MeDirect Bank (Malta) plc
(formerly Mediterranean Bank plc)

Condensed Consolidated Interim Financial Statements
30 September 2017

Company Registration Number C 34125

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Interim directors' report pursuant to Listing Rules 5.74 et seq

The directors present their interim financial statements of MeDirect Bank (Malta) plc ("the Bank" or "MeDirect Malta"), formerly Mediterranean Bank plc, and its principal subsidiary, MeDirect Bank S.A. ("MeDirect Belgium" or "the subsidiary") (together referred to as the "Group" or "MeDirect Malta Group") for the six month period ended 30 September 2017.

Change in Name

By virtue of a shareholders' resolution dated 15 November 2017, the shareholders of the Bank resolved to change the name of the company from Mediterranean Bank plc to MeDirect Bank (Malta) plc.

Principal Activities

The principal activities of MeDirect Malta and MeDirect Belgium comprise lending to international corporates and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on term deposit savings and wealth management, as well as local corporate banking in Malta.

Financial Performance

The Group reported a profit after tax of €7.1 million for the six months ended 30 September 2017 compared with €6.4 million for the same period last year. The Group registered growth both in its net interest income and in its net fee and commission income as a result of growth in both its international lending business and its wealth management business. This period's performance was negatively impacted by non-recurring realised losses on disposal of loans and advances amounting to €1.2 million compared to gains on disposal of €1.2 million in the comparative period. This was mitigated by lower net impairment charges and a lower tax expense.

During the six-months ended 30 September 2017, the Group registered net interest income of €31.1 million (30 September 2016: €28.4 million). Total operating income amounted to €33.7 million (30 September 2016: €32.4 million). Total operating expenses amounted to €23.9 million (30 September 2016: €20.3 million).
The Group continued to build its corporate lending activities both internationally and domestically. As at 30 September 2017, the Group's international and domestic loans and advances to customers ("Lending Portfolio") stood at €1.6 billion (31 March 2017: €1.4 billion), net of collective impairment loss allowances of €5.2 million (31 March 2017: €5.1 million) and specific impairment loss allowances of €10.4 million (31 March 2017: €16.9 million). In addition the Group had commitments of €324.8 million under revolving credit facilities as at 30 September 2017 (31 March 2017: €288.3 million) and other undrawn credit facilities of €64.9 million (31 March 2017: €49.5 million). As at 30 September 2017, the Group's investment portfolio, consisting of available-for-sale securities stood at €595.8 million (31 March 2017: €698.5 million).

Business Development

Over the last few months the Group was involved in raising new equity capital and we are pleased to announce that as a result of such injections from both the local and international community, the MeDirect Malta Group accepted a series of capital contributions from the Bank's majority shareholder amounting to €8.2 million in September 2017 and €67.4 million in November 2017. This was a strong vote of confidence in the progress that the MeDirect Malta Group has made over these last years, given the interest from a very diverse set of investors.

At the moment the Group is looking at broadening its asset base internationally to diversify both its risk and its income. The Group will enter new asset classes and new jurisdictions in thoughtful and well planned ways, building on our track record of both organic and inorganic growth.

Interim directors' report pursuant to Listing Rules 5.74 et seq - continued

Business Development - continued

On 21 November 2016, MeDirect Malta announced that the boards of directors of MeDirect Malta and Mediterranean Corporate Bank Limited ("MedCorp") have each voted to merge MedCorp into MeDirect Malta. The regulatory approval was obtained on 8 February 2017 and accordingly, with effect from 1 April 2017, the merger between MeDirect Malta and MedCorp became effective for accounting purposes. Thus all the transactions of MedCorp have been treated as being those of MeDirect Malta with effect from 1 April 2017.

During the financial period ended 30 September 2017, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its international corporate lending portfolio and its deposit customer base in the mass affluent market both in Malta and Belgium and also with select corporates in Malta.

The Group also continues to make significant investments in technology that have allowed it to enhance its 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 portfolio analytical tools to enable customers to analyse portfolio and investment alternatives and a broad range of research and market data resources.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The Group's significant deposit base, both in Malta and in Belgium, has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform provides efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other term deposit savings products. As at 30 September 2017, the Group's deposit base reached €1.92 billion (31 March 2017: €1.90 billion). The Group's deposit base also provides a potential customer base for investment and wealth management products.

The Group's Lending Portfolio primarily consists of senior secured loans and revolving credit facilities to corporate borrowers domiciled in Western Europe. Substantially all loans and revolving credit facilities in the portfolio are denominated in euro or pound sterling and 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 changes in interest rates.

As part of the Group's funding strategy, MeDirect Malta had set up Grand Harbour I B.V. ("GH I"), a controlled special purpose entity which has been consolidated since the Group retained all the risks and rewards of the structure. Throughout the financial year ended 31 March 2017, the MeDirect Malta Group started utilising the GH I structure again as MeDirect Malta and MeDirect Belgium transferred a portfolio of syndicated senior secured loans to GH I. GH I was funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium that led to a transfer of risk from MeDirect Belgium to MeDirect Malta, without however changing MeDirect Malta Group's overall risk on a consolidated basis. MeDirect Belgium and MeDirect Malta invested in GH I on a 69% - 31% basis with the tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the facility taken up by MeDirect Malta (the "Junior Loan").

The MDB Group (the "Regulatory Group"), which comprises MeDirect Group Limited and its subsidiaries, the MeDirect Malta Group and Charts Investment Management Service Limited, remains committed to operating with strong regulatory ratios and a robust liquidity position. At 30 September 2017, the Regulatory Group's consolidated Capital Adequacy Ratio stood at 13.5% (31 March 2017: 13.7%) whilst the Regulatory Group's Liquidity Coverage Ratio stood at 695.2% (31 March 2017: 576.7%).

Interim directors' report pursuant to Listing Rules 5.74 et seq - continued

Business Development - continued

The Regulatory Group, that is also considered a core domestic bank by the Central Bank of Malta, will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Regulatory Group is faced with. The Regulatory Group is under the Single Supervisory Mechanism ("SSM") and the direct supervision of the European Central Bank ("ECB"). The Regulatory Group is confident that it will continue to meet the high expectations of the ECB.

Dividends and reserves

After adjusting the Reserve for General Banking Risks in accordance with the requirements of Banking Rule ("BR") 09 - Measures addressing credit risk arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Maltese Banking Act (Cap. 371), the retained earnings of the Group amounted to €40.0 million (31 March 2017: €32.9 million). The directors of the Bank do not recommend the payment of an interim dividend.

Outlook and future business developments

The ongoing 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 notwithstanding the low interest rate environment.

Stability in the international capital markets results in a positive effect on the Group's wealth management and investment services businesses since greater investor confidence leads 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, especially following the UK Brexit referendum results, and that any reversal of the positive trends described above could 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. Furthermore, the Group is currently exploring new opportunities in order to diversify the Group's asset classes and the relative revenue streams.

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

The Group has grown, and plans to continue to grow, its corporate lending activities and therefore the aggregate Lending Portfolio held by MeDirect Malta and MeDirect Belgium should grow as a percentage of the Group's overall asset base. The Group has recently been operating with a relatively stable leverage ratio of 7.75% (31 March 2017: 7.29%) and intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements determined by Capital Requirements Directive ("CRD") IV and also in conformity with any other guidance issued by the Group's regulator, the ECB's joint Supervisory Team (the "JST").

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

Related parties

There were no material changes in related party transactions from those detailed in the financial statements for the period ended 31 March 2017. During this period no further related party transactions materially affected the financial position or liquidity of the Group.

Interim directors' report pursuant to Listing Rules 5.74 et seq - continued

Events after the reporting date

Shareholders' contribution

By virtue of extraordinary resolutions dated 1 November 2017 and 7 November 2017, the Bank accepted a shareholders' net contribution of €12 million and €55.4 million respectively.

Issue of Subordinated Unsecured Bonds

On 16 October 2017 MeDirect Malta announced the basis of acceptance for the issue of Euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 ("the Bonds").

In terms of the Prospectus, the Bonds were available for subscription in the Intermediaries' Offer which was held on 13 October 2017. Amounts subscribed for by Authorised Financial Intermediaries amounted to £1.2 million (equivalent to €1.3 million) and €18.7 million for the GBP Bonds and EUR Bonds respectively.

Interest on the Bonds commenced on 13 October 2017. The Bonds were admitted to listing on the Official List of the Malta Stock Exchange on 20 October 2017.

Changes in Malta's corporate taxation

In presenting the Malta Budget 2017, the Minister for Finance announced the introduction of the Notional Interest Deduction ("NID"). The legal notice outlining the rules was published on 5 October 2017 as legal notice 262 of 2017.

The key features of the NID are the following:

- Election for the NID is at the discretion of a company.
- The NID is calculated by multiplying the deemed notional interest rate by the balance of risk capital that the company has at year end.
- The notional interest rate is the risk free rate set on Malta Government Stocks with a remaining term of approximately 20 years plus a premium of 5%.
- The risk capital of the company includes mainly share capital, share premium, shareholders' contributions, reserves and interest free loans as at year end.
- The NID may be claimed as a deduction by the company against its chargeable income for the year.
- The maximum deduction in any given year cannot exceed 90% of chargeable income. Any excess can then be carried forward to the following year. Any remaining chargeable income is subject to tax at the standard rates.
- These rules are applicable as from the financial year ended 31 March 2017.

If these new regulations were already effective as at the end of the reporting period, we estimate that the Group's:

- current tax recoverable balance would have increased by €5.0 million;
- deferred tax asset would have increased by €1.9 million; and
- retained earnings would have increased by €6.9 million.

Changes in Belgium's corporate taxation

On 27 October 2017 the Belgium Federal government issued statement in connection to the agreement on the implementation of the corporate tax reform announced earlier in July 2017. The Act has been sent to the Council of State for advice and is expected to be voted by Parliament in the course of December 2017.

The main effect of this tax reform is the decrease in the corporate tax rate from 33% to 29% in 2018 and to 25% as from 2020.

Interim directors' report pursuant to Listing Rules 5.74 et seq - continued

Events after the reporting date - continued

On the other hand, this reform contains other budgetary measures aimed at financing the rate reduction, e.g. introducing a so-called minimum tax and changing the notional interest deduction system.

If the changes mentioned above were already effective as at the end of the reporting period, the Board estimate that the Group's deferred tax asset and retained earnings would have decreased by €1.1 million as at 30 September 2017.

Statement by the directors pursuant to Listing Rule 5.75.3 issued by the Listing Authority

We, the undersigned, declare that to the best of our knowledge:

- the condensed consolidated interim financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities and financial position as at 30 September 2017 of MeDirect Malta and its subsidiary included in the consolidation taken as a whole, as well as of their financial performance and cash flows for the period then ended in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and

- the commentary includes a fair review of the information required under Listing Rule 5.81 to 5.84.

Approved by the Board on 22 November 2017 and signed on its behalf by:

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

Condensed consolidated interim statement of financial position

	As at 30 September 2017 €000	As at 31 March 2017 €000
ASSETS		
Balances with Central Banks, treasury bills and cash	**206,539**	245,194
Derivative financial instruments	**615**	1,627
Loans and advances to financial institutions	**110,875**	106,895
Loans and advances to customers	**1,556,965**	1,449,970
Investments – Treasury	**595,834**	698,474
Property and equipment	**322**	402
Intangible assets	**-**	4
Non-current assets classified as held for sale	**1,785**	1,785
Current tax assets	**14,178**	8,391
Deferred tax assets	**12,819**	14,178
Prepayments and accrued income	**16,476**	19,138
Other assets	**16,077**	25,233
Total assets	**2,532,485**	2,571,291

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of financial position - continued

	As at 30 September 2017 €000	As at 31 March 2017 €000
EQUITY		
Called up issued share capital	**117,450**	117,450
Share premium	**13,464**	13,464
Shareholders' contributions	**69,003**	60,803
Reserve for general banking risks	**1,694**	1,694
Other reserves	**(1,643)**	(2,511)
Retained earnings	**40,023**	32,923
Total equity	**239,991**	223,823
LIABILITIES		
Derivative financial instruments	**7,148**	2,323
Amounts owed to financial institutions	**266,010**	359,183
Amounts owed to customers	**1,916,255**	1,901,512
Subordinated liabilities	**46,912**	47,043
Current tax liabilities	**4,075**	71
Accruals and deferred income	**31,765**	30,428
Other liabilities	**20,329**	6,908
Total liabilities	**2,292,494**	2,347,468
Total equity and liabilities	**2,532,485**	2,571,291
Memorandum items		
Commitments to purchase financial assets	**109,959**	108,865
Commitments to extend credit, guarantees and other commitments	**402,964**	352,222

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 6 to 24 were approved and authorised for issue by the Board of directors on 22 November 2017 and signed on its behalf by:

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

Condensed consolidated interim statement of comprehensive income

	Period from 1 April to 30 September 2017 €000	Period from 1 April to 30 September 2016 €000
Interest income	**45,535**	44,857
Interest expense	**(14,400)**	(16,437)
Net interest income	**31,135**	28,420
Fee and commission income	**2,565**	2,109
Fee and commission expense	**(815)**	(747)
Net fee and commission income	**1,750**	1,362
Net trading income	**1,981**	991
Other operating income		
- Realised gains on disposal of other investments	**43**	367
- Realised (losses)/gains on disposal of loans and advances	**(1,178)**	1,206
- Other income	**4**	9
Total operating income	**33,735**	32,355
Personnel expenses	**(9,636)**	(8,785)
Depreciation and amortisation	**(85)**	(129)
Other administrative expenses	**(14,143)**	(11,339)
Total operating expenses	**(23,864)**	(20,253)
Net operating income before impairment charges	**9,871**	12,102
Net impairment charges	**(1,021)**	(2,802)
Profit before tax	**8,850**	9,300
Tax expense	**(1,750)**	(2,870)
Profit for the period	**7,100**	6,430
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair valuation of available-for-sale financial assets:		
- Net change in fair value, before tax	**1,378**	6,258
- Net amount reclassified to profit or loss, before tax	**(43)**	(367)
Income tax relating to other comprehensive income	**(467)**	(2,061)
Other comprehensive income, net of tax	**868**	3,830
Total comprehensive income, net of tax	**7,968**	10,260
Earnings per share (cents)	**6c**	5c

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity

	Share capital €000	Share premium €000	Shareholder's contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2016	117,450	13,464	60,803	1,194	(7,580)	18,348	203,679
Total comprehensive income							
Profit for the period	-	-	-	-	-	6,430	6,430
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	4,068	-	4,068
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	-	-	-	-	(238)	-	(238)
Total other comprehensive income, net of tax	-	-	-	-	3,830	-	3,830
Total comprehensive income, net of tax	-	-	-	-	3,830	6,430	10,260
Balance at 30 September 2016	**117,450**	**13,464**	**60,803**	**1,194**	**(3,750)**	**24,778**	**213,939**

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity - continued

	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2017	117,450	13,464	60,803	1,694	(2,511)	32,923	223,823
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,100	7,100
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	896	-	896
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	-	-	-	-	(28)	-	(28)
Total other comprehensive income, net of tax	-	-	-	-	868	-	868
Total comprehensive income, net of tax	-	-	-	-	868	7,100	7,968
Transactions with owners:							
Contributions by shareholder	-	-	8,200	-	-	-	8,200
Total transactions with owners	-	-	8,200	-	-	-	8,200
Balance at 30 September 2017	**117,450**	**13,464**	**69,003**	**1,694**	**(1,643)**	**40,023**	**239,991**

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows

	Period from 1 April to 30 September 2017 €000	Period from 1 April to 30 September 2016 €000
Cash flows from operating activities		
Interest and commission receipts	**57,090**	50,020
Interest and commission payments	**(13,599)**	(17,473)
Payments to employees and suppliers	**(25,369)**	(22,053)
Operating profit before changes in operating assets/liabilities	**18,122**	10,494
Decrease/(increase) in operating assets:		
- Reserve deposit with Central Banks	**86,085**	(1,369)
- Loans and advances to financial institutions and customers	**(127,297)**	(189,444)
(Decrease)/increase in operating liabilities:		
- Amounts owed to financial institutions and customers	**(38,592)**	140,598
- Other payables	**11,029**	15,330
- Derivative financial instruments	**(373)**	(11,674)
Tax paid	**(2,613)**	(5,836)
Net cash used in operating activities	**(53,639)**	(41,901)

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows - continued

	Period from 1 April to 30 September 2017 €000	Period from 1 April to 30 September 2016 €000
Net cash used in operating activities	**(53,639)**	(41,901)
Cash flows from investing activities		
Net acquisitions of property and equipment and intangible assets	**-**	(7)
Net disposals and maturities of available-for-sale assets	**98,469**	78,599
Net disposals of investments held at fair value through profit or loss	**-**	81
Net cash from investing activities	**98,469**	78,673
Cash flows from financing activities		
Shareholders' contributions	**8,200**	-
Net advances from immediate parent	**9,849**	658
Net advances from group companies	**955**	1,983
Net cash from financing activities	**19,004**	2,641
Net increase in cash and cash equivalents	**63,834**	39,413
Cash and cash equivalents at the beginning of the period	**102,143**	(36,518)
Cash and cash equivalents at the end of the period	**165,977**	2,895

The notes on pages 13 to 24 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

MeDirect Bank (Malta) plc ("the Bank" or "MeDirect Malta"), formerly Mediterranean Bank plc, is domiciled and incorporated in Malta. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 30 September 2017 comprise MeDirect Malta and its principal subsidiary, MeDirect Bank S.A. (MeDirect Belgium) (together referred to as the "Group").

The comparative consolidated financial information also includes for consolidation purposes financial information attributable to Mediterranean Corporate Bank Limited ("MedCorp").

On 21 November 2016, MeDirect Malta announced that the boards of directors of MeDirect Malta and MedCorp have each voted to merge MedCorp into MeDirect Malta. The regulatory approval was obtained on 8 February 2017 and accordingly, with effect from 1 April 2017, the merger between MeDirect Malta and MedCorp became effective for accounting purposes. Thus all the transactions of MedCorp have been treated as being those of MeDirect Malta with effect from 1 April 2017.

The financial statements of the Group as at and for the year ended 31 March 2017 are available upon request from MeDirect Malta's registered office, being The Centre, Tigné Point, Sliema TPO 0001, Malta, and are available for viewing on its website at www.medirect.com.mt.

The principal activities of the Group comprise lending to international corporates and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on term deposit savings and wealth management, as well as local corporate banking in Malta.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 September 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (IAS 34 'Interim Financial Reporting'). They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements as at and for the year ended 31 March 2017.

As required by IAS 34 'Interim Financial Reporting', adopted by the EU, these interim financial statements include a comparative statement of financial position presenting information as at the previous financial year end, and comparative statements of comprehensive income presenting information for the comparable interim periods of the immediately preceding financial year.

The condensed consolidated interim financial statements have been extracted from MeDirect Malta's unaudited Group management accounts for the six months ended 30 September 2017, and have been reviewed in terms of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. The half-yearly results are being published in terms of Chapter 5 of the Listing Rules, issued by the Listing Authority, and the Prevention of Financial Markets Abuse Act, 2005.

3. Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied in the financial statements for the year ended 31 March 2017.

There were no new standards adopted during the six month period ended 30 September 2017. However, the Group adopted interpretations and amendments to standards which had an insignificant effect on the interim financial statements.

There are no standards, other than IFRS 9, that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 "Financial Instruments", which is the comprehensive standard to replace IAS 39 "Financial Instruments: Recognition and Measurement", and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The European Commission has adopted IFRS 9 Financial Instruments with Regulation (EC) No 2016/2067 of 22 November 2016. The EU effective date is the same as the IASB's effective date (annual periods beginning on or after 1 January 2018).

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. The Group does not intend to restate its comparative periods. Accordingly, all adjustments resulting from the transition will be applied by adjusting the opening statement of financial position as at 1 April 2018. However the entity will provide detailed transition disclosures in accordance with the amended requirements of IFRS 7.

Within the Group, an IFRS 9 Implementation Project (the Project) was set up in 2016 to prepare for implementation of IFRS 9 and significant preparatory and design work has taken place. The Project is sponsored by the Group Chief Financial Officer. A Steering Committee comprising senior management from Finance, Risk, Business Development, Treasury, Strategy and Technology has been established.

In respect of the impairment and classification and measurement implementation programmes for financial assets, work has progressed taking cognisance of adoption on 1 April 2018, with the focus during 2017 on quantifying impact, model validation and finalising processes, governance and controls.

As permitted by IFRS 9, the Group will continue applying the IAS 39 hedge accounting requirements but will provide the new hedge accounting disclosures required by the amended IFRS 7.

The Group will disclose the financial impact estimates when the implementation programme, validation and testing are further advanced, no later than MeDirect Malta Annual Report 2018.

For further information on this standard refer to the MeDirect Malta 2017 Annual Report.

4. Critical accounting estimates and judgements in applying the Group's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty impacting the preparation of these interim financial statements are the same as those that applied to the preparation of the financial statements as at and for the year ended 31 March 2017, as disclosed in those financial statements.

5. Operating segments

The Group has a single reportable segment represented by the investment in high credit quality collateralised instruments together with corporate lending and wealth management business. The Group's products and services and geographical areas are comparable to those as at 31 March 2017. Information about financial risks, credit concentration by sector and location, together with revenues from the single reportable segment can be obtained from the financial statements for the year ended 31 March 2017. The investment portfolio is spread across a large number of exposures diversified across the following categories: government, financial institutions and corporates.

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the financial year applied to the pre-tax income of the interim period.

The low effective consolidated tax rate in the financial period ended 30 September 2017 is mainly attributable to expenditure reflected in the accounting records of the subsidiary in relation to its international corporate lending that is reversed on consolidation.

7. Financial instruments

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 March 2017.

7.1 Impairment allowances - Loans and advances to customers

	Specific allowances €000	Collective allowances €000	Total €000
Year ended 31 March 2017			
At 1 April 2016	12,369	4,439	**16,808**
Impairment allowance for the period			
Write-downs	3,663	5,094	**8,757**
Reversal due to realisation	(116)	-	**(116)**
Reversal due to change in estimates	(1,400)	-	**(1,400)**
Reversal of prior period allowance	-	(4,439)	**(4,439)**
Exchange differences	23	-	**23**
At 30 September 2016	14,539	5,094	**19,633**
Impairment allowance for the period			
Write-downs	2,826	5,134	**7,960**
Reversal due to realisation	(732)	-	**(732)**
Reversal of prior period allowance	-	(5,094)	**(5,094)**
Exchange differences	295	-	**295**
At 31 March 2017	16,928	5,134	**22,062**
Period ended 30 September 2017			
At 1 April 2017	16,928	5,134	**22,062**
Impairment allowance for the period			
Write-downs	-	5,176	**5,176**
Reversal due to realisation	(1,063)	-	**(1,063)**
Reversal due to restructuring of financial instrument	(4,784)	-	**(4,784)**
Reversal of prior period allowance	-	(5,134)	**(5,134)**
Exchange differences	(640)	-	**(640)**
At 30 September 2017	**10,441**	**5,176**	**15,617**

The net impairment charges in the period ended 30 September 2017 disclosed within the condensed consolidated interim statement of comprehensive income is presented net of bad debts written off amounting to €6.8 million.

7.2 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 quoted prices in an active market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

7. Financial instruments - continued

7.2 Fair value measurement - continued

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.

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.

7.2.1 Fair value hierarchy

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.

- 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 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.

7.2.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:
- the likelihood and expected timing of future cash flows on the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and foreign currency exchange rates and expected price volatilities and correlations.

7. Financial instruments - continued

7.2 Fair value measurement - continued

7.2.2 Use of valuation techniques - continued

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 minimal management judgement and estimation.

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 active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

7.2.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, by the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the condensed consolidated interim statement of financial position.

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
As at 30 September 2017				
Assets				
Investments				
- Available-for-sale	**595,834**	**-**	**-**	**595,834**
Derivative financial instruments	**-**	**615**	**-**	**615**
Total financial assets	**595,834**	**615**	**-**	**596,449**
Liabilities				
Derivative financial instruments	**-**	**7,148**	**-**	**7,148**
Total financial liabilities	**-**	**7,148**	**-**	**7,148**
As at 31 March 2017				
Assets				
Investments				
- Available-for-sale	698,474	-	-	**698,474**
Derivative financial instruments	-	1,627	-	**1,627**
Total financial assets	**698,474**	**1,627**	**-**	**700,101**
Liabilities				
Derivative financial instruments	-	2,323	-	**2,323**
Total financial liabilities	**-**	**2,323**	**-**	**2,323**

As at 30 September 2017 and 31 March 2017, the fair value of the available-for-sale (AFS) investment securities represents the closing bid price quoted in an active market.

7. **Financial instruments** - continued

7.2 Fair value measurement - continued

7.2.3 Financial instruments measured at fair value - continued

Level 2 instruments principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of 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 approach). 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 observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

7.2.4 Transfers between levels

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

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the period from 1 April 2017 to 30 September 2017 and during the financial year ended 31 March 2017.

7.3 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 respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts.

	Level 1 €000	**Level 2 €000**	**Level 3 €000**	**Total fair values €000**	**Total carrying amount €000**
As at 30 September 2017					
Assets					
Loans and advances to customers	-	1,464,411	-	1,464,411	**1,475,447**
Total financial assets	**-**	**1,464,411**	**-**	**1,464,411**	**1,475,447**
Liabilities					
Subordinated liabilities	49,270	-	-	49,270	**46,912**
Total financial liabilities	**49,270**	**-**	**-**	**49,270**	**46,912**
As at 31 March 2017					
Assets					
Loans and advances to customers	-	1,376,317	-	1,376,317	**1,388,754**
Total financial assets	**-**	**1,376,317**	**-**	**1,376,317**	**1,388,754**
Liabilities					
Subordinated liabilities	49,287	-	-	49,287	**47,043**
Total financial liabilities	**49,287**	**-**	**-**	**49,287**	**47,043**

7. Financial instruments - continued

7.3 Financial instruments not measured at fair value - continued

The Level 1 fair values reflected in the preceding tables consist of quoted market prices of debt securities issued which are traded in active markets.

The Level 2 fair value disclosures mainly comprise price quotations in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates.

The Group's financial instruments not measured at fair value comprise balances with Central Banks, loans and advances to financial institutions and customers, and amounts owed to financial institutions and customers. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

'Loans and advances to financial institutions' of the Group amounting to €110.9 million (31 March 2017: €106.9 million) which represent 100% of all loans and advances to financial institutions, 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.

The carrying amount for local loans and advances to customers amounting to €77.4 million (31 March 2017: €56.7 million) approximates their fair value because these loans are repricable at the Group's discretion.

All trade receivables amounting to €4.1 million (31 March 2017: €4.5 million) are stated net of specific impairment allowance, within loans and advances to customers. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values are estimated using discounted cash flows, applying market rates. These estimates are considered Level 2 fair value estimates.

The majority of the 'Amounts owed to financial institutions' of the Group amounting to €266 million (31 March 2017: €359.2 million) and 'Amounts owed to customers' of the Group amounting to €1.6 billion (31 March 2017: €1.6 billion), sourced from the Maltese and Belgian markets, 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. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 2 fair value estimates. 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 payable is required to be paid.

8. Capital and reserves

Share capital

	30 September 2017 No.	31 March 2017 No.
Issued and fully paid up:		
Ordinary ‘A’ shares of €1 each	**117,450,106**	117,450,106
Ordinary ‘B’ shares of €1 each	**1**	1
	117,450,107	**117,450,107**

As at 30 September 2017 and 31 March 2017, the authorised share capital consisted of 299,999,999 Ordinary ‘A’ shares of €1 each and 1 Ordinary ‘B’ share of €1 each.

Rights and entitlements attached to ordinary shares

The holders of Ordinary ‘A’ shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. Ordinary ‘B’ shareholders are not entitled to vote or to receive any dividends distributed.

Share premium

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

			Share premium	
Issue date	**Number of shares**	**Premium per share €**	**30 September 2017 €000**	31 March 2017 €000
10 August 2010	10,000,000	0.9155	**9,155**	9,155
29 September 2010	19,119,470	0.2254	**4,309**	4,309
			13,464	13,464

Shareholders’ contributions

The terms and conditions of the contributions granted by MeDirect Group Limited render this instrument equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

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

The contributions are eligible as own funds in terms of the Capital Requirements Regulation.

By virtue of an extraordinary resolution dated 29 September 2017, the Bank accepted a shareholders’ net contribution of €8.2 million.

8. Capital and reserves - continued

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. During the period the Bank adhered to revised BR 09 which imposes higher allocations for certain past due exposures. As at 30 September 2017, the reserve for general banking risks of the Group was equivalent to €1.7 million (31 March 2017: €1.7 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

a) Fair value reserve

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.

b) Legal reserve

According to Article 319 of the Company Code in Belgium, at least 5% of the retained earnings of MeDirect Belgium should be set aside as a statutory legal reserve until this reserve is equivalent to 10% of the capital of MeDirect Belgium. This statutory legal reserve was equivalent to €77 thousand as at 30 September 2017 and 31 March 2017.

Dividends

All reserves at the reporting date, except for the Bank's retained earnings and the shareholders' contribution, are non-distributable.

No dividends were proposed throughout the financial period ended 30 September 2017.

9. Contingent liabilities and commitments

Guarantee obligations

As at 30 September 2017, the Group held cash secured guarantee obligations amounting to €7.9 million (31 March 2017: €7.9 million).

Capital commitments

Capital commitments of the Group as at 30 September 2017 amounting to €0.2 million (31 March 2017: €0.4 million) mainly relate to improvements to leased premises.

Non-cancellable operating lease commitments

As at the reporting date, the future minimum lease payments under non-cancellable operating lease agreements amount to €5.1 million (31 March 2017: €6.1 million).

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 30 September 2017, undrawn facilities on term loans amounted to €64.9 million (31 March 2017: €49.5 million). In addition the Group had commitments amounting to €324.8 million (31 March 2017: €288.3 million) under revolving credit facilities.

10. Related party transactions

There were no significant transactions with related parties during the six month period ended 30 September 2017 which would significantly alter the balances with related parties from those disclosed in the annual report for the year ended 31 March 2017.

11. Events after the reporting date

Shareholders' contribution

By virtue of extraordinary resolutions dated 1 November 2017 and 7 November 2017, the Bank accepted a shareholders' net contribution of €12 million and €55.4 million respectively.

Issue of Subordinated Unsecured Bonds

On 16 October 2017 MeDirect Malta announced the basis of acceptance for the issue of Euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 ("the Bonds").

In terms of the Prospectus, the Bonds were available for subscription in the Intermediaries' Offer which was held on 13 October 2017. Amounts subscribed for by Authorised Financial Intermediaries amounted to £1.2 million (equivalent to €1.3 million) and €18.7 million for the GBP Bonds and EUR Bonds respectively.

Interest on the Bonds commenced on 13 October 2017. The Bonds were admitted to listing on the Official List of the Malta Stock Exchange on 20 October 2017.

Changes in Malta's corporate taxation

In presenting the Malta Budget 2017, the Minister for Finance announced the introduction of the Notional Interest Deduction ("NID"). The legal notice outlining the rules was published on 5 October 2017 as legal notice 262 of 2017.

The key features of the NID are the following:

- Election for the NID is at the discretion of a company.
- The NID is calculated by multiplying the deemed notional interest rate by the balance of risk capital that the company has at year end.
- The notional interest rate is the risk free rate set on Malta Government Stocks with a remaining term of approximately 20 years plus a premium of 5%.
- The risk capital of the company includes mainly share capital, share premium, shareholders' contributions, reserves and interest free loans as at year end.
- The NID may be claimed as a deduction by the company against its chargeable income for the year.
- The maximum deduction in any given year cannot exceed 90% of chargeable income. Any excess can then be carried forward to the following year. Any remaining chargeable income is subject to tax at the standard rates.
- These rules are applicable as from the financial year ended 31 March 2017.

If these new regulations were already effective as at the end of the reporting period, we estimate that the Group's:

- current tax recoverable balance would have increased by €5.0 million;
- deferred tax asset would have increased by €1.9 million; and
- retained earnings would have increased by €6.9 million.

11. Events after the reporting date - continued

Changes in Belgium's corporate taxation

On 27 October 2017 the Belgium Federal government issued statement in connection to the agreement on the implementation of the corporate tax reform announced earlier in July 2017. The Act has been sent to the Council of State for advice and is expected to be voted by Parliament in the course of December 2017.

The main effect of this tax reform is the decrease in the corporate tax rate from 33% to 29% in 2018 and to 25% as from 2020.

On the other hand, this reform contains other budgetary measures aimed at financing the rate reduction, e.g. introducing a so-called minimum tax and changing the notional interest deduction system.

If the changes mentioned above were already effective as at the end of the reporting period, the Board estimate that the Group's deferred tax asset and retained earnings would have decreased by €1.1 million as at 30 September 2017.

Independent auditor's review report

To the Board of Directors of MeDirect Bank (Malta) plc (formerly Mediterranean Bank p.l.c.)

Report on the review of the condensed consolidated interim financial statements

Introduction
We have reviewed the accompanying condensed consolidated interim statement of financial position of MeDirect Bank (Malta) plc (formerly Mediterranean Bank p.l.c.) and its subsidiary as at 30 September 2017, the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended and the explanatory notes ('interim financial information'). The directors are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 'Interim Financial Reporting'). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

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Fabio Axisa
Partner

22 November 2017