Annual Report 2016

Contents

By virtue of a shareholders' resolution dated 26th October 2016 the shareholders of Medifin Holding Limited resolved to change the name of the company from Medifin Holding Limited to MeDirect Group Limited.

Mediterranean Bank plc

CHAIRMAN'S REVIEW

Francis J. Vassallo
CHAIRMAN

AFTER ANNOUNCING MY RETIREMENT EARLIER THIS YEAR, I AM PLEASED TO BE PRESENTING MY LAST SET OF FULL YEAR RESULTS FOR WHAT HAS NOW BECOME THE MEDITERRANEAN BANK GROUP ("THE GROUP").

Seven years ago, in July 2009, I was appointed as Chairman of Mediterranean Bank plc ("the Bank" or "MedBank"), after the successful acquisition of the Bank by AnaCap, the principal shareholder, and the current management team. At that time MedBank had a €30 million balance sheet, some 6 employees and a negligible customer base. It is quite remarkable to think back on the journey that has brought us here today over such a short period, where the Group now has two Maltese banks and a licensed stockbroker, a highly innovative online banking subsidiary in Belgium, 260 + employees, an equity capital base of over €200 million and a balance sheet of €2.3 billion. This now constitutes the third largest credit institution in Malta, that has been designated an Other Systemically Important Institution by the European Central Bank ("ECB") and has become one of the 129 significant entities now under the direct supervision of the Joint Supervisory Team ("JST") in Frankfurt. This has been achieved against some remarkably strong macro-economic headwinds within the Eurozone, which continue unabated, record low interest rates and an increasingly stringent and challenging regulatory framework, all of which have presented the Bank with some choppy waters to navigate through as management have executed their growth strategy.

I am proud to sit here today and take a moment to reflect on the achievements over this period and hope that my Chairmanship, made a small contribution to this Maltese success story.

The financial year 2015/16 was in many ways the most challenging in our short history. A confluence of events over the last 18 months delayed the Bank from executing its planned Tier 1 capital raise, which was to be used to support the growth in the international lending book. Primary amongst this was the Comprehensive Assessment undertaken throughout the last calendar year by the ECB prior to the Bank going under the supervision of the JST. This process was thorough, exacting and incredibly challenging for a Bank so young and relatively small. The resources required to provide the necessary information in a timely and accurate manner consumed a disproportionate amount of management's time through the first 6 months of the year as the management team, under the Board's supervision, rightly devoted much of their time and focus in addressing this process. Understandably the Board decided that the planned capital raise to support growth was to be put on hold until after the results of this assessment were complete, which in turn delayed the planned growth for the year. Associated costs with this process, alongside continued investment in our long term plans meant that full year results for the Group came in sharply lower profit before tax at €13.4 million, with the main drag hitting performance significantly through the last six months of the year.

I am pleased to inform you however that over the last quarter of the year the Bank has raised €30 million of Tier 1 capital from international investors, which is reflected in our year-end balance sheet and now has agreements in place for significantly more than that amount to be invested in the Bank in the near future. This endorsement of the underlying strategy of the Bank, bodes very well for the ongoing growth and balance sheet expansion of the Bank which we are sure will significantly enhance returns over the coming years.

Alongside our lending businesses we continue to develop our innovative Wealth Management offering targeted at our mass-affluent customer base both here in Malta and Belgium, where the MeDirect Brand is perceived to be an innovative and dynamic player in the savings and wealth management arena. We have consolidated the Mediterranean Corporate Bank entity into the Group and have started to expand our local lending activities along with the treasury, payments and FX services we offer for our corporate customers.

Over the course of the year we continued to enhance our operating infrastructure with ongoing significant expenditures on our IT capabilities and security. The governance structure of the Group continues to evolve with the addition of Michael Walker as a new independent Non-Executive Director ("NED") and the Chair of the Board Risk Committee during the year. Dominic Wallace, Group CRO and Executive Director has agreed to continue as an NED after his retirement date on June 30th.

I would like to take this opportunity to thank all our stakeholders that have contributed to the success of Mediterranean Bank over the last 7 years, most notably AnaCap who have proved a steady, patient and wise investor in their support of management and the Board's strategy. I would like to thank the employees for their hard work and dedication and most of all I would like to thank our customers, for their support and without whom we wouldn't have a business.

As I sign off this report for the last time, I am confident that the foundations that have been built over these last years are strong, robust and provide a platform to continue with the development of this unique business model over the coming years. I look forward to the continued success of the organisation and the exciting future it has before it.

FRANCIS J. VASSALLO
CHAIRMAN

Mediterranean Bank plc

CHIEF EXECUTIVE OFFICER'S REVIEW

Mark A. Watson
CHIEF EXECUTIVE OFFICER

THE 2015/16 FINANCIAL YEAR WAS BOTH A TRANSFORMATIVE AND CHALLENGING YEAR FOR THE MEDITERRANEAN BANK GROUP.

As reported last year, at this time, the Group was undertaking a Comprehensive Assessment ("CA") prior to falling under the ECB's supervisory regime, a process that was successfully completed in November last year. This was done despite the challenges that our young, growing and innovative business model provided to the templates of the assessment methodology. As the Chairman reported, one of the consequences of this process was to put on hold the raising of Tier 1 capital until investors were aware of the outcome, thus impacting our ability to reach the financial targets we had set ourselves for the period we are reporting. Whilst benefitting from a strong start to the year, the second half suffered from a lack of growth capital and the deflection of resources to the CA process, which have ultimately been reflected in our year end results.

Full year profit before tax came in at €13.4 million, significantly below last year's performance which benefitted principally from the gain on the acquisition of Volksbank Malta. This performance was impacted by the unforeseen costs associated with the CA process and the new supervisory framework in which we operate, continued investment in our operating infrastructure and capabilities, and growth of our employee base to support our growing domestic and international businesses. Most importantly, the management team believe we are now at critical mass within our operational expenditure base to support a significantly larger business both from a Balance Sheet and customer basis and look forward to achieving this over the coming periods.

Significantly over the last few months, through addition to our Tier 1 capital, we have enhanced the Group's equity base that now stands at €204 million up from €169 million in the prior year. Over the last two years we have seen the Tier 1 capital of the Medifin Holding Regulatory Group grow from €107 million to €194 million. The Own Funds of the Regulatory Group now stands at €237 million with the Tier 1 ratio standing at 12.8% and the overall prudential capital ratio standing at 15.6%. This significant expansion of our capital base will be supplemented in the coming weeks by additional investment from new investors which will enable us to rapidly pursue our ambitious growth in international lending, underpinned by our robust credit and risk management processes. Over the last financial year our lending portfolio grew from €1 billion to €1.2 billion and will provide us with the basis for the future growth in earnings we expect. This strategy will continue over the next 12 months and beyond as we further establish our origination networks across Europe and appropriately deploy capital in the local Maltese corporate sector.

The economic uncertainties that the Eurozone have provided over the last few years show no particular signs of abating. Indeed they look now like they will be compounded by political uncertainties. With the Brexit situation apparently now crystallised the coming weeks, months and beyond will no doubt be challenging and will require assiduous balance sheet management. However, with our enhanced capital base and multiple sources of liquidity, through our group structure, we believe that our flexible and dynamic business model will enable us to navigate such difficulties well and benefit from the core competencies we have built.

Alongside our corporate lending businesses we have seen significant progress in our wealth management offering. We continue to focus on offering high quality standardised products at an affordable and appropriate price point for our mass affluent customer base. This is done online on our innovative MeDirect platform in Belgium and with a hybrid Branch/online model in the Maltese market. Assets under custody/management have grown by 159% from €139.7 million to €361.9 million .This remarkable growth has been achieved through the cross selling of services to our traditional savings customers, the consolidation of services within the group and attracting new customers directly with our transparent pricing and product offering. The growth of this business is enhancing and broadening our customer relationships and building brand loyalty and enabling us to grow our deposit funding at a more advantageous price point.

The vast majority of our growth has been targeted at our subsidiary, MeDirect in Belgium, where customer numbers have grown from 12,252 last year, when MeDirect was still a branch of Mediterranean Bank, to 22,495. With access to such a broad deposit market in order to fund our international lending, MeDirect's balance sheet has grown to €805 million since commencement of operations in June 2015. This has been achieved without increasing our employee base in Belgium, but through the provision of support from our international class operating base in Malta. The possibility to further scale this with enhanced capital is a highly attractive proposition and one that management look forward to executing in this forthcoming financial year.

I would like to take this opportunity to thank our Chairman, Francis J. Vassallo for his stewardship and guidance over these last 7 years. Without Francis there would be no MedBank Group as we know it today, for it was he that introduced the opportunity to management that facilitated the investment from AnaCap that has served the group so well. I appreciate his help and guidance as we have grown our business under his tenure and wish him all the very best for his retirement and the pursuit of his personal endeavours.

I would also like, once again, to extend my thanks to our employees, many of whom have performed exceptionally to the challenges that we faced last year and whose work will be rewarded over the coming years due to the foundations that have been built.

MARK A. WATSON
CHIEF EXECUTIVE OFFICER

6 July 2016

Mediterranean Bank plc

Statement of compliance with the Principles of good corporate governance

INTRODUCTION

Mediterranean Bank plc (the "Bank" or "MedBank") hereby reports on the extent to which the Code of Principles of Good Corporate Governance (the "Code") has been adopted as required by the Listing Rules of the Malta Listing Authority as amended on 29 April 2014.

The Bank acknowledges that the Code does not dictate or prescribe mandatory rules, but recommends principles of good practice. However, the directors strongly believe that such practices are in the best interests of the Bank, its shareholders and other stakeholders, primarily because compliance with principles of good corporate governance is expected by investors on the Malta Stock Exchange and evidences the directors' and the Bank's commitment to a high standard of corporate governance.

The directors report that since MedBank is a company that only issues debt securities and has not issued equity securities which are traded in a multilateral trading facility, it is exempt from disclosing the information prescribed in Listing Rules 5.97.1, 5.97.2, 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement. It is in the light of these factors that the directors are herein reporting on the corporate governance of the Bank.

The directors are aware that the Code highlights principles which although of general application to listed companies are adaptable by each company depending on its particular circumstances. Those circumstances are more often than not determined by two factors, namely: (i) the specific nature of the business of the company itself; and (ii) the fact that whilst certain principles in the Code are applicable to companies the equity securities of which are listed on the Stock Exchange, they are not altogether applicable, or not applicable in the same manner, to companies that fall within the definition of a listed company by virtue of having issued debt instruments which are listed on the Malta Stock Exchange. In this context, the directors believe that the Bank's current organisational set up guarantees the proper and efficient functioning of the Bank and provides adequate corporate governance safeguards.

COMPLIANCE WITH THE CODE

Principles 1 and 3: Board of Directors and composition of the Board

The Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 March 2016, the Board consisted of four non-executive members and three executive members. Taking into account certain factors such as the size of the Bank, the size of the Board and the balance of skills and experience represented by its members, the directors are considered to be appropriate for the requirements of the business of the Bank. Mr. Dominic Wallace retired from his executive role as Chief Risk Officer and terminated his employment with the Group on 30 June 2016 but will continue to serve as a non-executive director of the Bank.

In line with the Bank's Articles of Association, the Chairman of the Board and Board directors resign and seek re-election at each Annual General Meeting of the Bank. All directors are required to be fit and proper to direct the business of the Bank.

Principle 2: Chairman and Chief Executive

The positions of Chairman and Chief Executive are held by different individuals, avoiding concentration of authority and power in one individual and differentiating the leadership of the Board from that of the running of the business of the Bank.

The Chairman is responsible to lead the Board and he ensures that the Board's discussions on any issue put before it go into adequate depth, that the opinions of all the directors are taken into account, and that all the Board's decisions are supported by adequate and timely information. On the other hand, the Chief Executive Officer leads the Management Executive Committee that is responsible to execute the agreed strategy and manage the business.

Principles 4, 5 and 8: Responsibilities of the Board and Board Meetings and Committees

The Board has the first level responsibility for executing the four basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development.

FUNCTIONING OF THE BOARD

The Board of Directors reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives. The Board monitors implementation of its decisions and corporate performance, taking into account the requirements of all relevant laws, regulations and codes of best business practice. In particular, the Board:

- defines the Bank's strategy, policies, management performance criteria and business policies;
- ensures the proper functioning of the Audit Committee;
- establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information;
- assesses and monitors the Bank's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- evaluates management's implementation of the Bank's corporate strategy and financial objectives using key performance indicators;
- ensures that the Bank has appropriate policies and procedures in place to enable the Bank and its staff to comply with the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards; and
- ensures that the financial statements of the Bank and the annual audit of such statements are completed within the stipulated time periods.

Notices of the dates of scheduled meetings of the Board together with supporting materials are circulated to the directors well in advance of such meetings. Advance notice is also given of ad hoc meetings of the Board to allow directors sufficient time to re-arrange their commitments in order to be able to participate. After each Board meeting and before the next meeting, minutes that faithfully record attendance, deliberations and decisions of the Board are prepared and circulated to all directors.

This section provides details of the members of the Board of Directors of the Bank and the members of each of the committees of the Board:

Board of Directors

Since the date of the previous annual general meeting of the Bank, 15 Board meetings were held, including 9 regularly scheduled meetings and 6 ad hoc meetings, 2 of which were telephone conference calls.

		Meetings attended %
Francis J. Vassallo	Chairman and Independent Non-Executive Director	100%
Frederick Mifsud Bonnici	Independent Non-Executive Director	100%
Michael Walker	Independent Non-Executive Director	83%
	(appointed on 9 November 2015)	
Benjamin Hollowood	Non-Executive Director	87%
Mark A. Watson	Executive Director – Chief Executive Officer	87%
Henry C. Schmeltzer	Executive Director – Head of Commercial Strategy	100%
	(resigned on 29 July 2015)	
Joaquin Vicent	Executive Director – Director of Treasury and Investments	100%
Vincent Chatard	Executive Director – Chief Business Development Officer	100%
	(resigned on 29 July 2015)	
Dominic Wallace	Executive Director – Chief Risk Officer	100%
	(appointed on 6 October 2015 and	
	Non-Executive Director as from 30 June 2016)	

Committees of the Board

Certain responsibilities of the Board of Directors are delegated to Board committees. The Board committees play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained. When deemed necessary, each Board committee reports to the Board following each of its meetings and the minutes of meetings of each Board committee meeting are available to the full Board.

BOARD COMMITTEES

A. Audit Committee

The Audit Committee is primarily responsible for reviewing and approving specific matters relating to the audit of the Bank, internal control and risk management systems. In particular, the Audit Committee:

- reviews and approves the annual internal audit plan and subsequent revisions and monitors progress against the annual audit plan;
- ensures that the scope of work performed in accordance with the audit plan is adequate and appropriate;
- vets and approves related party transactions in accordance with Listing Rule 5.138;
- reviews work performed on all audit engagements; and
- reviews and interacts with external auditors on the annual statutory audit to obtain feedback on the internal control framework and financial reporting of the Bank.

The members of the Audit Committee are:

Frederick Mifsud Bonnici	Committee Chairman and Independent Non-Executive Director
Francis J. Vassallo	Member and Independent Non-Executive Director/Board Chairman
Benjamin Hollowood	Member and Non-Executive Director

Frederick Mifsud Bonnici has wide-ranging experience in the financial services sector and has been an elected member of the Council of the Malta Institute of Accountants uninterruptedly for 32 years and its president for three years. He is a visiting Senior lecturer in Auditing at the University of Malta. He was a Senior Audit Partner of PricewaterhouseCoopers in Malta, responsible for risk management for many years and Head of Assurance, before his retirement. He was also Deputy Chairman and subsequently Chairman of the Malta Stock Exchange.

Francis J. Vassallo occupied various senior positions with Chase Manhattan Bank, is ex-Governor of the Central Bank of Malta, ex-Chairman of the Malta Development Corporation and presently a member of certain board of directors of entities operating in the financial services industry. Mr Vassallo is deemed independent because he is free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair his judgment.

In terms of Listing Rules 5.117 and 5.118, Frederick Mifsud Bonnici and Francis J. Vassallo are the directors whom the Board considers as competent in accounting and/or auditing.

During the year ended 31 March 2016 four meetings of the Bank's Audit Committee were held. The Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Internal Audit Officer and a representative of the External Auditors attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is considered under the Remuneration Report. The disclosures in the Remuneration Report reflect the requirements of the EU Capital Requirements Regulation (575/2013) to the extent applicable to the financial year under review.

The Nomination and Remuneration Committee is composed only of non-executive directors with no personal financial interest. The Chairman is an independent non-executive director.

C. Board Risk Committee

The Risk Committee represents the principal forum for overseeing all risks of the Bank. In addition, it is responsible for recommending the Bank's risk appetite to the Board, and deciding risk-related policies and recommendations.

The current members of the Risk Committee are:

Michael Walker	Committee Chairman and Independent Non-Executive Director
Benjamin Hollowood	Member and Non-Executive Director
Mark A. Watson	Member and Executive Director – Chief Executive Officer

The main objective of the Risk Committee is to ensure that the Bank adheres to the approved risk policy and procedures, and operates within the approved risk appetite of the Board. The key Committee functions are:

- reviews and approves changes to the Bank's risk policy and procedures;
- ensures that the risk functions are appropriately resourced and structured to meet their obligations and are working effectively to maintain an effective control environment;
- reviews any violations to the lending limits;
- reviews the product distribution strategy, including product structure, pricing and targeting; and
- monitors:

  - the effectiveness of risk management processes implemented in support of risk policies;
  - portfolio risk and sector concentration risk, including evolution of the risk profile against plan;
  - credit quality trends;
  - provision levels;
  - interest rate, currency and other market risk;
  - liquidity risk;
  - operational risk; and
  - contingent exposures.

The Chairman of the Committee reports on all matters to the Board after each meeting and notifies the Board of decisions made. The Committee makes whatever recommendations to the main Board that it deems necessary.

Meetings are scheduled quarterly. All attendees and invitees receive copies of the minutes.

PRINCIPAL MANAGEMENT COMMITTEES

A. Executive Management Committee ("EXCO")

The EXCO takes day-to-day responsibility for the efficient operation of the Bank. In addition, the EXCO is responsible for the formulation and implementation of Board-approved strategies and plans and for ensuring that the Bank's business is operated in accordance with such strategies and plans.

The members of the EXCO include the Bank's Chief Executive Officer (Committee Chairman), Head of Commercial Strategy, Director of Treasury and Investments, Chief Technology Officer, Chief Financial Officer, Chief Risk Officer, Head of Operations, Chief Officer- MedCorp, Chief Officer – MeDirect and Head of Administration and Human Resources. The EXCO meets three times each month. The Chief Internal Audit Officer is a standing invitee.

B. Management Credit Committee

The Management Credit Committee is responsible for approving credit recommendations and making other credit decisions under its delegated authority - this includes decisions on individual credits; reviewing and recommending credit to the Board; monitoring adherence to large exposure limits, considering credit hedging strategies, and recommending other concentration limits for Board approval. It also establishes transactional authority for members of the Treasury and Investment Department. In addition, the Management Credit Committee reviews provisioning and lending policies, monitors the Bank's investment portfolios and reviews Management Information reports.

The members of the Management Credit Committee include the Chief Risk Officer (Committee Chairman), the Bank's Chief Executive Officer and Director of Treasury and Investments. The Committee meets regularly on an ad hoc basis.

C. Asset and Liability Committee ("ALCO")

ALCO sets and reviews overall policies and objectives for asset and liability management, capital management and allocation; capital usage and efficiency; transfer pricing; risk management; and underwriting, dealing and trading activities according to the risk appetite set by the Board.

The members of ALCO include the Bank's Director of Treasury and Investments (Committee Chairman), Chief Executive Officer, Head of Treasury, Chief Financial Officer and Chief Risk Officer. ALCO schedules meetings monthly but also holds additional ad hoc meetings.

D. New Products and Services Committee

The New Products and Services Committee has been established to analyse potential new products to be offered by the Bank from a risk, operations, reputation and legal / compliance perspective. The Committee provides its recommendations to the Executive Management Committee including the appropriate policies, procedures and controls that should be adopted in relation to any such new product.

The Chief Risk Officer is the Chairman of the New Products and Services Committee. No meeting of this Committee will be deemed quorate unless members from the Operations, Finance, Technology and Legal and Compliance teams are in attendance, or have nominated delegates who are in attendance.

CODE PROVISION 4.2.7 - SUCCESSION PLANNING

The Bank has established a list of Key Personnel Substitutes to cover instances in which executive directors or other key personnel are temporarily incapacitated or otherwise unable to complete their duties for a significant period of time.

If such directors or key personnel are permanently unable to re-assume their duties, the Bank's management, in consultation with the Board, will designate permanent successors, either from the Bank's existing management team or, if appropriate, by selecting an outside candidate.

Principle 6: Information and Professional Development

In addition to the responsibilities of the Board previously listed, the Board actively participates in the appointment of senior management. Board members receive regular updates on the Bank's strategic, operational, corporate governance, compliance, risk management and financial plans and objectives.

Principle 7: Evaluation of the Board's performance

On an annual basis, the Board carries out an evaluation procedure whereby Board members are requested to complete a questionnaire of the Board's performance and that of its committees. The evaluation is co-ordinated by the Board's Chairman, an independent non-executive director and all directors participate in the process as a sub-committee of the Board. Feedback from the evaluation is presented to the Board for analysis.

Principles 9 and 10: Relations with Shareholders and with the market and institutional Shareholders

Through public announcements, the Bank's website, financial reports and interaction with the general media in Malta, the Bank provides the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions in respect of the Bank's listed securities.

The Bank's controlling institutional shareholder is represented on its Board of Directors and actively monitors its investment in the Bank.

The Chairmen of the Audit, Remuneration and Nomination committee are available to answer questions at the Annual General Meeting.

Principle 11: Conflicts of Interest

The Bank's Articles of Association provide that any director who is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with the Bank must (i) declare to the other directors the nature of such interest, (ii) not participate in or be present for any discussion relative to any such transaction or proposed transaction, and (iii) not vote in respect of any such transaction or proposed transaction.

On joining the Board and regularly thereafter, directors are informed and reminded of their obligations in respect of dealing in securities of the Bank within the parameters of law and the Listing Rules.

Principle 12: Corporate Social Responsibility

During the year ended 31 March 2016, MedBank proudly continued to support and promote Maltese sportive, cultural, and charitable causes and events. The Bank's commitment to these initiatives was once again established through the various sponsorships and donation agreements that support a wide variety of community organisations.

Sports

MedBank's patronage of the sporting community was further strengthened with a number of donations to sporting associations and events. The Bank's significant support of the Malta Rugby Football Union (MRFU) has assisted the MRFU to further its ambitions at both an international level as well as at a local level, where the game's popularity continues to rapidly grow. The MRFU Cup (the local senior division league), is known as the 'Mediterranean Bank Cup'. MRFU started promoting the 7's tournament internationally last year and has actively started promoting Rugby in schools as an inclusion and educational program as from this year.

The Bank is also present in Gozo where the Bank sponsors the Otters Water Polo Club on a yearly basis. Another presence in Gozo is the collaboration with Oasi, a rehabilitation and inclusion centre for kids and adults alike, where the Bank has funded the trophies for their annual marathon and fund raising event.

Maltese Heritage

The preservation of Malta's national heritage is also important to the Bank and to this end it has supported a number of organisations and initiatives. These include the Mosta Local Council and the Valletta Local Council by funding Christmas lights. The Bank also donated funds to So Galerie to help promote upcoming artists by part funding exhibitions.

Music and Performing Arts

As part of the Bank's on-going corporate social responsibility programme and commitment, it also continues to support and promote the music and performing arts scene. In line with this commitment, the Bank is once again the main benefactor of the Manoel Theatre for the coming season.

Also as a continuous support to the Malta Philharmonic Orchestra ("MPO"), in 2015 MedBank donated funds to support the production of a brochure that not only has a calendar of events but also an overview of accomplishments by the MPO throughout that year to serve as a portfolio as part of their marketing campaign.

The Bank is also a proud corporate member of the scheme "Friends of The National Museum of Fine Arts".

Youth and charity

The Salesians Brigade summer school, the National Blood Transfusion Centre by donating merchandise to be given to blood donors and the Sliema Scout Group were also supported during one of their events.

The Bank is proud of its continued support to the Lady Bird Foundation and in fact once again chose this foundation to be the beneficiary of its annual Christmas charity campaign this year reflecting business generated during the month of December. The Bank also maintained its yearly appointment and presented a donation to the President's Community Chest Fund Campaign L-Istrina, on behalf of MedBank and Mediterranean Corporate Bank Limited ("MedCorp").

Last but not least, upon staff initiative and supported by the Bank, proceeds deriving from the Xmas raffle at the Group's Christmas Staff Party, donations were made to the Sisters of Charity St. Jeanne Antide, who take care of various charitable initiatives, Angela House, where a donation was made to fund kids initiatives and another donation was made to Hospice Malta for their remarkable work carried out with cancer patients and their families.

Education

As part of the Bank's collaboration towards the promotion of reading amongst children, MedBank took part in the Literacy Project that was organised by the Ministry of Education. In the past 2 years the Bank also contributed to the refurbishment of the Valletta Primary School Library through new flooring, equipment, shelving and books. Last year the collaboration was further strengthened by the Bank fully funding a fully functional Puppet Theatre for the school.

A donation was also made to the Farmers Coop Association to part fund some farming projects and initiatives.

Listing Rules

The Audit Committee receives notices of and approves all related party transactions and balances.

Other Disclosures

There were no material contracts to which the Bank, or any of its subsidiaries were a party, and in which any one of the Bank's Directors was directly or indirectly interested.

MANAGEMENT'S INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board is responsible for ensuring that the Bank's senior management develops and implements a sound system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute, assurance against material misstatement or loss. The Bank operates a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Bank.

The management of the Bank is responsible for instituting and preserving sufficient internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Internal control over financial reporting includes policies and procedures that pertain:

- to maintaining records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- to providing reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as adopted by the EU;
- to ensuring that receipts and expenditures are made only in accordance with authorisations of management and the respective directors; and
- to providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

6 July 2016

MEDIFIN HOLDING LIMITED

(MEDIRECT GROUP LIMITED AS FROM 26TH OCTOBER 2016)

Annual Report
and Consolidated Financial Statements

31 March 2016

Contents

Directors' report

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 2016.

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 two wholly owned subsidiaries being MeDirect Bank SA ("MeDirect") and Mediterranean Corporate Bank Limited ("MedCorp"), and Charts Investment Management Service Limited ("Charts") (together the "Subsidiaries").

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

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 comparative consolidated financial statements include Charts's results for a 15-month period compared to a 12-month period included in the current year.

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 comprise corporate lending and the provision of banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management, investments and corporate banking in Malta and Belgium.

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

Directors' report - continued

Principal activities - continued

On 1 June 2015, MeDirect, a wholly-owned subsidiary in Belgium, was authorised as a Belgian credit institution, which is now carrying out the Group's activities in Belgium.

MedBank's other 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.

Business review

During the financial year ended 31 March 2016, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its corporate lending portfolio and 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.

The Group recorded a profit after tax for the financial year ended 31 March 2016 of €17.0 million (2015: €35.4 million). The Group's performance, in the financial year ended 31 March 2015, was positively affected by a gain of €22.4 million recorded on the acquisition of MedCorp on 25 September 2014.

Profitability has been achieved through the Group's corporate lending activities – lending primarily through senior secured loans and bonds and treasury management activities – managing a diversified portfolio of liquid securities, including, bank covered bonds, public sector bonds and senior financial instruments. The Group's loans and advances to customers ("Lending Portfolio") largely consists of loans and bonds issued by corporate borrowers domiciled in Western Europe. Substantially, all loans and bonds 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 decreases in interest rates.

By virtue of board resolutions dated 30 September 2015, 11 December 2015 and 30 March 2016 the Group accepted capital contributions from its immediate parent company, Medifin Finance Limited amounting to €28.7 million, €14.0 million and €16.0 million respectively.

Directors' report - continued

Business review - continued

The Group's total operating income for the year ended 31 March 2016 was €61.8 million (2015: €78.4 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 plc, that includes Grand Harbour I B.V. ("GH I") - a controlled special purpose entity, established in the Netherlands, as part of the Group's funding strategy;
- MeDirect Bank SA - a wholly owned subsidiary of MedBank that took over the operations in Belgium as from June 2015;
- Mediterranean Corporate Bank Limited; and
- Medifin Estates which is considered insignificant.

The MedBank Group continued to build its corporate lending activities both internationally and domestically.

MedBank Group's Lending Portfolio (international and domestic) stood at €1.2 billion (2015: €1.0 billion) as of 31 March 2016, net of collective impairment loss allowances of €4.4 million (2015: €4.0 million) and specific impairment loss allowances of €12.4 million (2015: €9.6 million). In addition the Group had commitments of €144.1 million under revolving credit facilities as at 31 March 2016 (2015: €74.5 million) and other undrawn credit facilities of €33.3 million (2015: €16.8 million).

As of 31 March 2016, MedBank's investment portfolio stood at €872.5 million (2015: €1.5 billion) consisting of available-for-sale ("AFS") securities. 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.

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 that matured on 30 October 2015 were exchangeable for these bonds at a discount.

Directors' report - continued

Business review - continued

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

As part of the Group's funding strategy, MedBank had set up GH I, a controlled special purpose entity since the Group retained all the risks and rewards of the structure. In the period February – May 2015, MedBank repurchased €121 million Senior Secured Floating Rate notes that were originally due to mature by 2026. On 7 July 2015, MedBank as holder of the Subordinated Notes of GH I caused GH I to redeem all remaining outstanding notes.

At an extraordinary general meeting held on 30 September 2015, the Bank approved an interim dividend of €15.0 million. On the same date, the Bank paid the dividend amounting to €7.0 million that was approved throughout the Annual general Meeting dated 29 July 2015.

MedBank Group's shareholders' equity at the reporting date amounted to €203.7 million (2015: €169.3 million).

The average number of employees increased from 252 in the year ended 31 March 2015 to 257 in the financial year ended 31 March 2016. Personnel expenses for the year ended 31 March 2016 amounted to €17.3 million (2015: €15.8 million).

Charts Investment Management Service Limited ("Charts")

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 year ended 31 March 2016, Charts achieved a profit before tax amounting to €0.5 million (15-month period ended 31 March 2015: €1.4 million). After deducting taxation thereon, the profit for the financial year ended 31 March 2016 amounted to €0.3 million (15-months period ended 31 March 2015: €0.9 million).

Shareholders' equity of Charts as at 31 March 2016 amounted to €1.1 million (2015: €2.2 million).

Strategic development

The Group's primary strategic objective is to increase its corporate lending activities and to be a leading provider of savings, investment and wealth management products to the mass affluent market, both in Malta and Belgium.

On 1 June 2015, the National Bank of Belgium issued a credit institution licence to MeDirect, a wholly owned subsidiary of MedBank. 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 has a well diversified corporate lending portfolio and 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 Exchange Traded Funds ("ETFs"); access to model portfolios of funds; access to online investment analysis and tools; and competitive savings rates.

MedCorp continues 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.

Directors' report - continued

Strategic development - continued

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 total asset base of the Group amounts to €2.3 billion as at 31 March 2016 (2015: €2.8 billion). 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 consists principally of senior secured loans and bonds, substantially all of which are denominated in euro or pound sterling. Substantially, 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 other 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 has also provided efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other savings products. As of 31 March 2016, the Group's deposit base reached €1.4 billion (2015: €1.2 billion). 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 2016 the Group's Capital Adequacy Ratio stood at 15.5%.

Under the Single Supervisory Mechanism ("SSM"), as from January 2016, the Group came under the direct supervision of the European Central Bank ("ECB"). Before taking full supervisory responsibility, the ECB conducted a comprehensive assessment ("CA") of the Group's consolidated Statement of Financial Position. The assessment comprised a supervisory risk assessment, an asset quality review and a stress test. This exercise started in May 2015 and was completed in November 2015. The overall result emanating from the CA confirms the Group's solid capital position even under the theoretical stress conditions. The Group will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Group is faced with.

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.

Directors' report - continued

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.

The relative overall stability of the European markets and the reduction of interest rates by the ECB had an overall positive effect on the Group's funding cost and securities portfolios. 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 recent UK Brexit referendum results, 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 aggregate Lending Portfolio held by MedBank and MeDirect should grow as a percentage of the Group's overall asset base. The Group operates with a relatively low leverage ratio (7.88% as at 31 March 2016) and intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements provided by the 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 coming year with cautious optimism.

Board of directors

The directors of the Company who held office throughout the year were:

Mark A. Watson
Benjamin Hollowood

On 6 June 2016, Frederick Mifsud Bonnici, Francis J. Vassallo, Joaquin Vicent, Michael Walker and Dominic Wallace were appointed as directors.

Directors' report - continued

Dividends and reserves

At an extraordinary general meeting held on 30 September 2015, the Company approved an interim dividend of €28.7 million.

Retained earnings of the Company amounting to €69.8 million (2015: €65.1 million) and of the Group amounting to €87.0 million (2015: €98.9 million) were carried forward to the next financial year. The directors of the Company propose the payment of a final dividend amounting to €2.5 million.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Company and the Group as at the end of each reporting year and of the profit or loss for that year.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining 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, and that comply with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Medifin Holding Limited for the year ended 31 March 2016 are included in the Annual Report 2016, which is published in hard-copy printed form and may be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Related parties

During the year ended 31 March 2016, other than the transactions described under note 34 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 2015. 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 15, 16, 17 and 22.

Furthermore, there were no material contracts to which the Company, or anyone of its subsidiary undertakings, was party to and in which anyone of the directors was directly or indirectly interested.

Directors' report - continued

Events after the reporting date

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

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.

Additional regulatory disclosures

The Group is required to publish Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority, which follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013.

These disclosures are prepared on an annual basis and are appended in a separate section as part of the Annual Report.

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 the Company, and that this report includes a fair review of the performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Francis J. Vassallo
Chairman

Mark A. Watson
Director

Registered Office
10, St. Barbara Bastion,
Valletta, VLT 1961
Malta

6 July 2016

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Independent auditor's report

To the Shareholders of Medifin Holding Limited

Report on the Financial Statements for the year ended 31 March 2016

We have audited the consolidated and stand-alone parent company financial statements of Medifin Holding Limited (together the "financial statements") on pages 11 to 112 which comprise the consolidated and parent company statements of financial position as at 31 March 2016, and the consolidated and parent company income statements, statements of other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements
As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on page 7, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 the directors, 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.

Opinion
In our opinion the financial statements

- give a true and fair view of the financial position of the Group and the Company as at 31 March 2016, and of their financial performance and cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Independent auditor's report - continued

To the Shareholders of Medifin Holding Limited

Report on Other Legal and Regulatory Requirements for the year ended 31 March 2016

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

Fabio Axisa
Partner

6 July 2016

Statements of financial position

		Group		Company	
		2016	2015	**2016**	2015
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with Central Banks, treasury bills and cash	4	**33,281**	14,384	**-**	-
Derivative financial instruments	5	**3,964**	3,197	**-**	-
Loans and advances to financial institutions	6	**60,138**	168,278	**220**	1
Loans and advances to customers	7	**1,238,966**	1,047,194	**-**	-
Investments					
- Corporate	8	**21,493**	98,620	**-**	-
- Treasury	8	**851,256**	1,405,076	**-**	-
Investment in subsidiaries	9	**-**	-	**194,911**	134,710
Property and equipment	11	**952**	1,501	**-**	-
Intangible assets	12	**677**	758	**-**	-
Deferred tax assets	13	**9,598**	4,199	**-**	-
Current tax assets		**5,457**	-	**-**	-
Prepayments and accrued income	14	**17,747**	21,310	**17**	-
Other assets	15	**31,111**	26,472	**12,341**	1,854
Total assets		**2,274,640**	2,790,989	**207,489**	136,565

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of financial position - continued

		Group		Company	
		2016	2015	**2016**	2015
	Notes	**€000**	€000	**€000**	€000
EQUITY					
Called up issued share capital	16	**55,738**	55,738	**55,738**	55,738
Share premium	16	**13,756**	13,756	**13,756**	13,756
Shareholders' contribution	16	**58,700**	-	**58,700**	-
Reserve for general banking risks	16	**1,194**	1,029	**-**	-
Other reserves	16	**(12,137)**	8,800	**-**	-
Retained earnings	16	**86,983**	98,872	**69,754**	65,098
Total equity attributable to equity holders of the Company		**204,234**	178,195	**197,948**	134,592
Non-controlling interests	9	**-**	876	**-**	-
Total equity		**204,234**	179,071	**197,948**	134,592
LIABILITIES					
Derivative financial instruments	5	**7,337**	5,200	**-**	-
Amounts owed to financial institutions	17	**541,925**	1,166,091	**-**	1,550
Amounts owed to customers	18	**1,447,355**	1,203,715	**-**	-
Debt securities in issue	19	**-**	157,137	**-**	-
Subordinated liabilities	20	**47,380**	47,777	**-**	-
Current tax liabilities		**69**	4,340	**16**	2
Deferred tax liabilities	13	**-**	283	**-**	-
Accruals and deferred income	21	**23,366**	24,973	**7**	8
Other liabilities	22	**2,974**	2,402	**9,518**	413
Total liabilities		**2,070,406**	2,611,918	**9,541**	1,973
Total equity and liabilities		**2,274,640**	2,790,989	**207,489**	136,565
Memorandum items					
Commitments to purchase financial assets	7/8	**152,962**	82,392		
Commitments to extend credit and other similar commitments	31 – 33	**180,772**	95,199		

The notes on pages 20 to 112 are an integral part of these financial statements.

The financial statements on pages 11 to 112 were approved and authorised for issue by the Board on 6 July 2016 and were signed by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director

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Income statements

	Notes	Group 2016 €000	Group 2015 €000	Company 2016 €000	Company 2015 €000
Interest income		**77,308**	74,051	**55**	18
Interest expense		**(36,408)**	(39,942)	**-**	550
Net interest income	23	**40,900**	34,109	**55**	568
Fee and commission income					
– Corporate lending fees		**526**	730	**-**	-
– Other		**3,640**	3,637	**-**	-
Fee and commission expense					
– Corporate lending fees		**(897)**	(176)	**-**	-
– Other		**(1,317)**	(762)	**-**	300
Net fee and commission income	24	**1,952**	3,429	**-**	300
Net trading income/(loss)	25.1	**2,224**	(1,767)	**-**	(2)
Net income/(loss) from other financial instruments at fair value through profit or loss	25.2	**1,108**	(1,623)	**-**	-
Other operating income					
– Realised gains on disposal of other investments	25.3	**15,712**	21,120	**-**	-
– Realised (losses)/gains on disposal of loans and advances		**(253)**	485	**-**	-
– Gain on the initial accounting on acquisition of a subsidiary	10	**-**	22,414	**-**	-
– Other income	25.4	**179**	187	**45,637**	38,463
Total operating income		**61,822**	78,354	**45,692**	39,329
Personnel expenses	26	**(17,628)**	(16,441)	**-**	-
Depreciation and amortisation	11/12	**(678)**	(1,701)	**-**	-
Other administrative expenses	27	**(25,904)**	(19,332)	**(33)**	(59)
Total operating expenses		**(44,210)**	(37,474)	**(33)**	(59)
Net operating income before impairment charges		**17,612**	40,880	**45,659**	39,270
Net impairment charges	28	**(3,747)**	(4,265)	**-**	-
Profit before tax		**13,865**	36,615	**45,659**	39,270
Taxation	29	**3,144**	(1,213)	**(12,303)**	(10,297)
Profit for the year		**17,009**	35,402	**33,356**	28,973

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of other comprehensive income

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Profit for the year	**17,009**	35,402	**33,356**	28,973
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	**(5,204)**	37,282	**-**	-
- Net amount reclassified to profit or loss, before tax	**(15,712)**	(19,303)	**-**	-
Income tax relating to other comprehensive income	**1,055**	(899)	**-**	-
Other comprehensive income, net of tax	**(19,861)**	17,080	**-**	-
Total comprehensive income, net of tax	**(2,852)**	52,482	**33,356**	28,973
Profit attributable to:				
Owners of the Company	**16,976**	35,077	**33,356**	28,973
Non-controlling interests	**33**	325	**-**	-
Profit for the year	**17,009**	35,402	**33,356**	28,973
Total comprehensive income attributable to:				
Owners of the Company	**(2,885)**	52,171	**33,356**	28,973
Non-controlling interests	**33**	311	**-**	-
Total comprehensive income for the year	**(2,852)**	52,482	**33,356**	28,973

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital €000	Share premium €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000	Non-controlling interests €000	Total equity €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:								
Fair valuation of available-for-sale financial assets:								
- Net change in fair value arising during the period, net of tax	-	-	-	35,399	-	35,399	19	35,418
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-	(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 20 to 112 are an integral part of these financial statements.

Statements of changes in equity - continued

Group	Share capital €000	Share premium €000	Shareholders' contribution €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000	Non-controlling interests €000	Total equity €000
Balance at 1 April 2015	55,738	13,756	-	1,029	8,800	98,872	178,195	876	179,071
Total comprehensive income									
Profit for the year	-	-	-	-	-	16,976	16,976	33	17,009
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	-	-	-		(4,946)	-	(4,946)	-	(4,946)
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-		(14,915)	-	(14,915)	-	(14,915)
Total other comprehensive income, net of tax	-	-	-		(19,861)	-	(19,861)	-	(19,861)
Total comprehensive income, net of tax	-	-	-		(19,861)	16,976	(2,885)	33	(2,852)
Transactions with owners									
Contribution by shareholders	-	-	58,700	-	-	-	58,700	-	58,700
Dividends paid	-	-	-	-	-	(28,700)	(28,700)	(495)	(29,195)
Total transactions with owners	-	-	58,700	-	-	(28,700)	30,000	(495)	29,505
Changes in ownership interest in subsidiary									
Acquisition of non-controlling interests	-	-	-	-	(1,076)	-	(1,076)	(414)	(1,490)
Transfer to Reserve for general banking risks	-	-	-	165	-	(165)	-	-	-
Balance at 31 March 2016	**55,738**	**13,756**	**58,700**	**1,194**	**(12,137)**	**86,983**	**204,234**	**-**	**204,234**

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of changes in equity - continued

Company

	Share capital €000	Share premium €000	Shareholders' contribution €000	Retained earnings €000	Total €000
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**
Balance at 1 April 2015	55,738	13,756	-	65,098	134,592
Total comprehensive income					
Profit for the year	-	-	-	33,356	33,356
Transactions with owners					
Contribution by shareholders	-	-	58,700	-	58,700
Dividends paid	-	-	-	(28,700)	(28,700)
Total transactions with owners	-	-	58,700	(28,700)	30,000
Balance at 31 March 2016	**55,738**	**13,756**	**58,700**	**69,754**	**197,948**

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of Cash Flows

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Cash flows from operating activities				
Interest and commission receipts	**95,392**	108,083	**-**	-
Interest and commission payments	**(40,395)**	(37,135)	**-**	-
Payments to employees and suppliers	**(45,623)**	(36,047)	**-**	-
Operating profit before changes in operating assets/liabilities	**9,374**	34,901	**-**	-
Increase in operating assets:				
- Reserve deposit with Central Bank of Malta	**(2,407)**	(1,551)	**-**	-
- Loans and advances to financial institutions and customers	**(210,327)**	(321,906)	**-**	-
- Investments	**-**	(255,353)	**-**	-
Increase/(decrease) in operating liabilities:				
- Amounts owed to financial institutions and customers	**(96,926)**	370,399	**-**	-
- Other payables	**122**	(173)	**-**	-
Tax (paid)/refunded	**(17,374)**	(3,185)	-	8,778
Net cash (used in)/from operating activities	**(317,538)**	(176,868)	-	8,778

The notes on pages 20 to 112 are an integral part of these financial statements.

Statements of Cash Flows - continued

	Notes	Group 2016 €000	Group 2015 €000	Company 2016 €000	Company 2015 €000
Net cash (used in)/from operating activities		**(317,538)**	(176,868)	**-**	8,778
Cash flows from investing activities					
Acquisition of investment in subsidiary		**(1,500)**	(35,300)	**(1,500)**	-
Acquisition of property and equipment		**(22)**	(188)	**-**	-
Disposal of property and equipment		**-**	25	**-**	-
Acquisition of intangible assets		**(26)**	(411)	**-**	-
Acquisition of available-for-sale assets and treasury bills		**(289,592)**	(722,352)	**-**	-
Disposal/redemption of available-for-sale assets		**898,484**	987,697	**-**	-
Disposal of equity investments		**3,637**	-	**-**	-
Derivative financial instruments		**(1,960)**	(37,087)	**-**	-
Dividends received from subsidiaries		**-**	-	**22,918**	-
Dividends paid		**(29,195)**	-	**(28,700)**	-
Increase in shareholders' contribution		**58,700**	-	**58,700**	-
Net shareholders' contribution advanced to subsidiary		**-**	-	**(58,700)**	(8,890)
Net cash from/(used in) investing activities		**638,526**	192,384	**(7,282)**	(8,890)
Cash flows from financing activities					
Repurchase of debt securities		**(148,000)**	(75,204)	**-**	-
Repayment of debt securities on maturity		**(9,255)**	-	**-**	-
Issue of subordinated liabilities		**-**	25,087	**-**	-
Loan from subsidiary		**-**	-	**7,501**	-
Loan from ultimate parent		**1,000**	-	**-**	-
Repayment of loan from ultimate parent		**(548)**	(14,700)	**-**	-
Net receipts from/(payments to) group companies		**1,586**	(1,838)	**-**	-
Net cash (used in)/from financing activities		**(155,217)**	(66,655)	**7,501**	-
Net increase/(decrease) in cash and cash equivalents		**165,771**	(51,139)	**219**	(112)
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		**(201,708)**	(124,346)	**1**	113
Cash and cash equivalents at end of year	30	**(35,937)**	(201,708)	**220**	1

The notes on pages 20 to 112 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

Medifin Holding Limited ("the Regulatory Parent" or "the Company") is a limited liability company domiciled and incorporated in Malta.

The consolidated financial statements as at and for the financial year ended 31 March 2016 comprise the financial statements of the Company and its subsidiaries, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of Medifin Holding Limited for the financial year ended 31 March 2016, including the financial results of Mediterranean Bank plc ("MedBank"), MeDirect Bank SA ("MeDirect"), Mediterranean Corporate Bank Limited ("MedCorp") and Charts Investment Management Service Limited ("Charts").

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

MeDirect Bank SA is a credit institution licensed in Belgium that as from end of May 2015 took over operations from the branch that the Group had established in Belgium in prior years. On 1 June 2015, MeDirect Bank SA was authorised as a Belgian credit institution, which is now carrying out all of the Group's activities in Belgium.

As at 31 March 2014, Medifin Leasing Limited ("Medifin Leasing") was a subsidiary of Medifin Holding Limited with 99.99% shareholding. On 27 June 2014, the shares in Medifin Leasing were transferred to Medifin Investments Limited, the parent company of Medifin Holding. The comparative consolidated financial information includes the results of Medifin Leasing until the date of disposal.

In prior years, the financial year end of Charts differed from that of the Group and its financial year was a calendar year. On 8 April 2015, Charts altered the reference period which started on 1 January 2014 and ended on 31 December 2014 to run from 1 January 2014 to 31 March 2015. As a result, the comparative consolidated financial information includes Charts' results for a 15-month period compared to a 12-month period within the financial year ended 31 March 2016.

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"), a controlled special purpose 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 19). On 7 July 2015, MedBank as holder of the Subordinated Notes of GH I caused GH I to redeem all remaining outstanding notes.

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

1. **Summary of significant accounting policies** - continued

1.1 Reporting entity - continued

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.

1.2 Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

These financial statements have also been drawn up in accordance with the provisions of the Banking Act, 1994, and the Companies Act, 1995, enacted in Malta.

These financial statements have been prepared on the basis of the historical cost convention, 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 investments which are measured at fair value.

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Group's accounting policies (see note 3.1 – Critical accounting estimates and judgments in applying the Group's accounting policies).

Standards, interpretations and amendments to published standards effective in 2016

During the financial year ended 31 March 2016, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Group's accounting policies impacting the Group's financial performance and position.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new accounting standards and interpretations have been published, which are not mandatory for 31 March 2016 reporting periods and which have not been early adopted by the Group. These principally comprise 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.

1. **Summary of significant accounting policies** - continued

1.2 Basis of preparation - continued

The classification and measurement of financial assets will depend on the Group's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise. For instance, under IFRS 9 embedded derivatives will not be separated from host financial assets, and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in an entity's own credit risk are to be included in other comprehensive income.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12 month ECL"). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL").

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12 month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

1. **Summary of significant accounting policies** - continued

1.2 Basis of preparation - continued

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Group is assessing the impact that IFRS 9 will have on the financial statements, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effect.

There are no other standards 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.

1.3 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

1. **Summary of significant accounting policies** - continued

1.3 Consolidation - continued

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries are consistent with the policies adopted by the Group. In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of all Group entities is the euro. The financial statements are presented in euro, which is also the Group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.5 Financial assets

1.5.1 Initial recognition and derecognition

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Group initially recognises loans and advances to customers at the date of transfer of beneficial ownership or when cash is advanced to borrowers. Investments and derivative financial instruments are recognised on settlement date. Transactions in all other financial instruments, consisting of regular way purchases and sales, are recognised on trade date, which is the date when the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or the Group has not retained control of the asset.

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, retaining the asset on the statement of financial position because the Group retains all or substantially all the risks and rewards of ownership of such assets.

1. **Summary of significant accounting policies** - continued

1.5 Financial assets - continued

1.5.1 Initial recognition and derecognition - continued

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

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 derecognition 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 performance of the servicing.

1.5.2 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

1.5.2.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

Financial instruments classified within this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss.

Held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments and the relating hedging relationships are effective.

1. **Summary of significant accounting policies** - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.1 Financial assets at fair value through profit or loss - continued

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot be subsequently changed. According to IAS 39, the fair value option is only applied when the following conditions are met:
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consist of debt hosts and embedded derivatives that must be separated.

The Group's held for trading financial instruments comprise derivative contracts. The Group has designated certain equity investments as financial assets as at fair value through profit or loss upon initial recognition.

1.5.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Interest on loans and receivables is included in profit or loss and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivable and recognised in profit or loss as 'net impairment changes'.

Loans and receivables mainly consist of balances with Central Bank of Malta, loans and advances to banks and customers, other receivables together with accrued income and other assets.

1. **Summary of significant accounting policies** - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.3 Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

These are initially recognised at fair value, including direct and incremental transaction costs, and measured subsequently at amortised cost using the effective interest rate method.

Interest on held-to-maturity investments is included in profit or loss and reported as "interest income". In the case of an impairment, the impairment loss is being reported as a deduction from the carrying value of the investment and recognised in profit or loss. The Group did not hold any held-to-maturity investments as at the end of the current and preceding reporting periods.

1.5.2.4 Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses (in case of monetary assets), until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

Interest income is calculated using the effective interest method, and is recognised in profit or loss as are foreign currency gains and losses on monetary assets classified as available-for-sale. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

1. **Summary of significant accounting policies** - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.4 Available-for-sale financial assets - continued

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. The Group's principal investments, consisting mainly of debt securities and the Malta Government treasury bills are classified as available-for-sale as at the end of the reporting period.

1.6 Impairment of financial assets

1.6.1 Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of active market for financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; and
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used throughout the financial year under review and the comparative financial year vary between three months and twelve months.

1. **Summary of significant accounting policies** - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

1.6.1.1 Forborne loans

A forborne loan is categorised as impaired when:
- there has been a change in contractual cash flows as a result of a concession which the Group would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

Forbearance activity is undertaken selectively where it has been identified that repayment difficulties against the original terms already have, or are very likely to materialise. Accordingly, taking cognisance of the principles highlighted above, forborne loans are treated as impaired loans where: the customer is experiencing, or is very likely to experience, difficulty in meeting a payment obligation to the Group (i.e. due to current credit distress); and the Group is offering to the customer revised payment arrangements which constitute a concession (i.e. it is offering terms it would not normally be prepared to offer).

Forborne loans are typically assessed for impairment individually. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in forborne loans. Loans subject to individual impairment assessment, which have been subject to a forbearance measure, are subject to ongoing review to determine whether they remain impaired.

The forborne loan will continue to be 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. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis. The minimum period of payment performance required depends on the nature of the loan in the portfolio, but is not less than twelve months. The period of performance will vary depending on the frequency of payments to be made by the customer under the amended agreement and the extent to which the customer's financial position is considered to have improved. Forborne loans cannot be returned to a non-impaired grade when a specific impairment allowance remains against any of the customer's credit facilities.

Forborne loans are not classified as impaired where the forbearance has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the modified terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Non-impaired forborne loans also include previously impaired forborne loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

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

1. **Summary of significant accounting policies** - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

1.6.1.1 Forborne loans - continued

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.

When a loan is restructured as part of forbearance strategy and the restructuring results in derecognition of the existing loan, the new loan is disclosed as forborne.

1.6.2 Assets classified as available-for-sale

Available-for-sale financial assets are assessed at each reporting date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after initial recognition of the financial asset (a ‘loss event’) and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (adjusted for any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in profit or loss, is reclassified from other comprehensive income and recognised in profit or loss as a reclassification adjustment.

In assessing objective evidence of impairment at the reporting date in relation to available-for-sale debt securities, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers’ liquidity, business and financial risk exposures, levels of any trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.2 Assets classified as available-for-sale - continued

The primary indicators of potential impairment are considered to be adverse fair value movements and the disappearance of an active market for a security, while changes in credit ratings are of secondary importance.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

Once an impairment loss has been recognised on an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, or the instrument is no longer impaired, the impairment loss is reversed through profit or loss.

For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss, to the extent that further cumulative impairment losses have been incurred.

1.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.8 Intangible assets

1.8.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1. **Summary of significant accounting policies** - continued

1.8 Intangible assets - continued

1.8.1 Goodwill - continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.8.2 Other intangible assets

Intangible assets with finite useful lives, such as purchased computer software, are amortised, on a straight line basis, over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The estimated useful life of purchased software ranges between 3 to 5 years. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

1.9 Property, plant and equipment

All property, plant and equipment used by the Group is initially recorded at historical cost, including transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All property, plant and equipment is subsequently stated at historical cost less accumulated depreciation and impairment losses.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any part accounted for separately is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on assets recognised in profit or loss is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- improvement to premises	4 – 10 years
- computer equipment	3 – 5 years
- other equipment	4 years
- fixtures and fittings	10 years
- motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

1. **Summary of significant accounting policies** - continued

1.9 Property, plant and equipment - continued

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1. **Summary of significant accounting policies** - continued

1.11 Current and deferred income tax - continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Investment in subsidiaries

The Group classifies investments in entities which it controls as subsidiaries.

The Company's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through profit or loss if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

1.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.14 Financial liabilities

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative financial liabilities (refer to Note 1.15), are classified as financial liabilities which are not at fair value through profit or loss under IAS 39.

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method.

The Group derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, other payables and other liabilities.

1.15 Derivative financial instruments

Derivative financial instruments, including currency forwards and swaps, interest rate swaps and other derivative contracts, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained from valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

1. **Summary of significant accounting policies** - continued

1.15 Derivative financial instruments - continued

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss. If a derivative 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 trading income.

The Group designates certain derivatives 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 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.

1.15.1 Fair value hedges

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.

1.16 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.

1. **Summary of significant accounting policies** - continued

1.17 Provisions

Provisions for legal and other claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.18 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense presented in the income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on available-for-sale investments calculated using the effective interest method; and
- the effective portion of fair value changes attributable to qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in fair value of the hedged items attributable to interest rate risk.

Fair value changes attributable to other derivatives in hedging relationships which are discontinued are presented in 'net trading income' with effect from the last date on which the hedge was demonstrated to be effective.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.19 Fees and commissions

Fee and commission income and expense that are an integral part to the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of interest income or interest expense.

1. **Summary of significant accounting policies** - continued

1.19 Fees and commissions - continued

Other fee and commission income, comprising account servicing fees, underwriting fees, investment management fees, guarantee fees, placement fees and syndication fees, are recognised in profit or loss as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised in profit or loss on a straight-line basis over the commitment period. Fee and commission expense, relating mainly to transaction and service fees, is expensed as the services are received.

1.20 Net trading income

Net trading income comprises all realised and unrealised foreign exchange differences and all fair value changes arising on derivatives held for trading, including derivatives that are not designated as hedging instruments and derivatives that no longer meet the criteria for hedge accounting.

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

Net income from other financial instruments carried at fair value through profit or loss comprises all realised and unrealised fair value changes, interest income, dividends, and foreign exchange differences attributable to financial assets designated upon initial recognition as at fair value through profit or loss.

1.22 Leases – Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1.23 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised in profit or loss over the life of the guarantee. Any increase in the liability relating to guarantees is recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.24 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, unrestricted balances held with Central Banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. 'Amounts owed to financial institutions' that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

1.25 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

2. Financial risk management

2.1 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.

The Group also provides basic retail services such as money transfer, spot currency exchange and currency forward contracts. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

In respect of funding, the Group 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 major components within the Group's asset base are a portfolio of loans to international corporates, a treasury debt securities portfolio and another portfolio of loans to local customers, mainly corporates.

As outlined previously, as part of the Group's risk management processes, its treasury function is involved in interest rate swaps and currency forward transactions that are entered into for risk management purposes.

Therefore the main risks assumed by the Group 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 these 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 presents information about the financial risk management of the MedBank Group, which comprises MedBank, MeDirect and MedCorp.

2.1.1 Risk management framework

The Group recognises the need to have an effective and efficient risk management function and therefore it has adopted a comprehensive risk management 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 implemented 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.

2. **Financial risk management** - continued

2.2 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 financial institutions, together with 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 risk and sector risk).

2.2.1 Management of credit risk

The Group has in place 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 of financial assets, including both high-quality securities with strong ratings stability and a diversified portfolio of loans to / securities issued by corporates, whose higher returns are viewed as justifying a greater level of risk.

With respect to its debt securities portfolio, the Group focuses on acquiring securities issued by financial institutions (some of which may carry a government guarantee), supranational agencies and governments. Lending to corporate borrowers, by subscribing to debt securities or by providing loans and overdrafts, is typically on a senior secured basis. MedBank's Credit and Investment Policy permits it to manage its credit risk through credit derivatives, subject to Board approval, although to date it has not done so.

The Group's financial assets are managed on a portfolio basis, taking into account correlations between asset classes. The Group diversifies its financial sector and sovereign exposures to avoid excessive concentration in particular countries or types of financial institutions, and by considering the impacts of lending to corporate borrowers within the Group's portfolio on risk assessment.

The Management Credit Committees of the Subsidiaries (MedBank, MedCorp and MeDirect) are responsible for approving credit recommendations and making other credit decisions under their authority delegated by the respective Board of Directors. This includes decisions on individual credits, reviewing and recommending credit exposures, consideration of credit hedging strategies and recommending concentration limits for approval by the Board of Directors.

They are also responsible for delegating transactional responsibility to their Treasury and Investment department such that their treasury portfolios are managed on a day to day basis by the Treasury function within the parameters that the Management Credit Committee of the Subsidiaries sets out.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.2 Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount. For financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

MedBank Group	**2016** **€000**	2015 €000
Net exposure:		
Balances with Central Banks, treasury bills and cash	**33,280**	14,384
Derivative financial instruments	**3,964**	3,197
Loans and advances to financial institutions	**59,558**	167,775
Loans and advances to customers		
– Corporate and municipalities	**1,225,278**	1,030,583
– Retail	**13,688**	16,611
Investments	**872,497**	1,503,462
Accrued income	**15,110**	17,799
Loans to related parties (included in other assets)	**26,564**	20,256
	2,249,939	2,774,067
Commitments to purchase financial assets	**152,962**	82,392
Commitments to extend credit and other similar commitments	**180,772**	95,199

2.2.3 Credit quality of financial assets

The Group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss.

The four credit quality classifications below describe the credit quality of the Group's key financial assets. The Group reviews and grades financial assets using the following internal risk grades:

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. Impaired - exposures have been assessed individually as impaired.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

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.

The following table sets out information about the credit quality of financial assets held by the MedBank Group and the related impairment allowances:

MedBank Group	**Performing**			**Non-performing**		
	Regular	**Focus**	**Under surveillance**	**Impaired**	**Impairment allowances**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2016						
Balances with Central Bank of Malta and Treasury Bills	33,280	-	-	-	-	**33,280**
Derivative financial instruments	3,964	-	-	-	-	**3,964**
Loans and advances to financial institutions	59,558	-	-	-	-	**59,558**
Loans and advances to customers	825,262	255,800	126,741	47,971	(16,808)	**1,238,966**
Investments	872,497	-	-	-	-	**872,497**
Accrued income	11,992	1,333	1,133	652	-	**15,110**
Loans to related parties (included in other assets)	26,564	-	-	-	-	**26,564**
	1,833,117	257,133	127,874	48,623	(16,808)	**2,249,939**
As at 31 March 2015						
Balances with Central Bank of Malta and Treasury Bills	14,384	-	-	-	-	14,384
Derivative financial instruments	3,197	-	-	-	-	3,197
Loans and advances to financial institutions	167,775	-	-	-	-	167,775
Loans and advances to customers	826,720	135,443	37,439	61,183	(13,591)	1,047,194
Investments	1,503,462	-	-	-	-	1,503,462
Accrued income	15,638	905	392	864	-	17,799
Loans to related parties (included in other assets)	20,256	-	-	-	-	20,256
	2,551,432	136,348	37,831	62,047	(13,591)	2,774,067

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

The MedBank Group held available-for-sale investment securities (excluding equity instruments) with a carrying amount of €872.4 million as at 31 March 2016 (2015: €1.5 billion). For investment securities, the Group's credit quality classifications referred to above encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information:

	Group	
	2016	2015
	€000	€000
National Government securities		
A- to BBB-	**7,128**	51,770
Regional Government securities		
AAA	**62,574**	71,785
A- to BBB-	**-**	17,179
Other securities		
AAA	**425,566**	504,215
AA+ to AA-	**277,868**	691,781
A+ to CCC+	**99,279**	164,122
Total	**872,415**	1,500,852

2.2.4 Past due but not impaired financial assets

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. The Group's past due exposures consist solely of loans and advances to customers.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.4 Past due but not impaired financial assets - continued

The past due ageing analysis of the Group's loans and advances is reflected in the following table:

	MedBank Group	
	2016	2015
	€000	€000
Up to 30 days		
Principal	**16,402**	11,858
Interest	**43**	44
31 to 60 days		
Principal	**2,855**	1,659
Interest	**12**	12
61 to 90 days		
Principal	**26**	-
Interest	**-**	-
Total	**19,338**	13,573

MedBank and MeDirect do not have any exposures which are past due but not impaired. All past due but not impaired facilities form part of the local Lending Portfolio. Past due but not impaired loans are concentrated within the real estate and construction sector.

2.2.5 Impaired financial assets

The Group's impaired financial assets comprise solely loans and advances to customers. All credit exposures have been reviewed on a case by case basis (see accounting policy note 1.6) in the light of current economic conditions. Impaired 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.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its Lending Portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures. The Group also establishes an allowance for impairment at collective level on its loans and advances to customers.

The following table analyses the specific impairment allowances recognised for impaired loans and advances that are individually assessed, and collective impairment allowances on loans and advances not classified as individually impaired.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Impaired financial assets - continued

MedBank Group	**Specific impairment allowances €000**	**Collective impairment allowances €000**
Year ended 31 March 2016		
At beginning of year	**9,614**	**3,977**
Exchange differences	**(48)**	**-**
Loan impairment charge	**2,803**	**462**
At end of year	**12,369**	**4,439**
- of which relating to local lending portfolio	**7,646**	**695**
New allowances	**4,985**	**4,439**
Release of allowances no longer required	**(2,182)**	**(3,977)**
Total loan impairment charge	**2,803**	**462**
- **of which relating to local lending portfolio**	**(888)**	**(183)**
Year ended 31 March 2015		
At beginning of year	1,422	872
Acquisition through business combination	8,672	1,140
Exchange differences	13	-
Loan impairment (credit)/charge	(493)	1,965
At end of year	9,614	3,977
- of which relating to local lending portfolio	8,536	877
New allowances	1,095	3,977
Release of allowances no longer required	(1,588)	(2,012)
Total loan impairment charge	(493)	1,965
- **of which relating to local lending portfolio**	(136)	(263)

The impaired local loans and advances are mainly attributable to the real estate and construction sector. Sectorial information in respect of international loans and advances is not deemed meaningful.

During the current financial year, interest income amounting to €1.9 million (2015: €2.4 million) was recognised in profit or loss on loans for which individually assessed impairment provisions existed.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 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 Committees 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.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and recognised as a new loan, for accounting purposes. However, newly recognised loans retain the 'renegotiated loans' classification.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

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.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.6 Loans with renegotiated terms and the Group's forbearance policy - continued

The following table shows the carrying amount of the Group's loans and advances by forbearance and past due status:

MedBank Group	**International Lending Portfolio**		**Local Lending Portfolio**		
	Non forborne exposures €000	**Forborne exposures €000**	**Non forborne exposures €000**	**Forborne exposures €000**	**Total €000**
As at 31 March 2016					
Performing					
Neither past due nor impaired	**1,098,837**	**58,855**	**24,678**	**6,150**	**1,188,520**
Past due but not impaired:					
- by up to 30 days	**-**	**-**	**12,480**	**3,922**	**16,402**
- between 31 to 60 days	**-**	**-**	**1,428**	**1,427**	**2,855**
- between 61 and 90 days	**-**	**-**	**1**	**25**	**26**
Non-performing					
Impaired, net of specific impairment allowances	**11,352**	**12,078**	**731**	**11,441**	**35,602**
Loans and advances, net of specific impairment allowances	**1,110,189**	**70,933**	**39,318**	**22,965**	**1,243,405**
Specific impairment allowances	**4,000**	**723**	**641**	**7,005**	**12,369**
Collective impairment allowances	**3,509**	**235**	**458**	**237**	**4,439**
As at 31 March 2015					
Performing					
Neither past due nor impaired	938,495	-	38,706	8,884	986,085
Past due but not impaired:					
- by up to 30 days	-	-	10,033	1,825	11,858
- between 31 to 60 days	-	-	1,579	80	1,659
Non-performing					
Impaired, net of specific impairment allowances	15,086	22,179	2,951	11,353	51,569
Loans and advances, net of specific impairment allowances	953,581	22,179	53,269	22,142	1,051,171
Specific impairment allowances	1,078	-	2,339	6,197	9,614
Collective impairment allowances	3,028	72	499	378	3,977

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.6 Loans with renegotiated terms and the Group's forbearance policy - continued

MedBank Group	**2016**	2015
	€000	€000
Total forborne loans and advances to customers as a percentage of total gross loans and advances to customers	**8%**	5%

Interest income recognised by the Group during the financial year ended 31 March 2016 in respect of forborne exposures amounted to €6.1 million (2015: €1.4 million).

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

MedBank Group	**2016**	2015
	€000	€000
Year ended 31 March		
At beginning of year	**50,518**	-
Forborne facilities arising on acquisition of MedCorp	**-**	28,812
Loans to which forbearance measures have been extended during the year without derecognition	**59,343**	22,683
Capitalised interest	**1,139**	106
Repayments or sale of facility	**(8,717)**	(1,083)
Exchange differences	**(635)**	-
Amortisation of premium or discount	**(22)**	-
At end of year	**101,626**	50,518

As at 31 March 2016, specific impairment allowances on forborne loans was equivalent to €7.7 million (2015: €6.2 million). In 2015, €5.7 million of this amount arose from the acquisition of MedCorp. The other movements reflect solely increases in allowances in respect of specific exposures.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.6 Loans with renegotiated terms and the Group's forbearance policy - continued

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

MedBank Group	**Neither past due nor impaired €000**	**Past due but not impaired €000**	**Impaired €000**	**Total €000**
As at 31 March 2016				
Financial services	**9,981**	**-**	**300**	**10,281**
Real estate and construction	**5,949**	**-**	**12,001**	**17,950**
Manufacturing	**23,261**	**-**	**14,227**	**37,488**
Other	**25,814**	**5,374**	**4,719**	**35,907**
	65,005	**5,374**	**31,247**	**101,626**
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	13,866	15,468
	8,884	1,905	39,729	50,518

The Group's forborne loans consist of exposures to corporates based in the European Union. The forborne local loans are mainly categorised as exposures to corporate customers within the real estate and construction sector.

2.2.7 Write-off policy

The Group writes off financial assets 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. Financial assets written off by the Group during the year amounted to €0.5 million (2015: €3.3 million).

2.2.8 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.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Collateral - continued

Depending on the customer's standing and the type of product, facilities may be provided on an unsecured basis. For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The following tables show the carrying amount of MedCorp's loans and advances to customers by level of collateral. The collateral measured for the purposes of the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The collateral amounts represent the expected market value on an open market basis: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value.

Loans and advances at 31 March	**Forborne**		**Non-forborne**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000
Non-impaired						
a) Not collateralised	**-**	-	**1,011**	850	**1,011**	850
b) Fully collateralised						
- Up to 50% LTV	**3,854**	4,303	**25,625**	27,542	**29,479**	31,845
- 51% to 75% LTV	**6,250**	6,431	**4,539**	6,493	**10,789**	12,924
- 76% to 90% LTV	**1,420**	-	**1,380**	7,466	**2,800**	7,466
- 91% to 100% LTV	**-**	-	**3,497**	1,259	**3,497**	1,259
c) Partially collateralised						
- greater than 100% LTV	**-**	55	**84**	522	**84**	577
- of which collateral value	***-***	*4*	***15***	*32*	***15***	*36*
	11,524	10,789	**36,136**	44,132	**47,660**	54,921
Impaired						
a) Not collateralised	**116**	61	**185**	346	**301**	407
b) Fully collateralised						
- Up to 50% LTV	**535**	627	**224**	118	**759**	745
- 51% to 75% LTV	**3,978**	3,575	**-**	3,324	**3,978**	6,899
- 76% to 90% LTV	**13,817**	1,897	**-**	571	**13,817**	2,468
- 91% to 100% LTV	**-**	11,328	**-**	931	**-**	12,259
c) Partially collateralised						
- greater than 100% LTV	**-**	62	**963**	-	**963**	62
- of which collateral value	***-***	*24*	***880***	*-*	***880***	*24*
	18,446	17,550	**1,372**	5,290	**19,818**	22,840

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Collateral - continued

MedBank and MeDirect hold senior secured loans to international borrowers which amounted to €1.2 billion (2015: €1.0 billion) as at 31 March 2016. In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

With respect to the Group's debt securities portfolio, as at 31 March 2016, the Group held covered bonds amounting to €367.7 million (2015: €801.9 million) which are backed by a separate group of assets in the form of loans.

2.2.9 Concentration of credit risk exposures

2.2.9.1 Exposure to sovereign debt

The Group's exposure to sovereign Eurozone government bonds as at 31 March 2016 represented 8% (2015: 3%) of the Group's total investment securities (excluding equity instruments). As at 31 March 2016 and 2015, the Group's exposure to sovereign Eurozone governments related to Maltese and German Government securities.

No impairment provisions in respect of these exposures were required during the years ended 31 March 2016 and 2015.

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

	Investments and derivative assets	
	2016	2015
MedBank Group	**€000**	€000
Concentration by type		
<u>Carrying amount:</u>		
Senior bank obligations	**-**	300
Covered bonds	**367,743**	801,883
Government and regional government securities	**69,702**	215,788
Supranationals and agencies	**327,435**	256,988
Secured corporate lending	**16,844**	91,161
Unsecured corporate and treasury lending	**90,691**	134,732
Equity instruments	**82**	2,610
Interest rate swaptions	**-**	76
Interest rate swaps	**3,964**	3,121
	876,461	1,506,659

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers

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

MedBank Group	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
At 31 March 2016					
Accommodation and food service activities	143,627	-	-	-	**143,627**
Administrative and support service activities	157,296	-	26,138	-	**183,434**
Arts, entertainment and recreation activities	62,703	2,458	-	-	**65,161**
Construction	9,793	-	-	-	**9,793**
Financial and insurance activities	97,404	6,183	-	5,446	**109,033**
Households and individuals	6,756	-	-	-	**6,756**
Human health and social work activities	49,892	-	-	-	**49,892**
Information and communication	29,876	-	-	-	**29,876**
Manufacturing	254,589	9,793	32,356	-	**296,738**
Professional, scientific and technical activities	43,861	-	-	-	**43,861**
Public administration, defence and compulsory social security	50,000	-	-	-	**50,000**
Real estate activities	39,980	-	-	-	**39,980**
Transport and storage	35,268	-	-	-	**35,268**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	22,796	-	-	-	**22,796**
Other service activities	157,046	-	11,386	-	**168,432**
Other	1,127	-	-	-	**1,127**
	1,162,014	**18,434**	**69,880**	**5,446**	**1,255,774**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers - continued

MedBank Group	**EU €000**	**Other European countries €000**	**North America €000**	**Asia €000**	**Total €000**
At 31 March 2015					
Accommodation and food service activities	77,268	-	-	-	**77,268**
Administrative and support service activities	212,838	-	37,563	-	**250,401**
Arts, entertainment and recreation activities	38,986	5,883	9,764	-	**54,633**
Construction	8,654	-	-	-	**8,654**
Financial and insurance activities	32,421	-	-	-	**32,421**
Households and individuals	10,609	-	-	-	**10,609**
Human health and social work activities	89,535	-	-	-	**89,535**
Information and communication	1,991	-	-	-	**1,991**
Manufacturing	173,792	-	39,617	-	**213,409**
Professional, scientific and technical activities	43,731	-	-	-	**43,731**
Public administration, defence and compulsory social security	50,000	-	-	-	**50,000**
Real estate activities	37,909	-	-	-	**37,909**
Transport and storage	36,362	-	20,008	-	**56,370**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	25,031	-	4,914	-	**29,945**
Other service activities	89,932	-	12,748	-	**102,680**
Other	1,229	-	-	-	**1,229**
	930,288	**5,883**	**124,614**	**-**	**1,060,785**

The local Lending Portfolio, categorised within EU in the tables above, is mainly attributable to the real estate activities sector.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.10 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.7 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counter-party on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position.

This is because the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the assets and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also enters in certain transactions which are settled through clearing houses. That gross settlement mechanisms used by clearing houses, with features that eliminate credit and liquidity risk in a single settlement process, are effectively equivalent to net settlement. As a result such financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty.

The financial instruments that do not meet the on-balance sheet off-setting criteria, including collateral pledged and received, presented within the following tables are limited to the net amount presented in the statement of financial position for that instrument.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.10 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**	**Gross amounts of recognised financial instruments offset in the statement of financial position**	**Net amounts of financial instruments presented in the Statement of financial position**	**Related amounts not offset in the statement of financial position*: Financial instruments that do not meet off-setting criteria**	**Related amounts not offset in the statement of financial position*: Financial collateral pledged /(received) (incl. cash)**	**Net amount**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
31 March 2016						
Financial assets						
Derivative financial instruments	**3,964**	**-**	**3,964**	**-**	**-**	**-**
Financial liabilities						
Amounts owed to financial institutions	**(541,925)**	**-**	**(541,925)**	**526,872**	**15,053**	**-**
Derivative financial instruments	**(7,337)**	**-**	**(7,337)**	**-**	**7,134**	**203**
	(549,262)	**-**	**(549,262)**	**526,872**	**22,390**	**-**
31 March 2015						
Financial assets						
Loans and advances to financial institutions	222,775	(55,000)	167,775	-	-	167,775
Derivative financial instruments	3,197	-	3,197	-	(430)	2,767
	225,972	(55,000)	170,972	-	(430)	170,542
Financial liabilities						
Amounts owed to financial institutions	(1,221,091)	55,000	(1,166,091)	1,160,842	5,249	-
Derivative financial instruments	(5,200)	-	(5,200)	-	5,200	-
	(1,226,291)	55,000	(1,171,291)	1,160,842	10,449	-

2. **Financial risk management** - continued

2.3 Liquidity risk

2.3.1 Management of liquidity risk

Management of liquidity risk is the responsibility of MedBank's Treasury Department and is monitored by MedBank's Risk Office, under the oversight of the Management Asset-Liability Committee and the Board Risk Committee of the Subsidiaries, taking into account the approach set out in MedBank's Treasury Management Policy.

Treasury Management Policy ("TMP")

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

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

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

Management Asset and Liability Committee

MedBank, MeDirect 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. The Committee is responsible for approving the asset-classes in which the Treasury Department invests taking into account the risk appetite set by the respective Board; reviewing the liquidity position of the Group, and for approving the pricing of the Group's deposits. ALCO also monitors the Group's interest rate exposures by reference to the limits established within the TMP, and also approves the permitted hedging instruments for managing interest rate risk.

Board Risk Committee

The Risk Committee of MedBank, MeDirect 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, taking into account the strategy set by the Board.

Roles and responsibilities

Management of the Group's liquidity position and of its market risk is the responsibility of MedBank's Treasury function and is monitored by MedBank's Risk function (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.

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.1 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.

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.1 Management of liquidity risk - continued

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 subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period. It monitors liquidity risk by referencing to the following two key metrics:

- Before the relevant liquidity provisions under the Capital Requirements Regulation 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 used in the normal course of business and as at 31 March 2016 stood at 58.0% for MedBank and 96.4% for MedCorp.

- The ratio of liquid assets to wholesale (margin-sensitive) funding was 37.3% as at 31 March 2016. 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.

The Medifin Holding Group and the MedBank Group also comply with the Liquidity Coverage Ratio ("LCR") in relation to short term liquidity and monitor the Net Stable Funding Ratio ("NSFR") ratio in order to assess long term liquidity:

- Liquidity Coverage Ratio (LCR). The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered high quality liquidity assets. The LCR of the Regulatory Group as at 31 March 2016 stood at 270.4%.

- Net Stable Funding Ratio (NSFR). This looks at the relationship between long-term assets and long term funding. The NSFR will come into practice as of January 2018. The rules on the calculation of the NSFR are not yet finalised. Regulators are still gathering information to refine the metrics appropriately.

2.3.2 Liquidity risk reporting

MedBank's Risk Office is responsible for producing three 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 movements or rating agency actions on the Group's asset base, and considering a number of scenarios of varying severity;
- Deposit concentration report, highlighting borrower-level and sector-level concentrations that can be used to assess the Group's vulnerability to deposit flight; and
- 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. Undrawn commitments;
  iii. Margin postings due to market moves and haircut changes; and
  iv. Failure of bilateral repo counterparties to roll financing.

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities at the reporting date with the exception of the analysis of loans and advances to customers that is based on the expected maturities since this is how the liquidity of the Group is monitored on a regular basis. Refer also to note 2.3.5 that provides an analysis of the encumbered investments.

MedBank Group	**Not more than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2016							
Assets							
Balances with central banks and treasury bills	21,532	-	3,002	-	-	8,746	33,280
Derivative financial instruments	1,791	2,066	107	-	-	-	3,964
Loans and advances to financial institutions	59,558	-	-	-	-	-	59,558
Loans and advances to customers	13,993	214	85,318	1,117,069	21,186	1,186	1,238,966
Investments	-	-	-	667,535	204,880	82	872,497
Accrued income	5,669	6,007	3,434	-	-	-	15,110
Loans to related parties (included in other assets)	-	-	-	-	-	26,564	26,564
Total assets	102,543	8,287	91,861	1,784,604	226,066	36,578	2,249,939
Liabilities							
Derivative financial instruments	341	44	107	3,744	3,101	-	7,337
Amounts owed to financial institutions	61,925	235,000	215,000	30,000	-	-	541,925
Amounts owed to customers	343,008	617,266	121,656	364,251	1,174	-	1,447,355
Subordinated liabilities	-	-	-	22,598	24,782	-	47,380
Accrued interest expense	1,971	3,031	3,356	-	-	-	8,358
Other liabilities	-	-	-	-	-	1,287	1,287
Total liabilities	407,245	855,341	340,119	420,593	29,057	1,287	2,053,642
Liquidity gap	(304,702)	(847,054)	(248,258)	1,364,011	197,009		
Cumulative liquidity gap	(304,702)	(1,151,756)	(1,400,014)	(36,003)	161,006		

Current accounts and savings deposits payable on demand or at short notice amounted to €322.1 million at 31 March 2016. This amount is disclosed within the 'Not more than 1 month' maturity grouping. However, in practice these deposits are maintained with the Group for longer periods; hence the effective date of repayment is later than the contractual date.

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis by relevant maturity groupings of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities at the reporting date.

MedBank Group	**Carrying amount**	**Outflows**	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1year**	**Between 1 and 5 years**	**More than 5 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
31 March 2016							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**520,000**	520,832	40,276	235,657	214,935	29,964	-
- Due to other banks	**21,925**	21,925	21,925	-	-	-	-
Amounts owed to customers	**1,447,355**	1,518,739	343,959	61,312	730,051	381,682	1,735
Subordinated liabilities	**47,380**	68,316	-	-	3,265	33,939	31,112
	2,036,660	2,129,812	406,160	296,969	948,251	445,585	32,847
31 March 2015							
Non-derivative liabilities							
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 controlled special purpose 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

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.4 Residual contractual maturities of financial liabilities - continued

The following is an analysis by relevant maturity groupings of undiscounted cash flows relating to the Group's principal derivative financial instruments by remaining contractual maturities at the reporting date.

MedBank Group	Carrying amount €000	Outflows €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1year €000	Between 1 and 5 years €000	More than 5 years €000
31 March 2016							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**3,964**	3,799	1,771	1,919	109	-	-
Derivative liabilities							
Derivative financial Instruments							
- Interest rate swaps	**6,845**	(9,273)	-	-	(2,088)	(6,505)	(680)
- Foreign exchange swaps	**492**	(474)	(340)	(33)	(101)	-	-
	7,337	(9,747)	(340)	(33)	(2,189)	(6,505)	(680)
31 March 2015							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**3,197**	3,056	1,748	1,278	30	-	-
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**3,114**	(1,136)	-	-	(92)	(755)	(289)
- Foreign exchange swaps	**2,086**	890	(12)	880	22	-	-
	5,200	(246)	(12)	880	(70)	(755)	(289)

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.5 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		
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	Total €000
31 March 2016					
Balances with Central Banks, treasury bills and cash	**8,746**	**5,504**	**18,323**	**707**	**33,280**
Derivative financial instruments	**-**	**-**	-	**3,964**	**3,964**
Loans and advances to financial institutions	**-**	**20,683**	**-**	**38,875**	**59,558**
Loans and advances to customers – corporate and municipalities	**-**	**-**	**-**	**1,225,278**	**1,225,278**
Loans and advances to customers – retail	**-**	**-**	**-**	**13,688**	**13,688**
Investments (excluding equity investments)	**762,694**	**6,721**	**50,537**	**52,463**	**872,415**
Accrued income	-	-	**-**	**15,110**	**15,110**
Loans and advances to related parties (included in other assets)	**-**	**-**	**-**	**26,564**	**26,564**
	771,440	**32,908**	**68,860**	**1,376,649**	**2,249,857**
31 March 2015					
Balances with Central Banks, treasury bills and cash	6,339	-	7,484	561	14,384
Derivative financial instruments	-	-	-	3,197	3,197
Loans and advances to financial institutions	-	87,504	-	80,271	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 (excluding equity investments)	1,348,198	6,778	145,876	-	1,500,852
Accrued income	-	-	-	17,799	17,799
Loans and advances to related parties (included in other assets)	-	-	-	20,256	20,256
	1,711,410	94,282	153,360	812,405	2,771,457

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*

Assets pledged as collateral include assets transferred to the controlled special purpose entity (Note 7).

2. **Financial risk management** - continued

2.4 Market risk

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.

2.4.1 Management of market risks

Similar to liquidity risk, management of market risk is the responsibility of MedBank's Treasury Department and is monitored by MedBank's Risk Office, under the oversight of the Management Asset-Liability Committee and the Board Risk Committee of the Subsidiaries taking into account the approach set out in MedBank's Treasury Management Policy.

2.4.2 Foreign exchange risk

Foreign exchange risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. Although a large majority of the Group's assets and liabilities are euro-denominated, the Group does offer deposits in other major currencies and its Lending Portfolio includes a number of Sterling-denominated exposures. The Group seeks to minimise foreign exchange risk and thus hedges all material net exposures in the different currencies 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

	Euro currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 March 2016					
Financial assets					
Balances with Central Banks, treasury bills and cash	33,207	44	18	11	33,280
Derivative financial instruments	3,964	-	-	-	3,964
Loans and advances to financial institutions	40,498	11,040	3,984	4,036	59,558
Loans and advances to customers	852,961	373,405	12,600	-	1,238,966
Investments	853,650	18,847	-	-	872,497
Accrued income	13,708	1,399	3	-	15,110
Loans to related parties (included in other assets)	26,564	-	-	-	26,564
	1,824,522	**404,735**	**16,605**	**4,047**	**2,249,939**
Financial liabilities					
Derivative financial instruments	7,337	-	-	-	7,337
Amounts owed to financial institutions	526,992	14,933	-	-	541,925
Amounts owed to customers	1,297,229	95,264	33,253	21,609	1,447,355
Subordinated liabilities	41,808	5,572	-	-	47,380
Accrued interest expense	7,294	1,001	19	44	8,358
Amounts owed to related parties (included in other liabilities)	1,287	-	-	-	1,287
	1,881,947	**116,770**	**33,272**	**21,653**	**2,053,642**
Net on-balance sheet financial position		**287,965**	**(16,667)**	**(17,606)**	
Notional of derivative financial instruments		**(285,927)**	**17,741**	**17,577**	
Residual exposure		**2,038**	**1,074**	**(29)**	

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.2 Foreign exchange risk - continued

MedBank Group	**Euro Currency €000**	**GBP currency €000**	**USD currency €000**	**Other €000**	**Total €000**
As at 31 March 2015					
Financial assets					
Balances with Central Banks, treasury bills and cash	14,285	61	19	19	14,384
Derivative financial instruments	3,197	-	-	-	3,197
Loans and advances to financial institutions	150,840	9,793	4,336	2,806	167,775
Loans and advances to customers	703,452	297,456	46,176	110	1,047,194
Investments	1,469,070	34,392	-	-	1,503,462
Accrued income	15,858	1,833	4	104	17,799
Loans to related parties (included in other assets)	20,256	-	-	-	20,256
	2,376,958	**343,535**	**50,535**	**3,039**	**2,774,067**
Financial liabilities					
Derivative financial instruments	5,200	-	-	-	5,200
Amounts owed to financial institutions	1,156,866	4,410	-	4,815	1,166,091
Amounts owed to customers	1,002,014	107,517	73,785	22,270	1,205,586
Debt securities in issue	157,137	-	-	-	157,137
Subordinated liabilities	41,708	6,069	-	-	47,777
Accrued interest expense	8,994	1,138	68	386	10,586
	2,371,919	**119,134**	**73,853**	**27,471**	**2,592,377**
Net on-balance sheet financial position		**224,401**	**(23,318)**	**(24,432)**	
Notional of derivative financial instruments		**(225,620)**	**24,061**	**25,093**	
Residual exposure		**(1,219)**	**743**	**661**	

The Group uses derivative instruments to hedge movements in foreign currency by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result the Group is not materially exposed to fluctuations in foreign currency.

In view of the Group's policy for managing currency risk, the Board does not deem a sensitivity analysis necessary disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period.

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk

The principal risk to which the Group is 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 repricing gaps and by having pre-approved limits for such repricing gaps.

The Group's interest rate risk is managed by MedBank's Treasury and Investments department within the prevailing interest rate risk limits approved by ALCO. Adherence to these limits is monitored by MedBank's Risk Management Office.

ALCO of the respective Subsidiaries are the oversight body for compliance with the established limit framework and their Risk Management Office are actively involved in day-to-day monitoring activities.

Interest rate risk is managed principally by matching the interest rate risk profile of assets carried at amortised cost with the fixed term profile of its retail deposits, and by hedging the fair value interest rate risk arising on longer-term fixed rate treasury assets by purchasing interest rate derivatives, primarily interest rate swaps. MedBank's Treasury Department also make use of placements with other institutions and wholesale funding to manage certain residual interest rate risk exposures that arise during given periods.

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.

Interest rate risk reporting and analysis

As part of its oversight duties, MedBank's Risk Office prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of potential changes to yield curves 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 roll.

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or, if earlier, the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

MedBank Group		**Repricing in:**				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 March 2016						
Balances with Central Banks and treasury bills	**32,573**	29,571	3,002	-	-	-
Loans and advances to financial institutions	**59,558**	59,558	-	-	-	-
Loans and advances to customers	**1,238,966**	1,113,004	75,359	50,579	24	-
Investments (excluding equity)	**872,415**	72,861	7,129	125,202	482,460	184,763
	2,203,512	1,274,994	85,490	175,781	482,484	184,763
Amounts owed to financial institutions:						
- Due to clearing houses	**520,000**	275,000	215,000	30,000	-	-
- Due to other banks	**21,925**	21,925	-	-	-	-
Amounts owed to customers	**1,447,355**	1,149,178	271,044	21,927	5,206	-
Subordinated liabilities	**47,380**	-	-	-	22,598	24,782
	2,036,660	1,446,103	486,044	51,927	27,804	24,782
Interest rate repricing gap		(171,109)	(400,554)	123,854	454,680	159,981
Hedging interest rate derivatives – notional amounts	**(6,845)**	-	580,000	-	(417,000)	(163,000)
Net interest repricing gap		(171,109)	179,446	123,854	37,680	(3,019)

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

MedBank Group		**Repricing in:**				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €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	4,538	3,073	-
Investments (excluding equity)	1,500,852	319,575	32,707	182,380	257,405	708,785
	2,729,644	1,457,585	115,878	186,918	260,478	708,785
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	750,449	132,136	224,405	98,596	-
Debt securities issued	9,204	-	9,204	-	-	-
Debt securities issued through controlled special purpose entity	147,933	-	147,933	-	-	-
Subordinated liabilities	47,777	-	-	-	22,915	24,862
	2,576,591	1,180,540	710,273	539,405	121,511	24,862
Interest rate repricing gap		277,045	(594,395)	(352,487)	138,967	683,923
Hedging interest rate derivatives – notional amounts	(3,114)	-	1,097,000	(233,000)	(642,000)	(222,000)
Net interest repricing gap		277,045	502,605	(585,487)	(503,033)	461,923

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk against interest rate repricing 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 the Group's Net Interest Margin ("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 2016

- NIM would decrease by €6.7 million / increase by €12.8 million.
- Economic Value would increase by €0.6 million / increase by €25.4 million.

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

The main assumptions used in the model are:

- Interest bearing assets are assumed to mature on their contractual maturity and are not replaced;
- Certain senior secured loans have floors and thus are not fully affected by a decrease in interest rate;
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate; and
- The liability maturity profile is extended to match the assets' maturity profile.

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 in its reserves.

2. Financial risk management - continued

2.5 Operational risk

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) Non.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 €5.8 million (2015: €5.0 million).

2. **Financial risk management** - continued

2.6 Capital management – regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST"), sets and monitors capital requirements for the Group.

The Capital Requirements Regulation ('CRR') and Capital Requirements Directive (henceforth 'CRD IV') implemented 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 regulation 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.

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

Medifin Holding Limited publishes full Pillar 3 disclosures as a separate document which is appended to these financial statements.

2. **Financial risk management** - continued

2.7 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 price in an active market for that instrument. A market is regarded as active if the transaction for the asset or liability takes 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.

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 Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the 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.

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

2. **Financial risk management** - continued

2.7 Fair value measurement - continued

2.7.1 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.

2.7.2 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.

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.

2. **Financial risk management** - continued

2.7 Fair value measurement - continued

2.7.2 Use of valuation techniques - continued

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.

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.

2.7.3 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 statement of financial position.

MedBank Group	**As at 31 March 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets				
Investments				
- Available-for-sale	872,415	-	-	**872,415**
- Fair value through profit or loss	-	82	-	**82**
Derivative assets held for risk management	-	3,964	-	**3,964**
Total financial assets	**872,415**	**4,046**	**-**	**876,461**
Liabilities				
Derivative liabilities held for risk management	-	7,337	-	**7,337**
Total financial liabilities	-	**7,337**	-	**7,337**

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.3 Financial instruments measured at fair value - continued

	As at 31 March 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€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	-	5,200	-	5,200
Total financial liabilities	-	5,200	-	5,200

As at 31 March 2016 and at 31 March 2015, the fair value of the available-for-sale ("AFS") investment securities represents the closing bid price quoted in an active market.

Level 2 assets principally comprise:

- Equity securities that are fair valued on the basis of price quotations in respect of orderly transactions between market participants provided by reputable dealers; and
- 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.

2.7.3.1 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 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 financial year ended 31 March 2016.

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.4 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.

MedBank Group

As at 31 March 2016	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	1,204,173	-	1,204,173	1,238,966
Total financial assets	-	1,204,173	-	1,204,173	1,238,966
Liabilities					
Subordinated liabilities	51,561	-	-	51,561	47,380
Total financial liabilities	51,561	-	-	51,561	47,380

As at 31 March 2015	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	1,045,636	-	1,045,636	1,047,194
Total financial assets	-	1,045,636	-	1,045,636	1,047,194
Liabilities					
Debt securities in issue	9,441	-	-	9,441	9,204
Debt securities issued by special purpose 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

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.4 Financial instruments not measured at fair value - continued

The Level 1 fair values reflected in the tables above 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. Loans and advances to municipalities amounting to €49.8 million (2015: €49.8 million), included within the amounts in the table, have been valued by reference to an actively traded instrument of the same issuer adjusted to reflect lack of active trading in this instrument.

At 31 March 2015, the fair value of the Group's "Debt securities issued by controlled special purpose entity" of €148.1 million was estimated using recent trades to repurchase a significant part of the debt securities. This was considered to be a Level 2 fair value estimate.

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

'Loans and advances to financial institutions' of the MedBank Group amounting to €59.6 million (2015: €167.8 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.

The carrying amount for local loans and advances to customers amounting to €61.6 million (2015: €74.5 million) approximates their fair value because these loans are re-pricable at the Group's discretion.

All trade receivables (2015: 95%) amounting to €9.0 million (2015: €50.6 million), within loans and advances to customers, 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 majority of the 'Amounts owed to financial institutions' of the Group amounting to €511.9 million (2015: €851.1 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. 'Amounts owed to customers' of the Group amounting to €1.4 billion (2015: €1.2 billion) are sourced from the Maltese and Belgian markets. 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.

3. Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Bank'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.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2016 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised will be assessed in determining the estimated cash flows.

3.3 Impairment losses on loans and advances

Financial assets measured at amortised cost are evaluated for impairment on the basis described in accounting policy note 1.6. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

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 respective subsidiary's Credit Risk Management function.

3. Accounting estimates and judgements - continued

3.3 Impairment losses on loans and advances - continued

For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress.

The group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are present, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances.

The collective component of the total allowances 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.

The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. Loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

4. Balances with Central Banks, treasury bills and cash

	Group	
	2016	2015
	€000	€000
At amortised cost:		
Balances with Central Banks	**27,069**	13,823
Cash	**708**	561
At fair value:		
Malta Government Treasury Bills		
- classified as available-for-sale	**5,504**	-
	33,281	14,384

Balances held with Central Banks include reserve deposits relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €8.7 million (2015: €6.3 million) bearing interest at 0% (2015: 0.05%) per annum and overnight deposits amounting to €18.4 million (2015: €6.6 million) subject to a negative interest rate of 0.4% (2015: negative interest rate of 0.2%) per annum.

The balances with Central Banks also include a balance of €33 thousand (2015: €33 thousand) 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 2016, investment securities held by the Group with a nominal value of €6.6 million (2015: €6.6 million) and a fair value of €6.7 million (2015: €6.8 million) were pledged in favour of the DCS (refer to note 8).

5. Derivative financial instruments

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. The Group also transacts derivatives to create risk management solutions for clients. This includes the structuring of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the Group considers the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction. The Group manages these derivative risk positions principally through offsetting derivative transactions with its counterparties.

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

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. The net loss on the hedging instruments during the year was €5.5 million (2015: €32.0 million). The net gain on the hedged items arising during the year attributable to the hedged risk was €6.0 million (2015: €31.6 million).

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 risks.

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

5. **Derivative financial instruments** - continued

Analysed as follows:

	Group	
	2016	2015
	€000	€000
Derivative financial assets	**3,964**	3,197
Derivative financial liabilities	**(7,337)**	(5,200)

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts are as follows:

Group	**Notional 2016 €000**	**Fair value 2016 €000**	Notional 2015 €000	Fair value 2015 €000
Derivatives held for trading - Assets				
Instrument type:				
- Interest rate swaptions	**-**	**-**	90	76
- Foreign exchange swaps	**272,249**	**3,964**	143,653	3,121
		3,964		3,197
Derivatives held for trading - Liabilities				
Instrument type:				
- Foreign exchange swaps	**24,017**	**(492)**	107,124	(2,086)
Net held for trading derivatives		**3,472**		1,111
Derivatives designated as hedging instruments in fair value hedges - Liabilities				
Instrument type:				
- Interest rate swaps				
More than one year and less than 5 years	**417,000**	**(3,744)**	417,000	(644)
More than 5 years	**163,000**	**(3,101)**	680,000	(2,470)
		(6,845)		(3,114)

6. Loans and advances to financial institutions

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**39,455**	80,774	**220**	1
Term loans and advances	**20,683**	87,504	**-**	-
	60,138	168,278	**220**	1

Balances of loans and advances to financial institutions up to €53 thousand (2015: €69 thousand) are pledged in favour of other banks providing credit card facilities to customers.

An amount of €5.0 million (2015: €2.2 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.

The Company's loans and advances to financial institutions include balances amounting to €220 thousand (2015: €1 thousand) held at MedBank, and are unsecured, interest free and can be withdrawn on demand.

Loans and advances to financial institutions as at 31 March 2016 and 31 March 2015 were neither past due nor impaired and no forbearance measures were applied by the Group in this respect.

7. Loans and advances to customers

	Group	
	2016	2015
	€000	€000
At amortised cost:		
Repayable on call and short notice: retail	**5,857**	5,810
Repayable on call and short notice: corporate	**7,154**	24,432
Term loans and advances: retail	**9,145**	12,382
Term loans and advances: corporate	**1,233,618**	1,018,161
Gross loans and advances to customers	**1,255,774**	1,060,785
Less allowances for impairment		
- Individually assessed allowances	**(12,369)**	(9,614)
- Collectively assessed allowances	**(4,439)**	(3,977)
	1,238,966	1,047,194

During the year ended 31 March 2014, MedBank set up a controlled special purpose entity (Note 19). As risks and rewards are deemed to have been retained by MedBank, term loans and advances to customers amounting to €34.4 million (2015: €307.0 million) are still recognised on the Group's statement of financial position.

7. **Loans and advances to customers** - continued

As at 31 March 2016, the initiation of €153.0 million (2015: €57.6 million) of the Group's "Term loans and advances to customers: corporate" was contracted but beneficial ownership was not yet transferred.

There were no contingent disposals of loans and advances as at 31 March 2016 and 2015 which were contracted but beneficial ownership of which instruments was not yet transferred.

Throughout the financial year ended 31 March 2015, 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. Furthermore, 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.

Gross loans and advances to customers of the Group amounting to €48.0 million (2015: €61.2 million) were deemed to be impaired. Specific impairment recorded on the Group's loans and advances to customers amounted to €12.4 million (2015: €9.6 million).

The aggregate amount of impaired loans and advances of the Group and on which interest is reserved is €19.1 million (2015: €22.1 million) gross of impairment allowances, against which €7.6 million (2015: €8.5 million) is being provided for after taking into account the extendible value of security backing such loans and advances. Interest in suspense as at the end of the reporting period amounted to €2.7 million (2015: €0.9 million).

	Group	
	2016	2015
	€000	€000
Specific allowances for impairment		
At beginning of year	**9,614**	1,422
Acquisition through business combination	**-**	8,672
Exchange differences	**(48)**	13
Charge/(credit) for the year (Note 28)	**2,803**	(493)
At end of year	**12,369**	9,614
Collective allowances for impairment		
At beginning of year	**3,977**	872
Acquisition through business combination	**-**	1,140
Charge for the year (Note 28)	**462**	1,965
At end of year	**4,439**	3,977
Total allowances for impairment	**16,808**	13,591

8. Investments

	Group	
	2016	2015
	€000	€000
Available-for-sale investment securities	**872,667**	1,501,086
Equity instruments at fair value through profit or loss	**82**	2,610
	872,749	1,503,696

Available-for-sale investment securities

	Group	
	2016	2015
	€000	€000
Debt securities and other fixed income securities		
Issued by public bodies		
- local government	**7,128**	51,769
- foreign national and regional governments	**62,574**	139,793
- supranationals	**217,479**	136,840
Issued by other bodies		
- foreign banks	**454,065**	956,470
- other foreign issuers	**131,169**	215,980
Other equity securities		
Issued by other bodies		
- local issuers	**252**	234
	872,667	1,501,086
Listing status		
- listed on the Malta Stock Exchange	**7,380**	52,003
- listed on other recognised exchanges	**865,287**	1,449,083
	872,667	1,501,086

8. **Investments** - continued

	Group	
	2016	2015
	€000	€000
Year ended 31 March		
At beginning of year	**1,501,086**	492,296
Reclassification of financial investments previously classified as held-to-maturity	**-**	1,245,710
Additions	**286,590**	722,352
Disposals/Redemptions	**(882,788)**	(947,482)
Amortisation of premium/discount	**(15,842)**	(26,315)
Exchange differences	**(1,500)**	16,035
Changes in fair value	**(14,879)**	(1,510)
At end of year	**872,667**	1,501,086

No objective evidence of specific impairment was identified on investment securities during the financial years ended 31 March 2016 and 31 March 2015.

Most of the investment securities are pledged as collateral with Eurex against the provision of borrowing facilities (Note 17), except for investments amounting to €109 million (2015: €148.5 million) which are free and unencumbered securities as at 31 March 2016.

The cash value of unutilised borrowing facilities (headroom), which are secured by investment securities, amounted to €269.7 million (2015: €200.0 million) as at 31 March 2016.

As at 31 March 2016, the Group had no commitment to purchase further investment securities. As at 31 March 2015, the Group had a commitment to purchase further investment securities having a nominal value of €25 million, which were settled after 31 March 2015 at a value of €24.8 million.

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

In 2015 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 maturity that changes in the market rate of interest would not have had a significant effect on the financial asset's fair value. All investments so reclassified from HTM to AFS during the period from April 2014 to November 2014 were sold. During the first eight month period, being April 2014 to November 2014, HTM investments having an amortised cost of €110.4 million were disposed of, without giving rise to tainting of the HTM portfolio.

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.

8. **Investments** - continued

Equity instruments at fair value through profit or loss

	Group	
	2016	2015
	€000	€000
Unlisted equities issued by a European corporate	**82**	2,610

These unlisted equities were held by the controlled special purpose entity referred to in note 19.

As disclosed in note 7, during the financial year ended 31 March 2015, certain loans and advances to customers were derecognised in their entirety by the Group but the Group recognised new loans and advances to customers and unlisted equities issued by these European corporations. The initial fair value of these equities amounted to €1.8 million and was reduced to nil as at 31 March 2015.

9. Investment in subsidiaries

Name of subsidiary	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %	Carrying amount 2016 €000	Carrying amount 2015 €000
Mediterranean Bank plc	Malta	Banking	**100**	100	**130,914**	130,914
Charts Investment Management Service Limited	Malta	Investment services	**100**	65	**3,194**	1,693
					134,108	132,607
Shareholders' contribution advanced to Mediterranean Bank plc					**60,803**	2,103
					194,911	134,710

At an extraordinary general meeting held on 30 September 2015, the Bank approved an interim dividend of €15.0 million. On the same date, the Bank paid the dividend amounting to €7.0 million that was approved throughout the annual general meeting held on 29 July 2015.

As at 31 March 2014, Medifin Leasing Limited was a subsidiary of Medifin Holding Limited with a 99.99% shareholding. On 27 June 2014, the shares of Medifin Leasing were transferred to Medifin Investments Limited. Medifin Investments now holds 99.99% of the shareholding in Medifin Leasing. These shares were transferred at a consideration of €10 thousand and no material profit or loss was registered on this sale. The Group's principal assets which have been disposed of as a result of this transaction are disclosed in Notes 11 and 12.

9. Investment in subsidiaries - continued

MedBank owns the following subsidiaries:

Name of subsidiary	**Country of incorporation**	**Nature of business**	**Equity interest 2016 %**	2015 %
Mediterranean Corporate Bank Limited	Malta	Banking	**100**	100
MeDirect Bank SA (previously MeDirect SA)	Belgium	Banking	**100**	100
Medifin Estates (partnership)	Malta	Operating leasing company	**97**	97

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 10). Volksbank was subsequently re-named Mediterranean Corporate Bank Limited.

MeDirect was incorporated on 16 June 2014. Effective 1 June 2015, MeDirect was licensed to operate as a Belgian credit institution. As part of that process, the assets and liabilities of MedBank's Belgian branch were contributed to MeDirect which will, going forward, carry out all of the Group's activities in Belgium.

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 then leased to the Group.

By virtue of board resolutions dated 30 September 2015, 11 December 2015 and 30 March 2016, the MedBank Group accepted capital contributions from the Company amounting to €28.7 million, €14.0 million and €16.0 million respectively.

The Group had a call 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 were contingent upon the achievement of certain predefined targets during the financial year ended 31 March 2016 (refer to Note 16). The contingent consideration did not materialise due to the fact that the predefined targets were not met.

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

10. 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 additional 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 that arose on the acquisition would have been the same if the acquisition had occurred on 1 April 2014.

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 financial assets	**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 financial liabilities	**(2,986)**
Other liabilities	**(367)**
Accruals and deferred income	**(1,427)**
Provision for liabilities	**(316)**
Fair value of identifiable net assets acquired	**57,714**

The provision for liabilities 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 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.

10. **Acquisition of subsidiary** - continued

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 'Other administrative expenses' in the income statements.

The 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**

The gain on acquisition of subsidiary has been accounted for in profit or loss within the Group's consolidated financial statements during the year ended 31 March 2015.

As a consequence of EU state aid rules triggered by the bailout 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.

11. 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 2014						
Cost	1,214	3,075	457	2,039	340	7,125
Accumulated depreciation	(691)	(1,828)	(283)	(691)	(292)	(3,785)
Net book amount	523	1,247	174	1,348	48	3,340
Year ended 31 March 2015						
At beginning of year	523	1,247	174	1,348	48	3,340
Additions	18	78	29	63	-	188
Acquisition of subsidiary (Note 10)	140	47	-	93	23	303
Disposals	(3)	-	-	-	(84)	(87)
Disposal of subsidiary (Note 9)	(237)	(240)	(161)	(638)	-	(1,276)
Depreciation for the year	(120)	(450)	(42)	(187)	(24)	(823)
Impairment charge	(135)	-	-	(75)	-	(210)
Depreciation released on disposals	-	-	-	-	66	66
At end of year	186	682	-	604	29	1,501
As at 31 March 2015						
Cost	**1,132**	**2,960**	**325**	**1,557**	**279**	**6,253**
Accumulated depreciation	**(946)**	**(2,278)**	**(325)**	**(953)**	**(250)**	**(4,752)**
Net book amount	**186**	**682**	**-**	**604**	**29**	**1,501**
Year ended 31 March 2016						
At beginning of year	**186**	**682**	**-**	**604**	**29**	**1,501**
Additions	**1**	**13**	**6**	**2**	**-**	**22**
Depreciation for the year	**(72)**	**(297)**	**-**	**(188)**	**(14)**	**(571)**
At end of year	**115**	**398**	**6**	**418**	**15**	**952**
As at 31 March 2016						
Cost	**1,133**	**2,973**	**331**	**1,559**	**279**	**6,275**
Accumulated depreciation	**(1,018)**	**(2,575)**	**(325)**	**(1,141)**	**(264)**	**(5,323)**
Net book amount	**115**	**398**	**6**	**418**	**15**	**952**

11. **Property and equipment** - continued

The Group operates from nine immovable properties which are held under operating lease agreements (see note 31).

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 reflected in 'Accumulated depreciation'. 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.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (2015: nil).

There was no property and equipment not put in use as at the reporting date.

12. **Intangible assets**

Group	**Goodwill**	**Software under development**	**Computer software**	**Customer list**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 1 April 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 10)	-	-	5	-	5
Amortisation for the year	-	-	(619)	(49)	(668)
Disposal of subsidiary (Note 9)	-	(90)	(12,504)	-	(12,594)
At end of year	461	-	60	237	758
As at 31 March 2015					
Cost	**461**	**-**	**6,168**	**474**	**7,103**
Accumulated amortisation	**-**	**-**	**(6,108)**	**(237)**	**(6,345)**
Net book amount	**461**	**-**	**60**	**237**	**758**
Year ended 31 March 2016					
At beginning of year	**461**	**-**	**60**	**237**	**758**
Additions	**-**	**-**	**26**	**-**	**26**
Amortisation for the year	**-**	**-**	**(59)**	**(48)**	**(107)**
At end of year	**461**	**-**	**27**	**189**	**677**
As at 31 March 2016					
Cost	**461**	**-**	**6,194**	**474**	**7,129**
Accumulated amortisation	**-**	**-**	**(6,167)**	**(285)**	**(6,452)**
Net book amount	**461**	**-**	**27**	**189**	**677**

12. Intangible assets - continued

There were no capitalised borrowing costs related to the acquisition of software during the year (2015: nil).

'Software under development' included software which was not available for use and accordingly, no amortisation had been charged.

Impairment assessment on goodwill arising on the acquisition of Charts

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.

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 13.5% (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.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2016	2015
	€000	€000
Group		
Property and equipment	**(6)**	(3)
Intangible assets	**-**	(13)
Available-for-sale securities	**594**	(461)
Unutilised tax losses	**4,163**	-
Impairment allowances	**4,847**	4,393
Net deferred tax assets	**9,598**	3,916
Analysed as follows:		
Deferred tax assets	**9,598**	4,199
Deferred tax liabilities	**-**	(283)
Net deferred tax assets	**9,598**	3,916

Movements in deferred tax during the year:

Group	**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 2016				
Property and equipment	(3)	(3)	-	(6)
Intangible assets	(13)	13	-	-
Available-for-sale securities	(461)	-	1,055	594
Unutilised tax losses	-	4,163	-	4,163
Impairment allowances	4,393	454	-	4,847
	3,916	**4,627**	**1,055**	**9,598**

13. Deferred tax assets and liabilities - continued

	Balance at beginning of year €000	Acquisition of subsidiary €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €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)	-	-
	608	**4,086**	**121**	**(899)**	**3,916**

14. Prepayments and accrued income

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Prepayments	**2,637**	3,511	**17**	-
Accrued income	**15,110**	17,799	**-**	-
	17,747	21,310	**17**	-

15. Other assets

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Amounts receivable from:				
- immediate parent company	**548**	2,015	**-**	1,854
- intermediate parent company	**2,090**	-	**1,909**	-
- other related companies	**16,552**	18,531	**-**	-
Dividend related refund	**11,580**	5,417	**10,432**	-
Other receivables	**-**	211	**-**	-
Other assets	**341**	298	**-**	-
	31,111	26,472	**12,341**	1,854

Amounts receivable from intermediate parent company (categorised as amounts receivable from immediate parent company as at 31 March 2015) amounting to €1.8 million as at 31 March 2016 (2015: €1.8 million) are unsecured, subject to interest at 3% per annum and repayable in November 2017. The residual amounts are unsecured and repayable on demand.

Amounts receivable from other related companies are unsecured, interest free and repayable on demand. However, the repayment of these balances is not expected within the next 12 months.

No impairment indicators existed in respect of these assets at 31 March 2016 and 2015.

16. Capital and reserves

Share capital

	2016	2015
	No.	No.
Issued and fully paid up:		
Ordinary ‘A’ shares of €1 each	**56,406,546**	56,406,546
Ordinary ‘B’ shares of €1 each	**1**	1
	56,406,547	56,406,547

	2016	2015
	€000	€000
Issued and fully paid up:		
At beginning and end of year	**55,738**	55,738

On 27 June 2014, the shares in Medifin Holding Limited were transferred from AnaCap Financial Partners II L.P. to Medifin Investments Limited. 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. On 19 August 2015, the shares in Medifin Holding Limited were transferred from Medifin Investments Limited to Medifin Finance Limited.

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. 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.

As at 31 March 2016 and 2015, the authorised share capital consisted of 100,000,000 ordinary shares of €1 each.

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

16. Capital and reserves - continued

Share premium

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

Issue type	Number of shares	Premium per share €	Share premium 2016 €000	Share premium 2015 €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 Limited and then to Medifin Finance Limited. The share premium was re-allocated to the Ordinary 'A' shares.

Shareholders' contribution

By virtue of board resolutions dated 30 September 2015, 11 December 2015 and 30 March 2016 the Group accepted a capital contribution from its shareholder amounting to €28.7 million, €14.0 million and €16.0 million respectively.

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

- The Company 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 Company has no obligation to repay the Contributions.

The Contribution is also eligible as own funds in terms of the new capital requirements.

Reserve for general banking risks

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 2016, the Reserve for General Banking Risks of the Group was equivalent to €1.2 million (2015: €1.0 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% (2015: 70%) of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves:

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.

16. Capital and reserves - continued

Adjustment on acquisition of non-controlling interest in subsidiary

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd for a cash consideration of €1.7 million, of which €0.2 million were contingent upon the achievement of certain predefined targets during the financial year ended 31 March 2016. The contingent consideration did not materialise due to the fact that the predefined targets were not met.

The subsidiary is principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence.

As a result of the acquisition of the non-controlling interest, the carrying amount of the non-controlling interest of €0.4 million has been derecognised, as disclosed within the statement of changes in equity. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

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

17. Amounts owed to financial institutions

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Repayable on call and at short notice	**21,925**	23,169	**-**	1,550
Term deposits	**520,000**	1,142,922	**-**	-
	541,925	1,166,091	**-**	1,550

An amount of €520 million (2015: €1.1 billion) from the Group's term deposits are secured by a pledge over MedBank's investments (excluding equity instruments) (refer to note 8).

As at 31 March 2016, the Company held balances with MedBank amounting to €0.2 million (2015: €1.6 million) which were unsecured, interest free and repayable on demand.

18. Amounts owed to customers

	Group	
	2016	2015
	€000	€000
Repayable on call and at short notice	**322,140**	375,027
Term deposits	**1,125,215**	828,688
	1,447,355	1,203,715

19. Debt securities in issue

	Group	
	2016	2015
	€000	€000
At amortised cost:		
Debt securities in issue	-	9,204
Debt securities in issue through controlled special purpose entity	-	147,933
	-	157,137

Debt securities in issue

	Group	
	2016	2015
	€000	€000
Year ended 31 March		
At beginning of year	**9,204**	14,341
Nominal amount of debt securities repurchased and cancelled	**(9,255)**	(5,242)
Transaction costs amortised	**51**	105
At end of year	-	9,204

The debt securities, which were unsecured, denominated in euro and listed on the Malta Stock Exchange, matured on 30 October 2015. The interest payable was fixed at 6.25% per annum and the debt securities were redeemable at their nominal value.

In the event of default or insolvency of MedBank, the holders of the above liabilities had a general claim on the assets of MedBank pari passu with other unsecured creditors. Bondholders therefore would have ranked after all interbank funding lines and repurchase agreements that are collateralised by investment securities.

During the year ended 31 March 2015, MedBank purchased a nominal value of €5.2 million of its 6.25% debt securities in issue, through market operations, 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 class of bonds at a discount of 4% by surrendering all or part of their holding in the latter class of 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 (refer to note 20).

As at 31 March 2015, the contractual amount due at maturity was €9.3 million and the carrying amount of the debt securities in issue was €0.1 million lower than the contractual amount due at maturity.

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 2016 and 31 March 2015.

19. **Debt securities in issue** - continued

Debt securities in issue through controlled special purpose entity

	Group	
	2016	2015
	€000	€000
Year ended 31 March		
At beginning of year	**147,933**	215,786
Nominal amount of debt securities repurchased and derecognised	**(148,000)**	(70,000)
Transaction costs amortised to profit or loss	**67**	2,147
At end of year	**-**	147,933

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

The controlled special purpose entity issued the following notes, maturing in 2026, although MedBank envisaged that the debt securities issued through the controlled special purpose 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.

During 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.

In the period February to May 2015, MedBank repurchased €121 million Senior Secured Floating rate notes that originally were due to mature by 2026. On 7 July 2015, MedBank as holder of the Subordinated Notes of GH I caused GH I to redeem all remaining outstanding claims.

The Group did not have any defaults of interest or other breaches with respect to its debt securities in issue through the controlled special purpose entity during the years ended 31 March 2016 and 31 March 2015.

20. Subordinated liabilities

	Group	
	2016	2015
	€000	€000
Year ended 31 March		
At beginning of year	**47,777**	22,385
Subordinated debt securities issued	**-**	25,037
Foreign exchange differences	**(498)**	642
Transaction costs incurred	**-**	(318)
Transaction costs amortised to profit or loss	**101**	31
At end of year	**47,380**	47,777
Analysed as follows:		
7.5% Subordinated Bonds 2019	**22,598**	22,915
6% Subordinated Unsecured Bonds 2019 - 2024	**24,782**	24,862
	47,380	47,777

During June 2013, MedBank issued an additional euro equivalent of €10 million of 7.50% Subordinated Bonds due to mature in 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 7.5% per annum (effective interest rate 7.6%) and the bonds are 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.

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 pound sterling. The interest payable is fixed at 6% (effective interest rate 6.23%) and the bonds are 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 (refer to note 19). As a result of MedBank's allotment methodology, MedBank issued £1.4 million (equivalent to €1.7 million) for bonds in pound sterling and euro bonds amounting to €23.3 million. Interest on these bonds commenced on 28 November 2014.

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 2016 and 31 March 2015. As at 31 March 2016, the euro equivalent contractual amount due at maturity is €47.7 million (2015: €48.2 million).

The carrying amount of the subordinated debt securities in issue is €0.3 million (2015: €0.4 million) lower than the contractual amount due at maturity.

21. Accruals and deferred income

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Accrued interest expense	**8,358**	10,561	**-**	-
Other accrued expenses	**6,126**	9,005	**7**	8
Deferred income	**8,882**	5,407	**-**	-
	23,366	24,973	**7**	8

22. Other liabilities

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Amounts due to immediate parent company	**1,000**	-	**-**	-
Amounts due to group company	**-**	6	**9,497**	6
Amounts due to related parties	**5**	393	**7**	393
Indirect taxes payable	**364**	793	**14**	14
Other liabilities	**1,605**	1,210	**-**	-
	2,974	2,402	**9,518**	413

Amounts due to immediate parent company, group company and related parties are unsecured, interest free and repayable on demand.

23. Net interest income

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**98**	135	**-**	-
Loans and advances to customers	**71,588**	43,799	**-**	-
Investment securities	**5,567**	30,099	**-**	-
Amounts owed by parent company	**55**	18	**55**	18
Total interest income	**77,308**	74,051	**55**	18
Interest expense				
Amounts owed to financial institutions	**2,904**	4,502	**-**	-
Amounts owed to customers	**29,341**	27,189	**-**	-
Amounts owed to ultimate parent company	**-**	(550)	**-**	(550)
Debt securities in issue	**839**	6,531	**-**	-
Subordinated liabilities	**3,324**	2,270	**-**	-
Total interest expense	**36,408**	39,942	**-**	(550)
Net interest income	**40,900**	34,109	**55**	568

23. Net interest income - continued

An amount of €1.9 million (2015: €2.4 million) relating to impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 March 2016.

Fair value losses of €5.4 million (2015: €32.0 million) arising on derivatives designated as held in fair value hedge relationships and €6.0 million (2015: €31.6 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on fixed rate available-for-sale debt securities. The gains and losses are reflected within interest income arising from investment securities, where interest income on the hedged item is recognised.

	Group	
	2016	2015
	€000	€000
Losses on hedging instruments	**(5,481)**	(32,027)
Gains on hedged items attributable to the hedged risk	**6,026**	31,565
Net gains/(losses) representing ineffective portion of fair value hedges	**545**	(462)

Throughout the financial year ended 31 March 2014 the Company incurred interest expense of €0.6 million in connection with the drawing of amounts borrowed from the shareholder. This interest was eventually waived during the financial year ended 31 March 2015 as a result of a deed of novation relating to this loan agreement.

24. Net fee and commission income

	Group	
	2016	2015
	€000	€000
Fee and commission income		
Banking transactions fee income	**1,979**	945
Corporate secured lending fee income	**526**	730
Investment services fees	**1,661**	2,692
Total fee and commission income	**4,166**	4,367
Fee and commission expense		
Banking transactions fee expense	**411**	324
Corporate secured lending fee expense	**897**	176
Investment services transaction and custody fees	**847**	396
Other fee expense	**59**	42
Total fee and commission expense	**2,214**	938
Net fee and commission income	**1,952**	3,429

24. Net fee and commission income - continued

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.

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 €0.5 million (2015: €0.7 million) and expenses of €0.9 million (2015: €0.2 million) relating to such financial assets and liabilities.

25. Net trading income and other operating income

25.1 Net trading income/(loss)

	Group	
	2016	2015
	€000	€000
Net income from foreign exchange activities	**2,510**	1,636
Losses from other held for trading financial instruments	**(286)**	(3,403)
	2,224	(1,767)

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

	Group	
	2016	2015
	€000	€000
Gain/(loss) on disposal of equity instruments at fair value through profit or loss	**1,108**	(1,623)

25.3 Realised gains on disposal of other investments

	Group	
	2016	2015
	€000	€000
Available-for-sale investments	**15,712**	19,303
Held-to-maturity investments	**-**	1,817
	15,712	21,120

25. Net trading income and other operating income - continued

25.4 Other income

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Realised loss on repurchase of debt securities issued through controlled special purpose entity	**-**	(35)	**-**	-
Gain/(loss) on disposal of subsidiary	**-**	105	**-**	(10)
Dividend received from subsidiaries	**-**	-	**35,205**	29,695
Dividend tax refund	**-**	-	**10,432**	8,778
Other income	**179**	117	**-**	-
	179	187	**45,637**	38,463

26. Personnel expenses

Personnel expenses incurred are analysed as follows:

	Group	
	2016	2015
	€000	€000
Directors' emoluments		
- salaries	**3,063**	2,882
- defined contribution social security costs	**113**	9
- other emoluments	**367**	216
Staff costs		
- salaries	**11,994**	12,072
- termination benefits	**-**	96
- defined contribution social security costs	**1,354**	614
- other emoluments	**737**	552
	17,628	16,441

Total salary costs of the Group amounted to €15.1 million (2015: €15.0 million), with variable remuneration accounting for 14% (2015: 23%) of these amounts.

The weekly average number of persons employed during the year was as follows:

	Group	
	2016	2015
	No.	No.
Executive and senior management	**18**	15
Other managerial, supervisory and clerical	**231**	226
Other	**16**	16
	265	257

26. **Personnel expenses** - continued

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

	Group	
	2016	2015
	No.	No.
Management and administration	**270**	254

27. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group	
	2016	2015
	€000	€000
Operating lease charges (Note 31)	**5,009**	4,411
IT support and telecommunication costs	**4,002**	2,982
Legal and professional fees	**3,679**	1,892
Regulatory expenses	**3,159**	929
Indirect taxation	**3,097**	2,755
Other expenses	**6,958**	6,363
	25,904	19,332

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

	Group	
	2016	2015
	€000	€000
Audit services	**185**	136
Other assurance services	**43**	29
Tax advisory services	**23**	9
Other non-audit services	**17**	175

During the financial year ended 31 March 2016, prior to their appointment as auditors of the Group, PricewaterhouseCoopers were engaged to assist and advise the Group throughout the ECB Comprehensive Assessment exercise. Most of the work in relation to this engagement was completed prior to their appointment as Group auditors and such work did not pose any self-review threat. The total fees in relation to this engagement were €391 thousand.

28. Net impairment charges

	Group	
	2016	2015
	€000	€000
Write-downs		
Loans and advances to customers		
- specific impairment allowances (Note 7)	**4,985**	1,095
- collective impairment allowances (Note 7)	**4,439**	3,977
- bad debts written off	**482**	3,256
Reversal of write-downs		
Loans and advances to customers		
- specific impairment allowances (Note 7)	**(2,182)**	(1,588)
- collective impairment allowances (Note 7)	**(3,977)**	(2,012)
Investments		
- collective impairment allowances	**-**	(463)
Net impairment loss	**3,747**	4,265

29. Taxation

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Current tax expense	**1,483**	1,334	**12,303**	10,297
Deferred tax income (Note 13)	**(4,627)**	(121)	**-**	-
Income tax (credit)/expense	**(3,144)**	1,213	**12,303**	10,297

The tax recognised in profit or loss on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Company's country of incorporation, as follows:

	Group		Company	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Profit before tax	**13,865**	36,615	**45,659**	39,270
Tax at the applicable rate of 35%	**4,853**	12,815	**15,981**	13,745
Tax effect of:				
Tax exempt income	**(36)**	(8,316)	**(3,688)**	(3,468)
Non-deductible expenses	**1,909**	368	**10**	20
Recognition of previously unrecognised deferred tax asset	**(4,459)**	-	**-**	-
Application of lower effective tax rate	**(5,350)**	(3,717)	**-**	-
Others	**(61)**	63	**-**	-
Income tax (credit)/expense	**(3,144)**	1,213	**12,303**	10,297

30. Cash and cash equivalents

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

	Group	
	2016	2015
	€000	€000
Analysis of cash and cash equivalents:		
Cash in hand	**708**	561
Call deposits	**52,216**	139,186
Repayable on call and at short notice	**3,064**	(22,739)
Amounts owed to financial institutions with maturity less than 3 months	**(91,925)**	(318,716)
Per Statement of cash flows	**(35,937)**	(201,708)
Adjustments to reflect:		
Balance with Central Banks	**8,746**	6,340
Malta Government treasury bills with original maturity over 3 months	**3,002**	-
Deposits with maturity over 3 months	**25,683**	36,576
Amounts owed to financial institutions with maturity over 3 months	**(450,000)**	(824,637)
Per Statement of financial position	**(448,506)**	(983,429)

		Group	
		2016	2015
	Notes	**€000**	€000
Analysed as follows:			
Balances with Central Banks, treasury bills and cash	4	**33,281**	14,384
Loans and advances to financial institutions	6	**60,138**	168,278
Amounts owed to financial institutions	17	**(541,925)**	(1,166,091)
		(448,506)	(983,429)

	Company	
	2016	2015
	€000	€000
Analysis of cash and cash equivalents:		
Repayable on call and at short notice	**220**	1
Per Statement of cash flows	**220**	1

31. 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 that 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 related party. On 27 June 2014, the shares in Medifin Leasing Limited were transferred from Medifin Holding Limited to Medifin Investments Limited (refer to Note 39).

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

	Group	
	2016	2015
	€000	€000
Within one year	**2,282**	669
After one year but less than five years	**939**	2,149
More than 5 years	**51**	812
	3,272	3,630

The amount of operating lease expense recognised in profit or loss for the year is disclosed in note 27.

32. Contingent liabilities

As at 31 March 2016, the Group held cash secured guarantee obligations amounting to €0.1 million (2015: €0.2 million).

33. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 March 2016, undrawn facilities on term loans amounted to €33.3 million (2015: €16.8 million). In addition, the Group had commitments of €144.1 million (2015: €74.5 million) under revolving credit facilities.

34. Related parties

Immediate and ultimate parent company

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.

The immediate parent company of Medifin Holding Limited as at 31 March 2016 is Medifin Finance 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.

Related parties of the Group and the Company include subsidiaries, the ultimate parent entity, all entities controlled by the ultimate parent, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of the respective Group companies.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in note 26. 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 €0.1 million (2015: €0.2 million).

Related party balances and transactions

During the course of its business, the Group conducted business on commercial terms with various related parties, comprising subsidiaries, the ultimate parent and all entities controlled by the ultimate parent.

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

34. Related parties - continued

Related party balances and transactions - continued

31 March 2016

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 entity					
	-	172	-	-	Monitoring fees
Intermediate parent company					
	-	-	2,090	-	Other assets
	55	-	-	-	Interest income
Immediate parent company					
	-	-	548	-	Other assets
	-	-	-	1,000	Other liabilities
Other group companies					
	-	-	16,552	-	Other assets
	-	4,429	-	-	IT support
	-	4,045	-	-	Operating lease charge
	5	-	-	-	Other income
Key management personnel					
	-	-	-	6	Amounts owed to customers
	-	294	-	-	Directors' fees
	-	3,249	-	-	Personnel expenses
Other companies controlled by key management personnel					
	-	-	-	257	Amounts owed to customers
	4	-	-	-	Fee and commission income
	-	1	-	-	Administrative expenses

34. Related parties - continued

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 entity					
	-	163	-	-	Monitoring fees
Immediate parent company					
	-	-	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	-	-	Administrative expenses

Amounts owed by the immediate parent company as at 31 March 2016 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.

As at 31 March 2014, Medifin Leasing Limited was a subsidiary of Medifin Holding Limited with a 99.99% shareholding. On 27 June 2014, the shares in Medifin Leasing were transferred to Medifin Investments Limited (refer to Note 39). No material gain or loss was registered on this transaction.

35. 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 was not required to pay any variable contribution to the Scheme.

36. 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.

As at 31 March 2016, the total assets held by the Group on behalf of customers amounted to €377.5 million (2015: €247.0 million).

37. Events after the reporting date

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

38. Comparative financial information

Certain amounts in the income statement of the comparative financial year have been reclassified to comply with the current year's presentation. These reclassifications were between items of total operating income.

39. Statutory information

Medifin Holding Limited is a limited liability company and is incorporated in Malta.

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.

On 27 June 2014, the shares in Medifin Holding Limited were transferred from AnaCap Financial Partners II L.P. to Medifin Investments Limited, which was the immediate parent company of Medifin Holding Limited as at 31 March 2015.

On 19 August 2015, the shares in Medifin Holding Limited were transferred from Medifin Investments Limited to Medifin Finance Limited. As at 31 March 2016, the new immediate parent company of Medifin Holding Limited is accordingly Medifin Finance Limited, which is incorporated and registered in Guernsey, with the registered address being 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY 11EW, Guernsey.

Medifin Holding Limited

MeDirect Group Limited as from 26th October 2016

Additional Regulatory Disclosures
31 March 2016

Contents

1 Introduction

The European Parliament has approved the new capital reforms, being Regulation (EU) No.575/2013 of the European Parliament and of the Council of 26 June 2013, also known as Capital Requirements Regulations ("CRR") and the Capital Requirements Directive ('CRD IV'). These reforms implement the Basel III measures 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.

Key elements of the CRR include:

- Reduced Capital Resources through changes to the definition of capital and grandfathering of old instruments. Permanent interest bearing shares ('PIBS') and subordinated debt will be phased out over ten years from 2013. Over the period 2014 -18, there will be changes and additions to capital deductions from Core Tier 1 and Tier 2 capital including pension deficit, Fair-value reserve[1], assets rated below BB- and Expected Loss.
- Increased Capital Requirements through Asset Value Correlations, Credit Value Adjustments and deduction of Deferred Tax Assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities.
- New limits and capital buffers: Higher thresholds for all forms of capital with an increased focus on Core Tier 1, with a potential to hold a ratio of up to 12.5% including Capital Conservation, Countercyclical and Systemic Risk Buffers.
- Introduction of the Leverage Ratio, with set minimum Tier 1 leverage ratio of 3%.

2 Overview

These Additional Regulatory Disclosures (the "Disclosures") have been prepared in accordance with the requirements of CRR and the Malta Financial Services Authority ("MFSA") Banking Rule BR/07, "Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994". These disclosures are in respect of Medifin Holding Limited (the "Regulatory Parent" or "Medifin") and its subsidiaries, together referred to as the "Group", which is supervised on a fully consolidated basis by the European Central Bank. The subsidiaries forming part of the Group include Mediterranean Bank p.l.c. ("MedBank"), that is the parent company of Mediterranean Corporate Bank Limited ("MedCorp"), MeDirect Bank SA ("MeDirect"), that on 1 June 2015 was authorised as a Belgian Credit Institution, and Charts Investment Management Service Limited ("Charts"), a stockbroking firm authorised to carry out investment services under a Category 3 licence. Going forward MeDirect will carry out all of the Group's activities in Belgium.

Medifin's subsidiaries have been authorised to waive their requirement to comply with Parts Two to Five and Eight of the CRR on an individual basis, in terms of Article 7(2) of the CRR.

These disclosures present information about the Group's exposure to risks and 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, these disclosures present information about the financial risk management of MedBank and its principal subsidiaries MeDirect and MedCorp.

[1] In general, this will result from the mark-to-market movement of the Available-for-Sale investments.

2 **Overview** - continued

These Disclosures are updated on an annual basis as part of the Annual Report preparation. Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Financial Statements. These Disclosures have been appropriately verified internally by the Group's management including a review by the Group's internal auditor.

The Group is required to disclose its return on assets pursuant to paragraph 31 of Banking Rule BR/07, "Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994". In this respect, the Group's return on assets for the financial year ended 31 March 2016 amounted to 0.45%.

3 Risk Management Function

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. Moreover, 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.

The Group's international lending activities continued to grow together with the Group's wealth management business.

In light of the above activities, the Group is exposed to a number of risks, which it manages at different organisational levels. The main categories of risk are:

- *Credit risk*: Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Group's counterparties, resulting in the loss of equity and profit. It comprises the risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- *Market risk*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:

  - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.

  - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

3 Risk Management Function - continued

- *Operational risk*: Risk of damage resulting from the lack of skilful management or good governance within the Group and the inadequacy of internal control, which might involve internal operations, personnel, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Group has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Group's operational risks.

MedBank's Board has set up an independent and comprehensive risk management function under the leadership of the Group Chief Risk Officer. The aim of Risk Management is to create value for shareholders by supporting the institution in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards. It works closely with other Group entities and provides independent oversight, analysis and reporting of the Group's risk profile in all areas.

The Risk Management function is directly responsible for the oversight of market, credit, liquidity and operational risks, and the Group Chief Risk Officer is fully involved in the oversight of strategy and reputational risks by virtue of his seat on MedBank's EXCO and his reporting line to MedBank's Risk Committee. It is also responsible for the oversight of risk at the level of MedBank's subsidiaries.

As at 31 March 2016, the Group's Risk Management team comprised nine full-time professionals under the management of the Group Chief Risk Officer. Their responsibilities are divided as follows:

- Risk architecture (3 staff members) – portfolio-level analysis and risk reporting, wealth product oversight and controls.
- Credit risk (2 staff members) – analysis and review of credit risk and contingent liquidity risk associate with the Treasury portfolio.
- IT Security (2 staff members) – development of IT security policies, procedures, systems and controls, vulnerabilities testing and coordination of security audit tests.
- Operational risk (2 staff members) – authorisation and monitoring of error-related accounting activity, monitoring of activity representing potential operational risk and KRIs.

The Group's formal risk reporting schedule and processes have been designed to comply with the Basel Committee's "Principles for effective risk data aggregation and risk reporting" (June 2012, revised January 2013). In particular, reporting frequencies have been established in accordance with Principle 10, with flash reports produced daily (either system-generated or created by operational departments) and more in-depth reports produced weekly or monthly by Risk Management. The latter include interpretation and commentary in accordance with Principle 9.

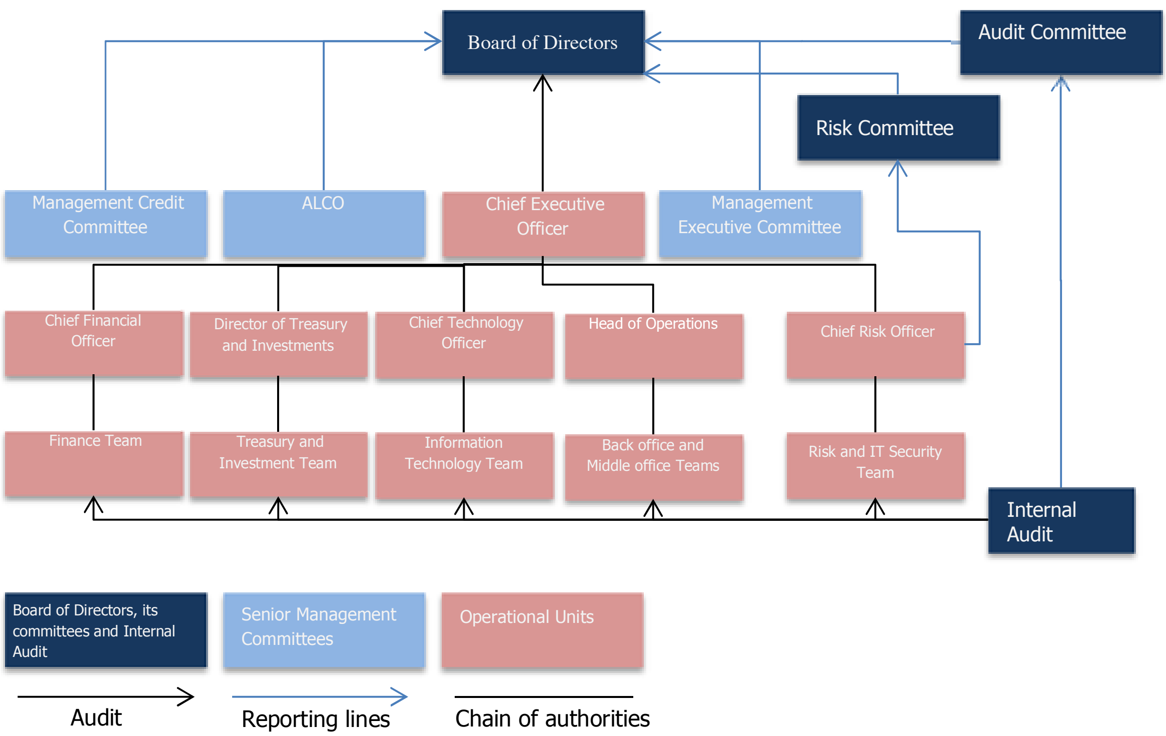
The Group recognises the need for an effective and efficient risk management function and therefore has adopted a comprehensive process that provides a right balance between the fast growth rate of the Group and the underlying risks.

The Group's objective is to deploy an integrated risk management approach to ensure an awareness of, and accountability for, the risks taken throughout the Group, whilst developing the necessary tools required to address such risks. Such an integrated approach is realised through the governance structure of the Group and relies on three principal lines of defence – (1) the management of business units, (2) a fully resourced Risk Management function, and (3) on-going independent reviews carried out by the Internal Audit function.

3 **Risk Management Function** - continued

The Board of Directors, after considering (1) the strategies and processes to manage risks to which the Group is exposed; (2) the structure and organisation of the risk management function, its authority and statute; (3) the scope and nature of risk reporting and measurement systems; and (4) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges; deems that the risk management arrangements of the Group are adequate and provide assurance that the risk management systems put in place are fit with regard to the Group's profile and strategy.

3.1 Risk Management Governance



MeDirect and MedCorp both have a similar risk management governance structure to that of MedBank as illustrated above.

MedBank's ***Board of Directors*** has a general duty to ensure that the Group conducts business in accordance with all relevant statutory and regulatory requirements. Its overall responsibility with regard to risk management is the establishment and oversight of the Group's risk management framework. The MedBank Board sets the Group's strategy and ensures an effective system of internal control and management of business risks, safeguarding a strong capital and liquidity base that is conducted in accordance with the requirements of the MFSA.

MedBank's Board has delegated specific powers and authority to the ***Risk Committee*** which is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the Group's risk management framework. The Internal Audit function carries out both regular and ad-hoc reviews of the risk management controls and procedures and reports its findings to the Audit Committee of each credit institution within the Group. The Risk Committee met five times during the period under review.

3 **Risk Management Function** - continued

3.1 **Risk Management Governance** - continued

MedBank's Board has also established the following senior management committees:

1. Management Executive Committee (EXCO);
2. Management Credit Committee;
3. Asset and Liability Committee (ALCO);
4. New Products and Services Committee; and

The ***Executive Management Committee (EXCO)*** represents the principal forum for conducting the business of MedBank and takes day-to-day responsibility for the efficient running of the business. In addition, the EXCO is responsible for the formulation and implementation of Board approved strategies and plans. The Committee is authorised to take whatever steps are necessary to conduct the business of MedBank within the confines of the Board approved strategy, operating plans and budgets.

The ***Management Credit Committee*** is responsible for approving credit recommendations and making other credit decisions under its delegated authority - this includes decisions on individual credits; reviewing and recommending credit to the Board; monitoring adherence to large exposure limits; consideration of credit hedging strategies; and recommending other concentration limits for Board approval. It also establishes transactional authority for members of the Treasury and Investment Team. In addition, the Management Credit Committee reviews provisioning and lending policies; monitors the Bank's investment portfolios and reviews management information reports.

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

Additionally, the Board has set up a New Products and Services Committee. The **New Products and Services Committee** examines potential new products to be offered by MedBank from a risk, operations, reputation and legal/compliance perspective. The Committee provides its recommendations to the EXCO including the appropriate policies, procedures and controls that should be adopted in relation to any such new product.

Both MeDirect and MedCorp have the following committees in place:

1. Management Executive Committee (EXCO);
2. Management Credit Committee; and
3. Asset and Liability Committee (ALCO).

3 Risk Management Function - continued

3.2 Risk Management Framework and Policies

The two key components of the Group's risk management framework are:

(1) an efficient separation of the Group's risk management function and its risk taking activities; and

(2) a robust system of formal governance controls including an effective management committee structure, as described above, and a comprehensive set of internal policies.

The Group's control policies and frameworks are subject to continuous review and development, under the overall oversight of the Head of Compliance. Current key policies and frameworks include the following:

- Terms of Reference for Board and Key Committee Structures
- Code of Business Conduct and Ethics
- Conflict of Interest Policies
- Remuneration Policy
- Treasury Management Policy, Framework and related guidance
- Credit and Investment Policy, Framework and related guidance
- Financial Instruments Accounting Framework and related guidelines
- Prevention of Money Laundering and Funding of Terrorism Manual
- Customer Due Diligence and Compliance Requirements Policy
- Anti-Fraud Policy
- Cash Handling Policy
- Consumer Care Principles
- Outsourcing Policy
- Information Security Policy
- Business Continuity and Disaster Recovery Plans
- Staff Compliance Policy
- Human Resources Policy

3.3 Risk Management Initiatives

The Group has continued to deepen the level of analysis performed in association with, and to support, its periodic risk reporting. This applies across all areas of risk. These results are presented to the Bank's ALCO monthly, as well as to the board and shareholder representatives. In particular, analysis and reporting have taken into account the authorisation of the Group's Belgian subsidiary Medirect as a licensed credit institution in its own right.

4 Own Funds

4.1 Total available capital

The Group adopts the appropriate processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. The Group has a strong track record of robust capital ratios and is confident that it will be positioned to maintain its overall capital strength.

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

4.1.1 Common Equity Tier 1 - composition

Common Equity Tier 1 Capital which includes:

- ordinary share capital;
- share premium;
- shareholders' contribution;
- retained earnings;
- reserve for general banking risks;
- 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 and the carrying amounts of investment in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items. [2]

4.1.2 Common Equity Tier 1 Capital – terms and conditions

i. Ordinary Share Capital are equity instruments which fall under the definition of CRR Article 28 (1), *Common Equity Tier 1 Instruments*. The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Medifin. 'B' ordinary shareholders are not entitled to vote or to receive any dividends distributed.

ii. Share premium reserve is made up of premium paid by shareholders in excess of the nominal value of the 'A' ordinary shares. This reserve can only be applied in the paying up of unissued shares to be issued to members of Medifin as fully paid bonus shares.

iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to Medifin whereby Medifin 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 has no obligation to repay the Contribution. These terms and conditions of such Contribution renders this instrument to be equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.

2 More details are included in the notes to the Financial Statements.

4 Own Funds - continued

4.1 Total available capital - continued

4.1.2 Common Equity Tier 1 Capital – terms and conditions - continued

iv. Retained Earnings are the part of the distributable items as per the CRR Article (4)(1)(128) definition which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of Medifin, those losses and reserves being determined on the basis of the consolidated statements. This balance in this reserve is net of tax.

Subject to Medifin Holding's dividend policy, the directors of Medifin, in the annual general meeting, may from time to time recommend dividends to be paid from the retained earnings of Medifin. Such dividends may be in the form of capitalisation of retained earnings to 'A' ordinary shares.

v. Reserve for General Banking Risks – in accordance with article 25 of CRR, the Group has allocated from its Retained Earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to further details in Note 16 "*Capital and reserves*" to the Medifin Holding Limited financial statements.

vi. The fair value reserve includes the cumulative net change in the fair value of available-for-sale ("AFS") investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation. These relate to the AFS category of EU-endorsed IAS 39.

4.1.3 Tier 2 Capital

Tier 2 Capital consists of subordinated liabilities in issue, which rank behind the claims of all depositors (including financial institutions) and all other creditors. As at 31 March 2016, subordinated liabilities included within Tier 2 Capital the following debt securities issues which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

- Debt securities, bearing interest payable at 7.5%, repayable on 14 December 2019.
- Debt securities, bearing interest payable at 6%, repayable on 18 November 2024.

4.2 Own Funds – other disclosures

The Group does not have items included in the 'total capital' which have values differing from those reported with IFRS compliant Statement of Financial Position.

Retained Earnings form part of Own funds only if those profits have been verified by persons independent of the Group that are responsible for the auditing of the Group's financial statements and the Group has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

4 **Own Funds** - continued

4.3 Own Funds

In July 2013 the European Banking Authority issued the 'Final draft Implementing Technical Standards on Disclosure for Own Funds by institutions under Articles 437 (2) and 492 (5) of Regulation (EU) 575/2013 (CRR)'. In order to increase transparency regarding the regulatory capital of European institutions the regulation provided a set of templates which will help to facilitate cross-jurisdictional comparisons. During the period from 1 January to 31 December 2017, which covers the phasing in of the regulatory adjustments, institutions are required to complete the transitional disclosure template.

Below is a table showing the composition of the own funds of the Group in accordance to CRR and the related captions within the Statement of Financial Position of the Annual Report 2016.

	2016 **€000**
CET 1 Capital	**194,485**
Common Equity tier 1 capital: instruments and reserves	**197,660**
Capital instruments and the related share premium accounts	69,494
Shareholders' contribution	58,700
Retained earnings	86,983
Accumulated Other Comprehensive Income and other reserves, to include unrealised gains and losses under the applicable accounting standards	(18,711)
Funds for general banking risk	1,194
Common Equity Tier 1 (CET1) capital : regulatory adjustments	**(3,175)**
Intangible assets (net of related tax liability)	(677)
Deferred tax assets that rely on future profitability	(2,498)
TIER 2 Capital	**42,017**
Subordinated loans	42,017
Total Capital	**236,502**
Deferred tax assets not deducted from CET1 capital	**7,100**
Total Risk weighted assets	**1,518,493**
Capital Ratios	
Tier 1 capital	12.8%
Total capital	15.6%

4.3 Own Funds - continued

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013, Part Eight Article 437 (1) of the CRR the following is a full reconciliation of the Group's Own Funds items to the audited financial statements as at 31 March 2016.

Capital Base	**2016 €000**	**Note**
Shareholders' equity according to the Group's balance sheet	204,772	
Anticipated dividend	(538)	
Additional value adjustments	(6,574)	1
Deferred tax assets	(2,498)	
Intangible assets	(677)	
Common Equity Tier 1 capital/Total Tier 1 capital	194,485	
Tier 2 instrument	42,017	
Total Tier 2 capital	42,017	
Total capital base	236,502	

Note (1): Additional value adjustments include assets pledged by the Group in favour of the Depositor Compensation Scheme.

4 **Own Funds** - continued

4.3 **Own Funds** - continued

In line with Part Eight Article 437 of the CRR the following table discloses the main features and the terms and conditions of Tier 1 and Tier 2 instruments.

Capital instruments' main features

Instruments	**Medifin Holding Limited Ordinary shares**	**Medifin Holding Limited Share premium**	**Mediterranean Bank plc 7.5% Subordinated Bonds EUR 2019**	**Mediterranean Bank plc 7.5% Subordinated Bonds GBP 2019**
Unique identifier	N/A	N/A	MT0000551227	MT0000551235
Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
Regulatory treatment				
Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EUR17.9 million	EUR3.9 million
Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR4.1 million
Issue price	EUR1 per share	EUR0.335 per share	EUR100 per bond	GBP100 per bond
Redemption price	N/A	N/A	EUR100 per bond	GBP100 per bond
Accounting classification	Share capital	Share Premium	Liability - amortised cost	Liability - amortised cost
Original date of issuance	10 June 2004	10 June 2004	21 November 2012 - Note 1	21 November 2012 - Note 1
Perpetual or dated	Perpetual	Perpetual	Dated	Dated
Original maturity date	N/A	N/A	14 December 2019	14 December 2019
Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
Coupons / dividends				
Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
Coupon rate and any related index	N/A	N/A	7.5% per annum	7.5% per annum
Existence of a dividend stopper	No	No	No	No
Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	N/A	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	N/A	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
Write-down features	No	No	No	No
Position in subordination hierarchy in liquidation	Subordinated to Mediterranean Bank plc subordinated bonds	Subordinated to Mediterranean Bank plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
Non-compliant transitioned features	No	No	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds as disclosed in Note 32 of the Financial Statements. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 March 2015 the subordinated bonds listed above have a remaining maturity of less than 5 years and have all been fully paid up, the full value of these securities are included in the Group's Own Funds figure.

Note (2): Redemption of the subordinated loan capital shall take place on 14 December 2019, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

4 **Own Funds** - continued

4.3 **Own Funds -** continued

Capital instruments' main features

Instruments	**Mediterranean Bank plc 6% Subordinated Unsecured Bonds EUR 2019 - 2024**	**Mediterranean Bank plc 6% Subordinated Unsecured Bonds GBP 2019 – 2024**
Unique identifier	MT0000551268	MT0000551276
Governing law(s) of the instrument	Maltese Law	Maltese Law
Regulatory treatment		
Transitional CRR rules	Tier 2	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
Amount recognised in regulatory capital	EUR23.0 million	EUR1.9 million
Nominal amount of instrument	EUR23.0 million	EUR1.9 million
Issue price	EUR100 per EUR Bond	Only GBP100 per GBP Bond
Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount
Accounting classification	Liability - amortised cost	Liability - amortised cost
Original date of issuance	28 November 2014 (Note 1)	28 November 2014 (Note 1)
Perpetual or dated	Dated	Dated
Original maturity date	28 November 2024	28 November 2024
Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)
Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
Coupons / dividends		
Fixed or floating dividend/coupon	Fixed	Fixed
Coupon rate and any related index	6% per annum	6% per annum
Existence of a dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No
Noncumulative or cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
Write-down features	No	No
Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
Non-compliant transitioned features	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of Medifin Holding Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 March 2016 the subordinated bonds listed above have a remaining maturity of more than 5 years and have all been fully paid up, the full value of these securities are included in the Group's Own Funds figure.

Note (2): Redemption of the subordinated loan capital shall take place on 28 November 2024, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

5 Capital Requirements

Capital Requirements represent the amount of capital resources that a bank must hold as required by the regulator. In line with CRR, the Group is placing much of its emphasis and monitoring on Core Equity Tier 1 capital.

The scope of permissible CRR approaches and those adopted by the Group are described below.

- Credit Risk – The Group calculates its risk weighted credit risk exposure in accordance with the Standardised Approach as per CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of External Credit Assessment Institutions ('ECAIs') that have been determined as eligible by the EBA. In the Group's calculations, Senior Secured Loans and other corporate credit exposures are assigned risk weights corresponding to unrated positions and for the remainder of its securities investment portfolio the Group has nominated well-known risk rating agencies such as Fitch, Standard and Poor's and Moody's. Accordingly, the Group complies with the standard association of the external rating of ECAIs with the credit quality steps prescribed in CRR.

- Operational Risk – The Group calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316. Elements within the relevant indicator includes interest receivable and similar income, interest payable and similar charges, income from shares and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading books items and extraordinary or irregular items.

- Counterparty Credit Risk – The Group adopted the Mark-to-Market Method in order to determine the potential future credit exposure, as per CRR article 274, primarily on its derivative exposures.

- Foreign Exchange Risk – The Group has adopted the Basic Method to determine its foreign Exchange Risk requirement in accordance with Article 351 of the CRR. In terms of Article 351 of the CRR, the Group does not calculate the capital requirement for foreign exchange risk as its foreign exchange position is less than 2% of its own funds.

- Credit Valuation Adjustment Risk – The Group uses Standardised Approach, as per CRR article 384.

5 Capital Requirements - continued

The Group's capital requirements and Total capital ratio computation are as follows:

	Exposure value €000	Risk weighted assets €000	Capital required €000
Central Government or Central Banks	56,737	-	-
Regional governments or local authorities	112,575	-	-
Public sector entities	110,873	-	-
Multilateral Development Banks	115,249	-	-
International organisations	105,136	-	-
Institutions	137,671	51,665	4,133
Corporates	1,240,289	1,237,157	98,973
Retail	3,037	1,133	91
Secured by mortgages on immovable property	21,960	14,945	1,196
Exposure in default	33,010	41,429	3,314
Items associated with particular high risk	31,348	42,408	3,393
Covered bonds	372,177	38,177	3,054
Equity exposure	281	281	22
Other	11,580	17,705	1,416
Credit risk	**2,351,923**	**1,444,900**	**115,592**
Foreign exchange risk		-	-
Operational risk		72,212	5,776
Credit valuation adjustment risk		1,381	110
Total capital required		**1,518,493**	**121,479**
Own funds			
Common Equity Tier 1 capital			194,485
Tier 2 capital			42,017
Total own funds			**236,502**
Total capital ratio			**15.6%**

The Group will be fully implementing the CRD IV capital requirements with effect from January 2019. In respect of the Group, Banking Rule BR/15: *"Capital Buffers of Credit Institutions authorised under the Banking Act, 1994"*, will require additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

The Group will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures as from 1 January 2019. This buffer will be phased in over the period from 1 January 2016 to 31 December 2018.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

5 Capital Requirements - continued

Given the Group's position and its systematic relevance to the financial system in Malta, the Group is also required to maintain an O-SII buffer also made up of CET1 capital. This buffer is also institution specific and may be set at a maximum of 2% of a systemically important institution's total risk exposure amount.

Moreover, in light of the fact that the Group is supervised by the European Central Bank as part of the Single Supervisory Mechanism, Medifin is currently undergoing the Supervisory Review and Evaluation Process ("SREP"), which will determine the additional capital buffer required by the European Central Bank.

Furthermore, the Group conducts an internal capital adequacy assessment process ('ICAAP') to determine a forward looking assessment of the capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates the risk management processes and governance framework. A range of stress tests are applied to the base capital plan.

The ICAAP ensures that:

- risks faced by the Group are appropriately identified, measured, aggregated and monitored;
- the capital coverage determined by internal calculations is sufficient for the fundamental risks the Group is exposed to; and
- the Group has an adequate risk management framework in place, which it continuously develops in accordance with the risk factors identified.

The Group covers Pillar 2 capital requirements through stress testing processes to forecast the Group's projected capital requirements. Stress testing is a technique used by financial firms to gauge their potential vulnerability to severe but plausible events. This testing process contributes to the strategic planning of the Group by guaranteeing that it can meet its minimum regulatory capital requirements under a stressed environment.

Under the supervision of a dedicated working team consisting of the Group's senior management, the preparation of the ICAAP is carried out by the relevant departments that include: Risk, Finance and Treasury and Investment. After the completion of an iterative process of review and feedback, the senior management team present their observations to the Board of Directors for their consideration. The non-executive Directors play a crucial role in providing the Group with an independent evaluation of the document, assisted by the Group's Internal Audit function.

6 External Credit Assessment Institutions

In calculating its risk-weighted exposure amounts, the Group uses an External Credit Assessment Institution ("ECAI") for its exposure classes, for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by S&P, Fitch and Moody's Rating Agencies. The Group maps the external ratings to the credit quality steps prescribed in the CRR as required by CEBS publication 'Standardised approach: Mapping of ECAIs' credit assessments to credit quality steps'.

The following are the exposure values for which an ECAI is used:

	Credit quality step 1 €000	Credit quality step 2 €000	Credit quality step 3 €000	Credit quality step 4 €000	Credit quality step 5 €000	Credit quality step 6 €000	Unrated €000	Total €000
Central Government or Central Banks	-	12,631	-	-	-	-	44,106	56,737
Regional governments or local authorities	62,674	-	-	49,901	-	-	-	112,575
Public sector entities	110,873	-	-	-	-	-	-	110,873
Multilateral Development Banks	115,249	-	-	-	-	-	-	115,249
International organisations	105,136	-	-	-	-	-	-	105,136
Institutions	17,657	69,097	-	-	-	-	50,917	137,671
Corporates	-	-	-	-	-	-	1,240,289	1,240,289
Retail	-	-	-	-	-	-	3,037	3,037
Secured by mortgages on immovable property	-	-	-	-	-	-	21,960	21,960
Exposure in default	-	-	-	-	-	-	33,010	33,010
Items associated with particular high risk	-	-	-	-	-	-	31,348	31,348
Covered bonds	362,588	9,589	-	-	-	-	-	372,177
Equity exposure	-	-	-	-	-	-	281	281
Other	-	-	-	-	-	-	11,580	11,580
Total	774,177	91,317	-	49,901	-	-	1,436,528	2,351,923

A breakdown of the Group's total exposure values, average exposure values over the year, risk-weighted exposure amounts and the minimum capital requirement of 8% are shown in the following table.

	Exposure value €000	Exposure value average €000	Risk weighted assets €000	Capital Required €000
Central Government or Central Banks	56,737	75,277	-	-
Regional governments or local authorities	112,575	160,851	-	-
Public sector entities	110,873	116,637	-	-
Multilateral Development Banks	115,249	111,682	-	-
International organisations	105,136	75,807	-	-
Institutions	137,671	181,190	51,665	4,133
Corporates	1,240,289	1,189,627	1,237,157	98,973
Retail	3,037	3,735	1,133	91
Secured by mortgages on immovable property	21,960	25,688	14,945	1,196
Exposure in default	33,010	46,011	41,429	3,314
Items associated with particular high risk	31,348	30,538	42,408	3,393
Covered bonds	372,177	421,376	38,177	3,054
Equity exposure	281	305	281	22
Other	11,580	20,588	17,704	1,416
Total	2,351,923	2,459,312	1,444,899	115,592

7 Counterparty Credit Risk

7.1 Scope and Nature of Counterparty Credit Risk

Counterparty credit risk ("CCR") refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group is primarily exposed to counterparty credit risk through derivative exposures, which have largely been limited to interest rate and currency hedges of the Group's investment portfolio, and to other derivatives exposures that can be priced on a real time basis.

7 Counterparty Credit Risk - continued

7.1 Scope and Nature of Counterparty Credit Risk - continued

Counterparty credit risk in respect of currency swaps and forwards, interest rate swaps, options, swaptions and any other derivative instruments that entail credit exposures shall only be entered into with counterparties approved by ALCO. Entry into any derivative exposures will be subject to prior implementation of appropriate settlement and risk management infrastructure pursuant to a signed ISDA Agreement.

The Group's Treasury department ensures that margin calls arising from Group's repo and derivatives obligations are monitored on a daily basis. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements. The Group's Treasury department ensures that it monitors margin calls arising from Group's repo and derivatives obligations on a daily basis.

7.2 Counterparty Credit Risk Exposure

In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, multiplied by the percentages stipulated in Capital Requirements Regulations, Table 1 of Article 274 (2) (c). These are based on contract type and residual maturities.

Below is tabulated the CCR exposure of the Group as at 31 March 2016:

Contract type	*Residual Maturity*	*Notional Amount (€m)*	*Applicable percentage*[3]	*Replacement cost (€m)*	*Potential future exposure (€'m)*	*Mark-to-market exposure value (€'m)*	*Risk-weight*[4]	**Risk-weighted assets (€m)**
Interest Rate Swaps	Over one year, not exceeding five years	417.00	0.50%	-	2.09	-3.74	20%	0.42
Interest Rate Swaps	Over five years	163.00	1.50%	-	2.45	-3.10	20%	0.49
Foreign currency contracts	One year or less	312.21	1%	3.84	3.12	3.46	20%	1.39
Foreign currency contracts	One year or less	1.86	1%	-	0.02	-0.11	50%	0.01
Foreign currency contracts	One year or less	2.83	1%	0.12	0.03	0.12	100%	0.15
				3.96	**7.71**	**0.37**		**2.46**

[3] Applicable percentages per Table 1 of Article 274 (2) (c)

[4] Based on counterparty ratings

8 Credit Risk

8.1 Scope and Nature of 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).

Credit risk arises primarily in the form of deterioration in credit quality leading to an obligor defaulting on debt instruments held in the Group's investments portfolio or on senior secured loans extended to corporate counterparties.

Additionally, as explained in section Counterparty Risk, the Group is exposed to credit risk in respect of repo and derivative exposures. The Group has in place a number of standard master netting agreements for repo counterparties which allows it to assess the related exposure on a net basis.

The Group analyses and monitors its credit risk exposure by breaking the portfolio down in a number of ways, including:

1. Exposure class;
2. Geographic distribution;
3. Industry distribution; and
4. Residual maturity.

1) Credit risk exposure – analysis by exposure class

	Average exposure value €000	Year end exposure value €000
Central Government or Central Banks	75,277	56,737
Regional governments or local authorities	160,851	112,575
Public sector entities	116,637	110,873
Multilateral Development Banks	111,682	115,249
International organisations	75,807	105,136
Institutions	181,190	137,671
Corporates	1,189,627	1,240,289
Retail	3,735	3,037
Secured by mortgages on immovable property	25,688	21,960
Exposure in default	46,011	33,010
Items associated with particular high risk	30,538	31,348
Covered bonds	421,376	372,177
Equity exposure	305	281
Other	20,588	11,580
Total	**2,459,312**	**2,351,923**

8 Credit Risk - continued

8.1 Credit Scope and Nature of Credit Risk - continued

2) Credit risk exposure – analysis by geographical distribution

	Australia €000	Europe €000	North America €000	Asia €000	Total €000
Central Government or Central Banks	-	56,737	-	-	56,737
Regional governments or local authorities	-	112,575	-	-	112,575
Public sector entities	-	110,873	-	-	110,873
Multilateral Development Banks	-	115,249	-	-	115,249
International organisations	-	105,136	-	-	105,136
Institutions	931	136,332	408	-	137,671
Corporates	-	1,157,574	77,233	5,482	1,240,289
Retail	-	3,037	-	-	3,037
Secured by mortgages on immovable property	-	21,960	-	-	21,960
Exposures in default	-	33,010	-	-	33,010
Items associated with particular high risk	-	31,348	-	-	31,348
Covered bonds	-	339,665	32,512	-	372,177
Equity exposure	-	281	-	-	281
Other	-	11,580	-	-	11,580
Total	**931**	**2,235,357**	**110,153**	**5,482**	**2,351,923**

3) Credit risk exposure – analysis by industry distribution

	Manufacturing €000	Tourism €000	Trade €000	Property and construction €000	Personal and professional €000	Financial institutions €000	Other €000	Total €000
Central Government or Central Banks	-	-	-	-	-	27,069	29,668	56,737
Regional governments or local authorities	-	-	-	-	-	-	112,575	112,575
Public sector entities	-	-	-	-	-	-	110,873	110,873
Multilateral Development Banks	-	-	-	-	-	-	115,249	115,249
International organisations	-	-	-	-	-	-	105,136	105,136
Institutions	-	-	-	-	-	50,917	86,754	137,671
Corporates	373,665	73,409	72,008	3,198	252,638	139,106	326,265	1,240,289
of which: SME	*-*	*-*	*-*	*1*	*69*	*-*	*-*	*70*
Retail	172	-	8	270	454	6	2,127	3,037
of which: SME	*172*	*-*	*8*	*120*	*454*	*-*	*-*	*754*
Secured by mortgages on immovable property	302	-	771	8,143	2,368	398	9,978	21,960
of which: SME	*98*	*-*	*771*	*6,568*	*1,287*	*-*	*4,790*	*13,514*
Exposures in default	6,536	16,980	-	5,040	-	-	4,454	33,010
Items associated with particular high risk	993	-	-	30,355	-	-	-	31,348
of which: SME	*993*	*-*	*-*	*28,589*	*-*	*-*	*-*	*29,582*
Covered bonds	-	-	-	-	-	-	372,177	372,177
Equity exposure	-	-	-	-	-	-	281	281
Other	-	-	-	-	-	-	11,580	11,580
Total	**381,668**	**90,389**	**72,787**	**47,006**	**255,460**	**217,496**	**1,287,117**	**2,351,923**

4) Credit risk exposure – analysis by residual maturity

	Less than 1 year €000	1 to 5 years €000	Over 5 years €000	Total €000
Central Government or Central Banks	49,609	7,128	-	56,737
Regional governments or local authorities	162	102,300	10,113	112,575
Public sector entities	917	79,272	30,684	110,873
Multilateral Development Banks	2,221	113,028	-	115,249
International organisations	685	104,451	-	105,136
Institutions	51,348	49,625	36,698	137,671
Corporates	76,077	1,126,948	37,264	1,240,289
Retail	3,037	-	-	3,037
Secured by mortgages on immovable property	21,960	-	-	21,960
Exposures in default	16,163	16,847	-	33,010
Items associated with particular high risk	31,348	-	-	31,348
Covered bonds	4,433	257,203	110,541	372,177
Equity exposure	281	-	-	281
Other	11,580	-	-	11,580
Total	**269,821**	**1,856,802**	**225,300**	**2,351,923**

8 **Credit Risk** - continued

8.2 Managing Credit Risk

8.2.1 Risk Management Objectives

The Group's objective is to maximise its investment returns while maintaining a sound and prudent investment profile. To facilitate achieving this target, the Group invests in a diversified portfolio comprising both quality assets with strong ratings stability which support the Group's deposit-taking, and in loans to corporations with appropriate risk characteristics.

Hedging and mitigation of credit risk

The efficient and controlled use of credit risk is a key part of the Group's business model; risk is primarily mitigated by the use of thorough and robust investment limits and investment approval and portfolio review processes. The Group's Credit and Investment Policy (see below) permits it, subject to the prior approval of the Board of Directors, to manage its credit risk through credit hedges, although to date it has not done so.

8.2.2 Credit and Investment Policy

The purpose of the Credit and Investment Policy is to establish the credit standards, internal controls, reporting requirements and approval processes that govern the selection and on-going management of the investment assets of the Group.

The Board of Directors has established limits for exposures to individual credits based on the CRR regulatory requirements governing large exposures of credit institutions, as well as prudential requirements. Exposure limits are monitored on an on-going basis by the Chief Risk Officer and the Director of Treasury and Investments. Credit and Investment Policy among others outlines the following specific exposures and trading limits:

- Concentration limits;
- Country limits; and
- Minimum credit quality within each asset class.

Limits on counterparty exposure are established by ALCO. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the ISDA and GMRA agreements, and the Treasury Management Policy (see below).

8.2.3 Treasury Management Policy (TMP)

The purpose of the Treasury Management Policy is to provide a framework within which Treasury is authorised to prudently manage interest rate, foreign exchange, funding, liquidity, counterparty and investment risk, and any other associated risks related to managing the balance sheet position.

The Treasury Management Policy includes the following approved limits:

- Deposit limits;
- Investment limits;
- Repo counterparty haircut limits; and
- Foreign exchange settlement limits.

8 **Credit Risk** - continued

8.2.4 Credit Quality Analysis

All securities in the portfolio, as well as corporate loans undergo a thorough analytical credit research process. The research process reviews all securities and corporate loans not only from a credit perspective but also from a legal, financial and ratings perspective. The Treasury and Investment department, which manages the research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the Fixed Income and Corporate Syndicated Loans markets. The research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit and market events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities and loans the performance of which requires increased monitoring.

With the exception of the corporate lending portfolio, most of the securities in the Group's investment portfolio are accepted by the ECB as eligible collateral and all of the securities (or their issuers) are rated by at least one from Fitch, Standard and Poor's and Moody's rating agencies.

The assessment of asset quality, adequacy of provisions, and the disclosure of credit risk are requirements by IFRS and the MFSA Banking Rule BR/09 "The Credit and Country Risk Provisioning of Credit Institutions Rule". These regulations require that a specific provision is created where a review of credit facilities reveals that the creditworthiness of a borrower has deteriorated significantly and as a result recovery of a credit facility is in serious doubt.

ALCO determines when financial assets have become impaired individually or collectively and to what extent such impaired assets should be provided for / written down, all in accordance with IFRS and the Group's Impairment Loss Measurement Guidelines. ALCO receives recommendations from the Management Credit Committee and Finance function to assist it with this determination.

Furthermore, the Audit Committee reviews and challenges where necessary the judgement of management in relation to the Group's consolidated Financial Statements.

8.2.5 Impairment Loss Measurement Guidelines

The scope of the Impairment Loss Measurement Guidelines are to establish effective provisioning standards, internal controls, reporting requirements and approval processes that will govern the on-going monitoring of credit risk exposures inherent in the investment securities and loan portfolios.

In accordance with the policy, impaired investment securities and loans are either those that are more than 90 days past due, or those for which the Group establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

However, where 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 available and/ or the stage of collection of amounts owed to the Group, such facilities are considered as past due but not impaired loans. Related credit losses, which may arise, are partly covered by collective impairment allowances.

8 Credit Risk - continued

8.2.5 Impairment Loss Measurement Guidelines - continued

The Group's gross Loans and advances to customers are analysed into impaired, past due and other exposures in the table below. They are primarily made up of Corporates, and therefore an analysis by counterparty type is not deemed necessary.

	2016
	€000
Impaired	47,971
Past due but not impaired	19,283
Neither past due nor impaired	1,188,520
Total	**1,255,774**

The following table provides an analysis of the Group's specific credit risk adjustments, i.e. specific and collective impairment allowances.

	Specific impairment allowances €000	**Collective impairment allowances €000**
Year ended 31 March 2016		
At beginning of year	9,613	3,977
Exchange	(47)	-
Loan impairment charge	2,803	462
At end of year	**12,369**	**4,439**
New allowances	4,985	4,439
Release of allowance no longer required	(2,182)	(3,977)
Total loan impairment charge	**2,803**	**462**

The Group's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Europe.

8.3 Collateral and other credit enhancements

It is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered.

In relation to lending by MedCorp a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

As at 31 March 2016, MedCorp had gross exposures amounting to with a net carrying amount of €65.1 million that are fully collateralised.

8 Credit Risk - continued

8.4 Settlement Risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Mitigation of settlement risk

For all types of investment transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Furthermore, the Group has a number of master netting agreements covering repurchase transactions and securities with its counterparties.

8.5 Credit Valuation Adjustment (CVA)

CRR requires financial institutions to calculate own funds requirements for CVA risk, in accordance with article 382, which is a capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.

Using the regulatory formula, capital required in respect of CVA risk as at 31 March 2016, is calculated to be €110 thousand on a total exposure of €1.4 million.

8.6 Exposures in Equities

The Group's Corporate exposures, within the "Loans and advances to customers: corporates" in the Statement of Financial Position, include ordinary shares which had a nil value on acquisition. Under International Financial Reporting Standards, specifically IAS 39 as adopted by the European Union, de-stapling provisions kick-in and should recognise the ordinary shares separately based on dissimilar economic characteristics and risks.

The mark-to-market value of the exposure in equity is of €82 thousand, with capital gains amounting to €1.1 million recorded in the profit or loss for the year ended 31 March 2016.

The total Equity holding does not fall under the definition of "qualifying holding"[5] and is below the small trading book business threshold (Article 94 of CRR) given that it is less than 5% of total assets and therefore is not eligible to be part of a trading book.

9 Leverage

CRR requires financial institutions to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The Leverage Ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage – one of the drivers of the banking crisis – previously not captured within Basel II.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with article 25 of the CR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

[5] CRR defines "qualifying holding" as a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking;

9 **Leverage** - continued

The initial implementation of the current leverage ratio regime is to be effected as a Pillar 2 measure. The Commission is expected to present a report by 31 December 2016 on the impact and effectiveness of the leverage ratio to the European Parliament and the Council, which would eventually lead to the introduction of the leverage ratio as a binding measure as of 2018. The Group currently complies with the minimum 3% Tier 1 leverage ratio based on fully-transitioned Basel III standards.

The following is the Group's estimated leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

	€000
As at 31 March 2016	
Tier 1 capital	194,485
Total exposure measure for the purposes of the leverage ratio	2,467,420
	%
Leverage ratio	**7.88**

Choice on transitional arrangements and amount derecognised fiduciary items

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

	€000
As at 31 March 2016	
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs)	2,277,637
Asset amounts deducted in determining Tier 1 capital	(3,175)
On-balance sheet exposures (excluding derivatives and SFTs)	2,274,462
Derivative exposures	
Replacement cost associated with all derivatives transactions	3,964
Add-on amounts for PFE associated with all derivatives transactions	3,169
Total derivative exposures	**7,133**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	205,313
Adjustments for conversion to credit equivalent amounts	(19,488)
Other off-balance sheet exposures	185,825

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

	€000
As at 31 March 2016	
Total assets as per published financial statements	2,274,640
Adjustments for derivative instruments	3,169
Adjustment for off-balance sheet items	185,825
Other adjustments	
Deduction for intangible assets	(3,175)
Other value adjustments	6,961
Leverage ratio exposure	**2,467,420**

9 Leverage - continued

The following table below shows the difference on balance sheet exposures in relation to the calculation of the leverage ratio.

	2016 €000
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	
Exposures treated as sovereigns	500,571
Institutions	527,599
Secured by mortgages of immovable properties	21,960
Retail exposures	2,829
Corporate	1,151,012
Exposures in default	32,999
Other exposures	38,169

The leverage multiple has decreased abruptly between 2012 to 2016 in line with the Group's strategy to reduce its Treasury portfolio. As a result, over this horizon, the relative increase in the Group's CET 1 exceeded the Group's relative increase in total assets. The transition into senior secured corporate lending resulted in higher and more stable interest income but also lower leverage. The Group's leverage ratio is still deemed to be relatively high as at end of March 2016 since the Group's leverage ratio is equivalent to 7.9%.

Leverage is expected to continue decreasing with the reinvestment of profits in the Group leading to a greater increase in equity than the increase in assets. The deleveraging process supports the Group's approach towards striking the appropriate balance between risk and return. The reduction in gearing leads to lower risk in the Group and thus presents shareholders with a lower cost of equity, which when coupled with return on capital employed generates a positive economic spread.

10 Asset encumbrance

The disclosure on asset encumbrance is requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Carrying amount of encumbered assets 2016 €000	Fair value of encumbered assets 2016 €000	Carrying amount of unencumbered assets 2016 €000	Fair value of unencumbered assets 2016 €000
Equity instruments	-	-	281	281
Debt securities	555,018	555,018	332,390	332,390
Loans and advances	25,684	25,684	1,306,345	1,267,722
Other assets	-	-	54,776	54,776
Assets of the reporting institution	580,702	580,702	1,693,792	1,655,169

10 Asset encumbrance - continued

The encumbered assets consist of repoed assets and pledged securities. There are no encumbered assets held by MedCorp or between entities of the Group and no over-collateralisation. Repoed transactions are covered by a Global Repurchase Master Agreement and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. The pledged securities transactions are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also in favour of the Depositor Compensation Scheme.

The unencumbered assets disclosed in the preceding table under item Other assets include Cash and short term funds, property, plant and equipment, tax assets and other assets.

The Group continues to recognise these encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes.

The Group does not encumber any of the collateral received or any of its own debt securities issued

	Matching liabilities, contingent liabilities or securities lent 2016 €000	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2016 €000**
Carrying amount of selected financial liabilities	527,549	570,071

11 Interest Rate Risk in Non-Trading Book

11.1 Scope and Nature of Interest Rate Risk

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.

11.2 Managing Interest Rate Risk – risk management

11.2.1 Interest Rate Risk Management

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

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

11 Interest Rate Risk in Non-Trading Book - continued

11.2 Managing Interest Rate Risk – risk management - continued

11.2.2 Interest Rate Risk Reporting and Analysis

The Risk Department prepares an interest rate risk report of the Group on a monthly basis. This report outlines 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 forward; and
- The Economic Value of the Group's financial assets and liabilities, incorporating assumptions around fixed-rate deposit roll overs.

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

Group		**Re-pricing in:**				
	Carrying amount €000	**Not more Than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 March 2016						
Balances with Central Banks and treasury bills	**32,573**	29,571	3,002	-	-	-
Loans and advances to financial institutions	**59,558**	59,558	-	-	-	-
Loans and advances to customers	**1,238,966**	1,113,004	75,359	50,579	24	-
Investments (excluding equity)	**872,415**	72,861	7,129	125,202	482,460	184,763
	2,203,512	1,274,994	85,490	175,781	482,484	184,763
Amounts owed to financial institutions:						
- Due to clearing houses	**520,000**	275,000	215,000	30,000	-	-
- Due to other banks	**21,925**	21,925	-	-	-	-
Amounts owed to customers	**1,447,355**	1,149,178	271,044	21,927	5,206	-
Subordinated liabilities	**47,380**	-	-	-	22,598	24,782
	2,036,660	1,446,103	486,044	51,927	52,586	24,782
Interest rate gap		(171,109)	(400,554)	123,854	429,898	159,981
Hedging interest rate derivatives – nominal amounts	(6,845)	-	580,000	-	(417,000)	(163,000)
Net interest repricing gap		(171,109)	179,446	123,854	37,680	(3,019)

11 Interest Rate Risk in Non-Trading Book - continued

11.2 Managing Interest Rate Risk – risk management - continued

11.2.2 Interest Rate Risk Reporting and Analysis - 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 Net Interest Margin (NIM) as a result of a 100 basis points (bps) movement and on Fair Value Reserve as a result of a 100 basis points (bps) parallel fall or rise in the yield curves, after taking into account the effect of hedge accounting, and making the assumption that market rates will never become negative, would be as follows:

31 March 2016	100 bps parallel increase €million	100 bps parallel decrease €million
Impact on NIM	12.8	(6.7)
Impact on EV	25.4	0.6

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

The main assumptions used in the model are:
- Interest bearing assets are assumed to mature on their contractual maturity and are not replaced;
- Certain senior secured loans have floors and thus not fully affected by a decrease in interest rate;
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate; and
- The liability maturity profile is extended to match the assets maturity profile.

11.2.3 Hedging and mitigation of interest rate risk

Interest rate risk positions are managed by Credit and Treasury and Investments, in conjunction with Risk, by strategically positioning the asset and liability interest rate re-pricing profiles as well as by purchases of interest rate derivatives, primarily swaps and swaptions. In addition, Treasury uses advances to financial institutions and deposits from financial institutions to manage the overall position arising from the Group's non-trading activities.

12 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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 objective of operational risk management is to manage the likelihood of material financial losses or reputational damage within the Group's risk tolerance, while aiming to maintain overall cost effectiveness or the use of control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The Group recognises the importance of having a strong operational risk management and delivers this through its three lines of defence, whose role is to ensure that adequate and appropriate risk management principles are applied across all business lines. The first line of defence is composed of business line management and staff where the primary control is performed. The second line of defence includes the risk management function, HR, finance, IT, legal and compliance, all involved separately in overseeing the business line management. The third line of defence is the audit function which is intended to provide independent assurance.

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk capital regulatory requirement as at 31 March 2016 amounted to €5,776,983.

13 Remuneration Policy and Practices

Information on remuneration policy and practices is disclosed in the Remuneration Report to the Annual Report.

14 Recruitment and Diversity Policy Statement

The Group recognises that a robust and professional approach to recruitment and selection helps it to attract and appoint individuals with the necessary skills and attributes to support its business goals.

All prospective staff members are subject to a rigorous selection process, taking into account the key activities, tasks and skills required for the position. Multiple interviews are conducted, and the scandidate's knowledge, experience, skills, temperament and competency are evaluated against other candidates.

The Group endeavours to ensure that all appointments (at any level) are made based on the actual knowledge, skills, expertise and merit of the individual involved, in compliance with local legislation and in adherence to this policy and related processes.

The Group is committed to attracting, developing and retaining diverse leaders. Diversity of thought provides tangible business benefits, including innovation, risk mitigation, better problem solving and improved customer service. To ensure we can foster these talents in an inclusive culture, we continue to recruit and develop the best person for the job, regardless of gender, age, race, family or caring responsibilities, disability and sexual orientation, identity or preference.

15 Other Directorships

The number of other directorships held by members of MedBank's Board, not related to Mediterranean Bank plc, are listed in the table below:

Director		**Number of other directorships held** No
Francis J. Vassallo	Independent Non-Executive Director	53
Frederick Mifsud Bonnici	Independent Non-Executive Director	4
Michael Walker	Independent Non-Executive Director	3
Benjamin Hollowood	Non-Executive Director	5
Mark A. Watson	Executive Director	1
Joaquin Vicent	Executive Director	3
Dominic Wallace	Executive Director	-

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