MEDITERRANEAN BANK PLC
ANNUAL REPORT
2012

Company Registration Number: C 34125


mediterraneanbank

CHAIRMAN'S STATEMENT

The reporting period has, undoubtedly, been a historically challenging time for European banks, due to the intensity and breadth of the Eurozone crisis, which has had an unprecedented impact on the European financial markets and challenged the fundamental structures upon which the Eurozone has been built.

Having successfully negotiated these difficult challenges, Mediterranean Bank (the "Bank") has been able to implement its focused strategy of developing cost efficient, transparent and understandable products for its rapidly growing and increasingly diverse customer base.

BACKGROUND

2011 witnessed a period of increasing concern regarding the fiscal sustainability of several Eurozone countries, creating unprecedented stresses in the European Government debt markets due to contagion spreading from country to country and infecting the European banking markets in an alarming and systemic fashion. In May 2011, Portugal became the third Eurozone country to receive a European Union / International Monetary Fund ("EU/IMF") package, worth €78 billion. Portugal's access to markets diminished in the face of rapidly rising bond yields driven by concerns over underlying growth rates and the subsequent trajectory of its debt path. At the core of the ongoing crisis were the issues surrounding Greece and its political and economic commitment to the reforms required as part of its 2010 EU/IMF Financing agreement, the need to negotiate a second package due to the underlying deterioration of the domestic economy and its ability to raise tax revenue. As part of this process, in an attempt to regain a sustainable path to its finances, it was deemed necessary to impose a "haircut" on the value of Greece's outstanding debt quantum and thus impacting Private Sector holders through a "voluntary" agreement. Initially, in the summer of 2011, this was agreed at Net Present Value of 21%, but as conditions continued to deteriorate, this was deemed insufficient with a final settlement agreed in March 2012 of a 53.5% nominal reduction and a substantially larger real economic impact.

The involvement of the Private Sector in debt restructuring had the effect of reinforcing concerns over the future of large swathes of Eurozone debt. Indeed, towards the end of 2011, the future of the Eurozone itself, including core countries such as France, was under significant pressure, as observed in the spiralling costs for both Italy and Spain in particular and the historically low yields for the safe haven of German debt. Multiple downgrades by rating agencies at the sovereign level and subsequently throughout the financial sectors of each country, further compounded the situation, with investors increasingly fretful regarding where the solution might come from.

Francis J. Vassallo
Chairman

Various elements towards a crisis solution were progressed by the EU, though often in a piecemeal manner: a sizeable increase in the funds available to the rescue vehicles (European Stability Mechanism / European Financial Stability Facility), thus providing a firewall against future contagion; a series of bank stress tests with accompanying capital raising plans; and a movement towards a "fiscal compact" enshrining budgetary discipline amongst EC members. However, market respite came in the form of a three year €1 trillion Long Term Refinancing Operation provided by the European Central Bank in December 2011 and February 2012. This newly injected liquidity in the banking system had a pacifying impact on stressed Government bond markets as the liquidity subsequently got recycled and led to a period of relative calm through the first quarter of 2012. Whether this period of calm is sustainable will be down to the ongoing structural and political response to the crisis and ultimately the future economic growth path this creates.

DEVELOPMENTS

Mediterranean Bank's response to the ongoing crisis has been to ensure that it continues to operate with very strong capital and liquidity ratios. Asset growth has focused on the highest quality collateral available within the European markets, derived from the core countries that were impacted to a lesser extent than those affected by the stresses witnessed in the peripheral areas. By invoking this strategy, in conjunction with the hedges reported in its Interim Report, June 2011, the Bank was able to mitigate the impact of its participation in the Greek Private Sector Initiative ("PSI") and report a small profit for the reporting period. Taking into account the protracted nature of the negotiations surrounding the PSI, the timing of communication of the precise details of the terms and conditions and the effects of offsetting hedging actions, the Board of directors decided to alter the reporting period going forward to a 31 March financial year end. Consequently, this reporting period covers the 15 month period, 1 January 2011 to 31 March 2012. The Board believes that this reporting period represents the most comprehensive and accurate reflection of the Bank's performance, eliminating the need to include a series of post balance sheet events. Therefore going forward the Bank's financial year will run on a 1 April to 31 March cycle.

I am pleased to report that, in August 2011, in order to support the ongoing growth of the Bank, its principal shareholder subscribed to a €15 million capital increase in the form of ordinary shares which has enabled the

Bank to grow its equity base from €59.4 million as of December 2010 to €75.5 million as of today, reflecting a 27% growth through this period.

Significantly, in this period, the Bank installed a new core banking system providing a robust and flexible platform from which the Bank is now positioned to deliver a broader, more comprehensive and market leading offering to both our retail and corporate customers. The capabilities that the platform is able to provide, will enable the Bank to rollout, over the next 12 months, a series of new and innovative products which will significantly enhance the Bank's customer offerings.

The Bank's local presence continues to evolve at a rapid pace, with the opening of three more branches in 2011: Mosta, Paola and a second presence in Valletta to support the Head Office. The Bank looks forward to developing this further in 2012. The growth of the Bank's customer base has been both consistent and impressive throughout the period and is the foundation upon which the Bank's business is being built. Additionally, the Bank was able to tap into the local bond market for a further €5 million tranche to the Bank's existing 2015 listed bonds and I would like to take this opportunity to thank all our customers and investors for their ongoing commitment and support.

OUTLOOK

The macro environment in Europe will, undoubtedly, continue to be challenging. However, we enter the next reporting year a stronger institution with a growing capital base, a very liquid balance sheet and excellent growth in our underlying businesses. Building on our new technological capabilities and in response to customer feedback, the Bank will be launching an innovative internet offering. This will deliver cost effective financial solutions designed for the long term investor and providing market leading investment execution and research capabilities that will be supported by our growing Branch network.

As we continue to make progress with our business, the Board will ensure that focus is kept on an appropriate, robust and sustainable strategy that supports the long term ambitions of the Bank and that we maintain our disciplined approach to balance sheet management. In so doing, we are optimistic that we will continue along the path that is appropriate for all our stakeholders.

FRANCIS J. VASSALLO
CHAIRMAN
26 APRIL 2012

CHIEF EXECUTIVE OFFICER'S REVIEW

The reporting period has, undoubtedly, been a historically challenging time for European banks, due to the intensity and breadth of the Eurozone crisis, which has had an unprecedented impact on the European financial markets and challenged the fundamental structures upon which the Eurozone has been built.

The 15 months ended 31 March 2012 was a period of investment in people, product, technology and presence.

Despite the macro environment challenges that were pervasive throughout the reporting period, the Bank's management retained a disciplined focus on developing all aspects of the Bank's capabilities to ensure that the Bank is able to deliver a broader product offering to its domestic and international customer base. Underpinning this strategy has been a continued commitment to manage the Balance Sheet with appropriately conservative Capital and Liquidity ratios.

Treasury management, which drives the Bank's ability to deliver competitive savings products, built the liquidity base of the Bank in response to the stressed market conditions that were witnessed through the period. At 31 March 2012 the Bank reported a Liquidity Ratio of 135% (against the required minimum of 30%). As reported by our Chairman, asset growth was focused on the highest credit quality instruments available, principally Covered Bonds from core European countries which still retain the highest ratings and are amongst the most liquid instruments within the international markets. Despite a period of multiple downgrades throughout Europe, 95% of the investment portfolio retains a minimum of investment grade BBB rating, with 71% carrying a rating greater than A. 75% of the portfolio has a primary claim on high quality collateral supported by either structural subordination or contractual over collateralisation, with a further 12% carrying a guarantee structure beyond its primary claim.

Financial performance for the period was impacted by the restructuring of Greek government debt, and our participation in the PSI which was finalised in late March 2012. The Bank reported a profit before tax of €1.2 million for the period. The increasing cost of this participation was mitigated by a macro hedging strategy and astute treasury management, which allowed the Bank to offset much of the negative impact of this situation, to maintain a strong capital base and continue to invest in the Bank's capabilities. At 31 March 2012, the Bank reported a tier 1 ratio of 24.5% (an international benchmark of balance sheet strength which is over 6 times the current statutory minimum ratio of 4%).

Underlying business performance was very strong with a growth in our deposit base from €173 million in December 2010 to €380 million at the end of this period, supported by both our retail and corporate customer base and buoyed by the success of our new, innovative product launches such as the "Now Account" and the "Legacy Savings". I am also pleased to report that during the period, Mediterranean Bank became the first Maltese bank to join the Eurex Repo platform enabling a broad and consistent access to international secured funding.

Mark A. Watson
Chief Executive Officer

As part of this process, the Bank became a Target 2 and Clearstream participant, the functionality of which will significantly enhance our customer offering going forward.

We enter the next reporting year, optimistic that we will continue to build on the foundations that we have created. Our investments in technology will allow us in the coming months to launch a market leading e-Wealth Management platform with cost efficient and transparent execution capabilities in both domestic and international funds, shares and bonds and will provide wholesale FX execution to our retail customers. We have teamed up with leading international providers to develop research and analytical capabilities and provide innovative tools to assist the long term financial planning goals of our customers. Our Custodial capabilities will provide safe and segregated accounts with daily valuations that can be accessed by our customers on a 24/7 basis. We believe this will truly complement our core savings products which we are committed to maintain on a consistent basis and allow Mediterranean Bank to deliver a seamless platform that is simple to use and delivers value and transparency.

Finally, I would like to thank our employees, for their commitment and hard work throughout this period. We have seen tremendous growth in our employee base from 63 at the end of 2010 to 128 today, as we look to build our products and capabilities. 2012 will continue to be a challenging environment for all participants within the Eurozone and we will maintain our focus and discipline as we execute our business strategy and deliver our capabilities to our Maltese and International clients.

MARK A. WATSON
CHIEF EXECUTIVE OFFICER

26 APRIL 2012

CONTENTS

Directors' Report

For the Period Ended 31 March 2012

The directors present their report, together with the financial statements of Mediterranean Bank plc (the "Bank"), and of the group of which it is the parent (the "Group"), for the period from 1 January 2011 to 31 March 2012.

Board of directors

In accordance with the Bank's Articles of Association, during the Annual General Meeting to be held on 26 April 2012, all the directors serving at that time will retire and offer themselves for reappointment.

Mr. Francis J. Vassallo – Chairman
Mr. Mark Alexander Watson
Mr. Peter Bramwell Cartwright
Mr. Finlay Stuart McFadyen
Mr. Henry Schmeltzer
Mr. Joaquin Vicent
Mr. Frederic Villa (resigned on 15 February 2011)
Mr. Vincent Chatard (appointed 25 January 2012)

Change of the accounting reference period

The Bank changed its accounting reference period to 31 March 2012. Accordingly, the Annual Report 2012 and the related financial statements cover a fifteen-month period from 1 January 2011 to 31 March 2012. The comparative figures presented are a twelve-month period for the year ended 31 December 2010. Subsequent accounting periods will be twelve-month periods ending 31 March.

Principal activities

The Group comprises Mediterranean Bank plc and its wholly owned subsidiaries Mediterranean Research Limited and Mediterranean Global Advisory SA (the "subsidiaries"). Mediterranean Research Limited provides financial research services to the Bank. During February 2012, its activities were transferred to a UK Establishment of the Bank. Mediterranean Global Advisory SA is a dormant company and is currently being liquidated.

The Bank was granted a licence by the Malta Financial Services Authority ("MFSA") in terms of the Banking Act, Cap. 371 of the Laws of Malta on 14 July 2005, a Category 2 and a Category 4 investment services licences.

The Bank is licensed, among other things, to carry out the business of banking, to undertake money transmission services, to issue and administer means of payment, guarantees and commitments, to trade for own account and/or for account of customers in a number of instruments, to provide portfolio management and advice, to provide loans and to provide safe-keeping and wealth management services.

The Bank has built a quality investment portfolio comprising European Union ("EU") sovereign and sovereign related credits, covered bonds and other similar credit quality instruments, which are classified as either held-to-maturity or available-for-sale and are measured at amortised cost and at fair value, respectively.

Directors' Report

For the Period Ended 31 March 2012

Principal activities (continued)

The principal activities of the Bank comprise the following:

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

Review of business development and financial position

During the period ended 31 March 2012, the Bank continued to implement its business plan which has the aim of sustaining the Bank's long-term profitability through the development of the Bank as a savings and wealth management institution. Its target customer base is the mass affluent market both in Malta and internationally as well as the corporate sector in Malta.

Through the development of a range of new products, the Bank continued to grow its retail and corporate customer base. During the period, the Bank attained membership of one of the leading electronic repo market providers, Eurex. Through such membership and in conjunction with access to the bi-lateral repo market, the open market operations of the European Central Bank, proceeds of the Bank's bond issues, the Bank's deposit base and its capital, the Bank is able to successfully pursue its diversification of funding sources strategy.

The Total Operating Income for the 15 month period ended 31 March 2012 was €80.299 million (2010: €30.242 million) for the Group and the Bank. This was created through the Bank's focus on its treasury management capabilities which, combined with its low cost base and superior customer service, has enabled it to position itself as a market leading provider of savings and term deposit products, primarily in the Maltese market. As at 31 March 2012, the Bank's Investment Portfolio stood at €1.415 billion (2010: €1.324 billion). Impairment losses of €62.885 million (2010: nil) related to the exchange of Greek government bonds as analysed in note 4 and note 17 to these financial statements. During the period ended 31 March 2012, the Bank mitigated such impairment losses through the realisation of a series of macro hedges against European peripheral risk.

Profit after tax for the period for the Bank and the Group amounted to €0.708 million (2010: €15.039 million) and €0.773 million (2010: profit after tax: €15.111 million), respectively. Shareholders' equity at the reporting date amounted to €75.386 million (2010: 59.405 million) and €75.509 million (2010: €59.471 million) for the Bank and the Group respectively.

On 21 June 2011, the Bank successfully issued €5,000,000 6.25% bonds 2015 having the same terms and conditions as the bonds issued by the Bank on 13 September 2010 other than with respect to the date of admissibility to listing. These bonds were oversubscribed and admitted to the Malta Stock Exchange Official List on Monday 27 June 2011.

At an extraordinary shareholders general meeting held on 12 August 2011, a resolution was approved for the issuance and allotment to Medifin Holding limited of 15,000,000 (fifteen million) ordinary A shares of €1.00 each that were fully paid in cash.

Directors' Report

For the Period Ended 31 March 2012

During the first half of 2011, the Bank also successfully completed the first and most significant phase of the installation of a new, state of the art core banking system.

Dividends and reserves

Retained earnings for the Bank and the Group amounting to €7.029 million (2010: €6.321 million) and €7,155 million (2010: €6.382 million), respectively, are carried forward to the next financial year. The directors do not recommend the distribution of any dividends.

Standard licence conditions

In accordance with the Investment Services Rules for Investment Services providers regulated by the MFSA, licence holders are required to include in the Directors' Report breaches of standard licence conditions or other regulatory requirements. Accordingly, the directors confirm that no breaches of standard licence conditions or other breach of regulatory requirements, which were subject to administrative penalty or regulatory sanction, were reported.

Future business developments

Mediterranean Bank plc maintains its prime strategic objective as being a leading provider of savings and wealth management products to the mass affluent market, both in Malta and other EU countries. This is underpinned by a proactive treasury management function, focused on high quality EU assets, which will enable the Bank to be competitive in the deposit market on an ongoing basis.

Through its access to the European capital markets, the Bank is confident that it can continue to grow its assets base in view of the ongoing funding needs of the European financial, public and corporate sectors and the fact that the Bank's portfolio represents a de-minimis proportion of the markets for European public and financial sector bonds.

Over the medium term, the Bank plans to continue to execute its existing strategy both in Malta and internationally. During the period ended 31 March 2012, the Bank expanded its local branch network to five opening branches in Paola, Valletta and Mosta. The Bank is to open a branch in Qormi in May 2012 and is considering opening other branches in Malta and abroad.

The Bank remains committed to operating with strong regulatory ratios in terms of capital and liquidity and to continue to import market leading risk management practices for the benefit of its customers, shareholders and all stakeholders.

Outlook

The Bank foresees continued difficulties for the Eurozone in the near term, but ultimately a stronger monetary union, and expects significant volatility along the way. The Bank is confident that as it grows its customer base, it can broaden its relationship with those customers, which should lead to consistently growing revenues through the course of time.

Directors' Report

For the Period Ended 31 March 2012

Related parties

During the period ended 31 March 2012, other than the planned transactions described under note 33 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 December 2010. During this period, no related party transactions materially affected the financial position or performance of the Bank.

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 Bank's profitability, balance sheet, capital adequacy and solvency, the directors declare, pursuant to MFSA Listing Rule 5.62, that the Bank is in a position to continue operating as a going concern for the foreseeable future.

Auditors

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

Statement by the directors pursuant to Listing Rule 5.68

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 Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of directors on the 26 April 2012 and signed on its behalf by:

Francis J. Vassallo Chairman	Mark A. Watson Director and Chief Executive Officer

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

Statement of Compliance with the Principles of Good Corporate Governance

Introduction

Mediterranean Bank plc (the "Bank") hereby reports on the extent to which the Code of Principles of Good Corporate Governance (the "Code") have been adopted as required by the Listing rules of the Malta Listing Authority as at 31 January 2012.

Part 1: 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 having a diversity of knowledge, judgment and experience acquired as leaders of central and international banks, professional and business firms. This facilitates them in being fit and proper to direct the business of the Bank, with honesty, competence and integrity. At 31 March 2012, the Board consisted of three non executive members and four executive members. Taking into account of the size of the Bank, the size of the Board, the balance of skills and experience represented by its members is appropriate for the requirements of the business of the Bank. The Board believes that any necessary changes to its composition can be managed without undue disruption to the business of the Bank.

The Chairman of the Board and Board directors resign and seek re-election at each Annual General Meeting of the Bank.

Principle 2: Chairman and chief executive

The position of the Chairman and that of the Chief Executive are occupied by different individuals, which avoids concentration of authority and power in one individual and also, to differentiate the leadership of the Board from that of the running of the business of the Bank.

Principle 4 and 5: Responsibilities of the Board and board meetings

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

Functioning of the Board

For the Board to function effectively, the non-executive directors contribute to Board discussions and challenge and test the proposals on strategy that are put forward by the executive directors. The Board promotes an environment whereby challenge from the non-executive directors is welcomed and encouraged, combined with full support for and empowerment of the executive directors in implementing decisions.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice, by applying high ethical standards and taking into account the interests of stakeholders. In particular, the Board:

- defines in clear and concise terms, the Bank`s strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;

Statement of Compliance with the Principles of Good Corporate Governance

- establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information which enables the Board to discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions and ensures that an informed assessment can be made of all issues facing the Board;
- establishes an Audit Committee in accordance with the Listing Rules;
- continuously 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 the management's implementation of corporate strategy and financial objectives. The strategy, processes and policies adopted for implementation is regularly reviewed by the Board using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the Bank;
- reviews regularly the strategy, processes and policies adopted for implementation using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the Bank;
- ensures that the Bank has appropriate policies and procedures in place to enable the Bank and its staff to maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards;
- requires management to monitor performance constantly and to report on the key performance indicators fully and accurately on a monthly basis ; and
- ensures that the financial statements of the Bank and the annual audit thereof are completed within the stipulated time periods.

Notices of the dates of forthcoming meetings together with supporting material are circulated well in advance to the directors, allowing ample opportunity to consider the information appropriately prior to the scheduled Board meetings. Advance notice is given of ad hoc meetings of the Board to allow all 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 made are prepared and circulated to all directors as soon as practicable.

The following list details the members of the Board of directors of the Bank and the members of each of the committees set up by the directors.

Board of directors

Since the date of the previous annual general meeting of the Bank, 23 Board meetings were held, including regularly scheduled meetings and telephone conference calls.

		Meetings attended
• Francis J. Vassallo	Chairman & Non-Executive Independent Director	20
• Finlay S. McFadyen	Non-Executive Director	23
• Peter B. Cartwright	Non-Executive Director	22
• Mark A. Watson	Executive Director – Chief Executive Officer	22
• Henry C. Schmeltzer	Executive Director – International Strategy/Legal	21
• Joaquin Vicent	Executive Director – Head Credit and Investments	21
• Vincent Chatard	Executive Director – (appointed on 25 January 2012)	(4 out of 4)
• Frédéric Villa	Executive Director – (resigned on 15 February 2011)	(0 out of 1)

Statement of Compliance with the Principles of Good Corporate Governance

As part of the Board's evaluation process to ensure that appropriate resources are allocated in line with the Bank's strategic goals, in June 2011, Henry Schmeltzer was appointed as Director of International Strategy to focus on the Bank's strategic initiatives, whilst also continuing to serve as the Bank's Chief Legal Officer. Vincent Chatard joined the Bank on 27 June 2011 as the new Chief Operating Officer and was appointed as a director on 25 January 2012.

The Board's evaluation process is carried out by the Remuneration and Nomination Committee where the majority of the Committee's members are non-executive directors, of whom the chairman of the Committee is one.

The Board committees

Certain responsibilities of the Board are delegated to Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. 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 throughout the Group. 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 & Risk Committee

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

The members of the Audit & Risk Committee are:

• Finlay S. McFadyen	Committee Chairman & Non-Executive Director
• Peter B. Cartwright	Member & Non-Executive Director
• Francis J. Vassallo	Member & Independent Non-Executive Director / Chairman of the Board

On 12 May 2011 Peter Cartwright resigned from the position of chairman of the committee, as a result of other commitments. Mr. Cartwright continues to be a member of the Audit and Risk Committee. Based on the recommendation of the Nomination and Remuneration Committee, the Audit and Risk Committee approved the appointment of Finlay McFadyen as the new permanent chairman of the committee.

Mr Francis J. Vassallo was appointed by the Board as the independent director who is competent in accounting and/or auditing in terms of listing rules 5.117 and 5.118 on the basis that he has a long and distinguished career in both public and private enterprise. Mr 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 numerous boards of entities operating in the financial services industry. Mr Vassallo is deemed independent and considered to be competent in accounting. The role has been duly notified to the listing authority.

The mandate of the Audit & Risk Committee is primarily to:

- review and approve the annual audit plan and subsequent revisions of the audit plan;
- monitor progress of the audit against the audit plan;
- ensure that the scope of work performed in accordance with the audit plan is adequate and appropriate;

Statement of Compliance with the Principles of Good Corporate Governance

- review work performed on all audit engagements;
- establish and maintain access between the internal and external auditors and ensure that communications between such auditors is open and constructive;
- monitor and review the external auditors' independence, and in particular, the provision of additional services to the Bank;
- monitor the Bank's policy on the engagement of the external auditors to supply non-audit services; and
- review and interact with external auditors on the annual statutory audit

During the 15 months ended 31 March 2012, five quarterly meetings of the Bank's Audit & Risk Committee were held. In addition, the chairman of the committee met on a regular basis with the internal auditors without the presence of an executive director.

B. Nomination & Remuneration Committee

The Nomination and Remuneration Committee is described in the Remuneration Report.

C. Board Executive Committee

The Board Executive Committee was established in order to facilitate the day to day activities of the Bank including approval of asset purchases, approval of the establishment and modification of bank accounts and banking relationships, waiver of specific provisions of compliance requirements, limitation of signatory authorisation, dealing with investment portfolio/trading/operational matters and issuance of certified extracts of Board resolutions.

The members of the committee are:

• Mark A. Watson	Committee Chairman & Executive Director
• Henry Schmeltzer	Member & Executive Director
• Vincent Chatard	Member & Chief Operating Officer (appointed to the Committee 30 November 2011)

This committee operated throughout the reporting period and met on an ad hoc basis when specific issues were to be considered.

Management committees

Executive Management Committee ("EXCO")

The EXCO represents the principal forum for conducting the business of the Bank and 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 committee are:

• Mark A. Watson	Committee Chairman & Chief Executive Officer
• Henry Schmeltzer	Member & Director of International Strategy/Legal
• Joaquin Vicent	Member & Head of Credit & Investment
• Edward Jaccarini	Member & Chief Financial Officer
• Vincent Chatard	Member & Chief Operating Officer (appointed to the Committee on 24 August 2011)

Statement of Compliance with the Principles of Good Corporate Governance

This committee operated throughout the year. During the earlier part of the reporting period, the committee met on a monthly basis. Later in 2011, the frequency of the EXCO'S meetings increased to three times each month.

Whilst retaining the ultimate responsibility for action taken, the Executive Management Committee may at its discretion delegate its responsibilities to properly constituted sub-committees. The following standing sub-committees will operate under their own terms of reference:

a) 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 and large exposures to the Board; consideration of credit hedging strategies; and recommending other concentration limits for Board approval. It is also responsible for delegating credit approval responsibility to the Credit and Investment Department. In addition, the Management Credit Committee reviews provisioning and lending policies; monitors the health of the portfolio and reviews Management Information reports.

The members of the committee are:

- Mark A. Watson — Committee Chairman & Chief Executive Officer
- Joaquin Vicent — Member & Head of Credit & Investment
- Xavier De Pauw — Member & Head of International Investment Strategy
- Keith Huber — Member & Head of Risk Management

The Management Credit Committee operated throughout the period and meetings were held via conference calls on an ad hoc basis.

b) Management Asset & 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 in various instruments according to the risk appetite set by the Board.

The members of the committee are:

- Deo Catania — Committee Chairman & Head of Treasury
- Mark A. Watson — Member & Chief Executive Officer
- Joaquin Vicent — Member & Head of Credit & Investment
- Edward Jaccarini — Member & Chief Financial Officer
- Keith Huber — Member & Head of Risk Management

The committee is obligated to meet monthly however operates on a fortnightly basis.

c) Operations Committee

The Operations Committee considers and discusses the day-to-day operating procedures of the Bank and constitutes a forum at which issues relating to the Bank's operating procedures can be considered among the Bank's heads of departments who deal with operations issues. Also, the Committee will follow-up on the implementation of audit agreed actions.

The following persons are members of the Operations Committee:

• Vincent Chatard	Committee Chairman & Chief Operating Officer
• Lorraine Bonello Ghio	Member & Head of Administration
• Domenic Degiorgio	Member & Head of Back Office & Settlements
• Paula Galea Farrugia	Member & General Counsel and Head of Compliance
• Keith Huber	Member & Head of Risk Management
• Edward Jaccarini	Member & Chief Financial Officer
• Jonathan Jones	Member & Head of Information Technology
• Fleur Mawdsley	Member & Head of Client Service Group

During 2011, this committee held three meetings. As from 2012, the committee has been streamlined, together with the new realigned committees for new products. As from 1 February 2012 the committee will meet at least once every three months.

Internal Controls Working Group

The Internal Controls Working Group is a subcommittee of the Operations Committee which reviews Bank's policies and procedures specifically and internal controls in general, with the aim of recommending changes to the Operations Committee and/or Executive Committee of the Board. The group may also review and assess internal audit functions and procedures and discuss means of strengthening internal controls. The Working Group does not have a set membership, and members are appointed by the Operations Committee on an ad hoc basis to address particular issues.

d) New Customer Product Committee

The New Customer Products 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 reviews proposed new products to be offered by the Bank and considers the associated risks and the potential benefits. Risks considered include financial, operational, legal/compliance and reputational risks. Potential benefits to be considered include both financial benefits and less tangible benefits such as benefits to the Bank's franchise. The Committee also specifies any limitations, both quantitative and qualitative, that is to be imposed in respect of any new product that is approved. The Committee may consider any other matters which relate to the analysis or control of any new products that the Bank is considering to offer.

The Committee shall, in respect of any new product it considers, provide recommendations to the Executive Management Committee as to whether a new product should be introduced by the Bank and as to appropriate policies, procedures and controls that should be adopted in relation to any such new product.

This Committee complies with European Banking Authority guidelines on Internal Governance (2006/48/EC/Art 23) having a well documented New Product Approval Policy.

Statement of Compliance with the Principles of Good Corporate Governance

This committee is to meet when a new product is to be approved and will meet, at a minimum, every three months for appropriate updates. Depending on the particular new products being proposed, the committee will represent the appropriate persons from the following:

• Vincent Chatard	Committee Chairman & Chief Operating Officer
• Raymond Calleja	Member & Head of Consumer Banking
• Deo Catania	Member & Head of Treasury
• Charles Cini	Member & Head of Corporate Banking
• Domenic Degiorgio	Member & Head of Back Office and Settlements
• Paula Galea Farrugia	Member & General Counsel and Head of Compliance
• Keith Huber	Member & Head of Risk Management
• Edward Jaccarini	Member & Chief Financial Officer
• Jonathan Jones	Member & Head of Information Technology
• Ludwig Mallia	Member & Head of Business Development
• Wilfred Mallia	Member & Head of Wealth Management
• Fleur Mawdsley	Member & Head of Client Service Group
• Alanbek Yussupov	Member & Head of Business Development
• Paul Savona	Head of Project Management

e) New Treasury Services Committee

The Treasury Services Committee has been established to analyse potential new treasury management products to be used by Treasury for liquidity, credit and market risk management from a risk, operations and legal/compliance perspective.

This committee is to meet when a new product is to be approved. Depending on the particular new products being proposed, the committee will represent the appropriate persons from the following:

• Joaquin Vicent	Committee Chairman & Head of Credit & Investment
• Vincent Chatard	Member & Chief Operating Officer
• Deo Catania	Member & Head of Treasury
• Domenic Degiorgio	Member & Head of Back Office and Settlements
• Xavier De Pauw	Member & Head of International Investment Strategy
• Paula Galea Farrugia	Member & General Counsel and Head of Compliance
• Keith Huber	Member & Head of Risk Management
• Edward Jaccarini	Member & Chief Financial Officer
• Jonathan Jones	Member & Head of Information Technology
• Ludwig Mallia	Member & Head of Business Development
• Alanbek Yussupov	Member & Head of Business Development

Principle 6: Information and professional development

In addition to the responsibilities of the Board listed above, in line with Principle 6, the Board actively participates in the appointment of senior management. Board members receive updates on the Bank's strategic, operational, corporate governance, compliance, risk management and financial plans and objectives.

Statement of Compliance with the Principles of Good Corporate Governance

Principle 7: Evaluation of the Board's performance

The Board's evaluation process is carried out by the Nomination and Remuneration Committee, the chairman of which is a non-executive director.

Principle 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.

Principle 11: Conflicts of Interest

Directors are aware that their primary responsibility is always to act in the interest of the Bank and its shareholders as a whole, irrespective of who appointed them to the Board. The directors recognise that their personal interests must never take precedence over those of the Bank and its shareholders.

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

As a Maltese bank, Mediterranean Bank is proud to play its part in contributing to the community by supporting and promoting culture, sport, heritage and charitable causes. The Bank's commitment to these initiatives was demonstrated during 2011 with a number of important sponsorship / donation agreements.

The Bank's patronage of the sporting community was strengthened further by the Bank extending its Sponsorship to the Malta Rugby Football Union (MRFU). Once again the team will benefit from a major sponsorship deal which will assist the Union's development on an international level, support the local game and also the European 7's competition. As part of this agreement the MRFU Cup (local senior division league) has been renamed the "Mediterranean Bank Cup" as from February 2011.

Encouraging Maltese youth and elderly to participate in sporting activities is another major area of the Bank's efforts in the area of social responsibility. The Bank supported a range of activities including, amongst others, an Easter tournament organised by San Gwann Youth Nursery, the Women's Day Run organised by the Malta Olympic Committee, a 60+ Day Run organised by Care Malta, the Athleta Fun Run organised by the Pembroke Local Council, a Harbour Cruise organised for the Children of the Salesians Brigade and the Boys at St Patrick's, support of The Malta Life Cycle 2011 and the Zabbar Children's Sports Fest.

Preserving Malta's national heritage is important to enable future generations to appreciate their roots. To this end, the Bank is honoured to continue its participation in Heritage Malta's Corporate

Statement of Compliance with the Principles of Good Corporate Governance

Patronage Programme, helping to fund the extension of the National Museum of Archaeology in Valletta. The project included the establishment of a new children's area within the Museum together with the construction of several halls within this floor. The Bank is also very pleased to be the main local sponsor of the Metal Magic Exhibition. This very prestigious collection has over 100 artefacts of which many were exhibited in Malta for the first time. The Bank has also donated funds for the complete restoration of 10 paintings found in the Grandmaster's Hall at the President's Palace in San Anton.

As part of the Bank's corporate social responsibility programme, it also continues to support and promote the performing and visual arts. In line with this commitment, the Bank will be once again the main benefactor of the Manoel Theatre for the coming 2011 / 2012 season. In January 2012, the Bank was once again re-confirmed as the main sponsor for the Malta Eurovision Song Festival 2012 which took place in February.

In collaboration with its sister company, Charts Investment Management Service Limited, the Bank also sponsored an art exhibition which was held at the President's Palace in San Anton.

The Bank also sponsored a dinner at the prestigious 5th National Pharmacogenomics Conference, which was held at the University of Malta. The conference included attendees and speakers from Malta and throughout Europe.

Finally, the Bank also made generous donations to L-Istrina, the Fejda & Jean Antide Home for Girls and the St. Joseph Home for Boys. The Fejda & Jean Antide Home for Girls and the St. Joseph Home for Boys benefitted from the Bank's Medbank-4-Charity Xmas campaign wherein the Bank made a donation for every account opened during the month of December. These funds will go towards two new completely refurbished living / TV rooms for the girls, one for each home, and a new complete kitchen and a sitting room for the Boys' Home allocated to the independent living project, that is aimed to serve as a home away from home for teenage boys.

Mediterranean Bank was the main sponsor of the Caritas Malta Epilepsy conference, held on the 25 February 2012 and aimed towards raising awareness. Once again we were pleased to help this truly noble cause.

Statement of Compliance with the Principles of Good Corporate Governance

Part 2: Non Compliance with the Code

Principle 3 – Composition of the Board

The Code recommends that the majority of the non-executive Board directors are independent. The Bank's Board consists of three non-executive directors, one of whom is deemed to be independent.

Principle 4 – The responsibilities of the Board

The Code (provision 4.2.7) recommends that the Board should develop a succession policy for the future composition of the Board and particularly the executive component thereof, for which the Chairman should hold key responsibility.

The current Board was instituted in July 2009. The Board recognises the need for succession planning and will keep the recommendation to implement such a policy under review.

Principle 6 – Information and professional development

The Code (provision 6.4.4) recommends that the Chief Executive Officer establishes a succession plan for senior management.

The Bank has been building its senior management team since the Bank started to be managed under a new Board and Executive team. Should succession planning matters arise, the Bank will refer to the Board for guidance.

Principle 8 – Committees

The Code (provision 8.A.1) states that the Board should establish a remuneration Committee composed of non-executive directors. The Bank's Nomination and Remuneration Committee is composed of two non-executive and one executive director and the Chairman of the Committee is not independent. Also it is recommended that no member of the Remuneration Committee should be present while his remuneration is being discussed at a meeting of such Committee (8A(iv)).

The Chief Executive Officer is a member of the Bank's Nomination and Remuneration Committee. The Chief Executive Officer recluses himself from any discussion of his own compensation, and the Board is not aware of the existence of any actual conflict of interest in this role.

Listing Rules

At each meeting, the Audit and Risk Committee receives notices of all the related transactions and balances. With the establishment of an in house internal audit department, going forward the Audit and Risk Committee shall be responsible for the vetting and approving related party transactions in accordance the List Rule 5.138.

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

26 April 2012

Statement of Compliance with the Principles of Good Corporate Governance

Disclosures

Francis J. Vassallo, who is the non-executive Chairman and independent director of Mediterranean Bank plc, occupies various positions in the financial services industry in Malta. He is a member of the Board of directors of FIMBank plc, a credit institution licensed in terms of the Banking Act, Cap. 371 of the Laws of Malta and is the President and Managing Partner of Francis J. Vassallo & Associates Limited ("FJV Associates") and Chairman of FJV Fiduciary Limited and FJV Management Limited. Effective 15 December 2011, FJV Associates and the Bank agreed by mutual consent to terminate a referral agreement between FJV Associates with the Bank.

Material contracts

Outsourcing agreement

On 1 January 2005, the Bank and Boss Lab SA entered into an agreement pursuant to which the Bank outsourced its information technology ("IT") (or a portion thereof) and its back office administration (or a portion thereof) to Boss Lab SA. This agreement was terminated effective 30 June 2011.

Licence and hosting agreement

On 1 September 2011, the Bank entered into a computer software licence and maintenance agreement with Intelligent Environments Europe Ltd ("IE"), pursuant to which IE licensed to the Bank in perpetuity its Netfinance e-banking application and related software and to provide maintenance services in respect of such applications for a minimum term of three years.

On 24 October 2011, the Bank entered into a hosting services agreement with IE, pursuant to which IE agreed to host the Bank's website and related back end connectors. The term of the hosting services agreement is three years.

Professional services agreement and software licence agreement

On 10 August 2010, Infosys Technologies Limited ("Infosys") and the Bank entered into agreements pursuant to which Infosys (a) granted the Bank a perpetual, irrevocable, non-exclusive, non-transferable, limited licence to use its proprietary software Finacle (a banking software product) in accordance with the terms of the software license agreement and to provide maintenance services in relation thereto; and (b) agreed to provide the Bank with professional services in relation to the installation, customisation, development, parameterisation, training, testing and implementation of the licensed software, subject to the terms and conditions contained in the said agreement.

Effective 30 November 2011, the Bank's contracts with Infosys were assigned to its affiliate, Medifin Leasing Limited.

Software licence agreement

On 14 August 2009, SunGard Front Arena AB ("SunGard") and the Bank entered into an agreement pursuant to which SunGard provided a personal, non-transferable, non-exclusive, limited-scope, term licence in favour of the Bank, subject to the payment of a license fee, yearly support fees, as well as professional services fees, expense reimbursements and taxes, all as specified in the agreement. The licence provided to the Bank relates to the Front Arena trading and risk management system under which the Bank can enter and execute new trades, manage asset and liability risk and perform risk and portfolio management. The initial licence term duration is five years from the specified date, after which the renewed licence term will continue unless terminated by either party giving the other party not less than 6 months' prior notice. The Bank or SunGard may immediately terminate the Agreement by giving a written notice of termination, upon the occurrence of certain events set forth in the agreement.

Consulting services

On 1 June 2011, the Bank entered into an agreement with Morningstar Associates Europe Limited (Morningstar) whereby Morningstar will be providing consulting services to the Bank in respect of the Bank's wealth management and portfolio planning services. The initial term of the agreement is three years.

On 1 June 2011, the Bank entered into an agreement with Morningstar UK Ltd. to license certain Morningstar analytical tools for use by the Bank in Malta.

On 30 March 2012, the Bank entered into agreements with Morningstar UK Ltd. to license the Morningstar Document Library and certain Morningstar Data Packages.

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 as adopted by the European Union ("IFRS").

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

- to the maintenance of 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;
- 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.

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of Mediterranean Bank plc (the "Bank") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial period and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act and the Banking Act, 1994.

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

The directors, through oversight of management, are responsible for ensuring that the Bank establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and to maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank and the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls should be implemented to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of directors by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

26 April 2012

Remuneration Report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee ("NRC") is to review the setting of remuneration levels within Mediterranean Bank plc (the "Bank") and to consider whether to approve performance related bonus awards and long term incentive plan awards.

The NRC receives recommendations from the management of the Bank regarding the setting of remuneration or awarding of bonuses. It may request market related information from time to time to verify the recommendations made by management.

One of the NRC's primary functions is to ensure that the Bank is able to attract and retain suitable employees at all levels at an acceptable cost.

Membership and meetings

The members of the NRC are:

- Peter B. Cartwright Committee Chairman & Non-Executive Director
- Francis J. Vassallo Member & Non-Executive Director / Chairman of the Board
- Mark A. Watson Member & Executive Director

The committee structure shall not be altered without the approval of the Board.

During the period 1 January 2011 to 31 March 2012, this committee met five times. All meetings were attended by all members of the committee except for on two occasions on which Francis J. Vassallo was unavailable. During these meetings, the follow matters were considered, approved and recommended, where applicable:

- Establishment of the medium and long term criteria and key measures based on which variable compensation would be judged
- Approval for increases in directors' fees
- Approval of Executive management salary increases
- Approval of Executive management performance based payment awards
- Approval of staff and management salary increases
- Approval of staff and management performance based payment awards
- Allocation of Long Term Incentive Plan

Remuneration policy statement

The Board is responsible for ensuring that this statement and its contents are reviewed regularly in order to ensure all laws, rules and regulations issued by the Malta Financial Services Authority are adhered to. The Board directly and through the NRC carries out effective monitoring and evaluation of the Bank's remuneration system on an ongoing basis. The NRC and the Board monitor the ongoing performance by management of its supervisory function in respect of design and implementation of a remuneration system.

The NRC is charged with aligning the Bank's remuneration policy, and in particular performance-related elements of remuneration, with the best interests of the stakeholders, and with the Bank's business strategy and risk tolerance, objectives, values and long-term interests.

Remuneration Report

Remuneration consists of cash pay awards and, where applicable, performance based bonus awards. Performance-related compensation shall be determined both on (i) a Bank wide basis; and (ii) an individual employee basis.

Compliance with the Bank's rules and requirements and involvement by all employees on a continuing basis, risk management is taken into account when determining performance-based remuneration. Other non-financial factors shall also be considered such as skills acquired, personal development, commitment to the Bank's business strategies and its major policies and contribution to the performance of the team. Performance shall be measured in relation to non-financial and financial goals, and where appropriate, failure to perform in non-financial areas of responsibility shall outweigh success in profit generation in determining compensation. Control functions shall be adequately rewarded to ensure that the Bank is able to attract skilled individuals for such roles.

The Bank's remuneration policy has not been changed since its adoption in March 2011. The Bank has no present intention to effect changes in its remuneration policy during the following financial year.

(a) Measures of performance as basis for awarding of pay

In principle, base pay will comprise the majority of the Bank's overall compensation cost.

i. All staff

The NRC considers a variety of factors in determining compensation tailored to the role of the individual concerned and takes into account factors such as risk management, development of systems, monitoring of risk and creation of long-term value for the Bank.

ii. Members of management and control functions

Recommendations by management as to remuneration of members of control functions are made by the Chief Executive Officer. Such recommendations are reviewed and approved or rejected by the NRC.

Compensation for employees serving in control functions takes into account broadly based performance measurements, including evaluation of achievements with specific regard to their control function responsibilities. These employees are compensated in accordance with their own performance and not in relation to the performance of the business units they control.

Senior members of management may be eligible to participate in the Bank's Long-term Incentive Plan, enabling such managers to participate in the long-term profitability of the Bank.

iii. Non executive directors

The remuneration of non-executive directors is not performance based and is not linked to the Bank's short term results. It is determined based on remuneration levels for directors of similar financial companies, and takes into account factors such as time invested and responsibilities.

(b) Measures of performance as basis for awarding of bonuses

A bonus pool is established for the Bank as a whole and is calculated at the Bank level based on the success of the Bank in meeting its business objectives. These objectives relate, among other things, to profitability, sustainability of performance, risk management, building of business lines and creation of long-term shareholder value.

Remuneration Report

Individuals are compensated out of that bonus pool based on their contribution to the achievement of the Bank's business objectives. Such individual criteria depend on the role of the individual in the Bank.

Control functions are judged on success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems. While the general bonus pool of the Bank will be based on the Bank's economic results, compensation of control functions is not directly tied to the results of any business unit.

Staff savings account

All of the Bank's staff are entitled to deposit monthly specified amounts direct from after tax payroll into a savings account. At the end of each calendar year, the Bank will pay 5% interest on the accumulated savings remaining in the account in December. Amounts in such savings accounts may be withdrawn annually on such date, at which point amounts may be withdrawn or terms reset.

Long-term incentive plan ("LTIP")

The Bank has established a LTIP for the benefit of senior management. Senior members of management designated by the CEO and approved by the NRC (including the approval of at least one director nominated by the majority shareholder of the Bank), are eligible to participate in the Bank's LTIP. The LTIP enables senior managers to participate in the long-term profitability of the Bank, as measured by internal rate of return of the Bank's shareholders on their investment. If the Bank does not achieve long-term investment returns for the Bank's shareholders, units issued pursuant to LTIP will expire without value.

Remuneration policy – directors

Based on the recommendations of the NRC, the fees earned by the directors for the 15 month-period ended 31 March 2012 amounted to €135,835.

Total emoluments earned by the directors during the period ended 31 March 2012, are reported below pursuant to Code Provision 8.A.5

Fixed Remuneration	Variable Remuneration	Shares	Non-Cash Benefits
€ 949,055	€ 786,667	None	€ 226,331

Termination payments

During the 15 month period ended 31 March 2012, the total termination payment to directors and executive senior management amounted to €158,906.

Employment contracts - executive directors

All the executive directors as of 31 March 2012 were engaged under indefinite employment contracts pursuant to which six months notice is required in the case of resignation.

Remuneration Report

Remuneration policy – senior management

Total emoluments received by the senior management during the year ended are reported below

Fixed Remuneration	Variable Remuneration	Shares	Non-Cash Benefits
€ 772,239	€ 214,333	None	€ 26,934

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

26 April 2012

Statements of Financial Position

As at 31 March 2012

		Group		Bank	
		31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	Notes	€000	€000	€000	€000
ASSETS					
Balances with Central Bank of Malta and cash	14	**63,656**	10,526	**63,656**	10,526
Loans and advances to financial institutions	15	**27,804**	35,801	**27,804**	35,801
Loans and advances to customers	16	**27,666**	-	**27,666**	-
Investment securities	17	**1,415,493**	1,324,114	**1,415,493**	1,324,114
Derivative assets held for risk management	18	**2,572**	-	**2,572**	-
Investment in subsidiaries	19	**-**	-	**63**	63
Property and equipment	20	**2,975**	2,682	**2,880**	2,596
Intangible assets	21	**351**	1,371	**351**	1,371
Other assets	22	**15,710**	1,728	**15,649**	1,738
Prepayments and accrued income	23	**19,442**	14,646	**19,442**	14,646
Deferred tax assets	24	**244**	695	**244**	695
Total assets		**1,575,913**	1,391,563	**1,575,820**	1,391,550

The notes on pages 32 to 94 are an integral part of these financial statements.

Statements of Financial Position

As at 31 March 2012

		Group		Bank	
		31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	Notes	€000	€000	€000	€000
EQUITY					
Share capital	25	**56,030**	41,030	**56,030**	41,030
Share premium	25	**13,464**	13,464	**13,464**	13,464
Retained earnings	25	**7,155**	6,382	**7,029**	6,321
Other reserves	25	**(1,140)**	(1,405)	**(1,137)**	(1,410)
Total equity		**75,509**	59,471	**75,386**	59,405
LIABILITIES					
Amounts owed to financial institutions	26	**1,093,753**	1,134,986	**1,093,753**	1,134,986
Amounts owed to customers	27	**379,483**	172,847	**379,555**	172,926
Debt securities in issue	28	**19,672**	14,735	**19,672**	14,735
Current tax		**207**	3,891	**166**	3,865
Other liabilities	29	**683**	778	**682**	783
Accruals	30	**6,606**	4,855	**6,606**	4,850
Total liabilities		**1,500,404**	1,332,092	**1,500,434**	1,332,145
Total equity and liabilities		**1,575,913**	1,391,563	**1,575,820**	1,391,550

The notes on pages 32 to 94 are an integral part of these financial statements.

The financial statements on pages 26 to 94 were approved and authorised for issue by the Board of directors on 26 April 2012 and signed on its behalf by:

Francis J. Vassallo Chairman	Mark A. Watson Director and Chief Executive Officer	Edward Jaccarini Chief Financial Officer

Statements of Comprehensive Income

For the Period Ended 31 March 2012

		Group		Bank	
		1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	Notes	€000	€000	€000	€000
Interest income		64,067	41,834	64,067	41,834
Interest expense		(34,327)	(14,188)	(34,327)	(14,188)
Net interest income	7	29,740	27,646	29,740	27,646
Fee and commission income		253	124	253	124
Fee and commission expense		(424)	(1,154)	(424)	(1,154)
Net fee and commission expense	8	(171)	(1,030)	(171)	(1,030)
Net trading income	9	1,799	346	1,799	346
Other operating income	9	48,931	3,280	48,931	3,280
Total operating income		80,299	30,242	80,299	30,242
Net impairment loss on investment securities	4/17	(62,885)	-	(62,885)	-
Administrative and other expenses	10	(7,545)	(5,675)	(9,020)	(6,861)
Personnel expenses	11	(7,812)	(5,137)	(6,461)	(4,058)
Depreciation and amortisation		(799)	(365)	(772)	(356)
Operating expenses		(79,041)	(11,177)	(79,138)	(11,275)
Profit before income tax		1,258	19,066	1,161	18,968
Income tax expense	12	(485)	(3,955)	(453)	(3,929)
Profit for the period/year		773	15,111	708	15,039
Other comprehensive income					
Exchange translation		(8)	1	-	-
Fair value reserve – available-for-sale assets					
Net change in fair value		37,103	2,877	37,103	2,877
Net amount transferred to profit or loss		(36,977)	(5,046)	(36,977)	(5,046)
Income taxes		147	759	147	759
Other comprehensive income for the period/year		265	(1,409)	273	(1,410)
Total comprehensive income for the period/year		1,038	13,702	981	13,629
Earnings per share (cents)	13	2c	37c	1c	37c

The notes on pages 32 to 94 are an integral part of these financial statements.

Statements of Changes in Equity

For the Period Ended 31 March 2012

Group	Share capital €000	Share premium €000	Retained earnings €000	Other reserves: Exchange translation €000	Other reserves: Fair value €000	Total €000
Balance as at 1 January 2010	39,521	13,464	(8,729)	4	-	44,260
Total comprehensive income for the year:						
Profit for the year	-	-	15,111		-	15,111
Other comprehensive income for the year:						
Exchange translation	-	-	-	1	-	1
Available-for-sale assets:						
- Net change in fair value	-	-	-	-	1,870	1,870
- Net amount transferred to profit or loss	-	-	-	-	(3,280)	(3,280)
Total comprehensive income for the year, net of tax	-	-	15,111	1	(1,410)	13,702
Transactions with owners, recorded directly in equity						
Contributions by owners:						
Issue of share capital	1,509	-	-	-	-	1,509
Total contributions by owners	1,509	-	-	-	-	1,509
Balance at 31 December 2010	41,030	13,464	6,382	5	(1,410)	59,471
Balance at 1 January 2011	41,030	13,464	6,382	5	(1,410)	59,471
Total comprehensive income for the period:						
Profit for the period	-	-	773	-	-	773
Other comprehensive income for the period:						
Exchange translation	-	-	-	(8)	-	(8)
Available-for-sale assets:						
- Net change in fair value	-	-	-	-	24,308	24,308
- Net amount transferred to profit or loss	-	-	-	-	(24,035)	(24,035)
Total comprehensive income for the period, net of tax	-	-	773	(8)	273	1,038
Transactions with owners, recorded directly in equity						
Contributions by owners:						
Issue of share capital	15,000	-	-	-	-	15,000
Total contributions by owners	15,000	-	-	-	-	15,000
Balance at 31 March 2012	56,030	13,464	7,155	(3)	(1,137)	75,509

The notes on pages 32 to 94 are an integral part of these financial statements.

Statements of Changes in Equity

For the Period Ended 31 March 2012

Bank

	Share capital €000	Share premium €000	Retained earnings €000	Fair value reserve €000	Total €000
Balance as at 1 January 2010	39,521	13,464	(8,718)	-	44,267
Total comprehensive income for the year:					
Profit for the year	-	-	15,039	-	15,039
Other comprehensive income for the year:					
Available-for-sale assets:					
- Net change in fair value	-	-	-	1,870	1,870
- Net amount transferred to profit or loss	-	-	-	(3,280)	(3,280)
Total comprehensive income for the year, net of tax	-	-	15,039	(1,410)	13,629
Transactions with owners, recorded directly in equity					
Contributions by owners:					
Issue of share capital	1,509	-	-	-	1,509
Total contributions by owners	1,509	-	-	-	1,509
Balance at 31 December 2010	41,030	13,464	6,321	(1,410)	59,405
Balance as at 1 January 2011	41,030	13,464	6,321	(1,410)	59,405
Total comprehensive income for the period:					
Profit for the period	-	-	708	-	708
Other comprehensive income for the period:					
Available-for-sale assets:					
- Net change in fair value	-	-	-	24,308	24,308
- Net amount transferred to profit or loss	-	-	-	(24,035)	(24,035)
Total comprehensive income for the period, net of tax	-	-	708	273	981
Transactions with owners, recorded directly in equity					
Contributions by owners:					
Issue of share capital	15,000	-	-	-	15,000
Total contributions by owners	15,000	-	-	-	15,000
Balance at 31 March 2012	56,030	13,464	7,029	(1,137)	75,386

The notes on pages 32 to 94 are an integral part of these financial statements.

Statements of Cash Flows

For the Period Ended 31 March 2012

	Notes	Group 1 Jan 2011 to 31 Mar 2012 €000	Group 1 Jan 2010 to 31 Dec 2010 €000	Bank 1 Jan 2011 to 31 Mar 2012 €000	Bank 1 Jan 2010 to 31 Dec 2010 €000
Cash flows from operating activities					
Interest and commission receipts		**60,158**	38,158	**60,158**	38,158
Interest payments		**(30,287)**	(13,828)	**(30,287)**	(13,828)
Payments to employees and suppliers		**(26,573)**	(9,328)	**(26,984)**	(9,432)
Operating profit before changes in operating assets/liabilities		**3,298**	15,002	**2,887**	14,898
(Increase)/decrease in operating assets:					
- reserve deposits with Central Bank of Malta		**(68)**	(1,971)	**(68)**	(1,971)
- loans advanced to customers and financial Institutions		**(27,250)**	(1,038)	**(27,250)**	(1,038)
- investment securities		**1,091,620**	(694,718)	**1,091,620**	(694,718)
Increase in operating liabilities:					
- amounts owed to customers and financial institutions		**(171,407)**	291,006	**(171,114)**	291,015
Tax paid		**(3,866)**	-	**(3,847)**	-
Net cash from/(used in) operating activities		**892,327**	(391,719)	**892,228**	(391,814)
Cash flows from investing activities					
Acquisition of property and equipment		**(1,065)**	(2,142)	**(1,026)**	(2,047)
Disposal of property and equipment		**109**	-	**109**	-
Acquisition of intangible assets		**(4,517)**	(1,191)	**(4,517)**	(1,191)
Disposal of intangible assets		**5,401**	-	**5,401**	
Acquisition of available-for-sale assets		**(3,184,077)**	(81,489)	**(3,184,077)**	(81,489)
Disposal of available-for-sale assets		**1,987,289**	84,768	**1,987,289**	84,768
Acquisition of assets held-for-risk management		**(4,728)**	-	**(4,728)**	-
Advances to parent		**(1,273)**	(77)	**(1,273)**	(77)
Advances to group companies		**(3,635)**	-	**(3,575)**	-
Net cash used in investing activities		**(1,206,496)**	(131)	**(1,206,397)**	(36)
Cash flows from financing activities					
Proceeds from the issue of share capital		**15,000**	1,509	**15,000**	1,509
Proceeds from the issue of debt securities		**4,937**	14,735	**4,937**	14,735
Cash from financing activities		**19,937**	16,244	**19,937**	16,244
Net decrease in cash and cash equivalents		**(294,232)**	(375,606)	**(294,232)**	(375,606)
Cash and cash equivalents at beginning of period/year		**(323,036)**	52,570	**(323,036)**	52,570
Cash and cash equivalents at period/year end	31	**(617,268)**	(323,036)	**(617,268)**	(323,036)

The notes on pages 32 to 94 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the Period Ended 31 March 2012

Notes to the Financial Statements

For the Period Ended 31 March 2012

1 Reporting entity

Mediterranean Bank plc (the "Bank") is domiciled and incorporated in Malta. The address of the Bank's registered office is 10, St. Barbara Bastion, Valletta, VLT 1961, Malta. As described in note 2.5, the Bank changed its financial period-end from 31 December to 31 March. The financial statements of the Group as at and for the 15 month period ended 31 March 2012 comprise the Bank and its fully-owned subsidiaries (together referred to as the "Group" and individually as the "Group Entities"). The Group is principally involved in the provision of term savings and wealth management products which is supported by the acquisition of a high quality investment portfolio comprising EU sovereign and sovereign related credits, covered bonds and other similar credit quality instruments.

2 Basis of preparation

2.1 Statement of compliance

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

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

The financial statements have also been drawn up in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial instruments and derivative financial instruments which are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in euro (€), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

2.5 Comparative information

The Group changed its accounting reference period to 31 March. Accordingly, the Annual Report 2012 and the related financial statements will cover a fifteen-month period from 1 January 2011 to 31 March 2012. The comparative figures presented are a twelve-month period ended 31 December 2010. Subsequent accounting periods will be twelve-month periods ending 31 March. For this reason, the comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable to the amounts disclosed for the year ended on 31 December 2010.

The Group changed its accounting reference period in order to reduce the uncertainty relating to the accounting treatment of the de-recognition of investment securities as disclosed in note 4.

3 Significant accounting policies

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

3.1 Basis of consolidation

3.1.1 Subsidiaries

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

3 Significant accounting policies (continued)

3.1.2 Transactions eliminated on consolidation

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

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2.2 Foreign operations

The assets and liabilities of foreign operations are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at spot exchange rates at the dates of the transactions.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. These differences are recognised in the translation reserve. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal. In partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

3 Significant accounting policies (continued)

3.3 Interest

Interest income and expense, including interest received on financial assets measured at amortised cost, are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Fair value changes on other derivatives held for risk management purposes are presented in 'Net trading income' in the statement of comprehensive income.

3.4 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including servicing fees and investment management fees are recognised as the related services are performed.

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

3.5 Net trading income

Net trading income includes foreign exchange differences.

3.6 Other operating income

Other operating income mainly comprises of realised gains on disposal of available-for-sale and held-to-maturity investments. Dividend income, which is recognised when the right to receive income is established, is reflected as a component of other operating income.

3 Significant accounting policies (continued)

3.7 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.8 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities

3.9.1 Recognition and initial recognition

The Group initially recognises loans and advances, deposits and debt securities issues on the date at which they are originated, except for corporate loans and advances which are initially recognised on the date of transfer of beneficial ownership. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes part to the contractual provisions of the instrument, except for investments and derivative assets and liabilities held for risk management which are recognised on date of settlement.

A financial asset or liability is measured initially at fair value plus, in the case of assets not classified as at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.9.2 Classification

See accounting policies 3.10, 3.12, 3.13 and 3.14.

3.9.3 Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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

3.9.4 Offsetting

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

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

3.9.5 Amortised cost measurement

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

3.9.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received.

Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For subsequent measurement, assets are measured at a bid price.

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.6 Fair value measurement (continued)

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3.9.7 Identification and measurement of impairment of financial assets

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

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

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.7 Identification and measurement of impairment of financial assets (continued)

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances and investment securities as appropriate. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

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

3 Significant accounting policies (continued)

3.10 Cash and cash equivalents

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

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

3.11 Investment in subsidiaries

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

3.12 Loans and advances

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

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

Loans and advances are accounted for on settlement date and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The Bank participates in syndicated lending. Such loans and advances are accounted for on the agreement date, being the date of transfer of beneficial ownership.

3.13 Investment securities

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

3.13.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale.

3 Significant accounting policies (continued)

3.13 Investment securities (continued)

3.13.1 Held-to-maturity (continued)

Held-to-maturity investments are measured at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- sales or reclassifications after the Group has collected substantially all of the asset's original principal.
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

3.13.2 Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments are measured at fair value.

Any foreign exchange gains or losses on available-for-sale investment securities are recognised in profit or loss. Interest income is recognised in profit or loss using the effective interest method. Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the held-to-maturity category once any tainting period has lapsed, or if the Group has the intention and ability to hold that financial asset until maturity.

3.14 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative financial assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. All changes in its fair value are recognised immediately in profit or loss as a component of net interest income.

3 Significant accounting policies (continued)

3.15 Property and equipment

3.15.1 Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other operating income in profit or loss.

3.15.2 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.15.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

• improvements to premises	4 –10	years
• furniture and fittings	10	years
• computer equipment	3 – 5	years
• other equipment	4	years
• motor vehicles	5	years

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

3 Significant accounting policies (continued)

3.16 Intangible assets

The Group's intangible assets represent software. Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in a specific asset to which it relates. All other expenditure is expenses as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the software is 3 to 5 years.

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

3.17 Leased assets – lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

3 Significant accounting policies (continued)

3.18 Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash- generating unit" or "CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (continued)

3.19 Amounts owed to financial institutions, amounts owed to customers and debt securities issued

Amounts owed to financial institutions and customers are the Group's principal sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo"), the arrangement is accounted for as a secured loan, and the underlying asset continues to be recognised in the Group's financial statements.

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

3.20 Provisions

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

3.21 Employee benefits

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

3.22 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2012 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

4 Financial risk management

4.1 Introduction and overview

In this note, reference to the Bank implies the Group in view that the impact of the subsidiaries on the consolidated financial statements of the Bank is insignificant. The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

4.2 Risk management framework

The Bank recognises the need to have an effective and efficient risk management function, and therefore it adopted a comprehensive process that provides a right balance between a fast growth of the Bank, maximising its profitability and undertaken related risks.

The Bank's objective is to deploy an integrated risk management approach that is to ensure an awareness of, and accountability for, the risks taken throughout the Bank, and also to develop the tools needed to address those risks. Such integrated approaches is realised through the governance structure of the Bank and relies on three lines of defence – business units management, independent risk management function, and independent on-going reviews of internal audit.

4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk

The Board of directors has delegated the responsibility for the management of credit risk to the Management Credit Committee. ALCO approves impairment provisions. The Bank's principal assets comprise debt securities. The Bank's exposure to credit risk is mitigated by investing only in debt instruments with sound credit ratings and through the availability of collateral. Concentrations of exposures are also mitigated by geographical diversification.

All securities in the portfolio undergo a thorough analytical credit research process. The research process reviews all securities not only from a credit perspective but also from a legal, financial and ratings perspective. The Credit and Investments department, which manages the research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the fixed-income markets. The research process subjects potential investments to severe stress tests to determine whether they can withstand significant adverse credit and market events and multiple combinations of such events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities the performance of which requires increased monitoring.

The day-to-day management of credit risk is the responsibility of the Credit and Investments department, which includes:

- formulating credit policies
- establishing the authorisation structure
- reviewing and assessing credit risk
- limiting concentrations of exposure
- reviewing compliance with agreed exposure limits
- providing advice and guidance.

The Head of Risk Management reports on all credit related matters to the Management Credit Committee.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

Set out below is an analysis of the gross and net of impairment of the Bank's financial assets:

	31 March 2012		31 December 2010	
	Gross Exposure €000	Net Exposure €000	Gross Exposure €000	Net Exposure €000
Loans and advances to financial institutions	27,804	27,804	35,801	35,801
Loans and advances to customers	27,666	27,666	-	-
Investment securities	1,478,378	1,415,493	1,324,114	1,324,114
Derivative assets held for risk management	2,572	2,572	-	-
	1,536,420	1,473,535	1,359,915	1,359,915

4.3.2 Impaired loans and advances and investment securities

Impaired loans and investment securities are loans and advances and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s).

The Management Credit Committee has reviewed all credit exposures on a case by case and collective basis (see accounting policy 3.9.7) in the light of current economic conditions and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment securities.

4.3.3 Allowances for impairment

The Group established an allowance for impairment losses on its investment securities that represents its estimate of incurred losses. This allowance represents a specific loss component that relates to individually significant exposures.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Write-off policy

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Group determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

4.3.5 Exposure to sovereign debt of selected Eurozone countries

During the period ended 31 March 2012 significant concerns emerged over sovereign credit risk in some Eurozone countries. The Group managed its exposure to the affected Eurozone markets very closely during the period, adjusting the relevant limits where necessary.

The Group acquired an available-for-sale portfolio specifically as a macro-hedge instrument. The characteristics of this portfolio are low or negative correlation with Eurozone peripheral risk. During the period, the Bank crystallised a proportion of the portfolio to realise profits which mitigated losses recognised through provisioning of impairment.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Exposure to sovereign debt of selected Eurozone countries (continued)

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

	% of Total Portfolio	
	31 Mar 2012	31 Dec 2010
Greece	1.5%	6.9%
Portugal	3.7%	4.1%
Malta	0.6%	3.6%
	5.8%	14.6%

During March 2012, the Bank tendered its exposures to Greek sovereign debt under an offer to private sector holders (referred to as Private Sector Involvement ("PSI")) covered by the provisions under the second support plan for Greece.

The exchange offer permitted private sector holders to exchange bonds for:

(i) new Greek sovereign bonds having a face amount equal to 31.5% of the face amount of their exchanged bonds,

(ii) European Financial Stability Facility notes with a maturity date of two years or less from the PSI settlement date and having a face amount equal to 15% of the face amount of their exchanged bonds, and

(iii) detachable GDP-linked securities issued by Greece having a notional amount equal to the face amount of each holder's new bonds.

On the PSI settlement date, Greece delivered short-term EFSF notes in discharge of all unpaid interest accrued up to 24 February 2012.

As at 31 March 2012, those bonds written under Greek law where recorded at a carrying amount of €15.1 million after an impairment charge of €31.5m and those written under English law were recorded at a carrying amount of €13.4 million after an impairment allowance of €31.4m.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Concentration of loans and advances and investment securities

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

	Loans and advances to financial institutions		Loans and advances to customers		Investment securities	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000	€000	€000
Concentration by type						
Senior bank obligations	91,377	35,801	-	-	4,056	11,682
Covered bonds	-	-	-	-	885,136	573,553
Government and government guaranteed securities	-	-	-	-	370,875	474,828
Corporate secured lending	-	-	-	-	155,426	264,051
Senior corporate lending	-	-	27,081	-	-	-
Retail secured lending	-	-	585	-	-	-
Retail unsecured lending	-	-	-	-	-	-
	91,377	35,801	27,666	-	1,415,493	1,324,114
Concentration by location						
Europe	91,377	34,253	27,666	-	1,324,928	1,261,566
North America	-	1,548	-	-	90,565	62,548
	91,377	35,801	27,666	-	1,415,493	1,324,114

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

The investment portfolio is composed of Euro-denominated government, government-guaranteed, covered, pooled and senior financials. Other than as disclosed in note 17.4, all securities in the portfolio are accepted by the European Central Bank (“ECB”) as collateral and are rated by at least two of Fitch, Standard & Poor's and Moody's.

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

The Bank held investment assets of €1,415 million (net) as at 31 March 2012 (2010: €1,324 million), an analysis of the credit quality based on rating agency ratings is as follows:

	31 Mar 2012 Net carrying amount	31 Dec 2011 Net carrying amount
	€000	€000
Government and government guaranteed securities		
AA- and higher	**137,638**	132,033
A+ or lower	**233,235**	342,795
Non-government securities		
AA- and higher	**788,520**	745,368
A+ or lower	**256,100**	103,918
Total	**1,415,493**	1,324,114

4.3.7 Settlement risk

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

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

4.4 Liquidity risk

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

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury maintains a portfolio of short-term liquid assets to ensure that there is sufficient liquidity within the Bank. The liquidity requirements of the Bank are met through the international repo market, the Eurex repo market and also through ECB secured funding to cover any short-term fluctuations and also longer term funding to address any structural liquidity requirements. In addition, deposits and issuance of debt securities provides further support to the Bank's liquidity requirements.

The Bank has designed its liquidity risk management systems to ensure that at all times the Bank maintains a sufficient stock of cash and liquid assets to meet all of its liquidity requirements in the short term and over time. The Bank will at all times ensure that it is in full compliance with all applicable regulatory requirements, including, the Minimum Liquid-Asset Requirement, and not limited to, the MFSA Rule BR/05/2007 ("Rule BR/05").

In order to ensure that the Bank has adequate liquidity to meet its obligations, the Bank analyses its liquidity using three key metrics:

1. Maximum Cumulative Outflow ("MCO") Analysis
2. Liquidity Ladder Analysis
3. Net Cash to Wholesale Funding Ratio

Liquidity risk associated with the Bank's assets is managed based on:

(i) A Value at Risk ("VaR") model which incorporates historical time series of market volatility, and
(ii) A forward looking liquidity risk framework based on internal ratings of assets in the Bank's projected base case and stress scenarios

All of such analyses are undertaken by the Head of Treasury, based both on expected and stressed cash flow profiles. In respect of the Bank's assets, both expected cash flows and liquidity of assets are stressed based on parameters proposed by the Head of Credit and Investments and agreed by the Head of Treasury. Potential material changes in future liquidity requirements are discussed in ALCO.

The Bank actively manages the risk from short-term tenor of deposits through maintaining competitive pricing and constant monitoring of market trends. In addition to the existing bond issue, during the fifteen month period ended 31 March 2012 new deposit products were offered by the Bank resulting in an increase in customer term deposits with a weighted average life of over one year.

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of the net liquid assets to wholesale funding. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market as a percentage to the actual wholesale funding of the Bank. A similar, but not identical, calculation is the liquidity ratio as reported in line with BR/05, which at the reporting date and during the reporting period was as follows:

	2012	2010
At 31 March / 31 December	134.59%	70.56%
Average for the period/year	86.73%	78.75%
Maximum for the period/year	134.59%	122.24%
Minimum for the period/year	60.38%	50.93%

4.4.3 Residual contractual maturities of financial liabilities

	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2012							
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to Central Bank of Malta	70,000	70,014	70,014	-	-	-	-
- Due to clearing houses	468,000	470,455	52,033	125,486	292,936	-	-
- Due to other banks	555,753	556,293	261,753	196,618	97,922	-	-
Amounts owed to customers	379,555	410,200	147,434	9,276	58,614	194,876	-
Debt securities in issue	19,672	25,274	-	-	1,336	23,938	-
	1,492,980	1,532,236	531,234	331,380	450,808	218,814	-

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Residual contractual maturities of financial liabilities (continued)

	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 December 2010							
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to Central Bank of Malta	714,500	715,942	188,537	140,354	387,051	-	-
- Due to other banks	420,486	421,658	274,660	534,049	-	-	-
Amounts owed to customers	172,847	184,702	70,665	3,710	46,718	63,609	-
Debt securities in issue	14,735	19,688	-	-	938	18,750	-
	1,322,568	1,341,990	533,862	678,113	434,707	82,359	-

The table above shows the expected undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. The Bank does not expect that the disposal of such securities to cover possible liquidity gaps would result in losses.

4.5 Market risks

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

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.1 Management of market risks

With the exception of translation risk arising on the Bank's net investment in its foreign operations, all foreign exchange risk within the Bank is managed and hedged by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Bank's investment portfolios for risk management purposes.

The overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

The Bank's Treasury Management Policy ("TMP") provides the framework within which treasury prudently manages interest rate, foreign exchange, funding, liquidity, counterparty and investment risk, and any other associated risks related to managing the assets and liabilities presented on the statement of financial position. Regular reviews of the TMP are conducted to test robustness of the policy's risk control limits within both normalised and stressed environments.

The Management Credit Committee 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 policy of the Bank. The Management Credit Committee will also be responsible for monitoring the Bank's capital situation and ensuring that the Bank at all times maintains adequate capital to support its operations and investment activities as presently constituted and as expected to evolve.

The Bank's Asset-Liability Management Policy establishes the standards, internal controls, reporting requirements and approval processes that govern the ongoing management of (i) the liquidity and asset-liability mix of the Bank and (ii) the Bank's market, interest rate and currency risk.

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to currency risk on foreign exchange along with the parameters set by the TMP. In the majority of cases the Bank covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that can arise are monitored accordingly.

The Bank focuses its activities largely on euro denominated assets and liabilities, thus it runs a limited foreign exchange risk. The Bank seeks to minimise foreign exchange risk and thus seeks to hedge all major exposures in this area in accordance with the prevailing ALCO strategy. All foreign currency forward contracts, option contracts or foreign exchange spot deals are executed only with banks on the approved foreign exchange counterparty list set by ALCO.

The following table provides an analysis of the financial assets and financial liabilities of the bank into relevant currency groupings.

	31 March 2012			31 December 2010		
	Euro currency € 000	Other currencies €000 equivalent	Total €000 equivalent	Euro currency €000	Other currencies € 000 equivalent	Total € 000 equivalent
Financial assets						
Balances with Central Bank of Malta and cash	63,640	16	63,656	10,526	-	10,526
Loans and advances to financial institutions	19,955	7,848	27,803	8,700	27,101	35,801
Loans and advances to customers	27,141	526	27,667	-	-	-
Investment securities	1,415,493	-	1,415,493	1,324,114	-	1,324,114
Derivative assets	2,572	-	2,572	-	-	-
	1,528,801	8,390	1,537,191	1,343,340	27,101	1,370,441
Financial liabilities						
Amounts owed to financial institutions	1,093,753	-	1,093,753	1,132,043	2,943	1,134,986
Amounts owed to customers	269,284	110,271	379,555	149,189	23,958	173,147
Debt securities in issue	19,672	-	19,672	14,735	-	14,735
	1,382,709	110,271	1,492,980	1,295,967	26,901	1,322,868
Net financial position	146,092	(101,881)	44,210	47,373	200	47,573
Derivative instruments held for risk management	(101,973)	101,973	-	-	-	-
Exposure		92			-	

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 Exposure to interest rate risk – non-trading portfolios

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

The Bank primarily invests in fixed interest rate assets that are sensitive to interest rate changes. The Bank has developed an interest rate risk management framework and interest rate risk report aimed at presenting and managing the major sources and measurements of interest rate risk. Cash flows are projected for both assets and liabilities on a base case and stressed scenarios of the relevant yield curves. The report outputs depict effects of interest rate stresses on:

- Projected Net Interest Margin
- Economic Value
- Duration Gap
- DV01 Exposure
- Asset Liability Gap Profile
- Rate Reset Profile

The outputs from the interest rate reports are used by ALCO to determine the appropriateness of the Bank's interest rate risk exposure and manage the assets and liabilities accordingly.

4 Financial risk management (continued)

4.5 Market risks (continued)

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

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

		Re-pricing in:		
	Carrying amount	Less than 3 months	3 months to 1 year	More than 1 year
	€000	€000	€000	€000
31 March 2012				
Balances with Central Bank of Malta	63,572	61,001	-	2,571
Loans and advances to financial institutions	27,804	27,804	-	-
Loans and advances to customers	27,666	27,081	25	560
Investment securities	1,415,493	423,433	57,830	934,230
	1,534,535	539,319	57,855	937,361
Amounts owed to financial institutions:				
- Due to Central Bank of Malta	70,000	70,000	-	-
- Due to clearing houses	470,455	177,519	292,936	-
- Due to other banks	553,298	457,555	95,743	-
Amounts owed to customers	379,555	156,742	57,155	165,658
Debt securities issued	19,672	-	-	19,672
	1,492,980	861,816	445,834	185,330
Interest rate gap	41,555	(322,497)	(387,979)	752,031

Interest rate risk positions are managed by Treasury, which strategically position the asset and liability interest rate re-pricing profiles as well as purchases of interest rate derivatives, including swaptions, to manage the Banks tradable interest rate risk position. The use of derivatives to manage interest rate risk is described in note 18.

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

4 Financial risk management (continued)

4.5 Market risks (continued)

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

		Re-pricing in:		
	Carrying amount €000	Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
31 December 2010				
Balances with Central Bank of Malta	10,526	8,022	-	2,504
Loans and advances to financial institutions	35,801	35,694	-	107
Investment securities	1,324,114	309,426	132,682	882,006
	1,370,441	353,142	132,682	884,617
Amounts owed to financial institutions:				
- Due to Central Bank of Malta	714,500	714,500	-	-
- Due to other banks	420,486	420,486	-	-
Amounts owed to customers	172,847	74,238	45,463	53,146
Debt securities issued	14,735	-	-	14,735
	1,322,568	1,209,224	45,463	67,881
Interest rate gap	**47,873**	**(856,082)**	**87,219**	**816,736**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on 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 / rise in the yield curves would be as follows:

31 March 2012

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

The asymmetrical impact is a result of the different interest rate hedges put in place during the period.

31 December 2010

- Net profit would increase/decrease by €3.942 million.
- Fair Value Reserve would increase/decrease by €2.411 million.

On the basis of reasonable symmetry, one directional impact is shown.

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income; and
- Fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.

4 Financial risk management (continued)

4.5 Market risks (continued)

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

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

4.6 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the Banking Rule 4. The capital requirement for operational risk under this method was calculated at €3,102,800 (2010: €1,554,200).

4 Financial risk management (continued)

4.7 Capital management – regulatory capital

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

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

The Bank does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Bank complies with the provisions of the Basel II framework in respect of regulatory capital and it applies the standardised approach.

The Group's regulatory capital consists entirely of core tier 1 capital, which includes ordinary share capital, share premium, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including Other Comprehensive Income and 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.

The Bank's policy is to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's share capital was increased by €15,000,000 on 12 August 2011.

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

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

The Bank's regulatory capital position at 31 March/December was as follows:

	31 Mar 2012	31 Dec 2010
Own funds	**€000**	€000
Share capital	**56,030**	41,030
Share premium	**13,464**	13,464
Retained earnings/(accumulated losses) brought forward	**6,321**	(8,718)
Result for the period/year	**708**	15,039
Other reserves	**(1,836)**	(267)
Intangible assets	**(351)**	(1,371)
Investment in subsidiaries	**(63)**	-
Other comprehensive income	**(1,137)**	(1,410)
Own funds	**73,136**	57,767
Capital ratio		
Regulatory capital as a % of total risk-weighted assets	**24.53%**	36.83%

5 Use of estimates and judgements

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

In the process of applying the Group's accounting policies, the directors have made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

5.1 Financial assets and liabilities classification

In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3.13.1.

5.2 Revision of estimated cash flows from investment securities

A substantial part of the investment securities has a pass-through principal repayment profile. This means that principal payments on the investment securities that are held by the Group are driven by, and dependent on, the receipts from the underlying collateral pool.

Inherently, projections on principal receipts from a collateral pool are uncertain, and based on a number of assumptions. For this reason, the Group considers different scenarios in analysing the investment securities portfolio. Three of the scenarios are similar to the rating agency stress scenarios (AAA, AA, A) and the fourth approximates a prudent estimate of cash flows based on historical observations.

As part of the monitoring of the Group's investments, the Credit and Investment Department, together with the Back Office, tracks actual receipts on the investment securities. As new observations occur on due dates of the securities, actual cash flow receipts are compared to the estimated cash flows for the same date. The latter is an estimate and thus differences from actual cash flows are expected.

If the cash flows received deviate from those expected by more than 50%, the assumptions underlying the measurement of the investment security are reassessed and adjusted, if required.

5 Use of estimates and judgements (continued)

5.3 Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3.9.7. The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received as described in 5.2. In estimating these cash flows, management also considers the net realisable value of any underlying collateral.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but individually impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience (including loss emergence periods) and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

6 Financial assets and liabilities

6.1 Valuation

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: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

As at 31 March 2012 and at 31 December 2010, the fair value of the available-for-sale debt instruments represents closing bid price quoted in an active market. These are classified as Level 1 under the fair value hierarchy in accordance with IFRS 7.

The fair value of the financial assets and liabilities, which are measured at amortised cost and have a short re-pricing maturity, is not materially different from their carrying amount in the statement of financial position, except for held-to-maturity investments with an amortised cost of €423 million (2010: €1,242 million), the fair market value of which at 31 March 2012 amounted to €387 million (2010: €1,144 million).

The fair value of derivatives held for risk management are based on valuation models and the methodology is to calculate the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discount cash flow, DCF). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

However, where valuations include significant unobservable inputs, the transaction price is deemed to provide the best evidence of initial fair value for accounting purposes. For valuations that include significant unobservable inputs, the difference between the model valuation and the initial transaction price is recognised in profit or loss.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include, for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling etc.

To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependant on the significance of the unobservable input to the overall valuation.

Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

Such derivatives held for risk management are classified as Level 2 under the fair value hierarchy in accordance with IFRS 7.

Mediterranean Bank plc

Notes to the Financial Statements

For the Period Ended 31 March 2012

6 Financial assets and liabilities (continued)

6.1 Valuation (continued)

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

Group
At 31 March 2012

	Notes	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
		€000	€000	€000	€000	€000
Balances with Central Bank of Malta and cash	14	63,656	-	-	63,656	63,656
Loans and advances to financial institutions	15	27,804	-	-	27,804	27,804
Loans and advances to customers	16	27,666	-	-	27,666	27,666
Other financial assets						
- Investment securities	17	559,647	855,846	-	1,415,493	1,357,192
- Derivative assets	18	-	-	2,572	2,572	2,572
		678,773	855,846	2,572	1,537,191	1,478,890
Amounts owed to financial institutions	25	1,093,753	-	-	1,093,753	1,093,753
Amounts owed to customers	26	379,483	-	-	379,483	379,483
Debt securities in issue	27	19,672	-	-	19,672	20,000
		1,492,908	-	-	1,492,908	1,493,236

Group
At 31 December 2010

	Notes	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total carrying amount	Fair values
		€000	€000	€000	€000	€000
Balances with Central Bank of Malta and cash	14	10,526	-	-	10,526	10,526
Loans and advances to financial institutions	15	35,801	-	-	35,801	35,801
Other financial assets						
- Investment securities	17	1,241,514	82,600	-	1,324,114	1,143,532
- Derivative assets	18	-	-	-	-	-
		1,287,841	82,600	-	1,370,441	1,189,859
Amounts owed to financial institutions	25	1,134,986	-	-	1,134,986	1,134,986
Amounts owed to customers	26	172,847	-	-	172,847	172,847
Debt securities in issue	27	14,735	-	-	14,735	15,400
		1,322,568	-	-	1,322,568	1,323,233

7 Net interest income

	Group and Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Interest income		
Investment securities	63,584	41,694
Loans and advances to financial institutions	314	96
Loans and advances to customers	169	44
	64,067	41,834
Interest expense		
Amounts owed to customers	11,726	3,722
Amounts owed to financial institutions	20,622	10,263
Debt securities in issue	1,496	203
Other	483	-
	34,327	14,188
Net interest income	29,740	27,646

8 Net fee and commission expense

	Group and Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Portfolio and other management fees	(171)	(1,030)

Net fee and commission income include €nil (2010: €6,304) derived from investments services activities.

9 Net trading income and other operating income

9.1 Net trading income

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	**1 Jan 2011 to 31 Mar 2012 €000**	1 Jan 2010 to 31 Dec 2010 €000
Foreign exchange				
- from derivatives	**547**	-	**547**	-
- from other activities	**1,252**	346	**1,252**	346
	1,799	346	**1,799**	346

'Foreign exchange income from derivatives' includes gains and losses from spot and forward contracts and other currency derivatives.

'Foreign exchange income from other activities' includes gains from foreign exchange in retail.

9.2 Other operating income

	Group and Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Realised gains on disposal of investments	**48,826**	3,280
Other income	**105**	-
	48,931	3,280

10 Administrative and other expenses

Administrative expenses include:

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	**1 Jan 2011 to 31 Mar 2012 €000**	1 Jan 2010 to 31 Dec 2010 €000
Operating lease charges	**875**	193	**786**	104
Directors' fees	**135**	105	**135**	105

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

	Audit services €000	Other assurances services €000	Tax advisory services €000	Other non-audit services €000
Period to 31 March 2012				
Auditors' remuneration	**80**	**57**	**11**	**4**
Year to 31 December 2010				
Auditors' remuneration	34	13	6	48

11 Personnel expenses

11.1 Personnel expenses incurred are analysed as follows:

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	**1 Jan 2011 to 31 Mar 2012 €000**	1 Jan 2010 to 31 Dec 2010 €000
Directors' emoluments:				
- salaries	**1,286**	1,415	**1,286**	1,415
- defined contribution social security costs	**9**	6	**9**	6
Staff costs:				
- wages and salaries	**6,263**	3,576	**5,002**	2,570
- defined contribution social security costs	**254**	140	**164**	67
	7,812	5,137	**6,461**	4,058

11 Personnel expenses (continued)

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

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010	1 Jan 2011 to 31 Mar 2012	1 Jan 2010 to 31 Dec 2010
	No.	No.	No.	No.
Executive and senior management	16	13	15	12
Other managerial supervisory and clerical	68	31	61	27
Other	7	4	7	4
	91	48	83	43

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

	Group		Bank	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	No.	No.	No.	No.
Management and administration	120	63	109	57

12 Income tax expense

12.1

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000
Current	181	3,891	149	3,865
Deferred	304	64	304	64
Income tax expense	485	3,955	453	3,929

12 Income tax expense (continued)

12.2 The tax expense and the result of accounting profit or loss multiplied by the tax rate applicable in Malta, the Bank's country of incorporation, are reconciled as follows:

	Group		Bank	
	1 Jan 2011 to 31 Mar 2012 €000	1 Jan 2010 to 31 Dec 2010 €000	**1 Jan 2011 to 31 Mar 2012 €000**	1 Jan 2010 to 31 Dec 2010 €000
Profit for the period/year	**773**	15,111	**708**	15,039
Income tax expense	**485**	3,955	**453**	3,929
Profit before income tax	**1,258**	19,066	**1,161**	18,968
Tax at the applicable rate of 35%	**440**	6,673	**406**	6,639
Tax effect of:				
Tax rates in foreign jurisdictions	**(1)**	(6)	**-**	-
Non-deductible expenses	**1**	53	**1**	53
Depreciation charges not deductible by way of capital allowances	**45**	67	**45**	67
Temporary differences not previously recognised	**-**	(2,832)	**1**	(2,830)
Tax expense	**485**	3,955	**453**	3,929

13 Earnings per share

The calculation of the Group's and the Bank's basic earnings per share at 31 March 2012 and 31 December 2010 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding.

	Group		Bank	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	No.	No.	**No.**	No.
	'000	'000	**'000**	'000
Weighted average number of ordinary shares	**48,695**	40,431	**48,695**	40,431

13 Earnings per share (continued)

	Group		Bank	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	€000	€000	**€000**	€000
Profit for the period/year attributable to ordinary shareholders	**773**	15,111	**708**	15,039
Earnings per share	**2c**	37c	**1c**	37c

14 Balances with Central Bank of Malta and cash

14.1

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Balances with Central Bank of Malta	**63,572**	10,504
Cash	**84**	22
	63,656	10,526

14.2 Balances with Central Bank of Malta include a reserve deposit of the Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €2,122,670 (2010: €2,504,295) bearing interest at 1% (2010: 1%) per annum, and an overnight deposit amounting to €61,000,000 (2010: €8,000,000) bearing interest at 0.25% (2010: 0.25%) per annum.

14.3 The Balances with Central Bank of Malta also include a balance of €449,585 (2010: €338,250) which is pledged in favour of the Depositor Compensation Scheme in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta.

In connection with the Depositor Compensation Scheme ("DCS"), investment securities with a carrying amount of €1,380,069 (nominal value €1,330,000) and a fair value of €1,391,313 as at 31 March 2012, are pledged in favour of DCS.

15 Loans and advances to financial institutions

15.1

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
At amortised cost:		
Repayable on call and at short notice	16,324	35,694
Term loans and advances	11,480	107
	27,804	35,801

15.2 Balances of loans and advances to financial institutions up to €80,740 (2010: €559,427) are pledged in favour of other banks providing credit card facilities to customers.

15.3 An amount of €1m has been contributed to a clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

15.4 None of the loans and advances was past due or impaired (2010: Nil).

16 Loans and advances to customers

16.1

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
At amortised cost:		
Loans and advances: retail	585	-
Loans and advances: corporate	27,081	-
	27,666	-

16.2 Loans and advances to customers as at the end of the period were neither past due nor impaired.

16.3 Loans and advances to customers: "retail" are secured by an equivalent amount of customer deposits, included in "Amounts owed to customers". These deposits are pledged in favour of the Group.

17 Investment securities

17.1 Investment securities analysis

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Held-to-maturity investment securities	**609,918**	1,241,514
Available-for-sale investment securities	**805,575**	82,600
	1,415,493	1,324,114

At 31 March 2012, €1,340 million (2010: €1,278 million) of investment securities are expected to be recovered after more than 12 months after the reporting date.

17.2.1 Held-to-maturity investment securities

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Government bonds	**225,389**	242,753
Non-government bonds	**384,529**	998,761
	609,918	1,241,514

17.2.2 Available-for-sale investment securities

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Government bonds	**145,484**	-
Non-government bonds	**660,091**	82,600
	805,575	82,600

17 Investment securities (continued)

17.3 Impairment analysis

As at 31 March 2012	Gross carrying amount €000	Individually impairment amount €000	Net carrying amount €000
Held-to-maturity investment securities	672,803	62,885	609,918
Available-for-sale investment securities	805,575	-	805,575
	1,478,378	**62,885**	**1,415,493**

The individually impairment amount represents amounts written-off at the end of the financial period.

No evidence of impairment was identified on investment securities during year ended 31 December 2010.

17.4 Most of investment securities are pledged as collateral against the provision of borrowing facilities (note 26).

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

The value of free and unencumbered securities at 31 March 2012 stood at €32.872 million.

17.5 As at 31 March 2012, the Bank has a commitment amounting to €70.612 million to purchase further investment securities.

17.6 Following is a reconciliation of the movement in the net carrying amount of investment securities

	Net carrying amount €000
Balance of investment securities prior impairment	1,478,378
Less Impairment charge	(62,885)
Net carrying amount at 31 March 2012	**1,415,493**

As noted in 4.3.5, the Group acquired an available-for-sale portfolio specifically as a macro-hedge instrument. The characteristics of this portfolio are low or negative correlation with Eurozone peripheral risk. During the period, the Bank crystallised a proportion of the portfolio to realise profits which mitigated losses recognised through provisioning of impairment.

18 Derivative assets held for risk management

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Instrument type:		
Interest rate	**2,572**	-
	========	========

In order to manage interest rate risks, the Bank established derivative lines with counterparties to purchase interest rate caps, swaps, swaptions, futures and other appropriate instruments approved for hedging interest rate risk.

19 Investment in subsidiaries

19.1

Name of the company	Incorporated in	Nature of business	Current equity interest %	Bank 31.03.2012 €	Bank 31.12.2010 €
Mediterranean Global Advisory SA	Switzerland	Dormant	wholly owned	**63,086**	63,086
Mediterranean Research Limited	United Kingdom	Investment research	wholly owned	**2**	2
				----------	----------
				63,088	63,088
				=======	=======

19.2 It is in the intention of the Group to liquidate both subsidiaries. The operations of Mediterranean Research Limited will be carried out by the Bank.

Notes to the Financial Statements

For the Period Ended 31 March 2012

20 Property and equipment

20.1 Group

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost:						
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	86	178	19	2,142
At 31 December 2010	928	1,943	110	750	146	3,877
Acquisitions	176	431	111	318	29	1,065
Disposals	-	(109)	-	-	-	(109)
At 31 March 2012	**1,104**	**2,265**	**221**	**1,068**	**175**	**4,833**
Depreciation:						
At 1 January 2010	371	53	22	346	104	896
Charge for the year	93	116	14	49	27	299
At 31 December 2010	464	169	36	395	131	1,195
Charge for the period	132	368	55	97	11	663
At 31 March 2012	**596**	**537**	**91**	**492**	**142**	**1,858**
Carrying amounts:						
At 1 January 2010	557	31	2	226	23	839
At 31 December 2010	464	1,774	74	355	15	2,682
At 31 March 2012	**508**	**1,728**	**130**	**576**	**33**	**2,975**

20 Property and equipment (continued)

20.2 Bank

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	65	104	19	2,047
At 31 December 2010	928	1,943	89	676	146	3,782
Acquisitions	176	372	134	318	29	1,029
Disposals	-	(109)	-	-	-	(109)
At 31 March 2012	**1,104**	**2,206**	**223**	**994**	**175**	**4,702**
Depreciation						
At 1 January 2010	371	53	22	346	104	896
Charge for the year	93	116	13	41	27	290
At 31 December 2010	464	169	35	387	131	1,186
Charge for the period	132	347	56	90	11	636
At 31 March 2012	**596**	**516**	**91**	**477**	**142**	**1,822**
Carrying amounts						
At 1 January 2010	557	31	2	226	23	839
At 31 December 2010	464	1,774	54	289	15	2,596
At 31 March 2012	**508**	**1,690**	**131**	**517**	**33**	**2,880**

20.3 The Bank operates from seven immovable properties which are held under operating lease agreements (see note 32).

20.4 There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (2010: Nil).

20.5 An amount of €985,386 relating to computer and other equipment cost were not put to use as at 31 December 2010. Accordingly, no depreciation was charged. There was no property and equipment not put in use at the reporting date.

21 Intangible assets

21.1 Group and Bank

	Software
	€000
Cost:	
At 1 January 2010	1,437
Acquisitions	1,191
At 31 December 2010	2,628
Acquisitions	4,517
Disposal	(5,401)
At 31 March 2012	**1,744**
Amortisation:	
At 1 January 2010	1,191
Charge for the year	66
At 31 December 2010	1,257
Charge for the period	136
At 31 March 2012	**1,393**
Carrying amounts:	
At 1 January 2010	246
At 31 December 2010	1,371
At 31 March 2012	**351**

21.2 There were no capitalised borrowing costs related to the acquisition of software during the period (2010: Nil).

21.3 Intangible assets are inclusive of capitalised wages amounting to €nil (2010: €60,120).

21.4 The disposal relates to new software which was not yet put into use during year ended 31 December 2010 and accordingly, no amortisation was recognised in profit or loss as at that date. During the period ended 31 March 2012, the cost of software of €995,473, was wholly transferred to a related company. There were no intangible assets not in use at the reporting date.

22 Other assets

22.1

	Group		Bank	
	31 Mar 2012	31 Dec 2010	31 Mar 2012	31 Dec 2010
	€000	€000	€000	€000
Amount receivable from:				
Ultimate parent company	153	79	153	79
Immediate parent company at 8% p.a.	-	1,100	-	1,100
Immediate parent company	1,282	120	1,282	120
Subsidiary	-	-	20	10
Other group companies	9,156	-	9,075	-
Directors bearing interest at 4.5% p.a.	-	158	-	158
Other assets	5,119	271	5,119	271
	15,710	1,728	15,649	1,738

22.2 Amounts receivable from ultimate parent company, immediate parent company, subsidiary and other group companies are interest free, unsecured and repayable on demand.

23 Prepayments and accrued income

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Prepayments	1,016	381
Accrued income	18,426	14,265
	19,442	14,646

24 Deferred tax assets

24.1 Deferred tax assets are attributable to the following:

Group and Bank

	Assets		Liabilities		Net	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	€000	€000	**€000**	€000	**€000**	€000
Property and equipment	**-**	-	**(368)**	(64)	**(368)**	(64)
Available-for-sale securities	**612**	759	**-**	-	**612**	759
	612	759	**(368)**	(64)	**244**	695

24.2 Movement in temporary differences

	Group and Bank			
		Recognised		
	Balance 01 Jan 11	in profit or loss	in equity	Balance 31 Mar 12
	€000	€000	€000	**€000**
Property and equipment	(64)	(304)	-	**(368)**
Available-for-sale securities	759	-	(147)	**612**
	695	(304)	(147)	**244**

	Group and Bank			
		Recognised		
	Balance 01 Jan 10	in profit or loss	in equity	Balance 31 Dec 10
	€000	€000	€000	€000
Property and equipment	-	(64)	-	(64)
Available-for-sale securities	-	-	759	759
	-	(64)	759	695

25 Capital and reserves

	Group and Bank	
	31 Mar 2012	31 Dec 2010
25.1.1 Share capital	**No.**	No.
Issued and fully paid up:		
Shares of €1 each		
Ordinary 'A' shares	**56,030,106**	41,030,106
Ordinary 'B' shares	**1**	1
	56,030,107	41,030,107

25.1.2 At 31 March 2012 the authorised share capital consisted of 100,000,000 (2010: 100,000,000) ordinary shares of €1 each. All issued shares are fully paid-up.

By an extraordinary resolution dated 3 August 2010, it was resolved to increase the authorised share capital from 10,550,000 to 100,000,000 shares of €1 each.

		Group and Bank	
		31 Mar 2012	31 Dec 2010
	Note	**€000**	€000
At beginning of period/year		**41,030**	39,521
Issued for cash during the period/year	25.1.4	**15,000**	1,509
At end of period/year – fully paid up		**56,030**	41,030

25.1.3 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 the Bank. 'B' ordinary shares are not entitled to vote in respect of its shares or to receive any dividends distributed.

25.1.4 During the year ended 31 December 2010, by an extraordinary resolution dated 25 May 2010, it was resolved to increase the issued share capital by 1,509,137 ordinary shares to 41,030,107 issued ordinary shares of €1 each.

Furthermore, during the period ended 31 March 2012, by an extraordinary resolution dated 12 August 2011, it was resolved to increase the issued share capital by 15,000,000 ordinary shares to 56,030,107 issued ordinary shares of €1 each.

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

25 Capital and reserves (continued)

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

25.4 Share Premium as at the reporting date represents the issue of shares as follows:

Issue date	Number of shares	Premium	Share premium
	No.	€	€000
10 August 2010	10,000,000	0.9155	9,155
29 September 2010	19,119,470	0.2254	4,309
			13,464

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

26 Amounts owed to financial institutions

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Repayable on call and at short notice	**562,587**	618
Term loans and advances	**531,166**	1,134,368
	1,093,753	1,134,986

Term loans and advances, excluding an amount of €15 million, are secured by a pledge over the investment securities (note 17.4).

Notes to the Financial Statements

For the Period Ended 31 March 2012

27 Amounts owed to customers

	Group		Bank	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	€000	€000	**€000**	€000
Repayable on demand	**117,896**	49,392	**117,968**	49,471
Term deposits	**261,587**	123,455	**261,587**	123,455
	379,483	172,847	**379,555**	172,926

28 Debt securities in issue

28.1

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
At amortised cost:		
Debt securities in issued	**19,672**	14,735

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Balance at the beginning of the period/year	**14,735**	-
Debt securities issued	**4,937**	14,735
Balance at end of period/year	**19,672**	14,735

28.2 The debt securities, which are unsecured, are denominated in Euro, mature on 30 October 2015 and are listed on the Malta Stock Exchange. The interest payable is fixed at 6.25% per annum and are redeemable at their nominal value.

On 27 June 2011, the Group issued €5 million of debt securities which are fully fungible, and consequently have the same terms and conditions, with the debt securities issued during the previous year.

28 Debt securities in issue (continued)

28.3 The above liabilities will in the event of default or insolvency of the issuer, have a general claim on the assets of the Bank pari passu with other unsecured creditors. Bondholders therefore would rank after all interbank funding lines and repurchase agreements that are collateralised by investments securities through the said funding. The Group has not had any defaults of interest or other breaches with respect to its debt securities during the period ended 31 March 2012 and year ended 31 December 2010.

29 Other liabilities

	Group		Bank	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	€000	€000	**€000**	€000
Other liabilities	**612**	272	**611**	277
VAT payable	**71**	506	**71**	506
	683	778	**682**	783

30 Accruals

	Group		Bank	
	31 Mar 2012	31 Dec 2010	**31 Mar 2012**	31 Dec 2010
	€000	€000	**€000**	€000
Accrued expenses	**2,069**	2,628	**2,069**	2,623
Accrued interest expense	**4,537**	2,227	**4,537**	2,227
	6,606	4,855	**6,606**	4,850

31 Cash and cash equivalents

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

	Notes	Group and Bank 31 Mar 2012	Group and Bank 31 Dec 2010
Analysis of cash and cash equivalents:			
Cash in hand		**84**	22
Call deposits		**87,723**	43,694
Repayable on call and at short notice		**(562,587)**	(618)
Amounts owed to financial institutions with maturity less than 3 months		**(142,488)**	(366,134)
Cash and cash equivalents		**(617,268)**	(323,036)
Adjustment to reflect:			
Balance with Central Bank of Malta		**2,572**	2,504
Deposits with maturity over 3 months		**1,081**	107
Amounts owed to financial institutions with maturity over 3 months		**(388,678)**	(768,234)
		(1,002,293)	(1,088,659)
Analysed as follows:			
Balances with Central Bank of Malta and cash	14	**63,656**	10,526
Loans and advances to financial institutions	15	**27,804**	35,801
Amounts owed to financial institutions	26	**(1,093,753)**	(1,134,986)
		(1,002,293)	(1,088,659)

32 Operating leases

The Group signed a rent agreement in 2005 for its main premises, which agreement runs for an initial fixed period of 5 years for an annual rent of €65,000, with an additional period of 5 years for an annual rent of €70,000, and a further period of 5 years for an annual rent of €70,000 in addition to inflation adjustment.

In 2010, the Group signed two agreements for the rent of three other immovable properties. These agreements run for an initial period of one to four years for an annual rent of €15,340, €21,535 and €28,320 respectively. These agreements are renewable for a further period ranging from two to four years.

During the period 2012, the Bank has also entered into four rental agreements relating to immovable properties. As prior agreements, these run for a non-cancellable lease period of one to four years for an annual rent of €25,550, €35,400 €14,160 and €14,640 respectively.

Furthermore, the Group has contracted for the use of premises in Europe with yearly rent payments of €28,320. The agreement is renewable on a two-year rolling period.

During the period ended 31 March 2012, the Group has commenced leasing IT-infrastructure and software from a related company. The lease term is renewable on one-year rolling period.

Future minimum rentals payable under non-cancellable operating leases as at 31 March/December are as follows:

	Group and Bank	
	31 Mar 2012	31 Dec 2010
	€000	€000
Within one year	**445**	63
After one year but not more than five years	**668**	480
More than five years	**341**	443
	1,454	986

33 Related parties

33.1 Immediate and ultimate parent company

The Bank is a wholly owned subsidiary of Medifin Holding Limited. The registered office of the parent company is situated at 10, St. Barbara Bastion, Valletta, Malta.

Medifin Holding Limited prepares consolidated financial statements of the Group of which Mediterranean Bank plc and its subsidiaries form part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

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

33.2 Transactions with key management personnel

In addition to their salaries (disclosed in note 11), the Group also provides non-cash benefits to Directors in the form of insurance and use of car and accommodation.

33.3 Related party balances and transactions

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

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

33 Related parties (continued)

33.3 Related party balances and transactions (continued)

31 March 2012

Related party	Interest from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction type
	€000	€000	€000	€000	
Immediate parent					
	-	-	1,282	-	Other assets
Ultimate parent					
	-	-	-	71	Accrued interest expense
	-	-	153	-	Other assets
	-	227	-	-	Monitoring fees
Subsidiaries					
	-	-	-	79	Amounts owed to customers
	-	-	20	-	Other assets
	-	-	-	81	Other liabilities
	-	1,823	-	-	Management fees
Other group companies					
	-	-	-	12,222	Amounts owed to customers
	-	-	9,075	-	Other assets
	1	-	-	-	Fee and commission income
	-	570	-	-	Lease expense
Directors					
	-	1	-	20	Accrued expense
	-	135	-	-	Directors' fees
	2	-	-	-	Interest income
	-	1,286	-	-	Personnel expenses

33 Related parties (continued)

33.3 Related party balances and transactions (continued)

31 December 2010

Related party	Interest from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction type
	€000	€000	€000	€000	
Immediate parent					
	36	-	-	-	Interest income
	-	820	-	-	Interest expense
	-	-	1,137	-	Loans and advances
	-	-	83	-	Other assets
	-	-	-	10	Accrued interest expense
	-	-	-	15,492	Amounts owed to customers
Ultimate parent					
	-	120	-	-	Interest expense
	-	-	79	-	Other assets
Subsidiaries					
	-	-	-	79	Amounts owed to customers
	-	-	10	-	Other assets
	-	-	-	7	Other liabilities
	-	1,417	-	-	Management fees
Other group companies					
	-	35	-	-	Professional services
Directors					
	-	-	-	141	Amounts owed to customers
	-	-	158	-	Loans and advances to customers
	-	-	-	215	Other liabilities
	-	1	-	-	Interest expense
	9	-	-	-	Interest income
	-	105	-	-	Directors' fees
	-	112	-	-	Consultancy fees

Amounts owed to customers as at 31 December 2010, as set out in note 27, included an amount due to immediate parent of €15,000,000. This amount has been capitalised, as indicated in note 25.

34 Segmental information

The Bank has a single reportable segment represented by the investment in EU sovereign and sovereign related credit, covered bonds and other similar credit quality instruments. Information about the product and services and geographical areas are set out in notes 4, 7, and 19 to the financial statements which provide information about the financial risks, credit concentrations by sector and location and revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates. 12.5% of the interest income from these exposures related to one credit institutional counterparty represented by investments classified as held-to-maturity.

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Independent Auditors' Report

To the Members of Mediterranean Bank plc

Report on the Financial Statements

We have audited the financial statements of Mediterranean Bank plc (the "bank") and of the group of which the bank is the parent, as set out on pages 26 to 94 which comprise the statements of financial position as at 31 March 2012 and the statements of comprehensive income, changes in equity and cash flows for the 15 month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibility Statement set out on page 21, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2012 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditors' Report (continued)

To the Members of Mediterranean Bank plc

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the group's and the bank's financial position as at 31 March 2012, and of their financial performance and their cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the group, Article 4 of the IAS Regulation.

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

- proper books of account have been kept by the bank so far as appears from our examination thereof;

- the bank's financial statements are in agreement with the books of account; and

- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), other than those reported upon above

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

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

- certain disclosures of directors' remuneration specified by the Act are not made.

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Independent Auditors' Report (continued)

To the Members of Mediterranean Bank plc

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Issuer endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 9 to 20.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the group's corporate governance procedures or its risks and control procedures, nor on the ability of the group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 9 to 20 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors

26 April 2012

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Contents

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Overview

Additional Regulatory Disclosures (the "Disclosures") have been prepared in accordance with the requirements of Banking Rule BR/07, "Publication of Annual report and Audited Financial Statements". Mediterranean Bank plc (the "Bank") updates these disclosures on an annual basis as a part of the Annual Report and Financial Statements preparation. The compilation of the Disclosures is compiled by the Bank on the basis of its consolidated financial situation, and therefore, reference to the Bank implies the Group in view that the impact of the subsidiaries on the consolidated financial statements of the Bank is insignificant.

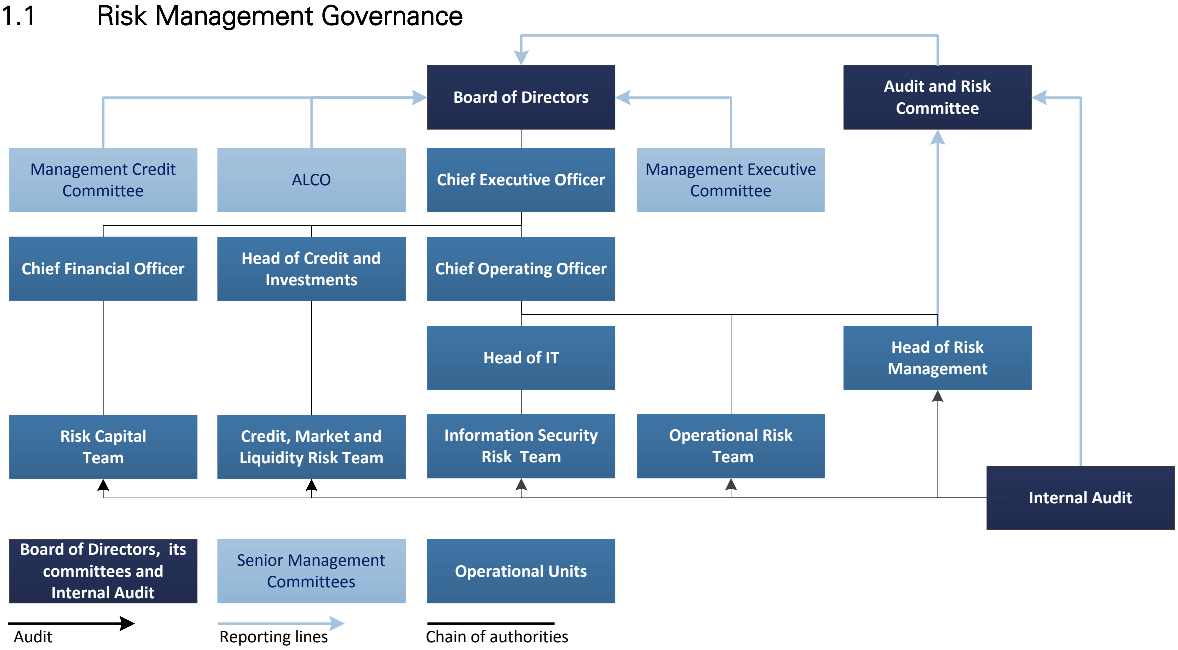
Consistent with the banking regulations, these disclosures are not subject to external audit except where they are equivalent to those prepared under International Financial Reporting Standards ("IFRS") requirements in the Bank's Annual Report. These disclosures have been appropriately verified internally by the Bank's management and Audit and Risk Committee, including a review by the internal auditor. Such policies and procedures are being adopted on a formal basis.

1 Mediterranean Bank's Risk Management Function

The Bank recognises the need for an effective and efficient risk management function, and therefore has adopted a comprehensive process that provides a right balance between a fast growth of the Bank, maximising its profitability and undertaken related risk exposure.

The Bank's objective is to deploy integrated risk management approach that is to ensure an awareness of, and accountability for, the risks taken throughout the Bank, and also to develop the tools needed to address these risks. Such integrated approach is realised through the governance structure of the Bank and relies on three lines of defence – business units' management, independent risk management function, and independent on-going reviews of internal audit.

1.1 Risk Management Governance



Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

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

The Board has delegated specific powers and authority to the *Audit & Risk Committee* which is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. An Internal Audit Function has been set up in-house to assist the Audit & Risk Committee. This function includes the carrying out of both regular and ad-hoc reviews of risk management controls and procedures, as well as reporting their findings to the Audit & Risk Committee.

The Board has also established the following senior management committees:
1. Management Credit Committee;
2. Management Asset and Liability Committee (ALCO)and
3. Executive Management Committee (EXCO).

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 and large exposures to the Board; consideration of credit hedging strategies; and recommending other concentration limits for Board approval. It is also responsible for delegating credit approval responsibility to the Credit & Investment Department. In addition, the Management Credit Committee reviews provisioning and lending policies; monitors the health of the portfolio and reviews management information reports. The Management Credit Committee is authorised to approve or reject credit applications up to the limits set out by the Board.

Management Asset and Liability Committee (ALCO) is responsible for management of funding, liquidity, interest rate and currency risks. Its basic duties besides others include the following:

- capital management and allocation;
- capital usage and efficiency;
- risk management, including the implementation of the Board's risk appetite in terms of market, interest rate and currency risk across the firm, as applicable; and
- underwriting, dealing, and trading activities in capital markets, government debt, corporate debt, debt of financial institutions, debt backed by asset portfolios, equities, foreign exchange, and financial futures within risk appetite set by the Board.

Executive Management Committee (EXCO) represents the principal forum for conducting the business of the Bank 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 the Bank within the confines of the Board approved strategy, operating plans and budgets. This authority extends in particular to authorising officers of the Bank to bind it contractually, granting credit facilities, conducting advertising, recruitment and investment.

Additionally, the Board has set up a number of management level committees with the aim of identifying and addressing matters relating to operational risks namely, the Management Operations Committee, the New Customer Product Committee and the Treasury Services Committee.

Risk Management Function

The Board has set up an independent and comprehensive risk management function under the responsibility of the Head of Risk Management. 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. The risk function operates through an integrated approach and is supported by a number working groups and teams of specialists in relevant areas which allows the Bank to allocate resources more efficiently and effectively. In this regard the following teams have been set up:

- Risk Capital Team;
- Credit, Market and Liquidity Risk Team;
- Operational Risk Team; and
- Information Security Risk Team.

Risk Capital Team is responsible for preparation and administration of regulatory and capital reporting internally and externally. The team is involved in capital planning, capital adequacy assessment and annual preparation of Pillar 3 disclosures and ICAAP report. The team is composed of the specialist of the Finance Department and specialists who provide an adequate support on risk management and stress testing.

Credit, Market and Liquidity Risk Team was set up in order to challenge and support the Bank's Treasury and Credit and Investment departments through reporting. The main objectives of the team are to provide timely reports to ALCO and the local regulator ("MFSA"), to assist in the management of credit risk through the credit and investment approval process and in terms of investment portfolio and settlement and sets and oversees internal limits, procedures and reports. Additionally, the team provides input in the form of analysis of the Bank's liability structure, sector and name concentration, volatility and maturity and in terms of the access to funding and liquidity.

Operational Risk Team - Operational risk management is a broad area that requires a clear understanding and ability to challenge the Bank's processes and procedures and therefore involves significant interaction with all of the Bank's departments. The role of the team in this respect is to support the Bank's departments in identifying and assessing risks and controls and constructing policies and procedures around the business processes with the aim of limiting the Bank's exposures to all of the operational risks other than those related to IT.

Information Security Risk Team - The Bank's increasing reliance on technology and the continued expansion and penetration into new markets as well as launching new products, particularly through the use of IT and over the internet, so has information security risk. In this regard, the risk office has set up a team with the specific role of identifying, assessing, managing risks in relation to the Bank's IT infrastructure and systems as well as business processes involving the use of information systems.

The **Head of Risk Management** is responsible for the oversight of the risk management process including the identification, assessment, monitoring, mitigation/control and communication of material risks and assumes, monitors, and actively manages interest rate risk, price risk, foreign exchange risk, liquidity risk, credit risk, concentration risk, operational risk, strategic risk and reputational risk through an integrated approach and is supported by various teams.

1.2. Risk Management Framework and Policies

Risk management framework is adopted in the Bank through an efficient separation of the risk management function and risk taking activities of the Bank. In this respect the Bank's risk management framework emphasises a strong culture of segregating risk takers and risk controllers, enforced by an efficient segregation of duties across the Bank, effectively managing various conflicts of interests, monitoring independent analytics, adherence to tolerable limits and the appetite set by the Board of Directors.

The risk function achieves its objectives, in part through a broad range of policies and procedures that are established by the Bank's compliance and control functions to identify and analyse all types of risks that have been faced by the Bank. In this regards the relevant key policies are as follows:

- Terms of Reference for Board and Key Committee Structures
- Code of Ethics
- Conflict of Interest Policy
- Remuneration Policy
- Treasury Management Policy
- Credit and Investment Policy
- Impairment Provisioning Policy
- Operational Risk Management Policy
- CDD and Compliance Requirements Policy
- Anti Fraud Policy
- Cash Handling Policy
- Prevention of Money Laundering and Funding of Terrorism Manual
- Consumer Care Principles
- Outsourcing Policy
- Information Security Policy
- User Information Security Policy
- Admin Security Policy
- Business Continuity and Disaster Recovery Plans
- Staff Compliance Policy
- HR Policy

Additionally, the Bank is developing and constantly updating its departmental policies, procedures, manuals and instructions.

1.3 Risk Management Initiatives

The Risk Management function, through each of the teams is committed to support the Bank's development and operations and has plans to lead projects including:

- Setting up of a risk register;
- Review and implementation of policies and procedures;
- Enhancing financial risk measurement;
- Operational and information risk management.

Risk Register

The Bank is committed to developing a risk register as the foundation to the risk framework. The process has and continues to involve all of the Bank's departments in the creation of process flows and the identification of inherent risks, controls and residual risks.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Policies and Procedures

The Risk Management function is responsible for the design of policies as well as reviewing existing ones. In this light, the risk office, through the Operational Risk Team has set up an Operational Risk Management Policy and has reviewed the Business Continuity Plan, which will be reviewed and tested on an ongoing basis. The same team, through the Physical Security working Group, shall be reviewing the Cash Handling Policy and Physical Security Policy which have recently been updated. The Risk Management function is also committed to review, make recommendations and update procedures in relation to these policies.

The Information Security Risk Team has provided support in setting up the Information Security Policy and the User Security Policy and the IT Disaster Recovery Plan. The latter is referred to by the Bank's Business Continuity Plan and is tested accordingly.

Additionally, as the Bank continues to evolve, the committee structure continues to evolve in order to support the business and therefore this requires that the Terms of Reference for such committees are maintained on a regular basis. This initiative was taken on board by the Head of Risk Management and the Chief Operating Officer jointly.

Financial Risk Measurement

The risk management process is supported by quantitative analytics, particularly from a financial risk perspective and in this regard, the Bank has in place a liquidity risk model as the primary risk model. As the Bank develops further, so does the required analytical support. The Credit, Market and Liquidity Risk Team are developing quantitative analytics for the analysis of the structure, volatility and the term of retail and corporate deposits. This is complemented by advanced analytics in the form of scenario analysis and stress tests carried out on the Bank's liquidity position through an integrated approach, combining credit and market risk to produce a view on the Bank's liquidity position and profitability. Among the scenarios, the team considers shifts in the yield curves and stress scenarios pertinent to the Bank's model.

Operational and Information Risk Management

The Bank identifies the potential to benefit from technology through increased efficiency and lower risk exposures from an operational perspective. Plans to further automate processes beyond those at the core of the business are in place, and in this respect, the Risk Management function liaises with the Business Analysis Office to aid prioritisation of related projects.

The growth in the branch network raised the need for a reassessment of the existing physical security which is lead by the Risk Management function directly.

The Bank's target to offer e-banking services to its existing clients and to further expand the client network both domestically and internationally, the exposure to the accompanying risks are being managed by the Information Security Risk Team, which is involved in carrying out risk assessments in relation to such projects which have so far included security and choice of solutions for client use.

The Risk Management function has taken on the responsibility to develop and maintain an authorisation matrix for the core of the Bank's systems and solutions and plans to expand this to cover all solutions in the medium term.

2. Capital Risk Management

2.1. Capital Adequacy and Own Funds

Own funds represent the Bank's available capital and reserves for the purposes of capital adequacy. Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of its capital to its assets. The Bank adopts 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 following table represents the Bank's capital position at 31 March 2012. Details on all Own Funds items are found in note 4.7.1 in the Bank's Annual Report.

Own Funds	*€000*	*€000*
Paid up capital		
Ordinary shares		56,030
Share premium account		13,464
Total Paid Up Capital		**69,494**
Reserves		
Retained profits	7,029	
Other reserves	(1,836)	
Total Reserves		**5,193**
Total Gross Original Own Funds		**74,687**
Deductions		
Intangible assets (other than goodwill)	(351)	
Investment in subsidiaries	(63)	
Total Deductions		(414)
TOTAL Original Own Funds		74,273
IFRS Prudential Filters: Deductions from Original Own Funds		(1,137)
Total Eligible Own Funds		**73,136**
Core Tier 1 Ratio		**24.53%**

Regulatory capital requirements are calculated on the basis of Pillar 1 and Pillar 2 of the Basel framework. Pillar 1 capital covers credit, market and operational risks. The calculation methods are specified by Basel II rules.

Capital Requirements

The Bank calculates its risk weighted exposure amounts of credit risk in accordance with the Standardised Approach to credit risk as per BR/04. To calculate risk-weighted exposure amounts, risk weights are applied based on the exposure class to which the exposure is assigned and to its credit quality. Credit quality is determined by reference to the credit assessments of External Credit Assessment Institutions (ECAIs) that have been determined as eligible by the MFSA. For the purpose of risk rating of the investment portfolio the Bank has nominated well-known risk rating agencies such as Fitch, Standard & Poor's and Moody's.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

A breakdown of total exposure values, average exposure values over the period, risk-weighted exposure amounts and the 8 percent capital requirement is shown in the following table.

Capital requirements – analysis by exposure type

	Exposure value 31.03.2012 €000	Exposure value -average 31.03.2012 €000	Risk weighted assets 31.03.2012 €000	Capital required 31.03.2012 €000
Central Governments or Central Banks	319,363	221,845	-	-
Regional Governments or Local Authorities	50,506	50,600	-	-
Multilateral Development Banks	50,102	10,020	-	-
International Organisations	7,343	1,469	-	-
Institutions	142,294	218,971	15,120	1,210
Corporates	37,503	9,896	37,503	3,000
Covered Bonds	879,701	799,220	154,758	12,381
Securitisation Positions	156,028	219,345	45,630	3,650
Other	6,579	10,078	5,911	473
Total	**1,649,419**	**1,541,444**	**258,922**	**20,714**

A financial measurement of the operational risk is calculated by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive. The foreign exchange risk capital requirement is calculated by the Bank using the Basic Method in accordance with BR/08. Thus, as for 31st of March 2012 the total own funds of the Bank are €73.1 million and the capital allocation amounts to €23.8 million that includes capital requirements for credit, operational and foreign exchange risks.

Total capital requirements and own funds

	Risk weighted assets 31.03.2012 €000	Capital requirement weight 31.03.2012	Capital required 31.03.2012 €000	Own funds 31.03.2012 €000
Average gross income of the preceding 3 years	20,685	15%	3,103	
Risk weighted assets	258,922	8%	20,714	
Notional risk weighted assets for foreign exchange risk	494	8%	40	
Total			**23,857**	**73,136**

No capital is allocated for market risk on trading book as the Bank operates non-trading book only.

The Bank covers Pillar 2 capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment.

2.2. Internal Capital Adequacy Assessment Process

This provides management with a tool to assess impact under changing economic conditions and how best to anticipate and mitigate such impact. The Bank stress testing process contributes to the strategic planning and forms a key component of the internal capital adequacy assessment process ("ICAAP").

Under the supervision of a dedicated working group consisting of the Bank's senior management, the preparation of the ICAAP is carried out by the relevant departments that include: Risk Management, Finance and Credit & 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 Bank with an independent critical evaluation of the document, assisted by the Bank's Internal Audit.

3. Credit Risk

3.1. Scope and Nature of Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other financial institutions, and investment securities.

Credit risk by exposure type	Balance sheet value - 31.03.2012 €000	Exposure value - 31.03.2012 €000	Exposure value - 31.03.2012 %
Cash	84	84	0.005%
Investment securities	1,415,493	1,415,493	85.818%
Derivatives held for risk management	2,572	2,572	0.156%
Loans and receivables: syndicated loans	27,081	27,081	1.642%
Loans and advances to financial institutions	91,376	91,376	5.540%
Loans and advances to customers	585	585	0.035%
Property, plant and equipment	2,880	2,880	0.175%
Intangible assets	351	351	0.021%
Investment in subsidiaries	63	63	0.004%
Deferred income tax asset	244	244	0.015%
Other assets due from group companies	10,356	10,356	0.628%
Other assets	5,293	5,293	0.321%
Prepayments and accrued income	19,442	19,442	1.179%
Total assets	**1,575,820**	**1,575,820**	**95.538%**
Off-balance sheet items		74,463	4.514%
Asset items deducted from own funds		(864)	(0.052%)
Total exposure		**1,649,419**	**100%**

Credit risk arises primarily in the form of deterioration in credit quality leading to an obligor defaulting on debt instruments held in the Bank's investments portfolio. Additionally, the Bank is exposed to credit risk in respect of repo counterparties and corporate loans. The Bank invests in the senior tranches of third party pooled investments that are included in Investment Securities and assigned to Securitisation Positions by class. The performance of such investments is

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

primarily driven by the performance of the underlying assets. The Bank analyses and monitors its credit risk exposure by:

1. exposure class;
2. geographic distribution;
3. counterparty type distribution; and
4. residual maturity.

Credit risk exposure - analysis by exposure class	Exposure - 31.03.2012 €000	Exposure - 31.03.2012 %
Central Governments or Central Banks	319,363	19.4%
Regional Governments or Local Authorities	50,506	3.1%
Multilateral Development Banks	50,102	3.0%
International Organisations	7,343	0.4%
Institutions	142,294	8.6%
Corporates	37,503	2.3%
Covered Bonds	879,701	53.3%
Securitisation Positions	156,028	9.5%
Other	6,579	0.4%
Total	1,649,419	100.0%

Credit risk exposure – analysis by geographical region	*Europe* 31.03.2012 €000	*North America* 31.03.2012 €000	*Total* 31.03.2012 €000
Central Governments or Central Banks	319,363	-	**319,363**
Regional Governments or Local Authorities	50,506	-	**50,506**
Multilateral Development Banks	50,102	-	**50,102**
International Organisations	7,343	-	**7,343**
Institutions	142,294	-	**142,294**
Corporates	37,503	-	**37,503**
Covered Bonds	790,251	89,450	**879,701**
Securitisation Positions	156,028	-	**156,028**
Other	6,427	152	**6,579**
Total	1,559,817	89,602	1,649,419

Credit risk exposure – analysis by residual maturity	*Less than 1 year* 31.03.2012 €000	*1 to 5 years* 31.03.2012 €000	*Over 5 years* 31.03.2012 €000	*Total* 31.03.2012 €000
Central Governments or Central Banks	63,629	160,894	94,840	**319,363**
Regional Governments or Local Authorities	-	-	50,506	**50,506**
Multilateral Development Banks	-	-	50,102	**50,102**
International Organisations	7,343	-	-	**7,343**
Institutions	32,216	110,078	-	**142,294**
Corporates	11,336	26,167	-	**37,503**
Covered Bonds	50,681	624,433	204,587	**879,701**
Securitisation Positions	21,031	20,778	114,219	**156,028**
Other	3,139	560	2,880	**6,579**
Total	189,375	942,910	517,134	1,649,419

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Capital requirements – analysis by counterparty type	*Public sector* 31.03.2012 €000	*Financial* 31.03.2012 €000	*Other* 31.03.2012 €000	*Total* 31.03.2012 €000
Central Governments or Central Banks	319,363	-	-	**319,363**
Regional Governments or Local Authorities	50,506	-	-	**50,506**
Multilateral Development Banks	-	50,102	-	**50,102**
International Organisations	-	7,343	-	**7,343**
Institutions	-	142,294	-	**142,294**
Corporates	-	-	37,503	**37,503**
Covered Bonds	-	879,701	-	**879,701**
Securitisation Positions	-	156,028	-	**156,028**
Other	-		6,579	**6,579**
Total	**369,869**	**1,235,468**	**44,082**	**1,649,419**

3.2. Managing Credit Risk

Risk Management Objectives

The key objective of managing credit risk is to maximise its investment returns while maintaining a sound and prudent investment profile. To facilitate achieving this target, the Bank maintains a diversified investment portfolio comprising of high quality assets with strong ratings stability which will support the Bank's deposit taking, and loans to corporations with appropriate risk characteristics.

Credit and Investment Policy

The purpose of this Credit and Investment Policy is to establish the credit standards, internal controls, reporting requirements and approval processes that will govern the selection and ongoing management of the investment assets of the Bank.

The policy was initially adopted by the Board of Directors on the 7th of August 2009 and subsequently updated with the latest changes approved by the Board of Directors on a conference call meeting held on the 13th of January 2012

The Board of Directors has established limits for exposures to individual credits based on Maltese regulatory requirements (including, without limitation, Banking Rule BR02 of the Malta Financial Services Authority, governing Large Exposures of Credit Institutions), as well as prudential requirements. Exposure limits are monitored on an ongoing basis by the Head of Risk and the Head of Credit and Investment with the support of the Credit and Investment Department and of the Treasury Department to the extent they relate to a derivative or repo counterparty. Credit and Investment Policy among others outlines the following specific exposures and trading limits:

- Concentration limits;
- Country limits;
- Counterparty limits.

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 standard ISDA swap documentation and the Treasury Management Policy.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Treasury Management Policy

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.

The policy was initially adopted by the Board of Directors and subsequently updated with the latest changes approved by the Board of Directors on the 19th of November 2011.

The Treasury Management Policy includes the following approved limits:

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

The Head of Risk Management is responsible for reporting the breaches of limits to the Board of Directors if applicable.

Credit Quality Analysis

All securities in the portfolio undergo a thorough analytical credit research process. The research process reviews all securities not only from a credit perspective but also from a legal, financial and ratings perspective. The Credit 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 markets. The research process subjects potential investments to severe stress tests to determine whether they can withstand significant adverse credit and market events and multiple combinations of such events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities the performance of which requires increased monitoring.

The securities in the Bank's investment portfolio are accepted by the ECB as eligible collateral and all of the securities are rated by at least two from Fitch, Standard & 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 an impairment allowance is made whenever the amount of the Bank's exposure is expected to fall short of the likely recoverable amount.

The 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 Banking Rule BR/09 "The Credit and Country Risk Provisioning of Credit Institutions Rule" of the MFSA and the Bank's Impairment Provisioning Policy.

Impairment Provisioning Policy

The scope of the Impairment Provisioning Policy is to establish effective provisioning standards, internal controls, reporting requirements and approval processes that will govern the ongoing monitoring of credit risk exposures inherent in the investment portfolio. The policy was first adopted by ALCO on the 7th of December 2010 and subsequently updated with the latest changes on the 21st of December 2011.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

In accordance to the policy impaired investments are debt securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s).

The Bank complies with the standard association of the external rating of nominated External Credit Assessment Institutions ("ECAIs") with the credit quality steps prescribed in BR/04. The following table shows the exposure values after credit risk mitigation associated with each credit quality.

Credit risk exposure – analysis by credit quality step

31 March 2012	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 Governments or Central Banks	171,306	71,515	-	55,428	7,341	13,773	-	**319,363**
Regional Governments or Local Authorities	-	-	50,506	-	-	-	-	**50,506**
Multilateral Development Banks	50,102	-	-	-	-	-	-	**50,102**
International Organisations	7,343	-	-	-	-	-	-	**7,343**
Institutions	13,316	16,159	11,593	100,444	-	-	782	**142,294**
Corporates	-	-	-	-	-	-	37,503	**37,503**
Covered Bonds	327,875	294,226	206,048	51,552	-	-	-	**879,701**
Securitisation Positions	116,180	34,908	4,940	-	-	-	-	**156,028**
Other	-	-	-	-	-	-	6,579	**6,579**
Total	686,122	416,808	273,087	207,424	7,341	13,773	44,864	1,649,419

Movement in impairment provision during the period is presented in the table below.

Breakdown of impaired exposures by geographic area and movement in impairment provision

	Europe €000	Specific impairment provision €000
Exposures to Central Governments		
Movements in specific impairment provision		
At the beginning of the period	**91,576**	-
Additions	-	62,885
Amortisation	2,695	-
Write offs	- 62,885	- 62,885
At the end of the period	**31,386**	-

3.3. Settlement Risk

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

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

4 Liquidity Risk

4.1. Scope and Nature of Liquidity Risk

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

4.2. Managing Liquidity Risk

Risk Management Objective

The Bank's objective managing liquidity risk is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Asset-Liability Management Policy

The purpose of this Asset-Liability Management Policy is to establish the standards, internal controls, reporting requirements and approval processes that will govern the ongoing management of (i) the liquidity and asset-liability mix of Mediterranean Bank plc (the "Bank") and (ii) the Bank's market, interest rate and currency risk. The Asset-Liability Management Policy is a part of the Treasury Management Policy was adopted by the Board of Directors on 7th August 2009 and subsequently updated with the latest changes approved by the Board of Directors on the 19th of November 2011.

In accordance to the policy Treasury department maintains a portfolio of short-term liquid assets to ensure that there is sufficient liquidity within the Bank. The liquidity requirements of the Bank are met through the international repo market, the Eurex repo market and also through ECB secured funding to cover any short-term fluctuations and also longer term funding to address any structural liquidity requirements. In addition, deposits and issuance of debt securities provides further support to the Bank's liquidity requirements.

Liquidity Risk Management Framework

The Bank has designed its liquidity risk management systems to ensure that at all times the Bank maintains a sufficient stock of cash and liquid assets to meet all of its liquidity requirements in the short term and over time. The Bank will at all times ensure that it is in full compliance with all applicable regulatory requirements, including, the Minimum Liquid-Asset Requirement, and not limited to, the MFSA Rule BR/05/2007 ("Rule BR/05"). In order to ensure that the Bank has adequate liquidity to meet its obligations, the Bank analyses its liquidity using three key metrics:

- Maximum Cumulative Outflow ("MCO") Analysis
- Liquidity Ladder Analysis
- Net Cash to Wholesale Funding Ratio

Liquidity risk associated with the Bank's assets is managed based on:

- A VaR model (VaR: "Value at Risk") which incorporates historical time series of market volatility, and
- A forward looking liquidity risk framework based on internal ratings of assets in the Bank's projected base case and stress scenarios

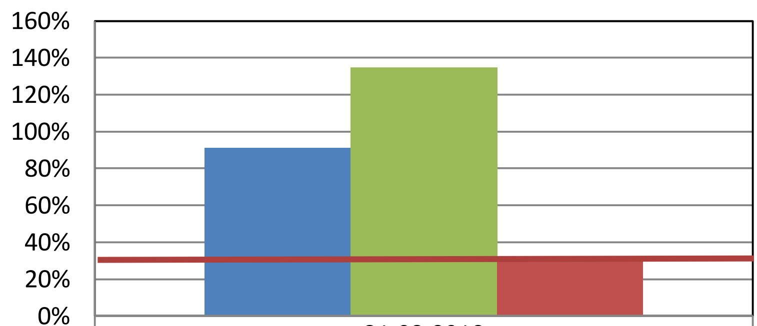
All of such analyses are undertaken by the Head of Treasury, based both on expected and stressed cash flow profiles. In respect of the Bank's assets, both expected cash flows and liquidity of assets are stressed based on parameters proposed by the Head of Credit & Investments and agreed by the Head of Treasury. Potential material changes in future liquidity requirements are discussed in ALCO.

The Bank actively manages the risk from short-term tenor of deposits through maintaining competitive pricing and constant monitoring of market trends. In addition to the existing bond issue, during 2011 new deposit products were offered by the Bank resulting in an increase in customer term deposits with a weighted average life of over one year

The key measure used by the Bank for managing liquidity risk is the ratio of the net liquid assets to wholesale funding. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market as a percentage to the actual wholesale funding of the Bank.

A similar, but not identical, calculation is the liquidity ratio as reported in line with BR/05, which at the reporting date and during the reporting period was as follows.

Liquidity Ratio



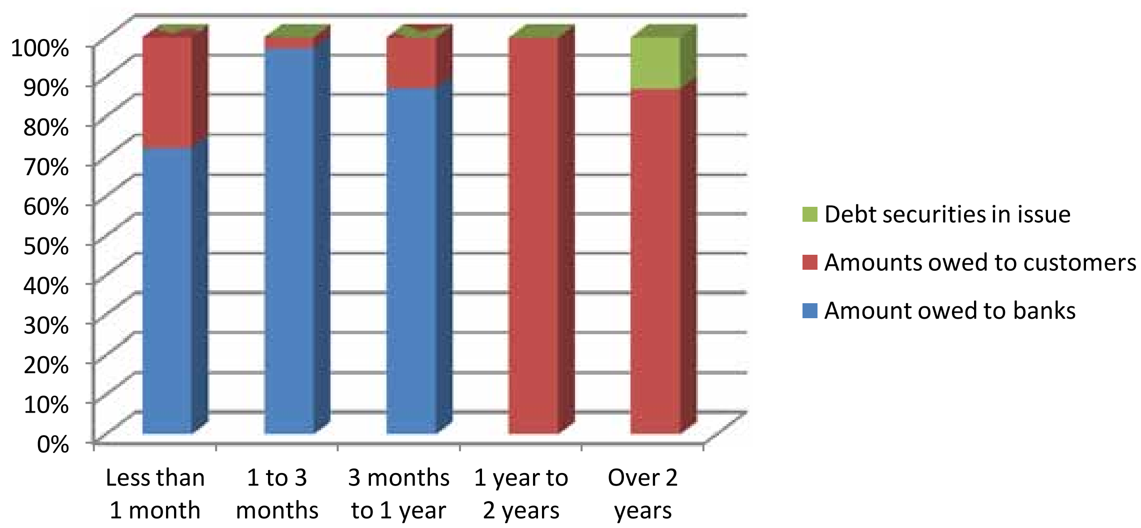
	31.03.2012
Average for the period	91.13%
At end of accounting year	134.59%
Statutory minimum	30.00%

The depicted above the liquidity ratios are above the statutory minimum of 30% as prescribed by BR/05.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

Residual maturities of non-derivative liabilities



The graph shows the expected undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance. To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. The Bank does not expect that the disposal of such securities to cover possible liquidity gaps would result in losses.

5. Market Risk

5.1. Scope and Nature of Market Risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

5.2. Managing Market Risks

Risk Management Objectives

The key objective of managing market risk is to maximize the Bank's returns on interest rate and foreign exchange rate risks. With the exception of translation risk arising on the Bank's net investment in its foreign operations, all foreign exchange risk within the Bank is managed and hedged by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Bank's investment portfolios for risk management purposes. The overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

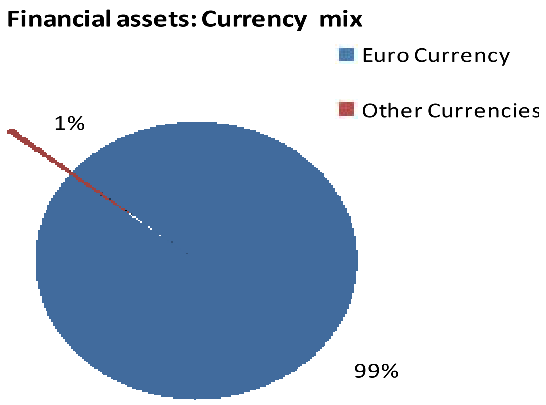
The Bank's *Treasury Management Policy* provides the framework within which treasury prudently manages interest rate, foreign exchange, funding, liquidity, counterparty and investment risk, and any other associated risks related to managing the assets and liabilities presented on the statement of financial position. Regular reviews of the policy are conducted to test robustness of the policy's risk control limits within both normalised and stressed environments.

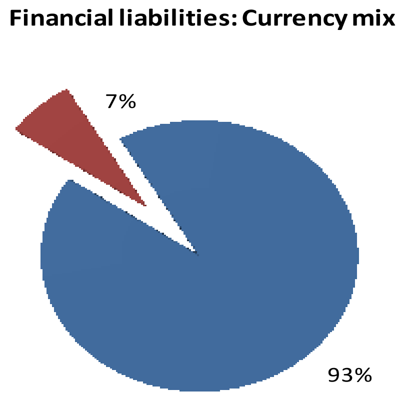
The Bank's *Asset-Liability Management Policy* establishes the standards, internal controls, reporting requirements and approval processes that govern the ongoing management of (i) the liquidity and asset-liability mix of the Bank and (ii) the Bank's market, interest rate and currency risk.

5.3. Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to currency risk on foreign exchange along the parameters set by the Treasury Management Policy. In the majority of cases the Bank covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that can arise are monitored accordingly.

The Bank focuses its activities largely on euro denominated assets and liabilities, thus it runs a limited foreign exchange risk. The Bank also seeks to minimise foreign exchange risk by hedging all major exposures in this area in accordance with the prevailing ALCO strategy. All foreign currency forward contracts, option contracts or foreign exchange spot deals are to be entered into only with banks on the approved foreign exchange counterparty list set by ALCO. The following diagrams depict an analysis of the financial assets and financial liabilities of the Bank into relevant currency mix.





6. Interest Rate Risk in Non-Trading Book

6.1. 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.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Period Ended 31 March 2012

6.2. Managing Interest Rate Risk

Risk Management Objectives

The key objective of managing interest rate risk is to undertake effective monitoring of interest rate gaps to ensure adherence to pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The Bank primarily invests in fixed interest rate assets that are sensitive to interest rate changes. Therefore, the Bank has developed an interest rate risk management framework and interest rate risk report aimed at presenting and managing the major sources and measurements of interest rate risk. Cash flows are projected for both assets and liabilities on a base case and stressed scenarios of the relevant yield curves. The report outputs depict effects of interest rate stresses on:

- Projected Net Interest Margin
- Economic Value
- Duration Gap
- DV01 Exposure
- Asset Liability Gap Profile
- Rate Reset Profile

The outputs from the interest rate reports are used by ALCO to determine the appropriateness of the Bank's interest rate risk exposure and manage the assets and liabilities accordingly.

Interest rate risk positions are managed by Treasury, which strategically position the asset and liability interest rate re-pricing profiles as well as purchases of interest rate derivatives, including swaptions, to manage the Banks tradable interest rate risk position. In addition, Treasury uses advances to financial institutions and deposits from financial institutions to manage the overall position arising from the Bank's non-trading activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows.

31 March 2012	Carrying amount €'000	Less than 3 months €'000	3 months to 1 year €'000	More than 1 year €'000
Balances with Central Bank of Malta	63,572	61,001	-	2,571
Loans and advances to financial institutions	27,804	27,804	-	-
Loans and advances to customers	27,666	27,081	25	560
Investment securities	1,415,493	423,433	57,830	934,230
	1,534,535	**539,319**	**57,855**	**937,361**
Amounts owed to financial institutions	1,093,753	705,074	388,679	-
Amounts owed to customers	379,555	156,742	57,155	165,658
Debt securities issued	19,672	-	-	19,672
	1,492,980	**861,816**	**445,834**	**185,330**
Interest rate gap	**41,555**	**(322,497)**	**(387,979)**	**752,031**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on Net Interest Margin ("NIM") and Fair Value reserve as a result of a 100 and 200 basis points ("bps") parallel fall or rise in the yield curves would be as follows:

31 March 2012	100 bps parallel increase €000	100 bps parallel decrease €000	200 bps parallel increase €000	200 bps parallel decrease €000
Impact on Net Interest Margin	(502)	(872)	2,799	(872)
Impact on Fair Value reserve	(8,153)	9,084	(14,143)	(6,061)

As the Bank's expectation is that it will increase its annual reserves by more than the calculated maximum loss under the most severe stress scenario of 200 bps noted above, the Bank will always generate a net positive increase of its reserves.

Interest rate risk positions are managed by the Treasury department, which strategically position the asset and liability interest rate re-pricing profiles as well as purchases of interest rate derivatives (swaptions) to manage the Banks tradable interest rate risk position. In addition, the Treasury department uses advances to financial institutions and deposits from financial institutions to manage the overall position arising from the Bank's non-trading activities.

7. Operational Risk

7.1. Scope and Nature of Operational Risk

The Bank defines 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 Bank's operations and are faced by all business entities.

7.2. Managing Operational Risk

Risk Management Objective

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Operational Risk Management Policy

In developing a policy for the management of operational risk, the Bank recognises the importance of having adequate risk management principles in place. Regardless of the nature and scale of the operations, the objective of the operational risk policy is to clearly set out the role of stakeholders, the process through which operational risks are identified, managed, measured and controlled, and is ultimately intended to embed and maintain a strong operational risk and internal control culture. In this respect, the operational risk policy supported by an operational risk framework is objectively formulated within the context of the Bank's operations and specified risk appetite and tolerance in line with industry standards. The Operational Risk Management Policy was adopted by the Board of Directors on 21 July 2011.

User Information Security Policy

The Bank identifies the potential to benefit from technology through increased efficiency and lower risk exposures from an operational perspective. Plans to further automate processes beyond those at the core of the business are in place, and in this respect, the risk management function liaises with the business analysis function to aid prioritisation of related projects.

The Bank's target to offer e-banking services to its existing clients and to further expand the client network both domestically and internationally, the exposure to the accompanying risks are being managed by the Information Security Risk Team, which is involved in carrying out risk assessments in relation to such projects which have so far included security and choice of solutions for client use. The User Information Security Policy was adopted by the Board of Directors on 14 December 2011.

Business Continuity Planning

In October 2010 the Bank's Business Continuity Plan came into force. This Plan provides for disaster scenarios and categorises disasters into five levels. The Plan also defines three types of tolerance levels depending on recovery time. The critical resources are named and security and contingency measures are laid out. Recovery procedures and locations are set out in the Plan which also defines the roles and responsibilities of the business continuity team. The Chief Operation Officer is responsible for keeping the Business Continuity Plan updated so as to ensure that it remains effective despite changes to internal business processes, technology, staff and external influences. This is a key in ensuring that all the components required for the Business Continuity Plan to be implemented are in place.

Additionally, the Bank also put in place and IT Disaster Recovery Plan. The plan defines every system and classifies these according to a priority level and an associated level of tolerance to failure. Critical systems are supported by three levels of redundancy and a number of backups are held in secure locations. An alternative location equipped with the required IT infrastructure is set up so that the Bank may execute critical business processes in a disaster scenario.

In light of the Bank's development pace and the low tolerance to business continuity, both the Business Continuity and the IT Disaster Recovery Plans are reviewed on a regular basis.

Five Year Summary

Income Statements

	31 Mar* 2012 €000	31 Dec 2010 €000	31 Dec 2009 €000	31 Dec 2008 €000	31 Dec 2007 €000
Interest income	64,067	41,834	4,544	1,298	816
Interest expense	(34,327)	(14,188)	(1,357)	(670)	(280)
Net interest income	29,740	27,646	3,187	628	536
Fee and commission income	253	124	114	266	172
Fee and commission expense	(424)	(1,154)	(176)	(170)	(165)
Net fee and commission (expense)/income	(171)	(1,030)	(62)	96	7
Net trading income	1,799	346	103	53	7
Other operating income	48,931	3,280	116	-	-
Operating income	80,299	30,242	3,344	777	550
Impairment loss on financial asset	(62,885)	-	-	(93)	-
Personnel expenses	(7,545)	(5,137)	(723)	(426)	(520)
Administrative expenses	(7,812)	(5,675)	(3,256)	(1,703)	(1,375)
Depreciation and amortisation	(799)	(365)	(227)	(610)	(621)
Operating expenses	(79,041)	(11,177)	(4,206)	(2,832)	(2,516)
Profit/(loss) before income tax	1,258	19,066	(862)	(2,055)	(1,966)
Tax expense)	(485)	(3,955)	-	(1,274)	-
Profit/(loss) for the period/year	773	15,111	(862)	(3,329)	(1,966)

*15 month period to from 1 January 2011 to 31 March 2012

Five Year Summary

Statements of Financial Position

	31 Mar* 2012	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta and cash	63,656	10,526	39,757	590	402
Loans and advances to financial institutions	27,804	35,801	14,045	35,251	31,176
Loans and advances to customers	27,666	-	9	2	-
Investment securities	1,415,493	1,324,114	636,323	-	-
Derivative assets held for risk management	2,572	-	-	-	-
Property, plant and equipment	2,975	2,682	839	1,011	1,228
Intangible assets	351	1,371	246	2	394
Other assets	15,710	1,728	478	7	4
Prepayments and accrued income	19,442	14,646	5,750	100	127
Deferred income tax asset	244	695	-	-	1,274
Total assets	1,575,913	1,391,563	697,447	36,963	34,605
Liabilities					
Amounts owed to financial institutions	1,093,753	1,134,986	578,698	122	383
Amounts owed to customers	379,483	172,847	72,078	33,825	28,611
Debt Securities in Issue	19,672	14,735	-	-	-
Other liabilities	683	778	859	283	49
Accruals and deferred income	6,606	4,855	1,552	194	101
Provision for taxation	207	3,891	-	-	-
	1,500,404	1,332,092	653,187	34,424	29,144
Equity					
Called up issued share capital	56,030	41,030	39,521	10,402	10,000
Share premium	13,464	13,464	13,464	-	-
Retained Earnings/(accumulated losses)	7,155	6,382	(8,729)	(7,867)	(4,537)
Fair value reserve	(1,137)	(1,410)	-	-	-
Other reserves	-	-	-	-	-
Exchange differences on consolidation	(3)	5	4	4	(2)
	75,509	59,471	44,260	2,539	5,461
Total liabilities and equity	1,575,913	1,391,563	697,447	36,963	34,605

*15 month period to from 1 January 2011 to 31 March 2012

Five Year Summary

Statements of Cash Flows

	31 Mar* 2012 €000	31 Dec 2010 €000	31 Dec 2009 €000	31 Dec 2008 €000	31 Dec 2007 €000
Cash flows from operating activities					
Interest and commission receipts	60,158	38,158	1,642	1,391	819
Interest payments	(30,287)	(13,828)	(594)	(664)	(276)
Payments to employees and suppliers	(26,573)	(9,328)	(3,055)	(1,712)	(2,101)
Operating profit/(loss) before changes in operating assets/liabilities	3,298	15,002	(2,007)	(985)	(1,558)
(Increase)/decrease in operating assets:					
- reserve deposits with Central Bank of Malta	(68)	(1,971)	21	211	(765)
- loans advanced to customers and financial institutions	(27,250)	(1,038)	334	(870)	-
- investment securities	1,091,620	(694,718)	(638,882)	-	-
Increase in operating liabilities:					
- amounts owed to customers and financial institutions	(171,407)	291,006	616,229	5,214	12,449
Tax paid	(3,866)	-	-	-	-
Net cash generated from/ (used in) operating activities	892,327	(391,719)	(24,305)	3,570	10,126
Cash flows from investing activities					
Acquisition of property and equipment	(1,065)	(2,142)	(41)	(7)	(8)
Disposal of property and equipment	109	-	-	-	-
Acquisition of intangible assets	(4,517)	(1,191)	(197)	-	(5)
Disposal of intangible assets	5,401	-	-	-	-
Acquisition of available-for-sale assets	(3,184,077)	(81,489)	(59,525)	-	-
Disposal of available-for-sale assets	1,987,289	84,768	59,641	-	-
Acquisition of assets held-for-risk management	(4,728)	-	-	-	-
Advances to parent	(1,273)	(77)	-	-	-
Advances to group companies	(3,635)	-	-	-	-
Net cash used in investing activities	(1,206,496)	(131)	(122)	(7)	(13)
Cash flows from financing activities					
Proceeds from the issue of share capital	15,000	1,509	42,584	402	-
Proceeds from the issue of debt securities	4,937	14,735	-	-	-
Repayment of bank loans	-	-	-	(41)	(38)
Interest paid on financial liabilities	-	-	-	(5)	(8)
Net cash from financing activities	19,937	16,244	42,584	356	(46)
Net (decrease)/increase in cash and cash equivalents	(294,232)	(375,606)	18,157	3,919	10,067
Cash and cash equivalents at 1 January	(323,036)	52,570	34,413	30,494	20,427
Cash and cash equivalents period end	**(617,268)**	**(323,036)**	**52,570**	**34,413**	**30,494**

*15 month period to from 1 January 2011 to 31 March 2012

Five Year Summary

Bank Ratios

	31 Mar* 2012	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	%	%	%	%	%
Net interest income and other operating income to total assets	1.9%	2.2%	0.9%	1.8%	1.8%
Operating expenses to total assets	5%	1.1%	1.1%	7.9%	8.6%
Cost to income ratio	98.4%	37.0%	125.8%	364.6%	457.7%
Profit / (loss) before tax to total assets	0.08%	1.8%	-0.2%	-5.7%	-6.7%
Profit / (loss) before tax on equity	2.25%	36.8%	-3.7%	-51.4%	-30.5%
Profit / (loss) after tax to equity	0.05%	29.1%	-3.7%	-83.2%	-30.5%

	2012	2010	2009	2008	2007
	No	No	No	No	No
Shares in issue	56,030,107	41,030,107	39,520,970	10,401,500	10,000,000

	2012	2010	2009	2008	2007
	€	€	€	€	€
Net assets per share	30.47	25.83	18.88	3.49	2.94
Earnings /(loss) per share (cents) based on profit after tax	2c	37.4c	(4.4)c	(32.5)c	(19.7)c

*15 month period to from 1 January 2011 to 31 March 2012

Company Information

Directors' interest in the share capital of the Bank or in any related company as at 31 March 2012:

Medifin Holding Limited C34111				
	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Mark Watson Holdings Limited	Ordinary B	627,854	100	1.000000
	Ordinary C	1,170,000	100	0.001000
HCS Holdings Limited	Ordinary B	224,233	100	1.000000
	Ordinary C	540,000	100	0.001000
JVP Holdings Limited	Ordinary B	362,903	100	1.000000
	Ordinary C	840,000	100	0.001000
Mark A. Watson	Ordinary B	1	100	1.000000

Mediterranean Bank plc C34125				
	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Medifin Holding Limited	Ordinary A	56,030,106	100	1.000000

Mediterranean Bank plc C34125		
	Number of shares	Number of holders
Class A	56,030,106	1
Class B	1	1

Mediterranean Bank plc C34125	Number of holders	
Range	Class "A"	Class "B"
1 - 500	-	1
501 - 1000	-	-
1001 - 5000	-	-
5001 & over	1	-

The holders of ordinary A shares are entitled to one vote for each share. The holder of ordinary B share is not entitled to vote in respect of its shares

Company Information

Company Secretary

Edward Jaccarini

Senior Management

Watson, Mark A.	Chief Executive Officer
Bonello Ghio, Lorraine	Head of Personnel and Administration
Calleja, Raymond	Head of Consumer Banking
Catania, Deo	Head of Treasury
Chatard Vincent	Chief Operating Officer
Cini, Charles	Head of Corporate Banking
Huber, Keith	Head of Risk Management
Jaccarini, Edward	Chief Financial Officer
Schmeltzer, Henry	Head of International Strategy and Head of Legal
Vicent, Joaquin	Head of Credit and Investments

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