment portfolio comprising a treasury book consisting of high quality, liquid securities, including primarily bank covered bonds and public sector bonds, and a Lending Portfolio consisting primarily of senior secured loans and bonds.

The Group's Lending Portfolio stood at €1.0 billion as of 31 March 2015 (2014: €621.7 million), net of collective impairment loss allowances of €4.0 million (2014: €0.9 million) and specific impairment loss allowances of €9.6 million (2014: €1.4 million), of which €8.7 million of these loss allowances were recognised at acquisition through business combination. The Group's Lending Portfolio consists principally of senior secured loans and bonds, substantially all of which are denominated in Euro or Pounds Sterling. All of the loans are floating rate instruments and do not bear material interest rate risk. The Group's Lending Portfolio is diversified geographically and across industries, with most lending focused on UK and core European countries.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base, both in Malta and internationally (primarily in Belgium), have strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform and the Group's €148 million secured note facility issued through GH I have also provided efficient funding for the Group's Lending Portfolio. The Group's core deposit offering is a range of fixed-term and other savings products. As of 31 March 2015, the Group's deposit base reached €1.2 billion (2014: €776.1 million). Growth of the Group's deposit base has also provided a potential customer base for investment and wealth services products.

The Group remains committed to operating with strong regulatory ratios and a robust liquidity position. At 31 March 2015 the Group's consolidated Capital Adequacy Ratio stood at 14.8% whereas the regulatory liquidity ratio stood of 73.5%.

Dividends and reserves

Retained earnings for the Company amounting to €65.1 million (2014: €36.1 million) and of the Group amounting to €98.9 million (2014: €64.7 million), were carried forward to the next financial year. The Directors of the Company do not propose any dividends for distribution.

The Company did not receive any interim dividends from the subsidiaries.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Outlook and future business developments

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

The increasing overall stability of the European markets and the reduction of interest rates by the European Central bank ("ECB") have had an overall positive effect on the Group's funding cost and securities portfolios. If the current stability in the international capital markets persists a positive effect on the Group's wealth management and investment services businesses could be expected, as greater investor confidence would lead to increased customer interest in the investment products offered by the Group.

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

As a result of the operations undertaken by MedCorp, the Group will consolidate and expedite its Maltese growth strategy through its portfolio of Maltese clients which is complementary to the Group's existing customer base and aligned with its future growth strategies.

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

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

The Group has grown, and plans to continue to grow, its corporate lending activities and therefore the Lending Portfolio should grow as a percentage of the Group's overall asset base. Corporate credit assets typically attract higher risk weightings than the highly-rated investment securities in which the Group has historically invested. Notwithstanding this, the Group intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements provided by CRD IV and also in conformity with any other guidance issued by the MFSA.

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

Related parties

During the year ended 31 March 2015, other than the transactions described under note 38 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 March 2014. During this financial year, no related party transactions materially affected the financial position or liquidity of the Group, with the exception of dividend payment, increase in share capital, movements in shareholders' contribution and loan agreements with group companies as described in notes 26, 27 and 33.

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Events after the reporting date

Regulatory supervision

Under the Single Supervisory Mechanism ("SSM"), in 2014, the most significant banks in Europe, came under the direct supervision of the ECB. In 2015, it was proposed that the Group would also come under the regulatory and supervisory oversight of the Single Supervisory Mechanism of the ECB, joining other local banks. Before taking full supervisory responsibility, the ECB is conducting a comprehensive assessment of the Group's consolidated statement of financial position. The assessment comprises a supervisory risk assessment, an asset quality review and a stress test. This exercise started in May 2015 and will be completed in 2015, with the ECB expected to take full supervisory responsibility by the end of 2015.

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

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

MeDirect

On 1 June 2015, the National Bank of Belgium issued a credit institution licence to MeDirect, a wholly owned subsidiary. In June 2015, the assets and liabilities of MedBank's branch were transferred from the branch to MeDirect and it also became a member of the Belgian depositor protection plan.

Charts

On 6 May 2015, the Company entered into an agreement to acquire the remaining 35% shareholding of Charts, for a cash consideration of €1.7 million, of which €0.2 million is contingent upon the achievement of certain predefined targets in the coming financial year.

Charts distributed €0.9 million to the Company as a final dividend which was executed on 6 May 2015.

Subordinated liabilities and debt securities in issue

Subsequent to the end of the financial reporting period, the Group repurchased €51 million of the Senior Secured Floating Rate notes issued by the non derecognised controlled entity. Furthermore, on 5 June 2015, MedBank as holder of the Subordinated Notes of GH I notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes are expected to be redeemed on 7 July 2015.

Subsequent to year end, MedBank bought back a further €19,800 nominal value of its 6.25% Bonds due 2015 through market operations.

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

Medifin Holding Limited

Directors' Report

For the year ended 31 March 2015

Going concern

After due consideration of the Group's profitability, financial position, capital adequacy and solvency, the directors declare, that the Group is in a position to continue operating as a going concern for the foreseeable future.

Statement by the directors

We, the undersigned, declare that to the best of our knowledge, the financial statements were prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that this report includes a fair review of the performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Auditors

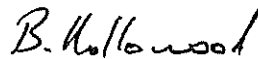
KPMG as auditors of the Company have expressed their willingness to continue in office.

Approval of Directors' Report

The Directors' Report was approved by the Board of Directors on the 24 June 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 to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries ("the Group") as at the end of the financial year and of the profit or loss of the Company and the Group for that year 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, Laws of Malta).

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

The directors, through oversight of management, are responsible for ensuring that the Company and the Group establish and maintain internal controls 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 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

24 June 2015

Medifin Holding Limited

Statements of Financial Position As at 31 March 2015

	Notes	Group		Company	
		2015 €000	2014 €000	2015 €000	2014 €000
ASSETS					
Balances with Central Banks, treasury bills and cash	14	14,384	18,091	-	-
Derivative assets held for risk management	15	3,197	404	-	-
Derivative assets held for trading	16	-	404	-	-
Loans and advances to financial institutions	17	168,278	92,351	1	113
Loans and advances to customers	18	1,047,194	621,747	-	-
Investments					
- Corporate	19	98,620	293,235	-	-
- Treasury	19	1,405,076	1,134,826	-	-
Investment in subsidiaries	20/21	-	-	134,710	122,751
Property and equipment	22	1,501	3,340	-	-
Intangible assets	23	758	13,604	-	-
Deferred tax assets	24	4,199	608	-	-
Prepayments and accrued income	25	21,310	24,464	-	-
Other assets	26	26,472	10,808	1,854	-
Total assets		2,790,989	2,213,882	136,565	122,864

The notes on pages 19 to 114 are an integral part of these financial statements.

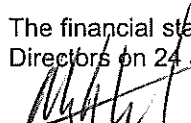
Medifin Holding Limited


Statements of Financial Position As at 31 March 2015

	Notes	Group		Company	
		2015 €000	2014 €000	2015 €000	2014 €000
EQUITY					
Called up issued share capital	27	55,738	55,738	55,738	55,738
Share premium	27	13,756	13,756	13,756	13,756
Reserve for general banking risks	27	1,029	91	-	-
Fair value reserve	27	8,800	(8,294)	-	-
Retained earnings	27	98,872	64,733	65,098	36,125
Total equity attributable to equity holders of the Company		178,195	126,024	134,592	105,619
Non-controlling interests		876	565	-	-
Total equity		179,071	126,589	134,592	105,619
LIABILITIES					
Derivative liabilities held for risk management	15	5,200	2,973	-	-
Amounts owed to financial institutions	28	1,166,091	1,013,323	1,550	1,496
Amounts owed to customers	29	1,203,715	776,106	-	-
Debt securities in issue	30	157,137	230,127	-	-
Subordinated liabilities	31	47,777	22,335	-	-
Current tax liabilities		4,340	10,814	2	-
Deferred tax liabilities	24	283	-	-	-
Accruals and deferred income	32	24,973	14,688	8	559
Other liabilities	33	2,402	16,927	413	15,190
Total liabilities		2,611,918	2,087,293	1,973	17,245
Total equity and liabilities		2,790,989	2,213,882	136,565	122,864
Memorandum items					
Contingent assets	18/19	82,392	27,700		
Contingent liabilities and financial commitments	35 - 37	95,199	3,665		

The notes on pages 19 to 114 are an integral part of these financial statements.

The financial statements on pages 10 to 114 were approved and authorised for issue by the Board of Directors on 24 June 2015 and signed on its behalf by:


Mark A. Watson
Director


Benjamin Hollowood
Director

Medifin Holding Limited

Statements of Profit or Loss and Other Comprehensive Income For the Year Ended 31 March 2015

	Notes	Group		Company	
		2015 €000	2014 €000	2015 €000	2014 €000
Interest income		74,051	64,576	18	-
Interest expense		(39,606)	(34,136)	550	(565)
Net interest income/(expense)	7	34,445	30,440	568	(565)
Fee and commission income					
– Corporate lending fees		730	1,245	-	-
– Other		3,637	1,550	-	-
Fee and commission expense					
– Corporate lending fees		(176)	(230)	-	-
– Other		(762)	(1,435)	300	(300)
Net fee and commission income/(expense)	8	3,429	1,130	300	(300)
Net trading income/(loss)	9.1	426	2,292	(2)	-
Net (loss)/income from financial instruments at fair value through profit or loss	9.2	(4,153)	1,883	-	-
Other operating income					
– Realised gains on disposal of investments	9.3	21,120	24,917	-	-
– Realised gains on disposal of loans and advances		486	2,615	-	-
– Gain on the initial accounting of a subsidiary		22,414	-	-	-
– Other income	9.4	187	499	38,463	41,783
Total operating income		78,354	63,776	39,329	40,918
Personnel expenses	10	(16,441)	(14,100)	-	-
Depreciation and amortisation	23/24	(1,701)	(3,390)	-	-
Other administrative expenses	11	(19,332)	(15,342)	(59)	(14)
Total operating expenses		(37,474)	(32,832)	(59)	(14)
Net operating income before impairment charges		40,880	30,944	39,270	40,904
Net impairment loss on financial assets	12	(4,265)	(2,081)	-	-
Profit before tax		36,615	28,863	39,270	40,904
Taxation	13	(1,213)	(1,533)	(10,297)	(11,308)
Profit for the year		35,402	27,330	28,973	29,596
Other comprehensive income					
<i>Items that are or may be reclassified to profit or loss</i>					
Fair value reserve (Available-for-sale financial assets):					
- Net change in fair value		37,282	1,483	-	-
- Net amount transferred to profit or loss		(19,303)	(24,951)	-	-
Related tax on other comprehensive income		(899)	1,175	-	-
Other comprehensive income, net of tax		17,080	(22,293)	-	-
Total comprehensive income, net of tax		52,482	5,037	28,973	29,596

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Profit or Loss and Other Comprehensive Income For the Year Ended 31 March 2015

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Profit attributable to:				
Owners of the Company	35,077	27,235	28,973	29,596
Non-controlling interests	325	95	-	-
Profit for the year	35,402	27,330	28,973	29,596
Total comprehensive income attributable to:				
Owners of the Company	52,171	4,933	28,973	29,596
Non-controlling interests	311	104	-	-
Total comprehensive income for the year	52,482	5,037	28,973	29,596

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Changes in Equity
For the Year Ended 31 March 2015

Group	Share capital €000	Share premium €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000	Non-controlling interest €000	Total €000
Balance at 1 April 2013	55,738	13,756	-	14,008	37,589	121,091	461	121,552
Total comprehensive income								
Profit for the year	-	-	-	-	27,235	27,235	95	27,330
Other comprehensive income, net of tax:								
Fair value reserve (Available-for-sale financial 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 other comprehensive income, net of tax	-	-	-	(22,302)	-	(22,302)	9	(22,293)
Total comprehensive income, net of tax	-	-	-	(22,302)	27,235	4,933	104	5,037
Transfer to Reserve for general banking risks	-	-	91	-	(91)	-	-	-
Balance at 31 March 2014	55,738	13,756	91	(8,294)	64,733	126,024	565	126,589

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Changes in Equity
For the Year Ended 31 March 2015

Group	Share capital €000	Share premium €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000	Non-controlling interest €000	Total €000
Balance at 1 April 2014	55,738	13,756	91	(8,294)	64,733	126,024	565	126,589
Total comprehensive income								
Profit for the year	-	-	-	-	35,077	35,077	325	35,402
Other comprehensive income, net of tax:								
Fair value reserve (Available-for-sale financial assets):								
- Net change in fair value	-	-	-	35,399	-	35,399	19	35,418
- Net amount transferred to profit or loss	-	-	-	(18,305)	-	(18,305)	(33)	(18,338)
Total other comprehensive income, net of tax	-	-	-	17,094	-	17,094	(14)	17,080
Total comprehensive income, net of tax	-	-	-	17,094	35,077	52,171	311	52,482
Transfer to Reserve for general banking risks	-	-	938	-	(938)	-	-	-
Balance at 31 March 2015	55,738	13,756	1,029	8,800	98,872	178,195	876	179,071

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Changes in Equity
For the Year Ended 31 March 2015

Company	Share capital €000	Share premium €000	Retained earnings €000	Total €000
Balance at 1 April 2013	55,738	13,756	6,529	76,023
Total comprehensive income Profit for the year	-	-	29,596	29,596
Balance at 31 March 2014	55,738	13,756	36,125	105,619
Balance at 1 April 2014	55,738	13,756	36,125	105,619
Total comprehensive income Profit for the year	-	-	28,973	28,973
Balance at 31 March 2015	55,738	13,756	65,098	134,592

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Cash Flows

For the Year Ended 31 March 2015

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Cash flows from operating activities				
Interest and commission receipts	108,083	79,745	-	-
Interest and commission payments	(37,135)	(30,298)	-	(15)
Payments to employees and suppliers	(36,047)	(30,037)	-	(305)
Operating profit/(loss) before changes in operating assets/liabilities	34,901	19,410	-	(320)
(Increase)/decrease in operating assets:				
- Reserve deposit with Central Bank of Malta	(1,551)	(855)	-	-
- Loans and advances to financial institutions and customers	(321,906)	(200,774)	-	-
- Investments	(255,353)	(670,319)	-	-
Increase/(decrease) in operating liabilities:				
- Amounts owed to financial institutions and customers	370,399	290,141	-	-
- Other payables	(173)	-	-	-
Tax (paid)/refunded	(3,185)	1,498	8,778	9,544
Net cash (used in)/from operating activities	(176,868)	(560,899)	8,778	9,224

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Statements of Cash Flows For the Year Ended 31 March 2015

	Notes	Group		Company	
		2015	2014	2015	2014
		€000	€000	€000	€000
Net cash (used in)/from operating activities		(176,868)	(560,899)	8,778	9,224
Cash flows from investing activities					
Acquisition of subsidiary		(35,300)	-	-	-
Acquisition of property and equipment		(188)	(171)	-	-
Disposal of property and equipment		25	10	-	-
Acquisition of intangible assets		(411)	(4,797)	-	-
Acquisition of available-for-sale assets		(722,352)	(336,422)	-	-
Disposal/redemption of available-for-sale assets		987,697	1,126,253	-	-
Derivative instruments held for risk management		(37,087)	(4,852)	-	-
Capital subscribed in subsidiary		-	-	-	(14,700)
Net shareholders' contribution advanced to subsidiary		-	-	(8,890)	(1,250)
Net cash from/(used in) investing activities		192,384	780,021	(8,890)	(15,950)
Cash flows from financing activities					
Re-purchase of debt securities		(75,204)	(22,912)	-	-
Proceeds from the issue of debt securities		-	237,359	-	-
Issue of subordinated liabilities		25,087	9,907	-	-
Loan from ultimate parent		-	15,000	-	15,000
Repayment of loan from ultimate parent		(14,700)	(8,500)	-	(8,500)
Net payments to group companies		(1,838)	-	-	(15)
Net cash (used in)/from financing activities		(66,655)	230,854	-	6,485
Net (decrease)/increase in cash and cash equivalents		(51,139)	449,976	(112)	(241)
Cash and cash equivalents acquired through business combination		(26,002)	-	-	-
Cash and cash equivalents derecognised on disposal of subsidiary		(221)	-	-	-
Cash and cash equivalents at beginning of year		(124,346)	(574,322)	113	354
Cash and cash equivalents at end of year	34	(201,708)	(124,346)	1	113

The notes on pages 19 to 114 are an integral part of these financial statements.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

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Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

1 Reporting entity

Medifin Holding Limited (the "Company" or "Medifin Holding") 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 of and for the financial year ended 31 March 2015 comprise the Company and its subsidiaries, together referred to as the "Group". Therefore, these financial statements report the consolidated financial results of Medifin Holding for the financial year ended 31 March 2015, including the financial results of Mediterranean Bank plc ("MedBank") and Mediterranean Corporate Bank Limited ("MedCorp") (previously Volksbank Malta Limited), Charts Investment Management Service Limited ("Charts") and Medifin Leasing Limited ("Medifin Leasing").

MedCorp became a principal subsidiary of MedBank on 25 September 2014. The consolidated financial statements incorporate MedCorp results from the date of acquisition.

As of 31 March 2014, Medifin Leasing was a subsidiary of Medifin Holding with 99.99% shareholding. On 27 June 2014, the shares in Medifin Leasing were transferred to Medifin Investments, the parent company of Medifin Holding. The consolidated financial statements include the results of Medifin Leasing till the date of disposal.

In prior years, the financial year end of Charts differed from that of the Group and followed a calendar year. On 8 April 2015, Charts altered the reference period starting 1 January 2014 and ended 31 December 2014 to run from 1 January 2014 to 31 March 2015. As a result, the consolidated financial statements include Charts' results for a 15-month period compared to a 12-month period included in the comparatives.

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

On 7 June 2013, MedBank established Grand Harbour I B.V. ("GH I"), an unrecognised controlled entity, to issue notes secured by clearly identified 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 consolidated financial statements (Note 30.2). On 5 June 2015, MedBank as holder of the Subordinated Notes of GH I notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes are expected to be redeemed on 7 July 2015.

Medifin Estates, a property leasing partnership, was set up to lease property which are then leased back to the Group. Its operations are deemed to be immaterial, having no impact on the operations of the Group.

The principal activities of the Group are to provide banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management, investments and corporate banking in Malta and the EU.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. The principal accounting policies applied in the preparation of these financial statements are set out below and in the relevant notes to the financial statements.

The financial statements have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta).

Except for the introduction of new and revised standards disclosed in note 2.5.1, there were no other new standards that were adopted during the financial year ended 31 March 2015.

2.2 Basis of measurement

The financial statements of the Group have been prepared on the historical cost basis except for:

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

2.3 Functional and presentation currency

These financial statements are presented in euro (€), which is the Company's functional currency.

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.

2 Basis of preparation (continued)

2.5 Changes in accounting policies

2.5.1 *New and revised standards effective for annual periods beginning on or after 1 April 2014*

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 2014.

A) *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*

As a result of the amendments to IAS 32, the Group has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when the Group currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The change did not have a material impact on the financial statements.

B) *Consolidated Financial Statements (IFRS 10)*

During the financial year ended 31 March 2015, the Group adopted IFRS 10. This standard which came into effect on 1 January 2014 and therefore applicable to the Group during the financial period starting 1 April 2014, introduced a new control model that focuses on whether the Group 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. The introduction of this standard did not have a material impact on the financial statements.

2.6 Comparative amounts

Certain amounts have been reclassified to comply with the current year's presentation.

3 Significant accounting policies

Except for the changes in accounting policies explained in Note 2.5, the Group has consistently applied the following accounting policies to all periods presented in these financial statements.

3.1 Basis of consolidation

3.1.1 *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date (i.e. when control is transferred to the Group). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain or bargain purchase on acquisitions of subsidiaries is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

Any contingent consideration payable is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.1.2 Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which the protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

3.1.3 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.4 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised 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)

3.1 Basis of consolidation (continued)

3.1.5 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the 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.

Foreign currency differences arising on translation are recognised in profit or loss, other than, foreign currency differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

3.2 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 financial 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 Profit or Loss and Other Comprehensive Income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

3 Significant accounting policies (continued)

3.2 Interest (continued)

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Statement of Profit or Loss and Other Comprehensive Income (see note 3.5).

3.3 Fee and commission

Fee 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 fee and commission income, including servicing fees, underwriting fees and other investment management fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

3.4 Net trading income

Net trading income comprises all realised and unrealised foreign exchange differences, except in specific circumstances (described in note 3.1.5).

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

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

3.6 Other operating income

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

Dividend income, which is recognised when the right to receive income is established, is reflected as a component of other operating income.

3.7 Lease payments - Lessee

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 Significant accounting policies (continued)

3.8 Income tax

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.

3.8.1 Current tax

Current tax comprises the expected tax payable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous periods. Current tax also includes any tax arising from dividends.

3.8.2 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. A deferred tax asset is recognised for deductible temporary differences, such as unused tax losses and unused tax credits, to the extent that it is probable that future taxable profits will be available against which the asset 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to 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.

Additional income taxes that arise from the distribution of dividends by the Company are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

3 Significant accounting policies (continued)

3.8 Income tax (continued)

3.8.3 Tax exposure

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

3.9 Financial assets and financial liabilities

3.9.1 Recognition

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. Debt securities issued, deposits, and subordinated liabilities are recognised on the date that they are originated. All other financial instruments, including regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

A financial asset or financial liability is measured initially at fair value and adjusted for, in case of instruments not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.9.2 Classification

Financial assets

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

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

See accounting policies 3.11, 3.12, 3.13, 3.14 and 3.15.

Financial liabilities

The Group classifies its non-derivative financial liabilities as other financial liabilities and classifies its derivative liabilities at fair value through profit or loss.

See accounting policy 3.11, 3.12, 3.13 and 3.20.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.3 Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset 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.

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. 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.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the recognition criteria. An asset or liability is recognised for the servicing contract, if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Similarly, when assets are sold to a 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.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.4 Offsetting

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

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

3.9.5 Amortised cost measurement

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

3.9.6 Fair value measurement

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

When available, the Group measures the fair value of an instrument using the quoted price 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.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.6 Fair value measurement (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.

3.9.7 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 not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that a 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 includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, 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.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.7 Identification and measurement of impairment of financial assets, including forbearance (continued)

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

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.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate.

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 are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.7 *Identification and measurement of impairment of financial assets, including forbearance (continued)*

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed through profit or loss, otherwise any increase in fair value is recognised through Other Comprehensive Income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised directly in other comprehensive income.

The Group writes off a loan and advance or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Subsidiaries' Credit Committee determines that there is no realistic prospect of recovery.

3.9.8 *Designation at fair value through profit or loss*

The Group 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.

3.10 Cash and cash equivalents

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

Cash and cash equivalents are measured at amortised cost in the Statement of Financial Position.

3 Significant accounting policies (continued)

3.11 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 on 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.

3.12 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative financial assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and include:

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

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

3 Significant accounting policies (continued)

3.12 Derivatives held for risk management purposes and hedge accounting (continued)

3.12.1 *Fair value hedges*

These hedging relationships are discussed below:

When a derivative is designated as a hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to that point of discontinuation to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

3.12.2 *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and other comprehensive income.

If the hedging derivative expires or is sold, terminated, exercised, or the hedge no longer meets the criteria for cash flows hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

3.12.3 *Other non-trading derivatives*

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

3 Significant accounting policies (continued)

3.13 Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group 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.

3.14 Loans and advances

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

Loans and advances to banks and customers 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.

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

3.15 Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

3.15.1 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.

3 Significant accounting policies (continued)

3.15 Investment securities (continued)

3.15.1 *Held-to-maturity (continued)*

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.

3.15.2 *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 after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt securities are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for sale category to the loans and receivables category if it would otherwise 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.

3.15.3 *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 3.9.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

3 Significant accounting policies (continued)

3.16 Property and equipment

3.16.1 Recognition and measurement

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment is recognised net within other operating income in profit or loss.

3.16.2 Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. The carrying amount of the replaced part is derecognised. Ongoing repairs and maintenance are expensed.

3.16.3 Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Leased assets, under finance leases, are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property and equipment are as follows:

- improvements to premises 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 reporting date and adjusted if appropriate.

3.17 Intangible assets

The Group's intangible assets mainly represent computer software.

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

3 Significant accounting policies (continued)

3.17 Intangible assets (continued)

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.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of the software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.18 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (i.e. CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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.

3.19 Investment in subsidiaries

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

3 Significant accounting policies (continued)

3.20 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are important 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 (sale and repurchase agreement), the arrangement is accounted for as a secured loan and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3.21 Provisions

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

3.21.1 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.22 Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3 Significant accounting policies (continued)

3.23 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 contributions to the defined contribution plan are recognised as personnel expenses in profit or loss.

3.23.1 Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

3.24 Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.25 Standards issued but not yet adopted

3.25.1 IFRS as adopted by the EU

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2014, and have not been applied in preparing these financial statements as they are not relevant to the Group. The Group does not plan to early adopt these standards.

3.25.2 Relevant standards and amendments issues by the IASB but not yet endorsed by the EU

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

4 Financial risk management

4.1 Introduction and overview

The Group's core business activities include:

- deposit taking;
- the provision of wealth management and investment services; and
- the granting of loans to international and local corporates.

These activities are supported by basic retail services such as money transfer, spot currency exchange, currency forward contracts and interest rate swaps entered into for risk management purposes.

The Group also continues to access the international wholesale funding markets through bilateral repo lines and the Eurex repo platform.

The asset base of the Group continued to grow, primarily the Group's international lending activities. The Group's treasury portfolio also grew during the financial year.

As part of the Group's liquidity management, its treasury function is involved in interest rate swaps and forward transactions that are entered into for risk management purposes. Therefore the main risks assumed are: (a) counterparty credit risk arising from loans (b) liquidity risk arising from maturity mismatches; (c) market risk; and (d) 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 MedBank's Board of Directors. As a result, this note (other than note 4.7) presents information about the financial risk management of MedBank Group.

4.2 Risk management framework

The Group 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 growth of the Group, maximising its profitability and managing the associated risks.

The Group's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Group and also to develop the tools needed to address those risks. This integrated approach is realised through the governance structure of the Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Group 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 (continued)*

The Group has in place the standards, policies and procedures for the control and monitoring of credit risk. The Group's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Group invests in a diversified portfolio including both high-quality assets with strong ratings stability and a diversified portfolio of loans to corporations and securities issued by corporations, whose higher returns are viewed as justifying a greater level of risk.

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

The Group's investments are managed on a portfolio basis, taking into account correlations between asset classes. The Group 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 Group's portfolio.

The Management Credit Committees of the Subsidiaries are responsible for approving credit recommendations and making other credit decisions under its authority delegated by the respective Board of Directors. This includes decisions on individual credits, reviewing and recommending credit and large exposures to the Board of Directors, consideration of credit hedging strategies and recommending other concentration limits for approval by the Board of Directors. They are also responsible for delegating transactional responsibility to their Treasury and Investment department and within the parameters that the Management Credit Committee of the Subsidiaries sets out, their treasury portfolios are managed on a day to day basis by the Treasury function.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

The following table provides an analysis of the gross and net impairment exposure of MedBank Group's assets:

	MedBank Group			
	As at 31 March 2015		As at 31 March 2014	
	Gross exposure €000	Net Exposure €000	Gross exposure €000	Net exposure €000
Balances with Central Banks, treasury bills and cash	14,384	14,384	18,091	18,091
Derivative assets held for risk management	3,197	3,197	404	404
Derivative assets held for trading	-	-	404	404
Loans and advances to financial institutions	167,775	167,775	92,061	92,061
Loans and advances to customers				
– Corporate and municipalities	1,042,691	1,030,583	621,222	618,928
Loans and advances to customers – Retail	18,093	16,611	2,819	2,819
Investments	1,503,462	1,503,462	1,427,800	1,427,337
Accrued income	17,799	17,799	19,164	19,164
Loans to related parties (included in other assets)	20,256	20,256	18,145	18,145
Other non-financial assets	9,496	9,496	10,642	10,642
	2,797,153	2,783,563	2,210,752	2,207,995
Contingent assets	82,392	82,392	27,700	27,700
Financial commitments	91,369	91,369	-	-

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

The following table sets out information about the credit quality of financial assets and the allowance of impairment/loss held by the MedBank Group against those assets.

MedBank Group	Loans and advances to customers		Loans and advances to financial institutions		Investment securities and Treasury bills	
	2015 €000	2014 €000	2015 €000	2014 €000	2015 €000	2014 €000
<u>Individually impaired</u>						
Grade 4: Doubtful	38,220	10,383	-	-	-	-
Gross/revalued amount	38,220	10,383	-	-	-	-
Allowance for impairment	(9,612)	(1,422)	-	-	-	-
Carrying amount	28,608	8,961	-	-	-	-
<u>Collectively impaired ¹</u>						
Grade 1: Regular	820,536	461,118	-	-	-	285,589
Grade 2-3:					-	-
Focus and Under surveillance	172,882	149,721	-	-	-	5,635
Grade 4: Doubtful	22,962	-	-	-	-	-
Gross amount	1,016,380	610,839	-	-	-	291,224
Allowance for impairment	(3,978)	(872)	-	-	-	(463)
Carrying amount	1,012,402	609,967	-	-	-	290,761
<u>Neither past due nor specifically impaired nor collectively impaired</u>						
Grade 1-3: Regular, Focus and Under surveillance	6,184	2,819	167,775	92,061	1,503,462	1,136,576
Carrying amount	6,184	2,819	167,775	92,061	1,503,462	1,136,576
Total carrying amount	1,047,194	621,747	167,775	92,061	1,503,462	1,427,337

Amounts receivable from related parties amounting to €20.2 million (2014: €18.2 million) are neither past due nor specifically impaired.

¹ Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

The Group reviews and grades advances to customers using the following internal risk grades. The Group defines Non-Performing Exposures as those that satisfy either or both of the following criteria:

- a) Material exposures which are more than 90 days past due; and
- b) The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

Performing

1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a loss will ultimately be suffered, but worthy of close attention.
3. Under Surveillance - significant credit concerns and some prospect that a loss may ultimately be suffered.

Non-performing

4. Doubtful - likely that the contractual terms of the debt will not be met and that a loss will be suffered.
5. Write-off - full or partial loss suffered, with little prospect of recovery.

As of 31 March 2015, loans held by the Group amounting to €1.7 million (2014: nil) were past due by more than 30 days but not impaired and analysed as follows:

	Group	
	2015	2014
Past due but not impaired	€000	€000
Past Due - 31 to 60 days		
Principal	1,659	-
Interest	12	-
Past Due - 61 to 90 days		
Principal	2	-
Interest	-	-
Total	1,673	-

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

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 3.9.7) in the light of current economic conditions and considering the likelihood that the Group may be exposed to losses on loans and advances and investment securities. Impaired investment securities and loans are those where there is objective evidence that a loss event has occurred since initial recognition and the Group establishes that the loss event has an impact on future estimated cash flows as it is unlikely that it will collect the full principal and/or interest due according to the contractual terms of the loan even if the Group reverts to the respective collateral.

4.3.3 *Past due but not impaired loans*

An exposure is "past-due" when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans are those loans and advances for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Group.

4.3.4 *Loans with renegotiated terms and the Group's forbearance policy*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Group's Credit Committee regularly review reports on forbearance activities.

For the purposes of these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

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Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Loans with renegotiated terms and the Group's forbearance policy (continued)

Irrespective of whether loans with renegotiated terms have been derecognised, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

4.3.5 Allowances for impairment and forbearance

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its Lending Portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The Group also establishes an allowance for impairment at collective levels on its loans and advances to customers and investments that represent losses incurred but not yet identified.

The following are the disclosures in relation to loans and advances:

	Non-forborne Exposures €000	Forborne exposures €000	Total €000
Group			
As at 31 March 2015			
Neither past due nor impaired	977,202	8,884	986,086
Past due by less than 90 days but not impaired	11,612	1,905	13,517
Impaired, net of specific impairment allowances	18,037	33,532	51,569
Loans and advances, net of specific impairment allowances	1,006,851	44,321	1,051,172
Specific impairment allowances	3,417	6,196	9,613
Collective impairment allowances	3,527	450	3,978

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Allowances for impairment and forbearance (continued)

Interest income recognised by the Group during the financial year ended 31 March 2015 in respect of forborne exposures amounted to €1.4 million.

During the financial year ended 31 March 2014, no forbearance measures and practices were undertaken.

Past due but not impaired loans comprise loans and advances where interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group. The past due ageing analysis is shown in the following table. Related credit losses which have been incurred but are not yet identified are partly covered by collective impairment allowances.

	Group	
	Non-forborne exposures €000	Forborne exposures €000
As at 31 March 2015		
Past due up to 30 days	10,270	2,081
Past due between 31 and 60 days	1,580	143
Past due between 61 and 90 days	2	-
Past due over 90 days	2,541	10,768
	<hr/>	<hr/>
	14,393	12,992
	<hr/>	<hr/>

The movement in the carrying amount of forborne loans and advances, before specific impairment allowances, is analysed below:

	Group 2015 €000
Year ended 31 March 2015	
Forborne facilities arising on acquisition of MedCorp	28,812
Loans to which forbearance measures have been extended during 2015	22,683
Capitalised interest	106
Repayments	(1,084)
	<hr/>
	50,517
	<hr/>

As at 31 March 2015, specific impairment allowances on forborne loans was equivalent to €6.2 million, of which €5.7 million arising from the business combination. The movement reflects solely increases in allowances in respect of specific exposures.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Allowances for impairment and forbearance (continued)

Forborne loans, before specific impairment allowances, are analysed by industry sector as follows:

	Neither past due nor impaired 2015 €000	Past due but not impaired 2015 €000	Impaired 2015 €000	Total 2015 €000
Group				
As at 31 March 2015				
Financial services	-	-	382	382
Real estate and construction	8,716	9	12,966	21,691
Manufacturing	-	-	12,303	12,303
Household	168	294	212	674
Other	-	1,602	13,865	15,467
	<u>8,884</u>	<u>1,905</u>	<u>39,728</u>	<u>50,517</u>

The Group's forborne loans consist of corporate exposures based in the European Union.

4.3.6 Write-off policy

The Group writes off a loan or an investment debt security balance and any related allowances for impairment losses, when the relevant Credit Committee of the Subsidiaries 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. Write off of financial assets during the year amounted to €3.3 million (2014: nil).

4 Financial risk management (continued)

4.3.7 Collateral

The Group holds collateral against loans and advances to local customers in the form of hypothecary rights over immovable assets, registered rights over moveable assets and guarantees. The asset held as collateral is assigned a fair value at the time of credit approval. The value assigned is regularly monitored to identify assets that need revaluation.

The extendible value of the collateral is the net value of a pledged asset for lending purposes, after applying a precautionary margin to its market value. The following is an analysis of the fair value of the extendible collateral and other credit enhancements held by the Group against exposures of loans and advances to local customers amounting to €73.9 million as of 31 March 2015. The amounts disclosed in the table represent the lower of the fair value of the extendible collateral and the carrying amount of the respective secured loans (excluding the collective impairment allowance).

	Group	
	Non-forborne exposures	Forborne exposures
	2015	2015
As at 31 March 2015	€000	€000
Against individually impaired		
Property	2,842	11,359
Investments	24	-
Other	64	9
Against neither past due nor impaired		
Property	29,346	8,784
Investments	1,698	-
Other	6,122	100
Against past due but not impaired		
Property	11,112	1,801
Investments	196	54
Other	338	-
	51,742	22,107

As of 31 March 2015, the Group held covered bonds amounting to €801.9 million (2014: €604.8 million) which are backed by a separate group of assets in the form of loans.

The Group also holds senior secured loans and bonds which as of 31 March 2015 amounted to €1.0 billion (2014: €816.4 million). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3.8 Exposure to sovereign debt

The Group's exposure to sovereign Eurozone government bonds as at 31 March 2015 represented: 3% (2014: 3%) of the Group's total investment securities (excluding equity instruments). As at 31 March 2015, the Group's portfolio consisted only on Malta Government Securities.

No impairment provisions in respect of these exposures were required during the year ended 31 March 2015 (2014: nil).

In addition as at 31 March 2014, the Group held Treasury bills as disclosed in note 14.

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

An analysis of concentration of loans and advances to customers by industry, before impairment allowances, is shown below:

	Group	
	2015	2014
	€000	€000
Agriculture	1,036	-
Quarrying	193	-
Manufacturing	215,187	105,163
Construction	8,654	4,004
Wholesale and retail trade, repairs of motor vehicles and motor cycles	29,945	14,618
Transport and storage	73,048	30,468
Accommodation and food service activities	77,268	69,298
Financial and insurance activities	32,421	10,874
Real estate activities	37,909	-
Professional, scientific and technical activities	43,731	12,190
Administrative and support service activities	233,720	112,775
Human health and social work activities	89,535	70,023
Arts, entertainment and recreation	54,633	-
Public administration and defence and compulsory social security	50,000	50,603
Other services activities	102,896	141,206
Household and individuals	10,609	2,819
Gross loans and advances to customers	1,060,785	624,041

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

	Balances with Central Banks, Treasury bills and Loans and advances to financial institutions		Loans and advances to customers		Investments and derivative assets	
	2015	2014	2015	2014	2015	2014
	€000	€000	€000	€000	€000	€000
MedBank Group						
Concentration by type						
Carrying amount						
Senior bank obligations	132,159	99,624	-	-	300	104,580
Clearing houses	50,000	-	-	-	-	-
Covered bonds	-	-	-	-	801,883	604,822
Government and regional government securities	-	5,997	49,837	50,603	215,788	106,075
Supranationals and agencies	-	-	-	-	256,988	312,524
Pooled securities	-	-	-	-	-	6,101
Secured corporate lending	-	-	926,570	568,325	91,161	248,059
Unsecured corporate and treasury lending	-	-	54,176	-	134,732	42,702
Retail secured lending	-	-	15,057	2,819	-	-
Retail unsecured lending	-	-	1,554	-	-	-
Equity instruments	-	-	-	-	2,610	2,474
Warrants	-	-	-	-	-	404
Interest rate swaptions	-	-	-	-	76	404
Foreign exchange swaps	-	-	-	-	3,121	-
	182,159	105,621	1,047,194	621,747	1,506,659	1,428,145

Amounts receivable from related parties amounting to €20.2 million (2014: €18.2 million) are unsecured.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

The following table provides an analysis of concentrations of credit risk (net) of the MedBank Group by geographical location.

	Balances with Central Bank of Malta, Treasury bills and Loans and advances to financial institutions		Loans and advances to customers		Investments and derivative assets	
	2015	2014	2015	2014	2015	2014
	€000	€000	€000	€000	€000	€000
MedBank Group						
<u>Net carrying amount</u>						
Europe	180,984	104,865	922,581	584,529	1,466,884	1,390,976
North America	648	440	124,613	37,218	39,775	37,169
Australia	527	316	-	-	-	-
	182,159	105,621	1,047,194	621,747	1,506,659	1,428,145

All treasury book securities in the portfolio are accepted by the ECB as collateral. Either the securities themselves or the issuers of the securities are rated by at least one of the following credit rating agencies: Fitch, Standard & Poor's or Moody's. Senior bank obligations are held with central banks and financial institutions counterparties that are generally rated at least investment grade.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.9 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 MedBank Group held investment securities (excluding equity instruments) with a net carrying amount of €1.5 billion as at 31 March 2015 (2014: €1.4 billion) net of impairment, an analysis of the credit quality based on rating agency ratings is as follows:

	MedBank Group	
	2015	2014
	€000	€000
National Government securities		
AAA or lower	51,769	55,471
Regional Government securities		
AAA or lower	164,019	-
Other securities		
AA- and higher	859,472	796,439
A+ or lower	425,826	573,677
Total	1,501,086	1,425,587

In addition, in 2014, the MedBank Group held treasury bills disclosed in note 14, with a rating of A+ or lower. Loans and advances to financial institutions disclosed in note 17 are classified as 'Regular' by the Group and above investment grade by reputable credit rating agencies.

Other assets held by the MedBank Group of €20.5 million (2014: €18.9 million) consist principally of related party loans amounting to €20.3 million (2014: €18.1 million) which are not externally or internally rated.

Accrued income from investments securities amounting to €11.8 million (2014: €11.1 million) is related to assets classified above investment grade of €1.4 billion (2014: €1.2 billion) with the remaining related to the securities below investment grade.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 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 Group's statement of financial position; or
- 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 tables below 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, a right to set-off recognised amounts, that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liability simultaneously. In the case of the principal clearing house netting arrangement, the Group is allowed to offset and settle its claims on a net basis at any time vis-à-vis the clearing counterparty.

The Group 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.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 Offsetting financial assets and financial liabilities (continued)

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

MedBank Group	Gross amounts of recognised financial instruments		Net amounts of financial instruments presented in the Statement of Financial Position	Related amounts not offset in the statement of financial position		
	Gross amounts of recognised financial instruments €000	offset in the Statement of Financial Position €000		Financial instruments (including non-cash collateral) €000	Cash collateral pledged €000	Net amount €000
31 March 2015						
Types of financial assets						
Placements with financial institutions	105,931	(55,000)	50,931	-	-	50,931
Derivatives held for risk management						
- Foreign exchange derivatives	3,121	-	3,121	-	(430)	2,691
	109,052	(55,000)	54,052	-	(430)	53,622
Types of financial liabilities						
Repurchase agreements	(1,197,716)	55,000	(1,142,716)	1,744,831	5,249	607,364
Derivatives held for risk management						
- Interest rate swaps	(3,114)	-	(3,114)	-	23,104	19,990
- Foreign exchange derivatives	(2,086)	-	(2,086)	-	8,220	6,134
	(1,202,916)	55,000	(1,147,916)	1,744,831	36,573	633,488
31 March 2014						
Types of financial liabilities						
Repurchase agreements	(932,473)	-	(932,473)	1,061,705	4,347	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)	31,069	(1,002,469)	1,161,280	6,730	165,541

Placements with financial institutions, Repurchase agreements and Total return swaps are accounted for at amortised cost. Derivatives held for risk management are accounted for at fair value.

Medfin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 Offsetting financial assets and financial liabilities (continued)

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

MedBank Group	Net amounts €000	Line item in statement of financial position	Carrying amount in statement of financial position €000	Financial instruments not in scope of offsetting disclosures €000	Note
31 March 2015					
Types of financial assets					
Placements with financial institutions	50,931	Loans and advances to financial institutions	167,775	116,844	17
Derivatives held for risk management		Derivative assets			
- Foreign exchange derivatives	3,121	held for risk management	3,197	76	15
Types of financial liabilities					
Repurchase agreements	1,142,716	Amounts owed to financial institutions	1,166,091	23,375	28
Total return swaps					
Derivatives held for risk management		Derivative liabilities			
- Interest rate swaps	3,114	held for risk management	5,200	-	15
- Foreign exchange derivatives	2,086				
31 March 2014					
Types of financial liabilities					
Repurchase agreements	932,473	Amounts owed to financial institutions	1,008,976	9,305	28
Total return swaps	67,198				
Derivatives held for risk management		Derivative liabilities			
- Interest rate swaps	2,798	held for risk management	2,973	175	15

4.4 Liquidity risk

Liquidity risk is the risk that the Group 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 MedBank's Treasury Department and its Risk Office, under the oversight of the Management Asset-Liability Committee and the Board Risk Committee of the Subsidiaries and under an approach set out in MedBank's Treasury Management Policy.

Medfin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk (continued)

Treasury Management Policy ("TMP")

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

- liquidity and asset-liability mix;
- market, interest rate and currency risk; and
- 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.

Management Asset and Liability Committee

Both MedBank and MedCorp 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 respective Board. It also decides on the level of any credit impairments to be taken on investments, after receiving recommendations from the Management Credit Committee of the Subsidiaries.

Board Risk Committee

The Risk Committee of MedBank and MedCorp is responsible for setting policies in respect of liquidity and funding, interest rate and currency risks and for reviewing and approving any changes to the overall asset-liability management strategy.

Roles and responsibilities

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

- Treasury has primary responsibility for managing and reporting the Group'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 Group's market risk position.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk (continued)

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

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 repurchase agreements or Total Return Swaps or unsecured); and
- Central Bank funding.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities

The following tables analyses MedBank Group's principal financial liabilities into relevant residual maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

MedBank Group	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 month to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2015							
<i>Non-derivative liabilities</i>							
Amounts owed to							
financial institutions							
- Due to central bank	250,000	250,032	-	250,032	-	-	-
- Due to clearing houses	879,000	882,009	73,275	70,197	422,380	316,157	-
- Due to other banks	37,091	37,175	18,169	18,762	-	244	-
Amounts owed to customers	1,205,586	1,249,596	398,902	357,580	145,748	347,340	26
Debt securities in issue	9,204	9,843	-	-	9,843	-	-
Debt securities in issue through non derecognised controlled entity	147,933	173,011	-	-	2,174	8,702	162,135
Subordinated liabilities	47,777	72,285	-	-	3,291	36,153	32,841
	2,576,591	2,673,951	490,346	696,571	583,436	708,596	195,002
<i>Derivative liabilities</i>							
Derivative liabilities held for risk management							
- Interest rate swaps	3,114						
- Inflows		16,699	-	-	1,336	11,288	4,075
- Outflows		(17,835)	-	-	(1,428)	(12,043)	(4,364)
- Foreign exchange swaps	2,086	890	(12)	880	22	-	-
	5,200	(246)	(12)	880	(70)	(755)	(289)

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

MedBank Group	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 month to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2014							
<i>Non-derivative liabilities</i>							
Amounts 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 non derecognised controlled entity	215,786	263,633	-	-	3,532	14,230	245,871
Subordinated liabilities	22,335	32,748	-	-	1,711	6,830	24,207
	2,038,153	2,158,789	328,935	285,891	590,569	683,260	270,134
<i>Derivative liabilities</i>							
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

Medfin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets

The following tables set out the availability of the financial assets of the MedBank Group to support future funding.

MedBank Group	Encumbered		Unencumbered		Total €000
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	
31 March 2015					
Balances with Central Banks, treasury bills and cash	-	-	-	14,384	14,384
Derivative assets held for risk management	-	-	-	3,197	3,197
Loans and advances to financial institutions	-	-	-	167,775	167,775
Loans and advances to customers – corporate and municipalities	356,873	-	-	673,710	1,030,583
Loans and advances to customers – retail	-	-	-	16,611	16,611
Investments	1,348,198	6,778	148,486	-	1,503,462
Loans and advances to related parties ***	-	-	-	20,256	20,256
	1,705,071	6,778	148,486	895,933	2,756,268
31 March 2014					
Balances with Central Banks, treasury bills and cash	5,997	-	-	12,094	18,091
Derivative assets held for risk management	-	-	-	404	404
Derivative assets held for trading	-	-	-	404	404
Loans and advances to financial institutions	-	-	-	87,714	87,714
Loans and advances to customers – corporate and municipalities	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
Loans and advances to related parties ***	-	-	-	18,145	18,145
	1,538,988	3,822	298,030	333,002	2,173,842

*Represents assets that are not pledged for funding purposes but that the Group 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 that the Group would not consider as readily available to secure funding in the normal course of business.

***included in other assets

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets (continued)

Assets pledged as collateral include:

- Assets transferred to Total Return Swap which are not derecognised (Notes 18.6 and 19.6); and
- Assets transferred to non-derecognised controlling entity (Notes 18.5 and 19.5).

4.4.4 Liquidity reporting

In order to ensure that the Group has adequate liquidity to meet its near-term obligations, Treasury projects the Group'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 became effective in 2014, the Group was 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 still performed by Finance and submitted to the MFSA as part of MedBank's and MedCorp's statutory monthly returns.
- Liquidity ratio is the ratio of net cash to wholesale (margin-sensitive) funding. This cash buffer is designed to ensure that the Group 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.

4.4.5 Liquidity risk reporting

MedBank's Risk Office is responsible for producing two key reports that describe the key risks to Group'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 Group's asset base, and considering a number of scenarios of varying severity;
- Maximum Cumulative Outflow Report, projecting the Group'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; and
 - iv. Loss of eligibility for ECB financing.

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Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.5 Market risks

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

4.5.1 Management of market risks

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

4.5.2 Foreign exchange risk

Foreign exchange risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying currency exchange rates. Although a large majority of the Group's assets and liabilities is euro-denominated, the Group does offer deposits in other major currencies and its Lending Portfolio includes a number of Sterling-denominated loan assets. The Group 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 MedBank Group into relevant currency groupings.

MedBank Group	2015			2014		
	Euro currency €000	Other currencies €000	Total €000	Euro currency €000	Other currencies €000	Total €000
Financial assets						
Balances with Central Banks, treasury bills and cash	14,285	99	14,384	18,014	77	18,091
Loans and advances to financial institutions	150,840	16,935	167,775	79,717	7,997	87,714
Loans and advances to customers	703,452	343,742	1,047,194	481,772	139,975	621,747
Investments	1,473,150	30,312	1,503,462	1,342,326	85,011	1,427,337
Derivative assets held for risk management	3,197	-	3,197	404	-	404
Derivative assets held for trading	-	-	-	404	-	404
Accrued income	15,858	1,941	17,799	17,048	2,116	19,164
	2,360,782	393,029	2,753,811	1,939,685	235,176	2,174,861
Financial liabilities						
Derivative liabilities held for risk management	5,200	-	5,200	2,973	-	2,973
Amounts owed to financial institutions	1,156,866	9,225	1,166,091	949,593	59,383	1,008,976
Amounts owed to customers	1,002,014	203,572	1,205,586	649,650	127,065	776,715
Debt securities in issue	157,137	-	157,137	230,127	-	230,127
Subordinated liabilities	41,708	6,069	47,777	20,121	2,214	22,335
Accruals	14,397	1,580	15,977	8,587	1,031	9,618
	2,377,322	220,446	2,597,768	1,861,051	189,693	2,050,744
Net on-balance sheet financial position					45,483	
Derivative instruments held for risk management		172,583			(44,905)	
Exposure		<u>(176,466)</u>			<u>578</u>	
		<u>(3,883)</u>				

The Group uses derivative instruments to hedge movements in foreign currency. As a result the Group is not materially exposed to fluctuations in foreign currency.

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Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO of Subsidiaries are the monitoring body for compliance with these limits and are assisted by their Risk Management Office in their day-to-day monitoring activities.

MedBank's 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 MedBank's Chief Risk Officer and approved by ALCO.

Interest rate risk reporting and analysis

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

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

Interest rate risk positions are managed by MedBank's Treasury and Investment department, in conjunction with MedBank's Risk Management Office, by strategically positioning the asset and liability interest rate re-pricing profiles as well as by purchasing interest rate derivatives, primarily swaps. The use of derivatives to mitigate interest rate risk is described in note 15.

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

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

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 MedBank Group's interest rate gap position on non-trading portfolios, excluding the effect of interest rate hedging, is as follows:

MedBank Group	Carrying amount €000	Re-pricing in:		
		Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
As at 31 March 2015				
Balances with Central Banks and treasury bills	13,823	13,823	-	-
Loans and advances to financial institutions	167,775	167,775	-	-
Loans and advances to customers	1,047,194	956,412	83,171	7,611
Investments (excluding equity investments)	1,500,852	319,575	32,707	1,148,570
	2,729,644	1,457,585	115,878	1,156,181
Amounts owed to financial institutions:				
- Due to central bank	250,000	250,000	-	-
- Due to clearing houses	879,000	143,000	421,000	315,000
- Due to other banks	37,091	37,091	-	-
Amounts owed to customers	1,205,586	747,335	122,160	336,091
Debt securities issued	9,204	-	9,204	-
Debt securities issued through non derecognised controlled entity	147,933	-	147,933	-
Subordinated liabilities	47,777	-	-	47,777
	2,576,591	1,177,426	700,297	698,868
Interest rate gap	153,053	280,159	(584,419)	457,313

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.5 Market risks (continued)

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

MedBank Group	Carrying amount €000	Re-pricing in:		
		Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
As at 31 March 2014				
Balances with Central Bank 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 (excluding equity investments)	1,424,863	187,337	19,402	1,218,124
	2,152,231	878,137	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 non derecognised controlled entity	215,786	-	215,786	-
Subordinated liabilities	22,335	-	-	22,335
	2,038,153	613,525	725,240	699,388
Interest rate gap	114,078	264,612	(671,703)	521,169

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Notes to the Financial Statements For the Year Ended 31 March 2015

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 Group'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 2015

- NIM would decrease by €17.7 million / increase by €17.2 million.
- Economic Value would decrease by €21.9 million / increase by €27.4 million.

These values are presented after taking into account the impact of hedge accounting.

31 March 2014

- NIM would decrease by €5.1 million / increase by €4.1 million.
- Economic Value would decrease by €4.7 million / increase by €6.5 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 Group'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 Group 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 Group'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 Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 Group 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; and
- risk mitigation, including insurance where this is effective.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committees and senior management of the Subsidiaries.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No.575/2013 of the European Parliament and of the Council of 26 June 2013, also known as Capital Requirements Regulations ('CRR'). The capital requirement for operational risk under this method was calculated at €5.0 million (2014: €4.4 million).

4 Financial risk management (continued)

4.7 Capital management – regulatory capital

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

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 implemented with an effective date of 1 January 2014.

In implementing current capital requirements, the MFSA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Group 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 Group complies with the provisions of CRR in respect of regulatory capital and it applies the standardised approach. For regulatory purposes, the Group'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, shareholders' contribution, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank behind the claims of all depositors (including financial institutions) and all other creditors.

The Group's policy is to maintain a strong 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 Group 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.

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Notes to the Financial Statements For the Year Ended 31 March 2015

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

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

The Group's regulatory capital position is analysed as follows:

TIER 1 CAPITAL	As per Statement of Financial Position	2015 €000	2014 €000
Paid-up capital instruments	Ordinary share capital	55,738	55,738
Share premium on paid-up capital instruments above	Share premium	13,756	13,756
Previous years retained earnings	Retained earnings	64,733	37,589
Profit or loss attributable to owners of the parent		34,139	27,144
Funds for general banking risk	Reserve for general banking risks	1,029 ²	91
Accumulated other comprehensive income	Fair value reserve	3,520 ³	(8,294)
Other reserves	Depositor Compensation Scheme Reserve	(6,572)	(5,018)
CET 1 deductions			
Other intangible assets gross amount	Intangible assets	(758)	(13,604)
Common Equity Tier 1 Capital		165,585	107,402
Tier 1 capital		165,585	107,402
TIER 2 CAPITAL			
Accumulated other comprehensive income	Fair value reserve	5,280 ²	-
Dated subordinated loans eligible as Tier 2 capital	Subordinated liabilities	46,744	22,335
Tier 2 capital		52,024	22,335
Total own funds		217,609	129,737
Risk weighted assets (RWAs)		1,468,374	1,049,932
Total capital ratio		14.8%	12.4%

² An amount of €0.9 million is transferred from "Profit or loss attributable to owners of the parent" to "Funds for General Banking Risk".

³ Under MFSA circular, unrealised losses are 100% recognised in CET 1 while unrealised gains are 40% recognised in CET 1 and 60% in CET 2.

5 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 ongoing basis. Revisions to estimates are recognised prospectively.

5.1 Assumptions and estimation uncertainties

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2015 is set out below in relation to estimated cash flows, the impairment of financial instruments and the hedge effectiveness testing.

5.1.1 *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.

5.1.2 *Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3.9.7.

The individual 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. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the MedBank's Credit Risk Management function.

5 Use of judgements and estimates (continued)

5.1 Assumptions and estimation uncertainties (continued)

5.1.2 Allowances for credit losses (continued)

A collective component of the total allowance is established for portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual 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. 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 and current economic conditions. The accuracy of the allowances depends on the model assumptions and parameters used in determining the collective allowance.

5.1.3 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:

- For prospective effectiveness testing, the sensitivity analysis approach is applied. This approach assesses the effectiveness of a hedge prospectively. 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. This testing uses the principal component analysis shift, historical shift and the forward shift. For each scenario, the relative impact on the valuation of the AFS bonds and forward starting interest rate swaps is assessed. Where the Bank designates a group of items as the hedged item, all individual items within such group are required to have similar risk characteristics and the change in the fair value attributable to the hedged risk for each individual item in the group be approximately proportional to the overall change in fair value of the group for the hedged risk. In respect of the latter, the Bank requires that the expected proportion in the change in fair value for the hedged risk is within 80% to 125% for each individual item.
- For retrospective effectiveness testing, the synthetic bond approach is also applied. This approach compares the change in fair value or cash flows of the Hedging Instrument with the change in fair value or cash flows of a synthetic bond matching the terms of the hedged item. A synthetic bond is constructed for each single bond in the AFS portfolio. The coupon of the synthetic bond is derived by assuming that the fair value of the synthetic bonds is equal to the notional with equilibrium at inception date. The valuation of the synthetic bonds and forward starting interest rate swaps is calculated using a market-standard approach such as the Bloomberg swap price.

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Notes to the Financial Statements For the Year Ended 31 March 2015

6 Financial assets and liabilities

6.1 Valuation models

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

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

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 risk free and 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.

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

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

6 Financial assets and liabilities (continued)

6.2 Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, 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.

MedBank Group	As at 31 March 2015			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
Assets				
Investments				
- Available-for-sale	1,500,852	-	-	1,500,852
- Fair value through profit or loss	-	2,610	-	2,610
Derivative assets held for risk management	-	3,197	-	3,197
Total financial assets	1,500,852	5,807	-	1,506,659
Liabilities				
Derivative liabilities held for risk management	-	5,198	-	5,198
Total financial liabilities	-	5,198	-	5,198

MedBank Group	As at 31 March 2014			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
Assets				
Investments				
- Available-for-sale	485,471	6,101	-	491,572
- 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	488,349	6,505	-	494,854
Liabilities				
Derivative liabilities held for risk management	-	2,973	-	2,973
Total financial liabilities	-	2,973	-	2,973

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Notes to the Financial Statements For the Year Ended 31 March 2015

6 Financial assets and liabilities (continued)

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

As at 31 March 2015 and at 31 March 2014, the fair value of the available-for-sale (AFS) investment securities represents the closing bid price quoted in an active market.

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.

MedBank Group	As at 31 March 2015				Total carrying amount €000
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	
Assets					
Loans and advances to customers	-	1,045,636	-	1,045,636	1,047,722
Total financial assets	-	1,045,636	-	1,045,636	1,047,722
Liabilities					
Debt securities in issue	9,441	-	-	9,441	9,204
Debt securities in issue through non derecognised controlled entity	-	148,074	-	148,074	147,933
Subordinated liabilities	51,320	-	-	51,320	47,777
Total financial liabilities	60,761	148,074	-	208,835	204,914

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Notes to the Financial Statements For the Year Ended 31 March 2015

6 Financial assets and liabilities (continued)

6.3 Financial instruments not measured at fair value (continued)

MedBank Group	As at 31 March 2014				Total carrying amount €000
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	
Assets					
Loans and advances to customers	-	620,016	-	620,016	621,747
Investment securities at amortised cost	851,386	100,060	-	951,446	933,291
Total financial assets	851,386	720,076	-	1,571,462	1,555,038
Liabilities					
Debt securities in issue	14,860	-	-	14,860	14,341
Debt securities in issue through non derecognised controlled entity	-	-	215,786	215,786	215,786
Subordinated liabilities	22,628	-	-	22,628	22,335
Total financial liabilities	37,488	-	215,786	253,274	252,462

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

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

Price quotations are available for the internationally traded loans. The carrying amount for local loans and advances to customers amounting to €74.5 million (2014: €2.8 million) approximates their fair value because they are re-pricable at the Group's discretion.

95% of the trade receivables amounting to €50.6 million (2014: nil) 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 municipalities amounting to €49.8 million has been valued by reference to an actively traded instrument of the same issuer adjusted to reflect lack of active trading in this instrument.

The Group's financial instruments not measured at fair value comprise balances with Central Banks, loans and advances to banks and customers, and amounts due to banks and customers. 'Loans and advances to financial institutions' of the Group amounting to €164.9 million (2014: €92.1 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.

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Notes to the Financial Statements For the Year Ended 31 March 2015

6 Financial assets and liabilities (continued)

6.3 Financial instruments not measured at fair value (continued)

The fair value of the Group's "Debt securities in issue through non recognised controlled entity" of €148.1 million (2014: €215.8 million) was estimated using recent trades to repurchase a significant part of the debt securities.

The majority of the "Amounts owed to financial institutions" of the Group amounting to €851.1 million (2014: €1.0 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' of the Group amounting to €1.2 billion (2014: €776.1 million) are Maltese and Belgian 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. During the financial year ended 31 March 2015, equity instruments held by the Group with a carrying amount of €2.6 million (which at March 2014 were valued at €2.5 million) were transferred from Level 1 to Level 2 of the fair value hierarchy due to the lack of significant trades in such equity instruments.

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

	Group		Company	
	2015	2014	2015	2014
	€000	€000	€000	€000
Interest income				
Loans and advances to financial institutions	135	60	-	-
Loans and advances to customers	43,799	30,112	-	-
Investment securities	30,099	34,404	-	-
Amounts owed by parent company	18	-	18	-
Total interest income	74,051	64,576	18	-
Interest expense				
Amounts owed to financial institutions	4,166	4,079	-	-
Amounts owed to customers	27,189	23,417	-	-
Amounts owed to ultimate parent company	(550)	565	(550)	565
Debt securities in issue	6,531	4,519	-	-
Sub-ordinated liabilities	2,270	1,556	-	-
Total interest expense	39,606	34,136	(550)	565
Net interest income/(expense)	34,445	30,440	568	(565)

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7 Net interest income (continued)

- 7.1 Included within loans and advances to customers under the Group's interest income for the year ended 31 March 2015 is a total of €2.4 million (2014: €0.9 million) relating to impaired financial assets.
- 7.2 Included within the Group's interest income are fair value losses of €32.0 million (2014: €7.3 million) on derivatives held in a fair value hedge relationship and €31.6 million (2014: €7.4 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.
- 7.3 Throughout the financial year ended 31 March 2014 the Company incurred an interest expense of €0.6 million in connection with the drawing of amounts borrowed from the shareholder. This interest were eventually waived in the financial year ended 31 March 2015 as a result of a deed of novation relating to this loan agreement.

8 Net fee and commission

	Group	
	2015	2014
	€000	€000
Fee and commission income		
Banking transactions fee income	945	491
Corporate secured lending fees	730	1,245
Investment services fees	2,692	1,059
Total fee and commission income	4,367	2,795
Fee and commission expense		
Corporate secured lending fees	176	230
Investment services transaction and custody fees	812	953
Other fee expense	(50)	482
Total fee and commission expense	938	1,665
Net fee and commission income	3,429	1,130

- 8.1 Throughout the financial year ended 31 March 2014 the Company incurred loan arrangement fees amounting to €0.3 million in connection with the drawing of amounts borrowed from the shareholder. These fees were eventually waived during the financial year ended 31 March 2015 as a result of a deed of novation relating to this loan agreement.
- 8.2 The Group's 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 €0.7 million (2014: €1.2 million) and expenses of €0.2 million (2014: €0.2 million) relating to such financial assets and liabilities.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

9 Net trading income and other operating income

9.1 Net trading income

	Group	
	2015	2014
	€000	€000
Foreign exchange income	426	2,292

Foreign exchange income includes gains from foreign exchange in retail.

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

	Group	
	2015	2014
	€000	€000
Derivative assets/liabilities for risk management		
- interest rate related	(3,404)	(209)
- foreign exchange related	874	(786)
Derivative assets held for trading	9	404
Equity instruments at fair value through profit or loss	(1,632)	2,474

	(4,153)	1,883
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9.3 Realised gains on disposal of investments

	Group	
	2015	2014
	€000	€000
Available-for-sale investments	19,303	24,951
Held-to-maturity investments	1,817	(34)

	21,120	24,917
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Medifin Holding Limited

Notes to the Financial Statements
For the Year Ended 31 March 2015

9 Net trading income and other operating income (continued)

9.4 Other operating income

	Group		Company	
	2015	2014	2015	2014
	€000	€000	€000	€000
Realised (loss)/gain on repurchase of debt securities issued through non derecognised controlled entity	(35)	495	-	-
Gain/(loss) on disposal of subsidiary	105	-	(10)	-
Dividend received from subsidiaries	-	-	29,695	32,308
Dividend tax refund	-	-	8,778	9,475
Other income	117	4	-	-
	187	499	38,463	41,783

10 Personnel expenses

10.1 Personnel expenses incurred are analysed as follows:

	Group	
	2015	2014
	€000	€000
Directors' emoluments		
- salaries	2,882	2,156
- defined contribution social security costs	9	8
- other emoluments	216	190
Staff costs		
- salaries	12,072	11,178
- termination benefits	96	-
- defined contribution social security costs	614	460
- other emoluments	552	108
	16,441	14,100

Total salary costs of the Group amounted to €15.0 million (2014: €13.3 million), with variable remuneration accounting for 23% (2014: 24%) of these amounts.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

10 Personnel expenses (continued)

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

	Group	
	2015 No.	2014 No.
Executive and senior management	15	16
Other managerial, supervisory and clerical	226	203
Other	16	10
	<hr/>	<hr/>
	257	229
	<hr/>	<hr/>

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

	Group	
	2015 No.	2014 No.
Management and administration	254	232
	<hr/>	<hr/>

11 Other administrative expenses

11.1 Other administrative expenses include:

	Group	
	2015 €000	2014 €000
Operating lease charges (Note 35)	3,738	1,033
Directors' fees (Note 38.3)	141	110
	<hr/>	<hr/>

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

	Group	
	2015 €000	2014 €000
Audit services	136	85
Other assurance services	29	59
Tax advisory services	9	12
Other non-audit services	175	29
	<hr/>	<hr/>

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

12 Net impairment loss on financial assets

	Group	
	2015 €000	2014 €000
Write-downs		
Loans and advances to customers		
- specific impairment allowances (Note 18)	(493)	1,422
- collective impairment allowances (Note 18)	1,965	196
- bad debts written off	3,256	-
Investments		
- collective impairment allowances (Note 19)	(463)	463
Net impairment loss	4,265	2,081

13 Income tax expense

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Current tax expense	1,334	330	10,297	11,308
Deferred tax (income)/expense (Note 24)	(121)	1,203	-	-
Income tax expense	1,213	1,533	10,297	11,308

13.1 The income tax expense and the result of accounting profit multiplied by the tax rate applicable in Malta, the Group's country of incorporation, are reconciled as follows:

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Profit before tax	36,615	28,863	39,270	40,904
Tax at the applicable rate of 35%	12,815	10,102	13,744	14,317
Tax effect of:				
Tax-exempt income	(8,316)	(95)	(3,468)	(3,316)
Non-deductible expenses	368	530	21	307
Taxable temporary differences not previously recognised	25	-	-	-
Adjustments for prior year	38	-	-	-
Accrued tax refunds	(3,717)	(9,004)	-	-
Income tax expense	1,213	1,533	10,297	11,308

Medifin Holding Limited

Notes to the Financial Statements

For the Year Ended 31 March 2015

14 Balances with Central Banks, treasury bills and cash

	Group	
	2015	2014
	€000	€000
At amortised cost:		
Balances with Central Banks	13,823	11,910
Malta Government Treasury Bills	-	5,997
Cash	561	184
	<u>14,384</u>	<u>18,091</u>

14.1 Balances held with Central Banks for Minimum Reserve Requirement include reserve deposits in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €6.3 million (2014: €3.5 million) bearing interest at 0.05% (2014: 0.25%) per annum and overnight deposits amounting to €6.6 million (2014: €7.1 million) subject to negative interest rate of 0.2% (2014: no interest) per annum.

14.2 The balances with Central Banks also include a balance of €33 thousand (2014: €1.3 million) that 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 2015, in connection with the DCS, investment securities held by the Group with a carrying amount of €6.8 million (2014: €3.8 million), nominal value €6.6 million (2014: €3.5 million) and a fair value of €6.8 million (2014: €3.8 million) as at 31 March 2015, are pledged in favour of the DCS.

14.3 As at 31 March 2014, Malta Government Treasury Bills amounting to €6.0 million were expected to be recovered within twelve months after the reporting date.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

15 Derivative assets and liabilities held for risk management

Group	2015 €000	2014 €000
Derivative assets held for risk management		
Instrument type:		
- Interest rate swaptions	76	404
- Foreign exchange swaps	3,121	-
	<u>3,197</u>	<u>404</u>
Derivative liabilities held for risk management		
Instrument type:		
- Interest rate swaps	(3,114)	(2,798)
- Foreign exchange swaps	(2,086)	(175)
	<u>(5,200)</u>	<u>(2,973)</u>
Net derivatives held for risk management	<u>(2,003)</u>	<u>(2,569)</u>

15.1 The Group, through MedBank, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, forwards and other appropriate instruments approved for hedging interest rate risk.

All foreign exchange swaps mature within 6 months from the reporting date.

15.2 Fair value hedges of interest rate risk

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate Available-for-Sale ("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. These are classified at fair value through profit or loss and are designated in fair value hedging relationships.

15.3 Other derivatives held for risk management

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

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

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

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

	2015 €000	2014 €000
Derivative financial instruments designated as fair value hedges – Interest rate swaps liability	(3,068)	(2,798)
Notional amounts		
- More than one year	1,072,000	500,000

16 Derivative assets held for trading

	Group	
	2015 €000	2014 €000
Other instruments at fair value through profit or loss	-	404

16.1 As at 31 March 2014, derivative assets held for trading represented equity with a maturity of over five years.

17 Loans and advances to financial institutions

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
At amortised cost:				
Repayable on call and at short notice	80,774	60,299	1	113
Term loans and advances	87,504	32,052	-	-
	168,278	92,351	1	113

17.1 Balances of loans and advances to financial institutions up to €69 thousand (2014: €61 thousand) are pledged in favour of other banks providing credit card facilities to customers.

17.2 An amount of €2.2 million (2014: €1.0 million) has been contributed to a clearing fund held by Eurex Clearing AG, of which MedBank is a member. The clearing fund protects members against losses until they leave the clearing fund.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

17 Loans and advances to financial institutions (continued)

- 17.3 As of 31 March 2015, €3.4 million of the Group's loans and advances to financial institutions (2014: €3.5 million) are expected to be recovered after more than twelve months after the reporting date.
- 17.4 The Company's loans and advances to financial institutions include cash balances amounting to €1 thousand (2014: €0.1 million) held at MedBank, and is unsecured, interest free and can be withdrawn on demand.
- 17.5 Loans and advances to financial institutions as of 31 March 2015 and 31 March 2014 were neither past due nor impaired and no forbearance measures were taken by the Group.

18 Loans and advances to customers

	Group	
	2015	2014
	€000	€000
At amortised cost:		
Repayable on call and short notice: retail	5,810	-
Repayable on call and short notice: corporate	24,432	-
Term loans and advances: retail	12,382	2,819
Term loans and advances: corporate	1,018,161	621,222
Gross loans and advances to customers	1,060,785	624,041
Less allowance for impairment (Note 18.11)	(13,591)	(2,294)
	1,047,194	621,747

- 18.1 Term loans and advances: retail amounting to €1.4 million (2014: (€2.8 million) and term loans and advances: corporate amounting to €4 million as at 31 March 2015 are secured by an equivalent amount of customer deposits, included in amounts owed to customers. These deposits are pledged in favour of the Group.
- 18.2 As at 31 March 2014, the Group's term loans and advances to customers: retail included a €17 thousand loan sanctioned to a director of MedBank. This was secured by a general hypothec and carries an interest rate of 4.5% per annum. The loan was fully repaid during the year.
- 18.3 As at 31 March 2015, €83.7 million of the Group's "Term loans and advances to customers: corporate" (2014: €3.1 million) are expected to be recovered within 12 months after the reporting date.
- 18.4 As at 31 March 2015, €1.6 million of the Group's "Term loans and advances to customers: retail" (2014: €0.3 million) are expected to be recovered within 12 months after the reporting date.
- 18.5 During the year ended 31 March 2014, MedBank set up a non derecognised controlled entity (Note 30.2). As risks and rewards are deemed to have been retained by MedBank, €307.0 million (2014: €322.9 million) term loans and advances to customers are still recognised on the Group's Statement of Financial Position.

18 Loans and advances to customers (continued)

18.6 Similarly as at 31 March 2014, a number of MedBank's loans and advances were transferred during the year under a Total Return Swap ("TRS") Facility (Note 28). As risks and rewards were deemed to have been retained by MedBank, €66.2 million, term loans and advances to customers were still recognised on the Group's Statement of Financial Position as at 31 March 2014. The TRS facility has been closed during the year.

18.7 As at 31 March 2015, €57.6 million (2014: €27.7 million) of the Group's "Term 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 2015 (2014: nil) which were disposed but beneficial ownership of which was not yet transferred.

18.8 Throughout the financial year under review, as a result of the restructuring of certain loans and advances, the Group derecognised these loans and advances to customers in their entirety. These financial instruments were replaced by new loans and advances to customers and unlisted equities in these European corporations that were classified as financial assets at fair value through profit or loss. The holding of the new loans and advances to customers and the unlisted equities represent the continuing involvement with this customer.

The Group sustained a loss of €2.6 million on the de-recognition of the previous loans and advances to customers and the recognition of the new loans and advances to customers measured at amortised cost and the financial assets at fair value through profit or loss.

18.9 Gross loans and advances to customers amounting to €61.2 million (2014: €10.5 million) held by the Group were deemed to be impaired. Specific impairment recorded on the Group's loans and advances to customers amounted to €9.6 million (2014: €1.4 million).

18.10 The aggregate amount of impaired loans and advances of the Group on which interest is reserved is €22.1 million gross of impairment allowances, against which €8.5 million is being provided for after taking into account the extendible value of security backing such loans and advances. Total interest that would have accrued on the impaired loans in the current financial year would have amounted to €0.9 million. Interest income on impaired loans and advances to customers amounting to €2.4 million was recognised during the year ended 31 March 2015.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

18 Loans and advances to customers (continued)

18.11

	Group	
	2015	2014
	€000	€000
<i>Specific allowance for impairment</i>		
At beginning of year	1,422	-
Acquisition through business combination	8,671	-
Exchange movement	13	-
(Credit)/charge for the year (Note 12)	(493)	1,422
At end of year	9,613	1,422
<i>Collective allowance for impairment</i>		
At beginning of year	872	676
Acquisition through business combination	1,141	-
Charge for the year (Note 12)	1,965	196
At end of year	3,978	872
<i>Total allowance for impairment</i>	13,591	2,294

19 Investments

	Group	
	2015	2014
	€000	€000
Corporate	98,620	293,235
Treasury	1,405,076	1,134,826
	1,503,696	1,428,061

19.1 Analysed as follows:

	Group	
	2015	2014
	€000	€000
Held-to-maturity investment securities	-	933,291
Available-for-sale investment securities	1,501,086	492,296
Equity instruments at fair value through profit or loss	2,610	2,474
	1,503,696	1,428,061

At 31 March 2015, €1.5 billion (2014: €1.3 billion) of the Group's investment securities are expected to be recovered after more than 12 months after the reporting date.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

19 Investments (continued)

19.2 Held-to-maturity investment securities

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

	Group	
	2015	2014
	€000	€000
Investment securities	-	933,754
Collective impairment	-	(463)
	<u>-</u>	<u>933,291</u>

19.2.2 Held-to-maturity investment securities by issuer

	Group	
	2015	2014
	€000	€000
National and Regional Government securities	-	44,417
Other securities	-	888,874
	<u>-</u>	<u>933,291</u>

19.3 Available-for-sale investment securities

	Group	
	2015	2014
	€000	€000
National and Regional Government securities	215,788	11,566
Other debt securities	1,285,118	480,520
Other equity securities	180	210
	<u>1,501,086</u>	<u>492,296</u>

19.4 No objective evidence of specific impairment was identified on investment securities during years ended 31 March 2015 and 31 March 2014.

19.5 During the year ended 31 March 2014, MedBank set up a non-derecognised controlled entity (Note 30.2). As risks and rewards are deemed to have been retained by the Group, a carry value of €60.8 million (2014: €53.1 million) investment securities are still recognised on the Statement of Financial Position.

19.6 Similarly in the year ended 31 March 2014, a number of securities were transferred under a Total Return Swap ("TRS") Facility (Note 28). As risks and rewards were deemed to have been retained by the Group, investment securities amounting to €33.3 million were still recognised on the Group's Statement of Financial Position. The TRS was closed during the year.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

19 Investments (continued)

19.7 Most of investment securities are pledged as collateral against the provision of borrowing facilities (Note 28), except for investments amounting to €148.5 million (2014: €277.8 million) which are free and unencumbered securities at 31 March 2015.

Cash value of unutilised borrowing facilities (headroom) at 31 March 2015 amounted to €200.0 million (2014: €213.7 million).

19.8 As at 31 March 2015 the Group had a commitment to purchase further investment securities having a nominal value of €25.0 million and settled after the reporting year at a value of €24.8 million. There was no commitment as at 31 March 2014.

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

A number of investment securities were identified for reclassification due to isolated and non-recurring events which could not have been reasonably anticipated whilst other disposals were made so close to maturities that changes in the market rate of interest would not have a significant effect on the financial asset's fair value. During the first eight month period, being April 2014 to November 2014, HTM investments having an amortised cost of €110.4 million (April 2013 - March 2014: €38.1 million) were disposed of.

All investments so reclassified from HTM to AFS during the mentioned period ending 30 November 2014 were sold.

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 Group reclassified held-to-maturity financial assets with an amortised cost of €1.2 billion and fair value of €1.2 billion. The resultant positive adjustment to equity, net of deferred tax, upon reclassification amounted to €17.2 million.

19.10 Equity instruments at fair value through profit or loss

	Group	
	2015	2014
	€000	€000
Unlisted equities issued by a European corporation	2,610	2,474

These unlisted equities were held by the non-derecognised controlled entity referred to in note 30.2.

19.11 As disclosed in note 18, during the financial year under review, certain loans and advances to customers were derecognised in their entirety by the Group but the Group still has a continuing involvement in them through new loans and advances to customers and unlisted equities issued in these European corporations. The initial fair value of newly acquired equities amounted to €1.8 million and was reduced to nil as at 31 March 2015.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

20 Investment in subsidiaries

Name of subsidiary	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			2015 %	2014 %	2015 €000	2014 €000
Mediterranean Bank plc	Malta	Banking	100	100	130,914	111,514
Charts Investment Management Service Limited	Malta	Investment services	65	65	1,693	1,477
Medifin Leasing Limited	Malta	Operating leasing company	-	97	-	10
					132,607	113,001
Shareholders' contribution advanced to Mediterranean Bank plc					2,103	9,750
					134,710	122,751

20.1 On 30 May 2014, the shareholders of MedBank approved a net final dividend of €0.20 per share, representing a net amount of €19.4 million in the form of a bonus share issue, thereby increasing MedBank's issued share capital from €98.1 million to €117.5 million.

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

20.3 MedBank owns the following subsidiaries:

Name of subsidiary	Country of incorporation	Nature of business	Equity interest	
			2015 %	2014 %
Mediterranean Corporate Bank Limited	Malta	Banking	100	-
MeDirect S.A.	Belgium	Banking	100	-
Mediterranean Research Limited	United Kingdom	Dormant	-	100
Medifin Estates (partnership)	Malta	Operating leasing company	97	97

Medifin Holding Limited

Notes to the Financial Statements

For the Year Ended 31 March 2015

20 Investment in subsidiaries (continued)

- 20.4** On 11 April 2014 MedBank entered into an agreement to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank"). Following regulatory approval by the MFSA, on 25 September 2014, MedBank acquired 100% of the share capital of Volksbank for a cash consideration of €35.3 million (Note 21). Volksbank was subsequently re-named Mediterranean Corporate Bank Limited.
- 20.5** MeDirect was incorporated on 16 June 2014. Effective 1 June 2015, MeDirect, was authorised as a Belgian credit institution. As part of that process, the assets and liabilities of the MedBank's Belgian branch were contributed to MeDirect which will, going forward, carry out all of the Group's activities in Belgium.
- 20.6** Mediterranean Research Limited was liquidated on 2 May 2014. The operations of Mediterranean Research Limited are being carried out by MedBank.
- 20.7** Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into operating leases for property to be used as branches which are leased back to the Group.
- 20.8** On 25 November 2014, MedBank repaid €16.5 million of Shareholders Contribution to the Company having received all required approvals from the MFSA.
- 20.9** The Group had a put option arrangement whereby the Group had the option to purchase the remaining shareholding of Charts subject to the terms and conditions specified in the agreement. On 6 May 2015 the Company entered into an agreement to acquire the remaining 35% shareholding, for a cash consideration of €1.7 million, of which €0.2 million is contingent upon the achievement of certain predefined targets in the coming financial year.

21 Acquisition of subsidiary

On 25 September 2014, MedBank acquired 100% of the share capital of Mediterranean Corporate Bank Limited (previously Volksbank Malta Limited), after receiving full regulatory approval. MedBank paid a cash consideration of €35.3 million for this acquisition.

MedBank reorganised the activities of MedCorp with the existing Corporate Banking services of MedBank to form Malta's newest Bank focused exclusively on Corporates operating in Malta.

From the date of acquisition to 31 March 2015, MedCorp contributed net interest income of €1.4 million to the Group's results and incurred a loss of €0.2 million in view of increased impairments. If the acquisition had occurred on 1 April 2014, management estimates that the consolidated net interest income would have been €36.3 million and consolidated profit for the year would have been €35.8 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition would have been the same if the acquisition had occurred on 1 April 2014.

Medfin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

21 Acquisition of subsidiary (continued)

21.1 Identifiable assets acquired and liabilities assumed

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

	€000
Balances with Central Banks 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 asset	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)
Accruals and deferred income	(1,427)
Contingent provisions	(316)
Fair value of identifiable net assets acquired	57,714

The contingent provisions related to guarantees provided by MedCorp on credit cards and a provision in relation to a severance payment. The recognised fair value of €0.3 million was based on the expected pay-out for these items.

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

21.2 Acquisition-related costs

MedBank incurred acquisition-related costs of €0.1 million (excluding VAT) relating to external legal fees and due diligence costs. These costs have been included in 'Administrative expenses' in the Statements of Profit or Loss and Other Comprehensive Income.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

21 Acquisition of subsidiary (continued)

21.3 Gain on acquisition of subsidiary

Gain arising from the acquisition has been recognised as follows:

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

As a consequence of EU state aid rules triggered by the bail-out provided by the Austrian Government, 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 at a price which is significantly lower than the fair value of the net assets and liabilities acquired.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

22 Property and equipment

Group	Improvement to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
As at 1 April 2013						
Cost	1,374	3,007	430	2,208	214	7,233
Accumulated depreciation	(738)	(1,357)	(186)	(742)	(157)	(3,180)
Net book amount	636	1,650	244	1,466	57	4,053
Year ended 31 March 2014						
At beginning of period	636	1,650	244	1,466	57	4,053
Additions	36	153	27	212	10	438
Disposals	-	-	-	(14)	-	(14)
Depreciation for the period	(147)	(622)	(97)	(263)	(17)	(1,146)
Depreciation released on disposals	-	-	-	9	-	9
At end of period	525	1,181	174	1,410	50	3,340
As at 31 March 2014						
Cost	1,410	3,160	457	2,406	224	7,657
Accumulated depreciation	(885)	(1,979)	(283)	(996)	(174)	(4,317)
Net book amount	525	1,181	174	1,410	50	3,340
Year ended 31 March 2015						
At beginning of year	525	1,181	174	1,410	50	3,340
Additions	18	78	29	63	-	188
Acquisition of subsidiary (Note 21)	140	47	-	93	23	303
Disposals	(3)	-	-	-	(84)	(87)
Disposal of subsidiary (Note 20)	(237)	(240)	(161)	(638)	-	(1,276)
Depreciation for the year	(120)	(450)	(42)	(187)	(24)	(823)
Impairment	(135)	-	-	(75)	-	(210)
Depreciation released on disposals	-	-	-	-	66	66
At end of year	188	616	-	666	31	1,501
As at 31 March 2015						
Cost	1,132	2,960	228	1,703	279	6,302
Accumulated depreciation	(944)	(2,344)	(228)	(1,037)	(248)	(4,801)
Net book amount	188	616	-	666	31	1,501

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

22 Property and equipment (continued)

- 22.1** The Group operates from nine immovable properties which are held under operating lease agreements (see note 35).
- 22.2** The Group's impairment charge for 2015 amounting to €0.2 million is attributable to the change in premises by MedCorp in March 2015. This has been recognised in 'Depreciation and amortisation'. The related assets have been written down to their estimated recoverable amounts. The recoverable amount (the higher of the value in use and net selling price) was determined at the individual asset level. The net selling price was determined by reference to market prices for equivalent assets.
- 22.3** There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (2014: nil).
- 22.4** There was no property and equipment not put in use at the reporting date.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

23 Intangible assets

23.1

Group	Software				Total €000
	Goodwill €000	under development €000	Computer software €000	Customer list €000	
As at 1 April 2013					
Cost	461	-	13,545	474	14,480
Accumulated amortisation	-	-	(3,292)	(141)	(3,433)
Net book amount	461	-	10,253	333	11,047
Year ended 31 March 2014					
At beginning of year	461	-	10,253	333	11,047
Additions	-	90	4,711	-	4,801
Amortisation for the year	-	-	(2,197)	(47)	(2,244)
At end of year	461	90	12,767	286	13,604
As at 31 March 2014					
Cost	461	90	18,256	474	19,281
Accumulated amortisation	-	-	(5,489)	(188)	(5,677)
Net book amount	461	90	12,767	286	13,604
Year ended 31 March 2015					
At beginning of year	461	90	12,767	286	13,604
Additions	-	-	411	-	411
Acquisition of subsidiary (Note 21)	-	-	5	-	5
Amortisation for the year	-	-	(619)	(49)	(668)
Disposal of subsidiary (Note 20)	-	(90)	(12,504)	-	(12,594)
At end of year	461	-	60	237	758
As at 31 March 2015					
Cost	461	-	1,832	523	2,816
Accumulated amortisation	-	-	(1,772)	(286)	(2,058)
Net book amount	461	-	60	237	758

23.2 There were no capitalised borrowing costs related to the acquisition of software during the year (2014: nil).

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

23.4 Impairment assessment on goodwill

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

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

23 Intangible assets (continued)

23.5 Key assumptions used in discounted cash flow projection calculations

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. The discount rate has been assumed to be 11.8% (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 2% and the terminal value growth rate used of 3%. There were no changes in the underlying assumptions during the year.

24 Deferred tax assets and liabilities

24.1 Deferred tax assets and liabilities are attributable to the following:

	Net	
	2015	2014
	€000	€000
Group		
Property and equipment	(3)	(1,618)
Intangible assets	(13)	(30)
Available-for-sale securities	(461)	438
Unabsorbed capital allowances	-	1,680
Impairment allowances	4,393	138
	<hr/>	<hr/>
Net deferred tax assets	3,916	608
	<hr/>	<hr/>
<i>Analysed as follows:</i>		
Deferred tax assets	4,199	608
Deferred tax liabilities	(283)	-
	<hr/>	<hr/>
Net deferred tax assets	3,916	608
	<hr/>	<hr/>

24.2 Movements in temporary differences during the year:

	Balance at beginning of year	Acquisition of subsidiary	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of year
	€000	€000	€000	€000	€000
Group					
Year ended 31 March 2015					
Property and equipment	(1,618)	7	1,608	-	(3)
Intangible assets	(30)	-	17	-	(13)
Available-for-sale securities	438	(307)	307	(899)	(461)
Derivative financial instruments	-	204	(204)	-	-
Unabsorbed capital allowances	1,680	-	(1,680)	-	-
Impairment allowances	138	4,162	93	-	4,393
Other provisions	-	20	(20)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	608	4,086	121	(899)	3,916
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

24 Deferred tax assets and liabilities (continued)

	Balance at beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €000
Year ended 31 March 2014				
Property and equipment	(934)	(684)	-	(1,618)
Intangible assets	(46)	16	-	(30)
Unutilised tax losses	25	(25)	-	-
Available-for-sale securities	(738)	-	1,176	438
Unabsorbed capital allowances	919	761	-	1,680
Impairment allowances	34	104	-	138
	(740)	172	1,176	608

25 Prepayments and accrued income

	Group	
	2015 €000	2014 €000
Prepayments	2,238	2,957
Deferred expense	1,273	2,317
Accrued income	17,799	19,190
	21,310	24,464

26 Other assets

26.1

	Group		Company
	2015 €000	2014 €000	2015 €000
Loans and advances to immediate parent company	2,015	-	1,854
Loans and advances to other related companies	18,531	-	-
Dividend related refund	5,417	9,930	-
Trade receivables	211	96	-
Other assets	298	782	-
	26,472	10,808	1,854

Loans and advances to immediate parent company amounting to €1.8 million as at 31 March 2015 are unsecured, subject to interest at 3% per annum and repayable in November 2017. Remaining amounts of Loans and advances to immediate parent company are unsecured and repayable on demand.

Loans and advances to other related companies are unsecured, interest free and repayable on demand, however the repayment of this balance is not expected within the next 12 months.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

27 Capital and reserves

27.1 Share capital

	2015 No.	2014 No.
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	56,406,546	40,188,556
Ordinary 'B' shares of €1 each	1	1,214,991
Ordinary 'C' shares of €0.001 each	-	3,000,000
Ordinary 'D' shares of €1 each	-	15,000,000
	56,406,547	59,403,547

27.1 Share capital (continued)

	2015 €000	2014 €000
Issued and fully paid up:		
At beginning and end of year	55,738	55,738

27.1.1 On 27 June 2014, the shares in Medifin Holding Limited were transferred from Anacap Financial Partners II L.P. to Medifin Investments. Following the change in shareholding the issued share capital was amended and now consists of 56,406,546 Ordinary 'A' shares of €1 each and 1 Ordinary 'B' share of €1 each.

27.1.2 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.

27.1.3 At 31 March 2015 and as at 31 March 2014, the authorised share capital consisted of 100,000,000 ordinary shares of €1 each.

27.1.4 Share capital is stated net of share issue expenses amounting to €0.7 million.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

27 Capital and reserves (continued)

27.2 Share premium

Share premium as at the reporting date represents the issue of shares in prior periods as follows:

Issue type	Number of shares No	Premium per share €	Share premium	
			2015 €000	2014 €000
Ordinary A shares	39,520,969	0.3407	13,464	13,464
Ordinary B shares	1,214,991	0.2400	292	292
			13,756	13,756

During 2015, shares in Medifin Holding were transferred to Medifin Investments as described in note 27.1. The share premium was re-allocated to the Ordinary 'A' shares.

27.3 In accordance with Banking Rule BR/09/2013, credit institutions are required to maintain a Reserve for General Banking Risks against non-performing loans to create an additional Pillar 2 capital buffer. This reserve was transferred out of the retained earnings. As at 31 March 2015, the Reserve for General Banking Risks of the Group was equivalent to €1.0 million (2014: €91 thousand) respectively. This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 70% (2014: 40%) of the regulatory allocation by virtue of paragraph 38 of the Banking Rule. The remaining 30% (2014: 60%) will be split and set aside over the next year (2014: equally over a period of two years) in terms of the Banking Rule.

27.4 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.

27.5 All reserves at the reporting date, except for the Company's retained earnings, are non-distributable.

28 Amounts owed to financial institutions

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Repayable on call and at short notice	23,169	17,998	1,550	1,496
Term deposits	1,142,922	995,325	-	-
	1,166,091	1,013,323	1,550	1,496

28.1 An amount of €1.1 billion (2014: €928 million) from the Group's term deposits are secured by a pledge over MedBank's investments (excluding Equity instruments) (Note 19).

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

28 Amounts owed to financial institutions (continued)

28.2 As at 31 March 2014, an amount of €67 million from the Group's term deposits represented total return swap payables which were 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 18 and 19).

28.3 As at 31 March 2015 the Company held balances with MedBank amounting to €1.6 million (2014: €1.5 million) which were unsecured, interest free and repayable on demand.

29 Amounts owed to customers

	Group	
	2015	2014
	€000	€000
Repayable on call and at short notice	375,027	175,676
Term deposits	828,688	600,430
	<hr/>	<hr/>
	1,203,715	776,106

30 Debt securities in issue

	Group	
	2015	2014
	€000	€000
At amortised cost:		
Debt securities in issue (Note 30.1)	9,204	14,341
Debt securities in issue through non derecognised controlled entity (Note 30.2)	147,933	215,786
	<hr/>	<hr/>
	157,137	230,127

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

30 Debt securities in issue (continued)

30.1 Debt securities in issue

	Group	
	2015	2014
	€000	€000
Year ended 31 March		
At beginning of year	14,341	15,664
Debt securities repurchased and cancelled	(5,204)	(1,365)
Transaction cost amortised	67	42
At end of year	9,204	14,341

30.1.1 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.

30.1.2 The above liabilities will in the event of default or insolvency of MedBank, have a general claim on the assets of MedBank 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.

30.1.3 During the year ended 31 March 2015, MedBank purchased through market operations a nominal value of €5.2 million (2014: €1.4 million) 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).

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

As at 31 March 2015, the contractual amount due at maturity is €9.2 million (2014: €14.5 million).

30.1.4 The carrying amount of the debt securities in issue is €0.1 million (2014: €0.2 million) lower than the contractual amount due at maturity.

30.1.5 The Group has not had any defaults of interest or other breaches with respect to its debt securities in issue during the years ended 31 March 2015 and 31 March 2014.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

30 Debt securities in issue (continued)

30.2 Debt securities in issue through non derecognised controlled entity

	Group	
	2015	2014
	€000	€000
Year ended 31 March		
At beginning of year	215,786	-
Debt securities issued	-	240,000
Nominal amounts of debt securities repurchased and derecognised	(70,000)	(22,000)
Transaction costs	-	(2,633)
Transaction costs amortised to profit or loss	2,147	419
At end of year	147,933	215,786

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

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

- €240 million Class A1 Senior Secured Floating Rate Notes;
- €15 million Class A2 Senior Secured Floating Rate Notes;
- €35 million Class B Senior Secured Deferrable Floating Rate Notes;
- €22.5 million Class C Senior Secured Deferrable Floating Rate Notes;
- €32.5 million Class D Senior Secured Deferrable Floating Rate Notes;
- €10 million Class E Senior Secured Deferrable Floating Rate Notes;
- €48.4 million Subordinated Notes.

30.2.3 During July 2013, MedBank repurchased €22 million of the Senior Secured Floating Rate notes. During February and March 2015, MedBank repurchased €70 million of the Senior Secured floating Rate notes. The amortisation of transaction costs has been adjusted to reflect these developments

30.2.4 The Group did not have any defaults of interest or other breaches with respect to its debt securities in issue through the non-derecognised controlled entity during the years ended 31 March 2015 and 31 March 2014.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

31 Subordinated liabilities

	Group	
	2015	2014
	€000	€000
Year ended 31 March		
At beginning of year	22,335	12,341
Subordinated debt securities issued	25,087	9,934
Foreign exchange revaluation	642	96
Transaction costs	(318)	(77)
Transaction costs amortised to profit or loss	31	41
At end of year	47,777	22,335
Analysed as follows:		
Subordinated debt securities in issue (Note 31.1)	22,915	22,335
Subordinated debt securities in issue (Note 31.2)	24,862	-
	47,777	22,335

- 31.1** During June 2013, MedBank 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.
- 31.2** On 3 November 2014, MedBank 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. The interest payable is fixed at 6% (effective interest rate 6.23%) and is redeemable at their nominal value. This was increased to a 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 of 4%. As a result, €5.0 million 6.25% debt securities were transferred to MedBank in exchange for the new subordinated unsecured bonds 2019 – 2024. As a result of MedBank's allotment methodology, MedBank issued £1.4 million (equivalent to €1.7 million) for bonds in Pounds sterling and euro bonds amounting to €23.3 million. Interest on these bonds commenced on 28 November 2014.
- 31.3** 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 Group has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the years ended 31 March 2015 and 31 March 2014. As at 31 March 2015, the euro equivalent contractual amount due at maturity is €48.2 million (2014: €22.5 million).
- 31.5** The carrying amount of the subordinated debt securities in issue is €0.4 million (2014: €0.1 million) lower than the contractual amount due at maturity.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

32 Accruals and deferred income

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Accrued expenses	9,005	5,070	8	559
Accrued interest expense	10,561	9,618	-	-
Deferred income	5,407	-	-	-
	24,973	14,688	8	559

33 Other liabilities

	Group		Company	
	2015 €000	2014 €000	2015 €000	2014 €000
Amounts due to ultimate parent company	-	15,000	-	15,000
Amounts due to group company	6	-	6	6
Amounts due to related parties	393	176	393	176
VAT payable	793	557	14	-
Other liabilities	1,210	1,194	-	8
	2,402	16,927	413	15,190

- 33.1 The amounts due to ultimate parent company as at 31 March 2014 represented a loan agreement entered into on 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 MedBank as a shareholder contribution. During the year, the new parent company, Medifin Investments agreed with the ultimate parent company to assume all the obligations of Medifin Holding arising from this loan agreement and the loan was repaid in November 2014.

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

34 Cash and cash equivalents

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

	Group	
	2015	2014
	€000	€000
Analysis of cash and cash equivalents:		
Cash in hand	561	184
Call deposits	139,186	63,683
Repayable on call and at short notice	(22,739)	(13,651)
Amounts owed to financial institutions with maturity less than 3 months	(318,716)	(174,562)
<i>Per Statement of Cash Flows</i>	(201,708)	(124,346)
Adjustment to reflect:		
Balance with Central Banks	6,340	4,788
Malta Government treasury bill with original maturity over 3 months	-	5,997
Deposits with maturity over 3 months	36,576	32,052
Amounts owed to financial institutions with maturity over 3 months	(824,637)	(821,372)
<i>Per Statement of Financial Position</i>	(983,429)	(902,881)

		Group	
	Notes	2015	2014
		€000	€000
Analysed as follows:			
Balances with Central Banks, treasury bills and cash	14	14,384	18,091
Loans and advances to financial institutions	17	168,278	92,351
Amounts owed to financial institutions	28	(1,166,091)	(1,013,323)
		(983,429)	(902,881)

	Company	
	2015	2014
	€000	€000
Analysis of cash and cash equivalents:		
Repayable on call and at short notice	1	113
<i>Per Statement of Cash Flows</i>	1	113

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

35 Operating leases

The Group leases a number of branches and office premises under operating leases. The leases typically run for 4 to 10 years, with an option to renew the lease after the date. Some operating lease agreements provide for additional rent payments that are based on changes in a local price index.

During the year, the Group leased IT-infrastructure and software from Medifin Leasing Limited, a Group company. On 27 June 2014, the shares in Medifin Leasing Limited were transferred to Medifin Investments, the immediate parent.

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

	Group	
	2015	2014
	€000	€000
Within one year	669	704
After one year but less than five years	2,149	1,873
More than 5 years	812	1,088
	<hr/> 3,630	<hr/> 3,665

The amount of operating lease expense recognised in profit or loss for the year is disclosed in note 11.

36 Contingent liabilities

Contingent liabilities represent unsecured guarantee obligations incurred on behalf of third parties. As at 31 March 2015, the Group held other cash secured guarantee obligations amounting to €0.2 million.

Medifin Holding Limited

Notes to the Financial Statements

For the Year Ended 31 March 2015

37 Commitments

37.1 Financial commitments

Financial commitments represent undrawn formal standby facilities, credit facilities and other commitments to lend. As at 31 March 2015, undrawn facilities on term loans amounted to €16.8 million. In addition, the Group had commitments of €74.5 million under revolving credit facilities.

37.2 Capital commitments

At 31 March 2014, the Group had budgeted commitments of €5.6 million relating to software being developed (Note 23). There are no capital commitments as at 31 March 2015.

38 Related parties

38.1 Immediate and ultimate parent company

The parent company of Medifin Holding Limited is Medifin Investments Limited, 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 entity of Medifin Holding Limited is AnaCap Financial Partners II L.P., the registered office of which is Carinthia House, 9 -12 The Grange, St Peter Port, GY1 4BF, Guernsey.

38.2 Transactions with key management personnel

In addition to their salaries (Note 10), the Group also provides non-cash benefits to its key management personnel, relating to gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Group amounting €0.2 million (2014: €0.2 million).

38.3 Related party balances and transactions

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

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

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

38 Related parties (continued)

38.3 Related party balances and transactions (continued)

31 March 2015

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	-	163	-	-	Monitoring fees
Immediate parent	-	-	2,015	-	Other assets
	18	-	-	-	Interest income
Other group companies	-	-	18,531	-	Other assets
	-	2,788	-	-	IT support
	-	2,556	-	-	Operating lease charge
Key management personnel					
	-	-	28	-	Loans and advances to customers
	-	-	-	2	Amounts owed to customers
	-	141	-	-	Directors' fees
	-	2,966	-	-	Personnel expenses
Other companies controlled by key management personnel					
	-	-	-	2,017	Amounts owed to customers
	-	7	-	-	Interest expense
	-	20	-	-	Administration expenses

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

38 Related parties (continued)

38.3 Related party balances and transactions (continued)

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
	1	-	-	-	Interest income
	-	1	-	-	Interest expense
	-	110	-	-	Directors' fees
	-	2,244	-	-	Personnel expenses
Other companies controlled by key management personnel					
	-	-	-	491	Amounts owed to customers
	-	18	-	-	Interest expense
	-	9	-	-	Administrative expenses

The amounts due by the Company to the ultimate parent company as at 31 March 2014 represented 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%. During the financial year ended 31 March 2015, the new parent company, Medifin Investments agreed with the ultimate parent company to assume all the obligations of Medifin Holding arising from this loan agreement and the loan was fully repaid in November 2014.

Amounts owed by the immediate parent company as at 31 March 2015 are unsecured, subject to interest at 3% per annum and repayable in November 2017.

Amounts due by other group companies included within "Other assets" are unsecured, interest free and repayable on demand, however the repayment of this balance is not expected within the next 12 months.

On 27 June 2014, the shares in Medifin Leasing were transferred to Medifin Investments. Gain on disposal on Medifin Leasing Limited of €105k is in 'Other operating income'

39 Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Investment Services Act, 1994 (Chapter 370 of the Laws of Malta), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme. MedBank has elected to pay the amount of the variable contribution directly to the Scheme.

40 Trust and custody activities

The Group provides trust and custody services to individuals, trusts, and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the group and are not recognised in the statements of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 March 2015, the total assets held by the Group on behalf of customers were €247.0 million (2014: €133.1 million.)

41 Events after the reporting date

41.1 Under the Single Supervisory Mechanism ("SSM"), in 2014, the most significant banks in Europe, came under the direct supervision of the ECB. In 2015, it was proposed that the Group would also come under the regulatory and supervisory oversight of the Single Supervisory Mechanism of the ECB, joining other local banks. Before taking full supervisory responsibility, the ECB is conducting a comprehensive assessment of the Group's consolidated statement of financial position. The assessment comprises a supervisory risk assessment, an asset quality review and a stress test. This exercise started in May 2015 and will be completed in the same year, with the ECB expected to take full supervisory responsibility by the end of 2015.

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

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

Medifin Holding Limited

Notes to the Financial Statements For the Year Ended 31 March 2015

41 Events after the reporting date (continued)

- 41.3** On 6 May 2015 the Group entered into an agreement to acquire the remaining 35% shareholding of Charts for a cash consideration of €1.7 million, of which €0.2 million is contingent upon the achievement of certain predefined targets in the coming financial year.
- 41.4** On 1 June 2015, the National Bank of Belgium issued a credit institution licence to MeDirect. The assets and liabilities of MedBank's Belgian branch were transferred from the branch to MeDirect on 1 June 2015. As of 1 June 2015, MeDirect became a member of the Belgian depositor compensation scheme.
- 41.5** Subsequent to the end of the financial reporting period, the Group had already repurchased €51 million of the Senior Secured Floating Rate notes. Furthermore, on 5 June 2015, MedBank, as holder of the Subordinated Notes of GH I, notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes are expected to be redeemed on 7 July 2015.
- 41.6** Subsequent to year end, MedBank bought back a further €19,800 nominal value of its 6.25% Bonds due 2015 through market operations.
- 41.7** Charts distributed €0.9 million to the Company as a final dividend which was executed on 6 May 2015.

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



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Independent Auditors' Report

To the Members of Medifin Holding Limited

Report on the Financial Statements

We have audited the financial statements of Medifin Holding Limited (the "Company") and of the Group of which the Company is the parent, as set out on pages 10 to 114, which comprise the statements of financial position as at 31 March 2015 and the statements of profit or loss and other 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 9, 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 2015, 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.



Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors

24 June 2015