Mediterranean Bank plc

Annual Report
31 March 2015

Company Registration Number: C 34125

Mediterranean Bank plc

Chairman's Review

The overall environment within the Eurozone over the last twelve months has been remarkably calmer than the one witnessed over the preceding four years. Ongoing concerns regarding the viability of Greece's debt sustainability and their position within the Euro currency bloc have not spilt over into the performance of other peripheral countries, which have benefitted from the ECB's commitment to historically low interest rates and a comprehensive QE programme. In turn this has led to the re-emergence of economic growth across much of the Eurozone, albeit rather tepid, which is clearly benefitting from a much more competitive exchange rate as desired by the ECB. The reduction in volatility has been beneficial in our ability to grow our pan-European lending businesses from our Maltese base.

The Maltese economy has proven to be extremely resilient, producing one of the strongest growth rates within the Euro denominated economies. The 3.5% growth registered has facilitated the growth of the Mediterranean Bank group within the local economy which has seen another remarkable 12 months of financial and strategic performance.

Having successfully closed the acquisition of Volksbank Malta Limited in September 2014, this bank has now been integrated within the group and rebranded as Mediterranean Corporate Bank. This entity now operates as a separately capitalised subsidiary bank and Malta's first specialised Corporate Bank. Additionally, we have recently completed the purchase of the remaining shares in Charts Investment Management Service, resulting in 100% ownership and we are working to integrate their market leading Corporate Broking services with the capabilities housed within MedCorp Bank, alongside the alignment of the traditional Wealth management offering with Mediterranean Bank's leading automated investment platform.

Our success within the local economy is such that we are now the third largest bank in Malta and have been re-categorised by the Central Bank as a Core Domestic Bank. Given this development, Mediterranean Bank has been proposed by the ECB to undertake a Comprehensive Assessment, involving an Asset Quality Review and subsequent stress testing, in line with the same process that was undertaken by the top 130 banks in the Eurozone in 2014.The process, which is currently ongoing is both arduous and exacting, particularly given the resources available in a bank of our size. Nevertheless, we believe the comprehensive "healthcheck" involved should position us well over the medium term as we continue to broaden and build our businesses over the coming periods. We are expecting the results of the Comprehensive Assessment in late September 2015.

As reported last year, a substantial part of the future growth of the Mediterranean Bank will be through our international business in the form of the MeDirect brand which was launched in Belgium in late 2013. I am pleased to report that on 1 June 2015, MeDirect became a fully authorised Belgian bank and now operates as a separately capitalised subsidiary. This was the first Belgian banking licence authorised in the last 10 years and we believe this structure, utilising our efficient Maltese operating centre, will enable us to operate in the optimal commercial and regulatory framework. We are very pleased with the substantial progress that MeDirect continues to make with its innovative online savings and wealth management platform, which is becoming the principal driver of the funding required to expand our international lending businesses.

The financial outcome for the year was satisfactory, with our profitability at record levels and slightly ahead of the amount budgeted for and achieved within the context of strong financial discipline and appropriate balance sheet management. As we look to the coming 12 months, the Board is supportive of management's strategy to grow the balance sheet with more capital intensive Corporate loans and reduce the percentage of Treasury assets held. As a result of this we will be exploring opportunities to raise Tier 1 capital to support such expansion.

Mediterranean Bank plc

Chairman's Review

The Board is pleased with the significant progress the Bank has made over the last 5 years in terms of its capital base, the returns generated and its positioning with all its stakeholders and believe that the foundations that have been built will continue to serve the Bank well as we approach the next phase of our development.

Francis J. Vassallo
Chairman

29 July 2015

Mediterranean Bank plc

Chief Executive Officer's Review

The 2014/2015 financial year has been instrumental in defining the future growth of the Mediterranean Bank Group. The financial performance of the Group has produced our highest ever earnings, recording a profit before tax of €34.5 million which reflects a Return on average equity of 19.7%. However, the most significant aspect of our financial performance has been the contribution to the increase in the Own Funds of Mediterranean Bank plc that increased from €152.4 million to €209.7 million. This significantly larger capital base, which will be retained within the business, has enabled us to continue the transformation of our balance sheet towards our goal of being a deposit funded pan European corporate lender.

The financial performance of the business has been complemented with two strategic developments which will have a significant impact on our future development of the Group both domestically and internationally.

The first development has been the completion of the purchase of Volksbank Malta Limited in September 2014. Whilst a relatively small acquisition, the integration of this business with the corporate activities of Mediterranean Bank has positioned us domestically in a substantially broader manner. Rebranding the entity Mediterranean Corporate Bank Limited, we are integrating all our Maltese corporate activities into one new focused entity, which will draw on our international lending expertise as we build our domestic lending portfolio. The consolidation of these activities alongside our continued growth on the retail side with our provision of savings and wealth management products for the mass affluent market has elevated the Group's status to one of a Core Domestic Bank, being the third largest banking group within the domestic economy. As a result of this and post the Comprehensive Assessment ("CA") which is currently being undertaken we might go under the Joint Supervisory Mechanism as with other systemic banks. As the Chairman reported, the resources dedicated to fulfil the demands of the CA process creates a multitude of stresses throughout the organisation, particularly one as young and growing such as ours, however we believe that we will deliver all necessary information in an accurate and timely manner and begin this process with the benefit of the disciplined approach we have historically taken toward our capital and liquidity ratios.

Within the construct of our capital base, the Common Equity Tier 1 capital of the Medifin Holding Group increased from €107.4 million to €165.6 million, due in the main to the one-time gain on acquisition of Volksbank Malta and the further realisation of gains from our Treasury portfolio. The Group will deploy this capital growth into the future expansion of our Lending Portfolio, which throughout the year grew from €621.7 million to €1 billion. We continue to operate with a prudential capital ratio at a Medifin Holding level of 14.8% and it is management's intention to continue to do so.

Having grown as significantly as we have in Malta, we will be looking to build our local corporate lending portfolio over the coming 12 months whilst continuing to develop our retail savings and wealth management products and further establish our local position built around our core competencies. In order to support these local businesses we have built and continue to evolve a world class operating centre that not just support our local expansion but also underpin the strategic business model that supports our international business in Belgium, under the MeDirect brand.

We now operate a fully licenced and authorised subsidiary bank in Belgium with a total employee headcount of 10. Although we recognise this number will grow as the business develops the vast majority of resources will be housed within our existing Maltese framework. This efficiency and scalability of our operating platform in turn allows us to position our product offering in the Belgian market at a highly competitive pricepoint both for our savings products and our innovative online wealth management solutions.

The overall growth in our deposit base was €429 million and this was largely driven from our Belgian customer base, where our overall client base grew from €57.1 million to €315.9 million throughout the year.

We are very optimistic about the Wealth Management platform that we have built, that sits alongside our highly successful range of savings products and is targeted for the same mass affluent client base. From a standing start just over a year ago we have grown Assets under Custody from €27.8 million to €139.7 million representing 5,581 clients across the two markets.

Mediterranean Bank plc

Chief Executive Officer's Review

In many ways this platform sits at the forefront of the future of online wealth management and we will continue to invest and broaden the functionality and capabilities for the benefit of our growing client base.

We enter the new financial year with many challenges ahead of us, but management remain both focused and energised by the prospects in front of us. The group structure and capabilities have evolved significantly which provides us with a superior commercial, regulatory and operating business model to that which we had historically. We will combine this with an ongoing focus on our core competencies, which have driven our past successes and will enable us to look forward with our usual cautious optimism toward another successful year.

As usual I would like to extend my thanks to the management team and to our talented employees for their dedication to the continued growth and success of Mediterranean Bank.

Mark A. Watson
Chief Executive Officer

29 July 2015

Statement of Compliance with the Principles of Good Corporate Governance

Introduction

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

Compliance with the Code

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

The Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 March 2015, the Board consisted of three non-executive members and four executive members. On 30 June 2014, Mr Finlay McFadyen, one of the independent non-executives directors resigned as director of the Bank. Taking into account certain factors such as the size of the Bank, the size of the Board and the balance of skills and experience represented by its members, these are considered to be appropriate for the requirements of the business of the Bank.

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

Principle 2: Chairman and Chief Executive

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

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

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

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

Functioning of the Board

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

- defines the Bank's strategy, policies, management performance criteria and business policies;
- ensures the proper functioning of the Audit Committee;
- establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information;
- assesses and monitors the Bank's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- evaluates management's implementation of the Bank's corporate strategy and financial objectives using key performance indicators;

Functioning of the Board (continued)

- ensures that the Bank has appropriate policies and procedures in place to enable the Bank and its staff to comply with the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards; and
- ensures that the financial statements of the Bank and the annual audit of such statements are completed within the stipulated time periods.

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

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

Board of Directors

Since the date of the previous annual general meeting of the Bank, 16 Board meetings were held, including 11 regularly scheduled meetings and 5 telephone conference calls.

		Meetings attended %
Francis J. Vassallo	Chairman and Independent Non-Executive Director	88%
Frederick Mifsud Bonnici	Independent Non-Executive Director (appointed on 29 May 2014)	100%
Benjamin Hollowood	Non-Executive Director	100%
Mark A. Watson	Executive Director – Chief Executive Officer	100%
Henry C. Schmeltzer	Executive Director – Head of Commercial Strategy and Legal	100%
Joaquin Vicent	Executive Director – Head of Treasury and Investment	100%
Vincent Chatard	Executive Director – Chief Business Development Officer	94%
Finlay S. McFadyen	Independent Non-Executive Director (resigned on 30 June 2014)	100%

Committees of the Board

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

Board Committees

A. Audit Committee

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

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

The members of the Audit Committee are:

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

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

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

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

During the year ended 31 March 2015 four meetings of the Bank's Audit Committee were held. The Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and a representative of the External Auditors attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

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

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

Board Committees (continued)

C. Board Risk Committee

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

The current members of the Risk Committee are:

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

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

- reviews and approves changes to the Bank's risk policy and procedures;
- ensures that the risk functions are appropriately resourced and structured to meet their obligations and are working effectively to maintain an effective control environment;
- reviews any violations to the lending limits;
- reviews the product distribution strategy, including product structure, pricing and targeting; and
- monitors:
    - the effectiveness of risk management processes implemented in support of risk policies;
    - portfolio risk and sector concentration risk, including evolution of the risk profile against plan;
    - credit quality trends;
    - provision levels;
    - interest rate, currency and other market risk;
    - liquidity risk;
    - operational risk; and
    - contingent exposures.

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

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

Board Committees (continued)

D. 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 Board Executive Committee are:

Mark A. Watson	Chairman and Executive Director – Chief Executive Officer
Henry C. Schmeltzer	Member and Executive Director – Head of Commercial Strategy and Legal
Vincent Chatard	Member and Executive Director – Chief Business Development Officer

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

Principal Management Committees

A. Executive Management Committee ("EXCO")

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

The members of the EXCO include the Bank's Chief Executive Officer (Committee Chairman), Head of Commercial Strategy and Legal Affairs, Head of Treasury and Investment, Chief Business Development Officer, Chief Financial Officer, Chief Risk Officer, Head of Operations, Chief Officer- MedCorp, Chief Officer – MeDirect and Head of Administration and Human Resources. The EXCO meets three times each month.

B. Management Credit Committee

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

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

Principal Management Committees (continued)

C. Asset and Liability Committee ("ALCO")

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

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

D. New Customer Products 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 provides its recommendations to the Executive Management Committee including the appropriate policies, procedures and controls that should be adopted in relation to any such new product.

The members of the New Customer Products Committee are the Chief Business Development Officer, Head of Project Management, Head of Client Service Group, Head of Treasury and Investment, Chief Risk Officer, Head of Risk Architecture, Chief Financial Officer, Head of Operations, Head of Back Office and Settlements, Head of Middle Office Operations, Head of Quality Control, General Counsel and Head of Compliance, Head of IT and Head of Business Administration.

E. Treasury Services Committee

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

The members are Head of Treasury and Investment, Chief Business Development Officer, Head of Back Office and Settlements, Head of Operations, Chief Officer – MeDirect, Head of Risk Architecture, General Counsel and Head of Compliance, Head of Banking and Trading Services, Head of Project Management and Head of Middle Office Operations.

Code Provision 4.2.7 - Succession Planning

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

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

Principle 6: Information and Professional Development

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

Principle 7: Evaluation of the Board's performance

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

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

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

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

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

Principle 11: Conflicts of Interest

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

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

Principle 12: Corporate Social Responsibility

During the year ended 31 March 2015, MedBank proudly continued to support and promote Maltese sportive, cultural, and charitable causes and events. The Bank's commitment to these initiatives was once again established through the various sponsorships and donation agreements that support a wide variety of community organisations.

Sports

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

The Bank is also present in Gozo where the Bank sponsors the Otters Water Polo Club on a yearly basis.

In 2014, MedBank was also one of the main sponsors of the Cystic Fibrosis Marathon that was organised to raise funds for research.

Principle 12: Corporate social responsibility (continued)

Maltese Heritage

The preservation of Malta's national heritage is also important to the Bank and to this end it has supported a number of organisations and initiatives. These include Fondazzjoni Dun Nerik and the Valletta Local Council Christmas lights. The Bank also sponsored the Gozo Art Exhibition.

Music and Performing Arts

As part of the Bank's on-going corporate social responsibility programme and commitment, it also continues to support and promote the music and performing arts scene. In line with this commitment, the Bank is once again the main benefactor of the Manoel Theatre for the coming 2015 – 2016 season. The Bank sponsored the 2014 Toi Toi Pantomime for Orphans show.

The Bieganski Art Exhibition which was held for a whole month during August was also a very prestigious exhibition that the Bank has supported. Also as a continuous support to the Malta Philharmonic Orchestra ('MPO'), in 2014 MedBank sponsored a Cello as part of the innovative sponsorship programme by the MPO where sponsorships were split into individual instruments.

The Bank once again was the main sponsor of the Malta Eurovision Song Festival which took place in November 2014. Furthermore, MedBank together with its subsidiary MedCorp were the main sponsors of the Junior Eurovision Song Contest,that was won by Malta in the prior year and thus took place in Malta in October 2014.

Youth and charity

The Bank also sponsored a number of youth events and organisations, amongst which the Salesians Brigade Book Fair, the Oasi Rehabilitation Centre in Gozo, the National Blood Transfusion Centre, and the Soirees of St. Dorothy's and St Aloysius.

A new initiative for the Bank was the sponsorship of the Bank's staff members that joined the Mission Fund on a trip to Africa for missionary work.

The Bank is proud of its continued support to the Lady Bird foundation and in fact once again chose this foundation to be the beneficiary of its annual Christmas charity campaign this year. The Bank also maintained its yearly appointment and presented a donation to the President's Community Chest Fund Campaign L-Istrina, on behalf of MedBank and MedCorp.

Last but not least, upon staff initiative and supported by the Bank, donations were made to the Creche, and the Dar Frate Jakoba, two organisations that help young people integrate in society.

Education

As part of the Bank's collaboration towards the promotion of reading amongst children, MedBank took part in the Literacy Project that was organised by the Ministry of Education. The Bank also contributed in the refurbishment of the Valletta Primary School Library through new flooring, equipment, shelving and books.

Listing Rules

At each meeting, the Audit Committee receives notices of and approves all related party transactions and balances.

Other Disclosures

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 provides maintenance services in respect of such applications.

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.

Licence and hosting agreement

On 9 December 2011, the Bank entered into a computer software licence and hosting agreement with MBA Systems Limited ("MBA"), pursuant to which MBA licensed to the Bank for use in Malta its Internet Broker IB.Net application and related software and to provide maintenance and hosting services in respect of such applications.

On 19 March 2013, the Bank entered into a further contract with MBA extending the licence and hosting agreement to the Bank's Belgian operations and extending both contracts to 26 November 2015.

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 licence 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 licence 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.

Other Disclosures (continued)

Consulting and information services

On 1 June 2011, the Bank entered into an agreement with Morningstar Associates Europe Limited ("Morningstar") whereby Morningstar provides consulting services to the Bank in respect of the Bank's wealth management and portfolio planning services.

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.

On 21 May 2012, the Bank entered into an agreement with Morningstar UK Ltd. to license certain Morningstar data feed information for use by the Bank in Malta.

Asset administration agreement

On 25 June 2013, the Bank entered into an asset administration agreement with Virtus Group LP, pursuant to which Virtus Group LP performs certain administrative and other functions relating to its loan portfolio as requested.

Management's internal controls over financial reporting

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

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

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

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

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

29 July 2015

Mediterranean Bank plc

Directors' Report

For the year ended 31 March 2015

The directors present their annual report of Mediterranean Bank plc (the "Bank" or "MedBank") and the Bank and its subsidiaries ("the Group" or "MedBank Group") for the year ended 31 March 2015. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

During the financial year ended 31 March 2015, the MedBank Group included the following subsidiaries: Mediterranean Corporate Bank Limited, a company established in Malta, Mediterranean Research Limited, a company established in the United Kingdom which was liquidated on 2 May 2014, Medifin Estate, a partnership established in Malta, MeDirect branch established in Belgium and which terminated its operations towards the end of May 2015 and transferred its operations to the credit institution licensed in Belgium, and Grand Harbour I B.V. established in The Netherlands.

Board of Directors

In accordance with the Bank's Articles of Association, during the Annual General Meeting to be held on 29 July 2015, all the directors serving at that time will retire and may offer themselves for reappointment.

The directors of the Bank who held office throughout the year ended 31 March 2015 were:

Francis J. Vassallo - Chairman
Mark A. Watson - Chief Executive Officer
Benjamin Hollowood
Finlay S. McFadyen (resigned on 30 June 2014)
Frederick Mifsud Bonnici (appointed on 29 May 2014)
Henry C. Schmeltzer
Joaquin Vicent
Vincent Chatard

Presentational changes in Financial Statements

For the first time, the Bank's results reflect the consolidated position of the Bank and its principal subsidiary, Mediterranean Corporate Bank Limited ("MedCorp"), that was acquired during the financial year under review. These financial statements report the consolidated financial results of MedBank for the financial year ended 31 March 2015 and the financial results of MedCorp (previously Volksbank Malta Limited) following the latter company becoming the principal subsidiary of the Bank on 25 September 2014.

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

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

Principal activities

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

The Bank is licensed by the Malta Financial Services Authority (MFSA) in terms of the Banking Act 1994, (Chapter 371, laws of Malta) amongst other things, to carry out the business of banking, to undertake money transmission services, to issue and administer means of payment, to issue guarantees and commitments, to trade on own account and / or for the account of customers in a number of instruments, to provide portfolio management and advice and to provide safe keeping services. The Bank also holds a Category 2 licence and a Category 4 licence issued by the MFSA which authorise the Bank to provide investment services, to hold or control customers' money and to act as trustee or custodian of collective investment schemes.

Principal activities (continued)

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

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

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

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

Business review

The MedBank Group is made up as follows:

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

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

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

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

The Group recorded a profit before tax for year ended 31 March 2015 of €34.5 million (2014: €29.9 million) representing an increase of 15%.

Business review (continued)

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

The Group's total operating income for the year ended 31 March 2015 was €75.1 million (2014: €63.8 million). This was driven by the Group's treasury operations and its Lending Portfolio which, combined with its low cost base and customer service, have enabled the Group to position itself as a leading provider of savings and term deposit products, primarily in the Maltese and Belgian markets.

The Group continued to build its corporate lending activities both internationally and domestically. As of 31 March 2015, the Bank's investment portfolio stood at €1.5 billion (2014: €1.4 billion). The fair value of the AFS book was risk managed through interest rate derivatives such as interest rate swaps where the hedge accounting methodology under IAS 39 was adopted. During the month of December 2014, Medbank reclassified its held-to-maturity financial assets portfolio into available-for-sale investments as a result of changes in MedBank's intentions. Therefore, as at 31 March 2014, MedBank's treasury portfolio also included held-to-maturity securities amounting to €983.9 million net of collective impairment loss of €0.5 million.

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

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

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

Previously, as part of the Group's funding strategy, MedBank set up GH I, a non-derecognised controlled entity since the Group retained all the risks and rewards of the structure. In February 2015 and March 2015 the Bank repurchased €70 million Senior Secured Floating Rate notes that originally were due to mature by 2026. Subsequent to 31 March 2015, the Group repurchased/redeemed all outstanding Senior Secured Floating Rate notes pertaining to this structure.

Business review (continued)

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

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

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

Shareholders' equity at the reporting date amounted to €169.3 million (2014: €135.2 million).

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

Strategic development

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

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

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

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

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

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

Strategic development (continued)

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

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

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

Dividends and reserves

No interim dividends were declared and paid during the financial year. A final dividend of €7.0 million (2014: €19.4 million) in the form of a bonus issue equivalent to 6 cents per ordinary share is proposed for approval at the annual general meeting subject to regulatory approval.

Retained earnings as at 31 March 2015 amounted to €29.2 million (2014: €19.5 million).

Standard licence conditions applicable under the Investment Services Act

In accordance with SLC 7.35 of 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 applicable under the Investment Services Act. Accordingly, the directors confirm that no breaches of standard licence conditions and no other breach of regulatory requirements under the Investment Services Act, which were subject to administrative penalty or regulatory sanction, were reported.

Outlook and future business developments

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

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

Outlook and future business developments (continued)

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

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

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

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

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

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

Related parties

During the year ended 31 March 2015, other than the transactions described under note 39 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 March 2014. During this financial year, no related party transactions materially affected the financial position or liquidity of the Group, with the exception of dividend payment, increase in share capital, movements in shareholders' contribution and loan agreements with group companies, as described in notes 27, 28 and 39.

Events after the reporting date

Regulatory supervision

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

Events after the reporting date (continued)

The Bank's commitment to the further strengthening of the controls and corporate governance of the Group will be reinforced by the SSM process. It is also a good opportunity to continue strengthening the reputation of the Group both in Malta and internationally. The Group is confident that it will meet the high expectations of the ECB.

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

MeDirect

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

Subordinated liabilities and debt securities in issue

Subsequent to the end of the financial reporting period, the Group repurchased/redeemed all the outstanding Senior Secured Floating Rate notes issued by the non-derecognised controlled entity.

Subsequent to year end, the Bank bought back a further €34,900 nominal value of its 6.25% Bonds due 2015 through market operations.

As previously described above, €7.0 million is proposed for distribution from the retained earnings as a final dividend by way of a bonus share issue subject to regulatory approval. This will transfer substantially all retained earnings as permanent capital.

There were no other 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, financial position and solvency together with the capital adequacy ratio at a Medifin Holding Limited (parent company of Medbank) consolidated level, 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

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

Mediterranean Bank plc

Directors' Report

For the year ended 31 March 2015

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 subsidiary included in the consolidated financial statements and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiary included in the consolidated financial statements, together with a description of the principal risks and uncertainties that it faces.

Approved by the Board of Directors on 29 July 2015 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

Mediterranean Bank plc

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" or "MedBank") to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and its subsidiaries ("the Group") as at the end of the financial year and of the profit or loss of the Bank and the Group for that year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the 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 and the Group establish and maintain internal controls to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and to maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Group's business. This responsibility includes establishing and maintaining controls pertaining to the 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 to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

29 July 2015

Remuneration Report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee ("NRC") is to review remuneration levels in 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 remuneration levels and the 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:

Francis J. Vassallo	Committee Chairman/Independent Non-Executive Director/Board Chairman
Benjamin Hollowood	Non-Executive Director

Mr Finlay McFadyen resigned as director of the Board and member of the NRC on 30 June 2014.

During the year ended 31 March 2015, the NRC met once and this meeting was attended by all members of the NRC.

Remuneration policy statement

The Board is responsible for ensuring that this statement and its contents adhere to all laws, rules and regulations issued by the Malta Financial Services Authority, particularly Banking Rule BR/12, and international regulations incorporated in the Capital Requirement Directive. The Board, directly and through the NRC, carries out effective monitoring and evaluation of the Bank's remuneration system on an on-going basis. The NRC and the Board monitor the on-going 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 consists of base salary 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 on a continuing basis in risk management are taken into account when determining performance-based remuneration for all employees. Other non-financial factors shall also be considered such as skills acquired, personal development, commitment to the Bank's business strategies and 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 in order to ensure that the Bank is able to attract skilled individuals for such roles.

Remuneration policy statement (continued)

During the year ended 31 March 2015, the Bank's remuneration policy was amended and now includes "clawback" provisions applicable to all staff where it is possible for the Bank to clawback variable performance related pay if respective employees were responsible for circumstances that resulted in significant losses to the Bank or in situation where the most appropriate standards of fitness and propriety were not met.

The Bank does not intend to effect any changes in its remuneration policy for the following financial year.

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

Base pay is expected to 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 in respect of control function responsibilities. Control function employees are compensated in accordance with their own performance and not in accordance with 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. In addition, the Bank has established an employee benefit trust enabling employees other than senior members of management to participate in this incentive.

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 Bank level based on the success of the Bank in meeting its business objectives. These objectives relate, amongst other things, to profitability, sustainability of performance, risk management, building of business lines and creation of long-term shareholder value.

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. Whilst the general bonus pool of the Bank will be based on the Bank's financial results, compensation of control functions is not directly tied to the results of any business unit.

Remuneration Report

Non-Cash benefits relate to the gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Bank on behalf of the directors.

Employment contracts - executive directors

All the executive directors as of 31 March 2015 were engaged under indefinite employment contracts.

Remuneration policy – senior management

Total emoluments received by eleven senior management (excluding directors), during the year ended 31 March 2015, are reported below:

	€	%
Fixed remuneration	**1,574,616**	59%
Variable remuneration	**1,052,296**	40%
Non-cash benefits	**30,411**	1%
	2,657,323	100%

Non-cash benefits relate to health and life insurance premiums paid by the Bank on behalf of its senior management.

Termination payments

During the year ended 31 March 2015, there were no new sign-on and severance payments made either to directors or members of senior management of the Bank.

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

29 July 2015

Staff savings account

All of the Malta-based Bank's employees are entitled to make monthly deposits of specified amounts direct from after tax payroll into an employee 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. On such date, amounts remaining in such savings accounts may be withdrawn and the terms of such accounts may be reset.

Long-term incentive plan ("LTIP")

The Bank's immediate parent company has established a LTIP for the benefit of senior management and other employees of the Bank. The LTIP enables senior managers and other employees to participate in the long-term value and profitability of the Bank.

Identified Staff

The target population defined as Identified Staff for the purposes of this report represents 6% of the total number of employees in the Group. Identified staff was determined in line with the EBA Final Draft Regulatory Technical Standards EBA/RTS/2013/11 dated 16 December 2013 and includes:

- Executive directors that are also responsible for certain business units; and
- Senior management responsible for business units/business lines or Finance, Administration and Human Resources.

Other roles that qualified under the Group remuneration policy as Responsible Persons, Material Risk Takers or Risk Management and control staff, but did not qualify as Identified Staff in terms of Article 4.2 (a) and 9b) of the EBA regulatory Technical Standards have been omitted.

For the purposes of remuneration, Identified staff have been aggregated and split into business areas according to the EBA guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014. The following tables therefore includes total fixed and variable remuneration and number of beneficiaries per and within each business area.

	Supervisory function	Management function	Investment banking and wealth management	Retail banking	Corporate functions	Independent control functions
Number of identified staff	3	4	2	3	3	3
Total fixed remuneration (€)	133,750	1,081,302	316,450	442,842	318,290	497,034
Total variable remuneration (€)	0	1,155,000	361,974	314,540	90,000	285,782

Remuneration policy – directors

Based on the recommendations of the NRC, the directors' fees earned by three of the non-executive directors for the year ended 31 March 2015 amounted to €133,000.

Total emoluments earned by four executive directors of the Bank during the year ended 31 March 2015, are reported below:

	€	%
Fixed remuneration	**1,081,302**	44%
Variable remuneration	**1,155,000**	47%
Non-cash benefits	**229,020**	9%
	2,465,322	100%

Statements of Financial Position
As at 31 March 2015

		Group	Bank	
		2015	2015	2014
	Notes	€000	€000	€000
ASSETS				
Balances with Central Banks,				
treasury bills and cash	15	**14,384**	**14,068**	18,091
Derivative assets held for risk management	16	**3,197**	**3,197**	404
Derivative assets held for trading	17	**-**	**-**	404
Loans and advances to financial institutions	18	**167,775**	**174,157**	87,714
Loans and advances to customers	19	**1,047,194**	**978,845**	621,747
Investments				
- Corporate	20	**98,440**	**98,440**	293,235
- Treasury	20	**1,405,022**	**1,405,022**	1,134,102
- Subsidiaries	21/22	**-**	**57,715**	1
Property and equipment	23	**1,452**	**1,363**	1,908
Intangible assets	24	**63**	**60**	128
Deferred tax assets	25	**4,189**	**-**	3,764
Prepayments and accrued income	26	**21,305**	**20,675**	23,262
Other assets	27	**20,542**	**20,904**	18,888
Total assets		**2,783,563**	**2,774,445**	2,203,648

The notes on pages 33 to 142 are an integral part of these financial statements.

Statements of Financial Position
As at 31 March 2015

	Notes	Group 2015 €000	Bank 2015 €000	Bank 2014 €000
EQUITY				
Called up issued share capital	28	**117,450**	**117,450**	98,050
Share premium	28	**13,464**	**13,464**	13,464
Shareholders' contributions	28	**2,103**	**2,103**	9,750
Reserve for general banking risks	28	**1,029**	**660**	91
Fair value reserve	28	**6,022**	**28,436**	(5,691)
Retained earnings	28	**29,197**	**7,113**	19,496
Total equity		**169,265**	**169,226**	135,160
LIABILITIES				
Derivative liabilities held for risk management	16	**5,200**	**5,230**	2,973
Amounts owed to financial institutions	29	**1,166,091**	**1,166,347**	1,008,976
Amounts owed to customers	30	**1,205,586**	**1,196,752**	776,715
Debt securities in issue	31	**157,137**	**157,137**	230,127
Subordinated liabilities	32	**47,777**	**47,777**	22,385
Current tax liabilities		**4,110**	**3,968**	10,794
Deferred tax liabilities	25	**1,901**	**1,901**	-
Accruals and deferred income	33	**24,600**	**24,466**	15,409
Other liabilities	34	**1,896**	**1,641**	1,109
Total liabilities		**2,614,298**	**2,605,219**	2,068,488
Total equity and liabilities		**2,783,563**	**2,774,445**	2,203,648
Memorandum items				
Contingent assets	19/20	**82,392**	**82,392**	27,700
Contingent liabilities and financial commitments	19/36-38	**95,199**	**78,160**	3,665

The notes on pages 33 to 142 are an integral part of these financial statements.

The financial statements on pages 25 to 142 were approved and authorised for issue by the Board of Directors on 29 July 2015 and signed on its behalf by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

Mediterranean Bank plc

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

	Notes	Group 2015 €000	Bank 2015 €000	Bank 2014 €000
Interest income		**73,979**	**72,532**	64,567
Interest expense		**(40,156)**	**(40,077)**	(33,589)
Net interest income	7	**33,823**	**32,455**	30,978
Fee and commission income				
– Corporate lending fees		**730**	**730**	1,245
– Other		**1,510**	**1,342**	633
Fee and commission expense				
– Corporate lending fees		**(176)**	**(230)**	(230)
– Other		**(1,042)**	**(914)**	(1,014)
Net fee and commission income	8	**1,022**	**928**	634
Net trading income	9.1	**417**	**388**	2,292
Net (loss)/income from financial instruments at fair value through profit or loss	9.2	**(4,154)**	**(4,166)**	1,883
Other operating income				
– Realised gains on disposal of investments	9.3	**21,025**	**21,020**	24,914
– Realised gains on disposal of loans and advances		**486**	**486**	2,615
– Gain on the initial accounting of a subsidiary		**22,414**	**-**	-
– Other income	9.4	**82**	**60**	499
Total operating income		**75,115**	**51,171**	63,815
Personnel expenses	10	**(15,767)**	**(15,018)**	(13,785)
Depreciation and amortisation	23/24	**(914)**	**(707)**	(877)
Other administrative expenses	11	**(19,716)**	**(19,618)**	(17,186)
Total operating expenses		**(36,397)**	**(35,343)**	(31,848)
Net operating income before impairment charges		**38,718**	**15,828**	31,967
Net impairment loss on financial assets	12	**(4,265)**	**(4,006)**	(2,081)
Profit before tax		**34,453**	**11,822**	29,886
Income tax expense	13	**(4,414)**	**(4,236)**	(10,490)
Profit for the year		**30,039**	**7,586**	19,396
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Fair value reserve (available-for-sale financial assets):				
- Net change in fair value		**37,192**	**37,192**	1,457
- Net amount transferred to profit or loss		**(19,172)**	**(19,173)**	(24,948)
Related tax on Other Comprehensive Income		**(6,307)**	**(6,306)**	8,222
Fair value movement on a subsidiary		**-**	**22,414**	-
Other comprehensive income, net of tax		**11,713**	**34,127**	(15,269)
Total comprehensive income, net of tax		**41,752**	**41,713**	4,127
Earnings per share	14	**26c**		23c

The notes on pages 33 to 142 are an integral part of these financial statements.

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

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000
Balance at 1 April 2014	98,050	13,464	9,750	91	(5,691)	19,496	135,160
Total comprehensive income							
Profit for the year	-	-	-	-	-	30,039	30,039
Other comprehensive income, net of tax:							
Fair value reserve (Available-for-sale financial assets):							
- Net change in fair value	-	-	-	-	24,536	-	24,536
- Net amount transferred to profit or loss	-	-	-	-	(12,823)	-	(12,823)
Total other comprehensive income, net of tax	-	-	-	-	11,713	-	11,713
Total comprehensive income, net of tax	-	-	-	-	11,713	30,039	41,752
Contributions and distributions:							
Shareholders' contributions (Note 28)	-	-	(7,647)	-	-	-	(7,647)
Dividends to equity holders (Note 28)	19,400	-	-	-	-	(19,400)	-
Total contributions and distributions	19,400	-	(7,647)	-	-	(19,400)	(7,647)
Transfer to Reserve for general banking risks	-	-	-	938	-	(938)	-
Balance at 31 March 2015	**117,450**	**13,464**	**2,103**	**1,029**	**6,022**	**29,197**	**169,265**

The notes on pages 33 to 142 are an integral part of these financial statements.

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

Bank	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000
Balance at 1 April 2013	62,350	13,464	8,500	-	9,578	21,191	115,083
Total comprehensive income							
Profit for the year	-	-	-	-	-	19,396	19,396
Other comprehensive income, net of tax:							
Fair value reserve (Available-for-sale financial assets):							
- Net change in fair value	-	-	-	-	947	-	947
- Net amount transferred to profit or loss	-	-	-	-	(16,216)	-	(16,216)
Total other comprehensive income, net of tax	-	-	-	-	(15,269)	-	(15,269)
Total comprehensive income, net of tax	-	-	-	-	(15,269)	19,396	4,127
Contributions and distributions:							
Issue of share capital (Note 28)	14,700	-	-	-	-	-	14,700
Shareholders' contributions (Note 28)	-	-	1,250	-	-	-	1,250
Dividends to equity holders (Note 28)	21,000	-	-	-	-	(21,000)	-
Total contributions and distributions	35,700	-	1,250	-	-	(21,000)	15,950
Transfer to Reserve for general banking risks	-	-	-	91	-	(91)	-
Balance at 31 March 2014	**98,050**	**13,464**	**9,750**	**91**	**(5,691)**	**19,496**	**135,160**

The notes on pages 33 to 142 are an integral part of these financial statements.

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

Bank	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Fair value reserve €000	Retained earnings €000	Total €000
Balance at 1 April 2014	98,050	13,464	9,750	91	(5,691)	19,496	135,160
Total comprehensive income							
Profit for the year	-	-	-	-	-	7,586	7,586
Other comprehensive income, net of tax:							
Fair value reserve (Available-for-sale financial assets):							
- Net change in fair value	-	-	-	-	24,175	-	24,175
- Net amount transferred to profit or loss	-	-	-	-	(12,462)	-	(12,462)
Gain on acquisition of subsidiary	-	-	-	-	22,414	-	22,414
Total Other Comprehensive Income, net of tax	-	-	-	-	34,127	-	34,127
Total comprehensive income, net of tax	-	-	-	-	34,127	7,586	41,713
Contributions and distributions:							
Shareholders' contributions (Note 28)	-	-	(7,647)	-	-	-	(7,647)
Dividends to equity holders (Note 28)	19,400	-	-	-	-	(19,400)	-
Total contributions and distributions	19,400	-	(7,647)	-	-	(19,400)	(7,647)
Transfer to Reserve for general banking risks	-	-	-	569	-	(569)	-
Balance at 31 March 2015	**117,450**	**13,464**	**2,103**	**660**	**28,436**	**7,113**	**169,226**

The notes on pages 33 to 142 are an integral part of these financial statements.

Statements of Cash Flows
For the Year Ended 31 March 2015

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Cash flows from operating activities			
Interest and commission receipts	**105,852**	**104,206**	78,759
Interest and commission payments	**(37,621)**	**(36,963)**	(30,256)
Payments to employees and suppliers	**(35,617)**	**(33,862)**	(29,064)
Operating profit before changes in operating assets/liabilities	**32,614**	**33,381**	19,439
(Increase)/decrease in operating assets:			
- Reserve deposit with Central Banks	**(1,551)**	**(1,551)**	(855)
- Loans and advances to financial institutions and customers	**(325,644)**	**(338,264)**	(200,665)
- Investments	**(255,353)**	**(255,360)**	(670,319)
Increase/(decrease) in operating liabilities:			
- Amounts owed to financial institutions and customers	**376,008**	**384,160**	290,750
Tax paid	**(11,735)**	**(11,703)**	(7,960)
Net cash used in operating activities	**(185,661)**	**(189,337)**	(569,610)

Statements of Cash Flows
For the Year Ended 31 March 2015

	Note	Group 2015 €000	Bank 2015	2014 €000
Net cash from operating activities		**(185,661)**	**(189,337)**	(569,610)
Cash flows from investing activities				
Acquisition of subsidiary		**(35,300)**	**(35,300)**	-
Acquisition of property and equipment		**(54)**	**(44)**	(171)
Disposal of property and equipment		**25**	**-**	9
Acquisition of intangible assets		**(50)**	**(50)**	(34)
Acquisition of available-for-sale assets		**(722,352)**	**(722,352)**	(335,871)
Disposal/redemption of available-for-sale assets		**987,220**	**968,504**	1,126,144
Derivative instruments held for risk management		**(37,087)**	**(34,709)**	(4,851)
Net payments to parent company		**-**	**-**	(15)
Net payments from group companies		**107**	**(53)**	(5,329)
Net cash from investing activities		**192,509**	**175,996**	779,882
Cash flows from financing activities				
Proceeds from issue of share capital		**-**	**-**	14,700
Proceeds from shareholders' contribution		**8,853**	**8,853**	1,250
Capital contribution paid to shareholder		**(16,500)**	**(16,500)**	-
Proceeds from issue of debt securities		**-**	**-**	237,359
Re-purchase of debt securities		**(75,204)**	**(75,204)**	(22,912)
Net proceeds from issue of debt securities		**-**	**-**	9,907
Issue of subordinated liabilities		**25,037**	**25,037**	-
Net cash (used in)/from financing activities		**(57,814)**	**(57,814)**	240,304
Net (decrease)/increase in cash and cash equivalents		**(50,966)**	**(71,155)**	450,576
Cash and cash equivalents acquired through business combination		**(26,007)**	**-**	-
Cash and cash equivalents at beginning of year		**(125,246)**	**(125,246)**	(575,822)
Cash and cash equivalents at end of year	35	**(202,219)**	**(196,401)**	(125,246)

The notes on pages 33 to 142 are an integral part of these financial statements.

1 Reporting entity

Mediterranean Bank plc (the "Bank" or "MedBank") is domiciled and incorporated in Malta. The address of the Bank's registered office is 10, St. Barbara Bastion, Valletta, VLT 1961, Malta.

These financial statements report the financial results of MedBank for the financial year ended 31 March 2015 and the consolidated financial results of MedBank and MedCorp (previously Volksbank Malta Limited) (collectively referred to as a "Group"). In the comparative year the Bank had immaterial subsidiaries and as a result the consolidated financial statements of the Group had not been presented.

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

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

On 7 June 2013, the Bank established Grand Harbour I B.V. ("GH I"), an unrecognised controlled entity, to issue notes secured by clearly identified assets. The Bank has retained substantially all risks and rewards of assets, liabilities and related income and expenditure, and as such, all assets, liabilities and related income and expenditure have been recognised within the Bank's individual and consolidated financial statements (Note 31.2). On 5 June 2015, MedBank as holder of the Subordinated Notes of GH I notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes were redeemed at par in July 2015.

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

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

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. The principal accounting policies applied in the preparation of these financial statements are set out below and in the relevant notes to the financial statements.

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

Except for the introduction of new and revised standards disclosed in note 2.5.2, there were no other new standards that were adopted during the financial year ended 31 March 2015.

2 Basis of preparation (continued)

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised prospectively.

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

2 Basis of preparation (continued)

2.5 Changes in accounting policies

2.5.1 Change in valuation of investment in subsidiaries

Previously, investment in subsidiaries were accounted for in the separate financial statements of the Bank at cost less impairment.

During the current reporting period the Bank effected a change in accounting policy whereby, in the separate financial statements of the Bank, the investment in subsidiaries started being treated as available-for-sale financial assets with changes in fair value being taken to 'Other Comprehensive Income'.

It is the opinion of the directors that this change in accounting policy will better reflect the financial performance of its principal subsidiary, MedCorp that was acquired in September 2014, in the total comprehensive income of the parent Bank.

This change in accounting policy was applied retrospectively from the beginning of the earliest period presented i.e. 1 April 2013, but this change in accounting policy did not have any effect on previous years due to the immateriality of the subsidiaries held by the Bank in prior years.

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 April 2014.

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

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

B) Consolidated Financial Statements (IFRS 10)

During the financial year ended 31 March 2015, the Group adopted IFRS 10. This standard which came into effect on 1 January 2014 and therefore applicable to the Group during the financial period starting 1 April 2014, introduced a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. The introduction of this standard did not have a material impact on the financial statements.

2.6 Comparative amounts

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

3 Significant accounting policies

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

3.1 Basis of consolidation

3.1.1 Business combinations

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

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

3.1.2 Subsidiaries

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

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

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

3.1.3 Loss of control

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

3.1.4 Transactions eliminated on consolidation

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

3.1.5 Foreign currency transactions

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

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

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

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

3 Significant accounting policies (continued)

3.2 Interest

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

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

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income include:

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

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

3.3 Fee and commission income and expenses

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

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

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

3 Significant accounting policies (continued)

3.4 Net trading income

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

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

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

3.6 Other operating income

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

3.7 Lease payments - Lessee

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

3.8 Income tax

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

3.8.1 Current tax

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

3 Significant accounting policies (continued)

3.8 Income tax (continued)

3.8.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised for deductible temporary differences, such as unused tax losses and unused tax credits, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

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

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

3.8.3 Tax exposure

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities

3.9.1 Recognition

The Group initially recognises loans and advances to customers at the date of transfer of beneficial ownership. Investments and derivative assets and liabilities held for risk management are recognised on date of settlement. Debt securities issued deposits, and subordinated liabilities are recognised on the date that they are originated. All other financial instruments, including regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

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

3.9.2 Classification

Financial assets

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

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

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

Financial liabilities

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

See accounting policy 3.11, 3.12, 3.13 and 3.20.

3.9.3 Derecognition

Financial assets

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.3 Derecognition (continued)

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

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

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

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

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

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

Financial liabilities

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.4 Offsetting

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

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

3.9.5 Amortised cost measurement

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

3.9.6 Fair value measurement

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

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

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

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

3.9.6 Fair value measurement (continued)

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

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

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

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

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that a loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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

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

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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

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

The Group evaluates whether a loss event, including financial difficulties, has an impact on the estimated future cash flows of the financial asset. Accordingly, future estimated cash flows may need to be reduced or delayed, normally implying a decrease of their estimated present value and thus giving rise to an impairment loss which must be recognised.

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

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

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

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

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

3 Significant accounting policies (continued)

3.9 Financial assets and financial liabilities (continued)

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

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

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

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

3.9.8 Designation at fair value through profit or loss

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

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

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

3.10 Cash and cash equivalents

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

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

3 Significant accounting policies (continued)

3.11 Trading assets and liabilities

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

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

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

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

3.12 Derivatives held for risk management purposes and hedge accounting

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

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

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

These hedging relationships are discussed below:

3 Significant accounting policies (continued)

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

3.12.1 Fair value hedges

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

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

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

3.12.2 Cash flow hedges

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

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

3.12.3 Other non-trading derivatives

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

3 Significant accounting policies (continued)

3.13 Embedded derivatives

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

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

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

3.14 Loans and advances

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

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

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

3.15 Investment securities

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

3 Significant accounting policies (continued)

3.15 Investment securities (continued)

3.15.1 Held-to-maturity

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

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

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

3.15.2 Available-for-sale

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

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

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

A non-derivative financial asset may be reclassified from the available-for sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Investment in subsidiaries are presented in the Bank's separate financial statements as available-for-sale financial assets.

3 Significant accounting policies (continued)

3.15 Investment securities (continued)

3.15.3 Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in 3.9.

3.16 Property and equipment

3.16.1 Recognition and measurement

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

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

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

3.16.2 Subsequent costs

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

3.16.3 Depreciation

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

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

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

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

3 Significant accounting policies (continued)

3.17 Intangible assets

The Group's intangible assets mainly represent computer software.

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

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

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

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

3.18 Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units ("CGUs").

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (continued)

3.19 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are important sources of debt funding.

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

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

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

3.20 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, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

3.20.1 Onerous contracts

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

3 Significant accounting policies (continued)

3.21 Financial guarantees and loan commitments

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

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

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

3.22 Employee benefits

The Group contributes towards the State Pension Defined Contribution plan in accordance with legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as personnel expenses in profit or loss.

3.22.1 Termination benefits

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

3.23 Share issue costs

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

3 Significant accounting policies (continued)

3.24 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 Group by the weighted average number of ordinary shares outstanding during the year. The Group does not have any dilutive potential ordinary shares that would otherwise require the presentation of diluted earnings per share. Bonus shares declared and approved after year end are added to the weighted average number of ordinary with no time weighting applied.

3.25 Standards issued but not yet adopted

3.25.1 IFRS as adopted by the EU

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

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

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

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

4 Financial risk management

4.1 Introduction and overview

The Group's core business include:

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

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

The Group also continues to access the international wholesale funding markets through bilateral repo lines and the Eurex repo platform. The asset base of the Bank continued to grow; primarily the Bank's portfolio of international lending activities. The Bank's treasury portfolio also grew during the financial year.

4 Financial risk management (continued)

4.1 Introduction and overview (continued)

As part of the Group's liquidity management, its treasury function is involved in interest rate swaps and forward transactions that are entered into for risk management purposes. Therefore the main risks assumed are: (a) counterparty credit risk arising from loans (b) liquidity risk arising from maturity mismatches; (c) market risk; and (d) operational risk.

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

4.2 Risk management framework

The Group recognises the need to have an effective and efficient risk management function and therefore it has adopted a comprehensive process that provides an appropriate balance between the growth of the Group, maximising its profitability and managing the associated risks.

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

4.3 Credit risk

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

4.3.1 Management of credit risk

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

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

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

The following table provides an analysis of the gross and net impairment exposure of the Group's and Bank's assets that are subject to credit risk:

	Group		Bank			
	As at 31 March 2015		As at 31 March 2015		As at 31 March 2014	
	Gross exposure €000	Net exposure €000	Gross exposure €000	Net exposure €000	Gross exposure €000	Net exposure €000
Balances with Central Banks treasury bills and cash	14,384	14,384	14,068	14,068	18,091	18,091
Derivative assets held for risk management	3,197	3,197	3,197	3,197	404	404
Derivative assets held for Trading	-	-	-	-	404	404
Loans and advances to financial institutions	167,775	167,775	174,157	174,157	87,714	87,714
Loans and advances to customers – Corporate and Municipalities	1,042,692	1,030,583	981,572	977,394	621,222	618,928
Loans and advances to customers – Retail	18,093	16,611	1,451	1,451	2,819	2,819
Investments (excluding equity investments)	1,500,852	1,500,852	1,500,852	1,500,852	1,425,326	1,424,863
Accrued income	17,799	17,799	17,266	17,266	19,164	19,164
Loans to related parties (included in other assets)	20,256	20,256	20,619	20,619	18,145	18,145
	2,785,048	2,783,563	2,713,182	2,709,004	2,193,289	2,190,532
Contingent assets	82,392	82,392	82,392	82,392	27,700	27,700
Financial commitments	91,369	91,369	74,530	74,530	-	-

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

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

Group	Loans and advances to customers €000	Loans and advances to financial institutions €000	Investment securities and treasury bills €000
As at 31 March 2015			
Individually impaired			
Grade 4: Doubtful	38,222	-	-
Gross/revalued amount	38,222	-	-
Allowance for impairment	(9,614)	-	-
Carrying amount	28,608	-	-
Collectively impaired[1]			
Grade 1: Regular	820,535	-	-
Grade 2-3: Focus and Under surveillance	172,882	-	-
Grade 4: Doubtful	22,962	-	-
Gross amount	1,016,379	-	-
Allowance for impairment	(3,977)	-	-
Carrying amount	1,012,402	-	-
Neither past due nor specifically impaired nor collectively impaired			
Grade 1-3: Regular, Focus and Under surveillance	6,184	167,775	1,503,462
Carrying amount	6,184	167,775	1,503,462
Total carrying amount	1,047,194	167,775	1,503,462

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

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

Bank	Loans and advances to customers		Loans and advances to financial institutions		Investment securities and Treasury bills	
	2015	2014	**2015**	2014	**2015**	2014
	€000	€000	**€000**	€000	**€000**	€000
Individually impaired						
Grade 4: Doubtful	**16,164**	10,383	-	-	-	-
Gross/revalued amount	**16,164**	10,383	-	-	-	-
Allowance for impairment	**(1,078)**	(1,422)	-	-	-	-
Carrying amount	**15,086**	8,961	-	-	-	-
Collectively impaired						
Grade 1: Regular	**792,015**	461,118	-	-	-	285,589
Grade 2-3: Focus and Under surveillance	**146,481**	149,721	-	-	-	5,635
Grade 4: Doubtful	**22,179**	-	-	-	-	-
Gross amount	**960,675**	610,839	-	-	-	291,224
Allowance for impairment	**(3,100)**	(872)	-	-	-	(463)
Carrying amount	**957,575**	609,967	-	-	-	290,761
Neither past due nor specifically impaired nor collectively impaired						
Grade 1-3: Regular, Focus and Under surveillance	**6,184**	2,819	**174,157**	87,714	**1,503,462**	1,136,576
Carrying amount	**6,184**	2,819	**174,157**	87,714	**1,503,462**	1,136,576
Total carrying amount	**978,845**	621,747	**174,157**	87,714	**1,503,462**	1,427,337

Amounts receivable from related parties by the Group and the Bank amounting to €20.3 million and €20.6 million (2014: €18.2 million) respectively are neither past due nor specifically impaired.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

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

a) Material exposures which are more than 90 days past due; and

b) The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

Performing

Grade 1: Regular: no material credit concerns.

Grade 2: Focus: no immediate prospect that a loss will ultimately be suffered, but worthy of close attention.

Grade 3: Under Surveillance: significant credit concerns and some prospect that a loss may ultimately be suffered.

Non-performing

Grade 4: Doubtful: likely that the contractual terms of the debt will not be met and that a loss will be suffered.

Grade 5: Write-off: full or partial loss suffered, with little prospect of recovery.

As at 31 March 2015, loans held by MedCorp amounting to €1.7 million were past due by more than 30 days but not impaired and analysed as follows:

	Group 2015 €000
Past Due 31 to 60 days	
Principal	1,659
Interest	12
Past Due 61 to 90 days	
Principal	2
Interest	-
Total	**1,673**

As at 31 March 2015 and 2014, MedBank did not hold any loans that were past due.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.2 Impaired loans and advances and investment securities

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

4.3.3 Past due but not impaired loans

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

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

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

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

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

4.3.5 Allowances for impairment and forbearance

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

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

	Non-forborne exposures €000	Forborne exposures €000	**Total €000**
Group			
As at 31 March 2015			
Neither past due nor impaired	977,202	8,884	**986,086**
Past due by less than 90 days but not impaired	11,612	1,905	**13,517**
Impaired, net of specific impairment allowances	18,037	33,532	**51,569**
Loans and advances, net of specific impairment allowances	1,006,851	44,321	**1,051,172**
Specific impairment allowances	3,417	6,197	**9,614**
Collective impairment allowances	3,527	450	**3,977**

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Allowances for impairment and forbearance (continued)

	Non-forborne exposures €000	Forborne exposures €000	**Total €000**
Bank			
As at 31 March 2015			
Neither past due nor impaired	944,680	-	**944,680**
Impaired, net of specific impairment allowances	15,086	22,179	**37,265**
Loans and advances, net of specific impairment allowances	959,766	22,179	**981,945**
Specific impairment allowances	1,078	-	**1,078**
Collective impairment allowances	3,028	72	**3,100**

Interest income recognised by the Group and the Bank during the financial year ended 31 March 2015 in respect of forborne exposures amounted to €1.4 million and €1.1 million respectively.

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Allowances for impairment and forbearance (continued)

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

As at 31 March 2015 and 2014, the Bank did not hold any loans that were past due.

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

	Group 2015 €000	Bank 2015 €000
Year ended 31 March 2015		
Forborne facilities arising on acquisition of MedCorp	28,812	-
Loans to which forbearance measures have been extended during 2015	22,683	22,618
Capitalised interest	106	106
Repayments	(1,084)	(545)
	50,517	22,179

As at 31 March 2015, specific impairment allowances on forborne loans was equivalent to €6.2 million, of which €5.7 million arising from the business combination. The movement reflects solely increases in allowances in respect of specific exposures. As at 31 March 2015 there were no specific impairment allowances in relation to the Bank's forborne loans.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 *Allowances for impairment and forbearance (continued)*

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

	Neither past due nor impaired 2015 €000	Past due but not impaired 2015 €000	Impaired 2015 €000	Total 2015 €000
Group				
As at 31 March 2015				
Financial services	-	-	382	382
Real estate and construction	8,716	9	12,966	21,691
Manufacturing	-	-	12,303	12,303
Household	168	294	212	674
Other	-	1,602	13,865	15,467
	8,884	1,905	39,728	50,517
Bank				
As at 31 March 2015				
Manufacturing	-	-	12,303	12,303
Other	-	-	9,876	9,876
	-	-	22,179	22,179

The Bank's forborne loans consist of corporate exposures based in the European Union whereas the forborne loans of MedCorp mainly comprise exposures to domestic corporate customers.

4.3.6 *Write-off policy*

The Group writes off a loan or an investment debt security balance and any related allowances for impairment losses, when the relevant Credit Committee of the Banks determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Write off of financial assets by the Group and the Bank during the year amounted to €3.3 million and €2.6 million respectively (2014: nil).

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Collateral

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

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

	Group	
	Non-forborne exposures 2015	Forborne exposures 2015
As at 31 March 2015	**€000**	**€000**
Against individually impaired		
Property	2,842	11,359
Investments	24	-
Other	64	9
Against neither past due nor impaired		
Property	29,346	8,784
Investments	1,698	-
Other	6,122	100
Against past due but not impaired		
Property	11,112	1,801
Investments	196	54
Other	305	-
	51,709	22,107

The above note includes collateralised loans granted by the Bank amounting to €5.4 million that are fully cash collateralised and are therefore included within the "Other" category.

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.8 Exposure to sovereign debt

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

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

In addition as at 31 March 2014, the Group held Treasury bills as disclosed in note 15.

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

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

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Agriculture	**1,036**	-	-
Quarrying	**193**	-	-
Manufacturing	**215,187**	**213,409**	105,163
Construction	**8,654**	**4,000**	4,004
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**29,945**	**26,837**	14,618
Transport and storage	**73,048**	**68,045**	30,468
Accommodation and food service activities	**77,268**	**76,391**	69,298
Financial and insurance activities	**32,421**	**31,618**	10,874
Real estate activities	**37,909**	-	-
Professional, scientific and technical activities	**43,731**	**43,090**	12,190
Administrative and support service activities	**233,720**	**225,462**	112,775
Human health and social work activities	**89,535**	**85,371**	70,023
Arts, entertainment and recreation	**54,633**	**54,454**	-
Public administration and defence and compulsory social security	**50,000**	**50,000**	50,603
Other services activities	**102,896**	**102,896**	141,206
Household and individuals	**10,609**	**1,450**	2,819
Gross loans and advances to customers	**1,060,785**	**983,023**	624,041

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

	Balances with Central Banks, Treasury bills and Loans and advances to financial institutions 2015 €000	Loans and advances to customers 2015 €000	Investments and derivative assets 2015 €000
Group			
Concentration by type			
Carrying amount			
Senior bank obligations	132,159	-	300
Clearing houses	50,000	-	-
Covered bonds	-	-	801,883
Government and regional government securities	-	49,837	215,788
Supranationals and agencies	-	-	256,988
Pooled securities	-	-	-
Secured corporate lending	-	926,570	91,161
Unsecured corporate lending	-	54,176	134,732
Retail secured lending	-	15,057	-
Retail unsecured lending	-	1,554	-
Equity instruments	-	-	2,610
Interest rate swaptions	-	-	76
Foreign exchange swaps	-	-	3,121
Carrying amount	182,159	1,047,194	1,506,659

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

	Balances with Central Banks, Treasury bills and Loans and advances to financial institutions		Loans and advances to customers		Investments and derivative assets	
	2015	2014	**2015**	2014	**2015**	2014
	€000	€000	**€000**	€000	**€000**	€000
Bank						
Concentration by type						
Net carrying amount						
Senior bank obligations	**138,225**	99,624	-	-	**300**	104,580
Clearing houses	**50,000**	-	-	-	-	-
Covered bonds	-	-	-	-	**801,883**	604,822
Government securities	-	5,997	**49,837**	50,603	**215,788**	106,075
Supranationals and agencies	-	-	-	-	**256,988**	312,524
Pooled securities	-	-	-	-	-	6,101
Secured corporate lending	-	-	**873,347**	568,325	**91,161**	248,059
Unsecured corporate lending	-	-	**54,176**	-	**134,732**	42,702
Retail secured lending	-	-	-	2,819	-	-
Retail unsecured lending	-	-	**1,485**	-	-	-
Equity instruments	-	-	-	-	**2,610**	2,474
Warrants	-	-	-	-	-	404
Interest rate swaptions	-	-	-	-	**76**	404
Foreign exchange swaps	-	-	-	-	**3,121**	-
	188,225	105,621	**978,845**	621,747	**1,506,659**	1,428,145

Investments in the table above excludes the investment in subsidiaries.

Amounts receivable by the Bank from related parties amounting to €20.6 million (2014: €18.2 million) are unsecured.

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

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

	Balances with Central Banks, Treasury bills and Loans and advances to financial institutions 2015 €000	Loans and advances to customers 2015 €000	Investments and derivative assets 2015 €000
Group			
Net carrying amount			
Europe	180,984	922,581	1,466,884
North America	648	124,613	39,775
Australia	527	-	-
	182,159	1,047,194	1,506,659

	Balances with Central Banks, Treasury bills and Loans and advances to financial Institutions		Loans and advances to customers		Investments and derivative assets	
	2015 €000	2014 €000	2015 €000	2014 €000	2015 €000	2014 €000
Bank						
Net carrying amount						
Europe	187,050	104,865	854,232	584,529	1,466,884	1,390,976
North America	648	440	124,613	37,218	39,775	37,169
Australia	527	316	-	-	-	-
	188,225	105,621	978,845	621,747	1,506,659	1,428,145

Investments in the table above excludes the investment in subsidiaries.

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

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

Concentration by location for investment securities is measured based on the location of the issuer of the security. Concentration by location for loans and advances is based on the borrower's country of domicile. Government and government guaranteed securities include securities issued or guaranteed by regional governments.

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

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

In addition, in 2014, the Bank held treasury bills disclosed in note 15, with a rating of A+ or lower. Loans and advances to financial institutions disclosed in note 18 are classified as 'Regular' by the Group and above investment grade by reputable credit rating agencies.

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 Offsetting financial assets and financial liabilities

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

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

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

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

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 Offsetting financial assets and financial liabilities (continued)

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

Group	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the Statement of Financial Position	Net amounts of financial instruments presented in the Statement of Financial Position	Related amounts not offset in the Statement of Financial Position: Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
	€000	€000	€000	€000	€000	€000
31 March 2015						
Types of financial assets						
Placements with financial institutions	105,931	(55,000)	50,931	-	-	50,931
Derivatives held for risk management						
- Foreign exchange derivatives	3,121	-	3,121	-	(430)	2,691
	109,052	**(55,000)**	**54,052**	**-**	**(430)**	**53,622**
Types of financial liabilities						
Repurchase agreements	(1,197,716)	55,000	(1,142,716)	1,744,831	5,249	607,364
Derivatives held for risk management						
- Interest rate swaps	(3,114)	-	(3,114)	-	23,104	19,990
- Foreign exchange swaps	(2,086)	-	(2,086)	-	8,220	6,134
	(1,202,916)	**55,000**	**(1,147,916)**	**1,744,831**	**36,573**	**633,488**
31 March 2014						
Types of financial liabilities						
Repurchase agreements	(932,473)	-	(932,473)	1,061,705	4,347	133,579
Total return swaps	(98,267)	31,069	(67,198)	99,575	-	32,377
Derivatives held for risk management						
- Interest rate swaps	(2,798)	-	(2,798)	-	2,383	(415)
	(1,033,538)	**31,069**	**(1,002,469)**	**1,161,280**	**6,730**	**165,541**

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

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

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.10 Offsetting financial assets and financial liabilities (continued)

Group	Net Amounts €000	Line item in Statement of Financial Position	Carrying amount in Statement of Financial Position €000	Financial instruments not in scope of of offsetting disclosures €000	Note
31 March 2015					
Types of financial assets					
Placements with Financial institutions	50,931	Loans and advances to financial institution	167,775	116,844	18
Derivatives held for risk management - Foreign exchange derivatives	3,121	Derivative assets held for risk management	3,197	76	16
Types of financial liabilities					
Repurchase agreements	1,142,716	Amounts owed to financial institutions	1,166,091	23,375	29
Derivatives held for risk management					
- Interest rate swaps	3,114	Derivative liabilities			
- Foreign exchange swaps	2,086	held for risk management	5,200	-	16
31 March 2014					
Types of financial liabilities					
Repurchase agreements	932,473	Amounts owed to	1,008,976	9,305	28
Total return swaps	67,198	financial institutions			
Derivatives held for risk management - Interest rate swaps	2,798	Derivative liabilities held for risk management	2,973	175	16

4.4 Liquidity risk

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

4.4.1 Management of liquidity risk

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

Treasury Management Policy ("TMP")

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

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

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk (continued)

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

Management Asset and Liability Committee

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

Board Risk Committee

The Banks' Risk Committees are responsible for setting policies in respect of liquidity and funding, interest rate and currency risks of the Group and for reviewing and approving any changes to the overall asset-liability management strategy.

Roles and responsibilities

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

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

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.1 Management of liquidity risk (continued)

Funding Strategy

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

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

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

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

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

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

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities

The following tables analyse the principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

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

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

Bank	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 month to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2015							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to central bank	**250,000**	250,032	-	250,032	-		-
- Due to clearing houses	**879,000**	882,009	73,275	70,197	422,380	316,157	-
- Due to other banks	**37,347**	37,431	18,425	18,762	-	244	-
Amounts owed to customers	**1,196,752**	1,240,305	392,498	357,354	144,733	345,694	26
Debt securities in issue	**9,204**	9,843	-	-	9,843	-	-
Debt securities in issue through non derecognised controlled entity	**147,933**	173,011	-	-	2,174	8,702	162,135
Subordinated liabilities	**47,777**	72,285	-	-	3,291	36,153	32,841
	2,568,013	2,664,916	484,198	696,345	582,421	706,950	195,002
Derivative liabilities							
Derivative liabilities held for risk management							
- Interest rate swaps	**3,114**						
- Inflows		16,699	-	-	1,336	11,288	4,075
- Outflows		(17,835)	-	-	(1,428)	(12,043)	(4,364)
- Foreign exchange swaps	**2,116**	924	22	880	22	-	-
	5,230	(212)	22	880	(70)	(755)	(289)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Residual contractual maturities of financial liabilities (continued)

Bank	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 month to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
31 March 2014							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**522,032**	525,050	27,059	10,006	208,129	279,856	-
- Due to other banks	**486,944**	489,151	98,431	256,192	134,528	-	-
Amounts owed to customers	**776,715**	831,751	203,445	19,693	241,711	366,846	56
Debt securities in issue	**14,341**	16,456	-	-	958	15,498	-
Debt securities in issue through non derecognised controlled entity	**215,786**	263,633	-	-	3,532	14,230	245,871
Subordinated liabilities	**22,385**	32,748	-	-	1,711	6,830	24,207
	2,038,203	2,158,789	328,935	285,891	590,569	683,260	270,134
Derivative liabilities							
Derivative liabilities held for risk management							
- Interest rate swaps	**2,798**						
- Inflows		28,358	-	-	1,226	18,586	8,546
- Outflows		(30,993)	-	-	(3,808)	(21,801)	(5,384)
- Foreign exchange swaps	**175**	409	7	402	-	-	-
	2,973	(2,226)	7	402	(2,582)	(3,215)	3,162

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets

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

Group	Encumbered		Unencumbered		
	Pledged as collateral	Other*	Available as collateral	Other**	Total
	€000	€000	€000	€000	€000
31 March 2015					
Balances with Central Banks, treasury bills and cash	-	-	-	14,384	14,384
Derivative assets held for risk management	-	-	-	3,197	3,197
Loans and advances to financial institutions	-	-	-	167,775	167,775
Loans and advances to customers – corporate and municipalities	356,873	-	-	673,710	1,030,583
Loans and advances to customers – retail	-	-	-	16,611	16,611
Investments	1,348,198	6,778	148,486	-	1,503,462
Loans and advances to related parties ***	-	-	-	20,256	20,256
	1,705,071	6,778	148,486	895,933	2,756,268

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets (continued)

Bank	Encumbered		Unencumbered		
	Pledged as collateral	Other*	Available as collateral	Other**	Total
	€000	€000	€000	€000	€000
31 March 2015					
Balances with Central Banks, treasury bills and cash	-	-	-	14,068	14,068
Derivative assets held for risk management	-	-	-	3,197	3,197
Loans and advances to financial institutions	-	-	-	174,157	174,157
Loans and advances to customers – corporate and municipalities	356,873	-	-	620,521	977,394
Loans and advances to customers – retail	-	-	-	1,451	1,451
Investments	1,348,198	6,778	148,486	57,715	1,561,177
Loans and advances to related parties ***	-	-	-	20,619	20,619
	1,705,071	6,778	148,486	891,728	2,752,063

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets (continued)

31 March 2014					
Balances with Central Banks, treasury bills and cash	5,997	-	-	12,094	18,091
Derivative assets held for risk management	-	-	-	404	404
Derivative assets held for trading	-	-	-	404	404
Loans and advances to financial institutions	-	-	-	87,714	87,714
Loans and advances to customers – corporate	389,076	-	50,603	179,249	618,928
Loans and advances to customers – retail	-	-	-	2,819	2,819
Investments	1,143,915	3,822	247,427	32,174	1,427,338
Loans and advances to related parties ***	-	-	-	18,145	18,145
	1,538,988	**3,822**	**298,030**	**333,003**	**2,173,843**

**Represents assets that are not pledged for funding purposes but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.*

***Represents assets that are not restricted for use as collateral, but the Bank would not consider them as readily available to secure funding in the normal course of business.*

****included in other assets*

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Encumbered assets (continued)

The financial assets of MedCorp are unencumbered and available as collateral.

Assets pledged as collateral include:
- Assets transferred to Total Return Swap which are not derecognised (Note 19.6 and 20.6); and
- Assets transferred to non-derecognised controlling entity (Notes 19.5 and 20.5).

4.4.4 Liquidity reporting

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

- Before the relevant liquidity provisions under the Capital Requirements Regulations and Directive became effective in 2014, the Group was required to maintain its liquid asset ratio of net cash to short-term customer liabilities, in excess of 30%. The calculation of this ratio is still performed by Finance and submitted to the MFSA as part of the Banks' statutory monthly returns.

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

4.4.5 *Liquidity Risk Reporting*

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

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

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

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

4 Financial risk management (continued)

4.5 Market risks

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

4.5.1 Management of market risks

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

4.5.2 Foreign exchange risk

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

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.2 Foreign exchange risk (continued)

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

Group	2015 Euro currency €000	2015 Other currencies €000	2015 Total €000
Financial assets			
Balances with Central Banks, treasury bills and cash	14,285	99	14,384
Loans and advances to financial institutions	150,840	16,935	167,775
Loans and advances to customers	703,452	343,742	1,047,194
Investments	1,473,150	30,312	1,503,462
Derivative assets held for risk management	3,197	-	3,197
Derivative assets held for trading	-	-	-
Accrued income	15,858	1,941	17,799
	2,360,782	393,029	2,753,811
Financial liabilities			
Derivative liabilities held for risk management	5,200	-	5,200
Amounts owed to financial institutions	1,156,866	9,225	1,166,091
Amounts owed to customers	1,002,014	203,572	1,205,586
Debt securities in issue	157,137	-	157,137
Subordinated liabilities	41,708	6,069	47,777
Accruals	14,397	1,580	15,977
	2,377,322	220,446	2,597,768
Net on-balance sheet financial position		172,583	
Derivative instruments held for risk management		(176,466)	
Exposure		(3,883)	

Bank	2015 Euro currency €000	2015 Other currencies €000	2015 Total €000	2014 Euro currency €000	2014 Other currencies €000	2014 Total €000
Financial assets						
Balances with Central Banks, treasury bills and cash	13,986	82	14,068	18,014	77	18,091
Loans and advances to financial institutions	157,222	16,935	174,157	79,717	7,997	87,714
Loans and advances to customers	635,735	343,110	978,845	481,772	139,975	621,747
Investments – excluding investment in subsidiaries	1,473,150	30,312	1,503,462	1,342,326	85,011	1,427,337
Derivative assets held for risk management	3,197	-	3,197	404	-	404
Derivative assets held for trading	-	-	-	404	-	404
Accrued income	15,326	1,940	17,266	17,048	2,116	19,164
	2,298,616	392,379	2,690,994	1,939,685	235,176	2,174,861
Financial liabilities						
Derivative liabilities held for risk management	5,230	-	5,230	2,973	-	2,973
Amounts owed to financial institutions	1,157,122	9,225	1,166,347	949,593	59,383	1,008,976
Amounts owed to customers	995,700	201,052	1,196,752	649,650	127,065	776,715
Debt securities in issue	157,137	-	157,137	230,127	-	230,127
Subordinated liabilities	41,708	6,069	47,777	20,171	2,214	22,385
Accruals	8,994	1,580	10,574	8,587	1,031	9,618
	2,365,891	217,926	2,583,817	1,861,101	189,693	2,050,744
Net on-balance sheet financial position					45,483	
Derivative instruments held for risk management		174,453 (178,319)			(44,905)	
Exposure		(3,866)			578	

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

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 *Exposure to interest rate risk – non-trading portfolios*

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

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

Interest rate risk reporting and analysis

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

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

Interest rate risk positions are managed by MedBank's Treasury and Investment department, in conjunction with MedBank's Risk Management Office, by strategically positioning the asset and liability interest rate re-pricing profiles as well as by purchasing interest rate derivatives, primarily swaps. The use of derivatives to mitigate interest rate risk is described in note 16.

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

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

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

4 Financial risk management (continued)

4.5 Market risks (continued)

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

Bank		**Re-pricing in:**		
	Carrying amount €000	**Less than 3 months €000**	**3 months to 1 year €000**	**More than 1 year €000**
As at 31 March 2015				
Balances with Central Banks	13,790	13,790	-	-
Loans and advances to financial institutions	174,157	174,157	-	-
Loans and advances to customers	978,845	892,982	78,252	7,611
Investments (excluding equity investments and investment in subsidiaries)	1,500,852	319,575	32,707	1,148,570
	2,667,644	**1,400,504**	**110,959**	**1,156,181**
Amounts owed to financial institutions:				
- Due to central bank	250,000	250,000	-	-
- Due to clearing houses	879,000	143,000	421,000	315,000
- Due to other banks	37,347	37,347	-	-
Amounts owed to customers	1,196,752	740,962	121,198	334,592
Debt securities issued	9,204	-	9,204	-
Debt securities issued through Non-derecognised controlled entity	147,933	147,933	-	-
Subordinated liabilities	47,777	-	-	47,777
	2,568,013	**1,319,242**	**551,402**	**697,369**
Interest rate gap	**99,631**	**81,262**	**(440,433)**	**458,812**

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	Less than 3 months	3 months to 1 year	More than 1 year
	€000	€000	€000	€000
As at 31 March 2014				
Balances with Central Banks and treasury bills	17,907	15,057	2,850	-
Loans and advances to financial institutions	87,714	87,714	-	-
Loans and advances to customers	621,747	588,029	31,285	2,433
Investments (excluding equity investments and investment in subsidiaries)	1,424,863	187,337	19,402	1,218,124
	2,152,231	**878,137**	**53,537**	**1,220,557**
Amounts owed to financial institutions:				
- Due to clearing houses	522,032	37,032	207,000	278,000
- Due to other banks	486,944	353,966	65,595	67,383
Amounts owed to customers	776,715	222,527	236,859	317,329
Debt securities issued	14,341	-	-	14,341
Debt securities issued through Non-derecognised controlled entity	215,786		215,786	-
Subordinated liabilities	22,385	-	-	22,385
	2,038,203	**613,525**	**725,240**	**699,438**
Interest rate gap	**114,028**	**264,612**	**(671,703)**	**521,119**

4 Financial risk management (continued)

4.5 Market risks (continued)

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

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

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

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

31 March 2014

- NIM would decrease by €5.1 million / increase by €4.1 million.
- Economic Value would decrease by €4.7 million / increase by €6.5 million.

The exposure of the Bank's subsidiary to interest rate risk is deemed to be immaterial since as a result of a 50 basis points movement, its economic vale would change by €0.6 million.

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and

- Fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.

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

4 Financial risk management (continued)

4.6 Operational risks

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

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

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

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

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

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) Non.575/2013 of the European Parliament and of the Council of 26 June 2013, also known as Capital Requirements Regulations ('CRR'). The capital requirement for operational risk under this method was calculated at €5.0 million (2014: €4.4 million).

4 Financial risk management (continued)

4.7 Capital management – regulatory capital

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

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

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

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

The Group complies with the provisions of CRR in respect of regulatory capital and it applies the standardised approach. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contribution, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and

- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank behind the claims of all depositors (including financial institutions) and all other creditors.

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

4 Financial risk management (continued)

4.7 Capital management – regulatory capital (continued)

The parent company of the Group, Medifin Holdings Limited, and its subsidiaries, complied with all externally imposed consolidated capital requirements throughout the year.

The consolidated regulatory capital position of Medifin Holdings Limited is analysed as follows:

TIER 1 CAPITAL	As per Statement of Financial Position	2015 €000	2014 €000
Paid-up capital instruments	Ordinary share capital	**55,738**	55,738
Share premium on paid-up capital instruments above	Share premium	**13,756**	13,756
Previous years retained earnings	Retained earnings	**64,733**	37,589
Profit or loss attributable to owners of the parent		**34,139**	27,144
Funds for general banking risk	Reserve for general banking risks	**1,029**[2]	91
Accumulated Other Comprehensive Income	Fair value reserve	**3,520**[3]	(8,294)
Other reserves	Depositor Compensation Scheme Reserve	**(6,572)**	(5,018)
CET 1 deductions			
Other intangible assets gross amount	Intangible assets	**(758)**	(13,604)
Common Equity Tier 1 Capital		**165,585**	107,402
Tier 1 capital		**165,585**	107,402
TIER 2 CAPITAL			
Accumulated Other Comprehensive Income	Fair value reserve	**5,280**[2]	-
Dated subordinated loans eligible as Tier 2 capital	Subordinated liabilities	**46,744**	22,385
Tier 2 capital		**52,024**	22,385
Total own funds		**217,609**	129,787
Risk weighted assets (RWAs)		**1,468,374**	1,049,932
Total capital ratio		**14.8%**	12.4%

[2] An amount of €0.9 million is transferred from "Profit or loss attributable to owners of the parent" to "Funds for General Banking Risk".
[3] Under MFSA circular, unrealised losses are 100% recognised in CET 1 while unrealised gains are 40% recognised in CET 1 and 60% in CET 2.

5 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

5.1 Assumptions and estimation uncertainties

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

5.1.1 Estimated cash flows

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

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

5.1.2 Allowances for credit losses

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

The individual component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by MedBank's Credit Risk Management function.

A collective component of the total allowance is established for portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

5 Use of judgements and estimates (continued)

5.1 Assumptions and estimation uncertainties (continued)

5.1.2 Allowances for credit losses (continued)

In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. To estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the model assumptions and parameters used in determining the collective allowance.

5.1.3 Effectiveness testing under hedge accounting

The following effectiveness tests are performed under hedge accounting:

- A prospective effectiveness test: This is a forward-looking test of whether a hedging relationship is expected to be highly effective against market moves.
- A retrospective effectiveness test: This is a backward-looking test of whether a hedging relationship has actually been highly effective over a period: This is specifically defined in terms of an effectiveness ratio between 80% and 125%.

The Bank assesses the effectiveness under the dollar offset methodology; this is a quantitative method that compares the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged Item attributable to the hedged risk. The dollar offset method is performed using different approaches, as follows:

- For prospective effectiveness testing, the sensitivity analysis approach is applied. This approach assesses the effectiveness of a hedge prospectively. This method consists of measuring the effect of a hypothetical shift in the underlying hedged risk (for example, a 1% shift in the yield curve of the interest rate being hedged) on both the hedging instrument and the hedged item. This testing uses the principal component analysis shift, historical shift and the forward shift. For each scenario, the relative impact on the valuation of the AFS bonds and forward starting interest rate swaps is assessed. Where the Bank designates a group of items as the hedged item, all individual items within such group are required to have similar risk characteristics and the change in the fair value attributable to the hedged risk for each individual item in the group be approximately proportional to the overall change in fair value of the group for the hedged risk. In respect of the latter, the Bank requires that the expected proportion in the change in fair value for the hedged risk is within 80% to 125% for each individual item.

- For retrospective effectiveness testing, the synthetic bond approach is also applied. This approach compares the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of a synthetic bond matching the terms of the hedged item. A synthetic bond is constructed for each single bond in the AFS portfolio. The coupon of the synthetic bond is derived by assuming that the fair value of the synthetic bonds is equal to the notional with equilibrium at inception date. The valuation of the synthetic bonds and forward starting interest rate swaps is calculated using a market-standard approach such as the Bloomberg swap price.

6 Financial assets and liabilities

6.1 Valuation models

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

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

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

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

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

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

6 Financial assets and liabilities (continued)

6.2 Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Group's and Bank's Statement of Financial Position.

Group	As at 31 March 2015			
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets				
Investments				
- Available-for-sale investment securities	1,500,852	-	-	**1,500,852**
- Fair value through profit or loss	-	2,610	-	**2,610**
Derivative assets held for risk management	-	3,197	-	**3,197**
Total financial assets	**1,500,852**	**5,807**	**-**	**1,506,659**
Liabilities				
Derivative liabilities held for risk management	-	5,200	-	**5,200**
Total financial liabilities	**-**	**5,200**	**-**	**5,200**

Bank	As at 31 March 2015			
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets				
Investments				
- Available-for-sale investment securities	1,500,852	-	-	**1,500,852**
- Fair value through profit or loss	-	2,610	-	**2,610**
- Available-for-sale : Subsidiaries	-	-	57,715	**57,715**
Derivative assets held for risk management	-	3,197	-	**3,197**
Total financial assets	**1,500,852**	**5,807**	**57,715**	**1,564,374**
Liabilities				
Derivative liabilities held for risk management	-	5,230	-	**5,230**
Total financial liabilities	**-**	**5,230**	**-**	**5,230**

6 Financial assets and liabilities (continued)

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

Bank	As at 31 March 2014			
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets				
Investments				
- Available-for-sale	485,471	6,101	-	491,572
- Equity instruments	2,474	-	-	2,474
Derivative assets held for trading	404	-	-	404
Derivative assets held for risk management	-	404	-	404
Total financial assets	488,349	6,505	-	494,854
Liabilities				
Derivative assets held for risk management	-	2,973	-	2,973
Total financial liabilities	-	2,973	-	2,973

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

Level 2 includes fair value of:

- Investment securities that are valued on the basis of price quotations from an orderly transaction between market participants provided by reputable dealers; and
- Derivatives held for risk management that are based on valuation models and the methodology is to calculate the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

Level 3 includes the fair value of investment in subsidiaries in the Bank's financial statements.

6 Financial assets and liabilities (continued)

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

During the year, the Bank changed its accounting policy in relation to the measurement of investment in subsidiaries from a cost basis to fair value. Investment in subsidiaries are classified as available-for-sale financial assets and measured at fair value.

At 31 March 2015, he directors consider the fair value of this investment to reflect the acquisition cost adjusted to fair value with the surplus credited to Other Comprehensive Income. The directors' decision is based on the following:

a) there was no significant credit deterioration of the 'loan and advances to customers' portfolio, which represents the main asset of the acquired subsidiary; and
b) there were no significant changes in the operations of the acquired subsidiary.

The directors also consider that this investment was not substantially sensitive to changes in unobservable inputs.

6.3 Financial instruments not measured at fair value

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

Group	As at 31 March 2015				
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	1,045,636	-	1,045,636	1,047,194
Total financial assets	-	1,045,636	-	1,045.636	1,047,194
Liabilities					
Debt securities in issue	9,441	-	-	9,441	9,204
Debt securities in issue through non derecognised controlled entity	-	148,074	-	148,074	147,933
Subordinated liabilities	51,320	-	-	51,320	47,777
Total financial liabilities	60,761	148,074	-	208,835	204,914

6 Financial assets and liabilities (continued)

6.3 Financial instruments not measured at fair value (continued)

Bank	As at 31 March 2015				
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	976,759	-	976,759	978,845
Total financial assets	-	976,759	-	976,759	978,845
Liabilities					
Debt securities in issue	9,441	-	-	9,441	9,204
Debt securities in issue through Non-derecognised controlled entity	-	148,074	-	148,074	147,933
Subordinated liabilities	51,320	-	-	51,320	47,777
Total financial liabilities	60,761	148.074	-	208,835	204,914

Bank	As at 31 March 2014				
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	620,016	-	620,016	621,747
Investment securities at amortised cost	851,386	100,060	-	951,446	933,291
Total financial assets	851,386	720,076	-	1,571,462	1,555,038
Liabilities					
Debt securities in issue	14,860	-	-	14,860	14,341
Debt securities in issue through non-derecognised controlled entity	-	-	215,786	215,786	215,786
Subordinated liabilities	22,628	-	-	22,628	22,385
Total financial liabilities	37,488	-	215,786	253,274	252,512

6 Financial assets and liabilities (continued)

6.4 Financial instruments not measured at fair value (continued)

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

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

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

95% of the trade receivables amounting to €50.6 million (2014: nil) mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Loans and advances to municipalities amounting to €49.8 million has been valued by reference to an actively traded instrument of the same issuer adjusted to reflect lack of active trading in this instrument.

The Group's financial instruments not measured at fair value comprise balances with Central Banks, loans and advances to banks and customers, and amounts due to banks and customers. The majority of the 'loans and advances to financial institutions' of the Group and the Bank amounting to €164.9 million and €175.0 million (2014: €92.1 million) respectively, re-price or mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

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

The majority of the "Amounts owed to financial institutions" of the Group amounting to €851.1 million (2014: €1.0 billion), re-price or mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. 'Amounts owed to customers' of the Group amounting to €1.2 billion (2014: €776.1 million) are Maltese and Belgian deposits where the interest rate market is stable.

6.5 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. During the financial year ended 31 March 2015, equity instruments held by the Bank amounting to €2.6 million (which at March 2014 were valued at €2.5 million) were transferred from Level 1 to Level 2 of the fair value hierarchy due to the lack of significant trades in such equity instruments.
There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 March 2014.

7 Net interest income

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Interest income			
Loans and advances to financial institutions	82	261	60
Loans and advances to customers	43,807	42,181	29,660
Investment securities	30,090	30,090	34,847
Total interest income	73,979	72,532	64,567
Interest expense			
Amounts owed to financial institutions	4,166	4,091	4,079
Amounts owed to customers	27,189	27,185	23,435
Debt securities in issue	6,531	6,531	4,519
Subordinated liabilities	2,270	2,270	1,556
Total interest expense	40,156	40,077	33,589
Net interest income	33,823	32,455	30,978

7.1 Included within loans and advances to customers under interest income for the year ended 31 March 2015 is a total of €2.4 million and €1.7 million (2014: €0.9 million) in respect of the Group and the Bank respectively relating to impaired financial assets.

7.2 Included within the Group's and Bank's interest income are fair value losses of €32.0 million (2014: €7.3 million) on derivatives held in a fair value hedge relationship and €31.6 million (2014: €7.4 million) representing net increases in the fair value of the hedged item attributable to the hedged risk. The gains and losses are included in the line item corresponding to where interest income on the hedged item is recognised.

8 Net fee and commission

	Group 2015 €000	Bank 2015 €000	Bank 2014 €000
Fee and commission income			
Banking transactions fee income	945	777	491
Corporate secured lending fees	730	730	1,245
Investment services fees	565	565	142
Total fee and commission income	2,240	2,072	1,878
Fee and commission expense			
Corporate secured lending fees	176	230	230
Investment services transaction and custody fees	938	810	832
Other fee expense	104	104	182
Total fee and commission expense	1,218	1,144	1,244
Net fee and commission income	1,022	928	634

8.1 The Bank's net loss from investment services throughout the financial year ended 31 March 2015 was equivalent to €0.3 million (2014: €0.7 million).

8.2 The Group's and Bank's net fee and commission expense excludes amounts used in determining the effective interest rates on financial assets and financial liabilities that are not at fair value through profit or loss but includes income of €0.7 million (2014: €1.2 million) and expenses of €0.2 million (2014: €0.2 million) of the Group and the Bank relating to such financial assets and liabilities.

9 Net trading income and other operating income

9.1 Net trading income

	Group 2015 €000	Bank 2015 €000	Bank 2014 €000
Foreign exchange income	417	388	2,292

Foreign exchange income includes gains from foreign exchange in retail.

9 Net trading income and other operating income (continued)

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

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Derivative assets/liabilities for risk management			
- interest rate related	(3,405)	(3,417)	(209)
- foreign exchange related	874	874	(786)
Derivative assets held for trading	9	9	404
Equity instruments at fair value through profit or loss	(1,632)	(1,632)	2,474
	(4,154)	(4,166)	1,883

9.3 Realised gains on disposal of investments

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Realised gains on disposal of investments:			
Available-for-sale investments	19,208	19,204	24,951
Held-to-maturity investments	1,817	1,816	(37)
	21,025	21,020	24,914

9.4 Other income

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Realised (loss)/gain on repurchase of debt securities issued through non-derecognised controlled entity	(35)	(35)	495
Other income	117	95	4
	82	60	499

10 Personnel expenses

10.1 Personnel expenses incurred are analysed as follows:

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Directors' emoluments			
- salaries	**2,494**	**2,383**	1,994
- defined contribution social security costs	**9**	**8**	8
- other emoluments	**216**	**209**	190
Staff costs			
- salaries	**11,794**	**11,225**	11,034
- termination benefits	**96**	**96**	-
- defined contribution social security costs	**602**	**557**	451
- other emoluments	**556**	**540**	108
	15,767	**15,018**	13,785

Total salary costs excluding other emoluments and termination benefits, of the Group and the Bank amounted to €14.3 million and €13.6 million (2014: €13.0 million) respectively, with variable remuneration accounting for 24% and 25% (2014: 24%) respectively of these amounts.

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

	Group	Bank	
	2015	**2015**	2014
	No.	**No.**	No.
Executive and senior management	**15**	**14**	14
Other managerial, supervisory and clerical	**221**	**202**	200
Other	**16**	**16**	10
	252	**232**	224

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

	Group	Bank	
	2015	**2015**	2014
	No.	**No.**	No.
Management and administration	**249**	**230**	227

11 Other administrative expenses

11.1 Other administrative expenses include:

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Operating lease charges (Note 36)	**3,612**	**3,532**	3,068
Directors' fees (Note 39.3)	**141**	**134**	110

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

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Audit services	**125**	**100**	72
Other assurance services	**29**	**21**	58
Tax advisory services	**9**	**3**	10
Other non-audit services	**175**	**169**	26

12 Net impairment loss

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Reversals or Write-downs			
Loans and advances to customers			
- specific impairment allowances (Note 19)	**(493)**	**(357)**	1,422
- collective impairment allowances (Note 19)	**1,965**	**2,228**	196
- bad debts written off	**3,256**	**2,598**	-
Investments			
- collective impairment allowances (Note 20)	**(463)**	**(463)**	463
Net impairment loss	**4,265**	**4,006**	2,081

13 Income tax expense

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Current tax expense	5,158	4,877	11,091
Deferred tax income (Note 25)	(744)	(641)	(601)
Income tax expense	4,414	4,236	10,490

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

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Profit before tax	34,453	11,822	29,886
Tax at the applicable rate of 35%	12,059	4,138	10,460
Tax effect of:			
Tax-exempt income	(8,055)	(88)	(72)
Non-deductible expenses	347	123	102
Taxable temporary differences not previously recognised	25	25	-
Adjustments for prior year	38	38	-
Income tax expense	4,414	4,236	10,490

14 Earnings per share

The calculation of the basic earnings per share has been based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

	Bank	
	2015	2014
	No.	No.
Weighted average number of ordinary shares ('000)	114,367	86,534

14 Earnings per share (continued)

The calculation of the adjusted basic earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding and 7,000,000 shares issued after year end. Accordingly, the adjusted weighted average number of ordinary shares for 31 March 2014 has been restated to include the full year impact of the €21.0 million bonus issue in May 2013, the €19.4 million bonus issue in May 2014 and the €7.0 million bonus issue subsequent to 31 March 2015. The adjusted weighted average number of ordinary shares for 31 March 2015 has been restated to include €the full year impact of the €19.4 million and €7.0 million bonus issue of shares as already described above.

The Bank has no instruments or arrangement which give rise to dilutive potential ordinary shares, and accordingly diluted earnings per share is equivalent to basic earnings per share.

	Bank	
	2015	2014
	No.	No.
Adjusted weighted average number of ordinary shares ('000)	**124,397**	115,121

	Group	Bank
	2015	2014
Profit attributable to ordinary shareholders (€000)	**30,039**	19,396
Earnings per share (cents)	**26c**	23c
Adjusted earnings per share (cents)	**24c**	17c

15 Balances with Central Banks, treasury bills and cash

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
At amortised cost:			
Balances with Central Banks	**13,823**	**13,790**	11,910
Malta Government Treasury Bills	**-**	**-**	5,997
Cash	**561**	**278**	184
	14,384	**14,068**	18,091

15 Balances with Central Banks, treasury bills and cash (continued)

15.1 Balances held with Central Banks for Minimum Reserve Requirement include a reserve deposit of the Group and Bank in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €6.3 million (of which €0.1 million relates to MedCorp) (2014: €3.5 million) bearing interest at 0.05% (2014: 0.25%) per annum and overnight deposits amounting to €6.6 million (2014: €7.1 million) subject to negative interest rate of 0.2% (2014: no interest) per annum.

15.2 The Balances with Central Banks of the Group also include a balance of €33 thousand (2014: €1.3 million) that is pledged in favour of the Depositor Compensation Scheme ("DCS") in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta. The balances with Central Banks as at 31 March 2014 were held by the Bank.

As at 31 March 2015, in connection with the DCS, investment securities held by the Bank with a carrying amount of €6.8 million (2014: €3.8 million), nominal value €6.6 million (2014: €3.5 million) and a fair value of €6.8 million (2014: €3.8 million) as at 31 March 2015, are pledged in favour of the DCS.

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

16 Derivative assets and liabilities held for risk management

	Group	**Bank**	
	2015	**2015**	2014
	€000	**€000**	€000
Derivative assets held for risk management			
Instrument type:			
- Interest rate swaptions	**76**	**76**	404
- Foreign exchange swaps	**3,121**	**3,121**	-
	3,197	**3,197**	404
Derivative liabilities held for risk management			
Instrument type:			
- Interest rate swaps	**(3,114)**	**(3,114)**	(2,798)
- Foreign exchange swaps	**(2,086)**	**(2,116)**	(175)
	(5,200)	**(5,230)**	(2,973)
Net derivatives held for risk management	**(2,003)**	**(2,033)**	(2,569)

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

16.1 The Bank established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, forwards and other appropriate instruments approved for hedging interest rate risk. All foreign exchange swaps mature within 6 months from the end of the reporting period.

16.2 Fair value hedges of interest rate risk

The Bank uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate AFS securities attributable to changes in market interest rates. Interest rate swaps are matched to fixed rate AFS securities. Such derivatives are not held for trading purposes. These are classified at fair value through profit or loss and are designated in a fair value hedging relationships.

16.3 Other derivatives held for risk management

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

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

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

17 Derivative assets held for trading

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

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

18 Loans and advances to financial institutions

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
At amortised cost:			
Repayable on call and at short notice	**80,271**	**86,653**	55,662
Term loans and advances	**87,504**	**87,504**	32,052
	167,775	**174,157**	87,714

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

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

18.3 As at 31 March 2015, €3.4 million of the Group's loans and advances to financial institutions and €3.4 million (2014: €3.5 million) of the Bank's loans and advances are expected to be recovered after more than twelve months after the reporting date.

18.4 Loans and advances to financial institutions as at 31 March 2015 and 31 March 2014 were neither past due nor impaired and no forbearance measures were taken by the Group and Bank.

19 Loans and advances to customers

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
At amortised cost:			
Repayable on call and short notice: retail	**5,810**	**-**	-
Repayable on call and short notice: corporate	**24,432**	**16,052**	-
Term loans and advances: retail	**12,382**	**1,451**	2,819
Term loans and advances: corporate	**1,018,161**	**965,520**	621,222
Gross loans and advances to customers	**1,060,785**	**983,023**	624,041
Less allowance for impairment (Note 19.11)	**(13,591)**	**(4,178)**	(2,294)
	1,047,194	**978,845**	621,747

19.1 As at 31 March 2015, term loans and advances of the Group and Bank: retail amounting to €1.4 million (2014: €2.8 million) and term loans and advances: corporate amounting to €4 million (2014: nil) are secured by an equivalent amount of customer deposits, included in amounts owed to customers. These deposits are pledged in favour of the Bank.

19.2 As at 31 March 2014, the Bank's term loans and advances to customers: retail include a €17 thousand loan sanctioned to a director of the Bank. This was secured by a general hypothec and carried an interest rate of 4.5% per annum. The loan was fully repaid during the year.

19.3 As at 31 March 2015, €85.3 million of the Group's "Term loans and advances to customers" and €67.8 million (2014: €3.4 million) of the Bank's "Term loans and advances to customers" are expected to be recovered within 12 months after the reporting date.

19.4 During the year ended 31 March 2014, MedBank set up a non-derecognised controlled entity. (Note 31.2). As risks and rewards are deemed to have been retained by the Bank, €307.0 million (2014: €322.9 million) term loans and advances to customers are still recognised on the Statement of Financial Position of the Group and the Bank.

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

19.6 As at 31 March 2015, €57.6 million (2014: €27.7 million) of the Group's and Bank's "Term loans and advances to customers: corporate" were contracted but beneficial ownership was not yet transferred.

There were no contingent disposals as at 31 March 2015 (2014: nil) which were disposed but beneficial ownership of which was not yet transferred.

19 Loans and advances to customers (continued)

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

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

19.8 Gross loans and advances to customers amounting to €61.2 million and €38.4 million (2014: €10.5 million) held by the Group and the Bank respectively were deemed to be impaired. Specific impairment recorded on the Group's loans and advances to customers amounted to €9.6 million, whereas €1.1 million (2014: €1.4 million) were recorded on the Bank's loans and advances to customers.

19.9 The aggregate amount of impaired loans and advances of the Group and on which interest is reserved is €22.1 million gross of impairment allowances (Bank: nil in both 2015 and 2014) , against which €8.5 million is being provided for after taking into account the extendible value of security backing such loans and advances. Total interest that would have accrued on the impaired loans in the current financial year would have amounted to €0.9 million (2014: nil). Interest income was recognised during the year ended 31 March 2015 on impaired loans and advances to customers of the Group and the Bank amounting to €2.4 million and €1.7 million (2014: €0.9 million) respectively.

19 Loans and advances to customers (continued)

19.10

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Specific allowance for impairment			
At beginning of year	1,422	1,422	-
Acquisition through business combination	8,672	-	-
Exchange movement	13	13	-
Impairment allowance for the year (note 12)	(493)	(357)	1,422
At end of year	9,614	1,078	1,422
Collective allowance for impairment			
At beginning of year	872	872	676
Acquisition through business combination	1,140	-	-
Impairment allowance for the year (note 12)	1,965	2,228	196
At end of year	3,977	3,100	872
Total allowance for impairment	13,591	4,178	2,294

20 Investments

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Corporate	98,440	98,440	293,235
Treasury	1,405,022	1,405,022	1,134,102
	1,503,462	1,503,462	1,427,337

20 Investments (continued)

20.1 Analysed as follows:

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Held-to-maturity investment securities	**-**	**-**	983,894
Available-for-sale investment securities	**1,500,852**	**1,500,852**	440,969
Equity instruments at fair value through profit or loss	**2,610**	**2,610**	2,474
	1,503,462	**1,503,462**	1,427,337

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

20.2 Held-to-maturity investment securities

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

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Investment securities	-	-	984,357
Collective impairment (note 4.3.5)	-	-	(463)
	-	-	983,894

20.2.2 Held-to-maturity investment securities by issuer

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
National and Regional Government securities	-	-	95,020
Other securities	-	-	888,874
	-	-	983,894

20 Investments (continued)

20.3 Available-for-sale investment securities

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
National and Regional Government Securities	**191,563**	**191,563**	11,054
Other securities	**1,309,109**	**1,309,109**	429,705
Other equity securities	**180**	**180**	210
	1,500,852	**1,500,852**	440,969

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

20.5 During the year ended 31 March 2014, MedBank set up a non-derecognised controlled entity (Note 31.2). As risks and rewards are deemed to have been retained by the Bank, a carry value of €60.8 million (2014: €53.1 million) investment securities are still recognised on the Statement of Financial Position.

20.6 Similarly, during the year ended 31 March 2014, a number of securities were transferred under a Total Return Swap ("TRS") Facility (Note 29). As risks and rewards are deemed to have been retained by the Bank, investment securities were still recognised on the Bank's Statement of Financial Position. However, there were no securities transferred under a TRS as at the reporting date (2014: €33.3 million),

20.7 Most of investment securities are pledged as collateral against the provision of borrowing facilities (Note 29), except for investments amounting to €148.5 million (2014: €277.8 million) which are free and unencumbered securities at 31 March 2015.

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

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

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

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

20 Investments (continued)

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

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

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

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

20.10 Equity instruments at fair value through profit or loss

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

These unlisted equities were held by the non-derecognised entity referred to in note 31.2

20.11 As disclosed in note 19, throughout the financial year under review, certain loans and advances to customers were derecognised in their entirety by the Bank but the Bank still has a continuing involvement in them through new loans and advances to customers and unlisted equities issued in these European corporations. The fair value of newly acquired equities amounted to €1.8 million and was reduced to nil as at 31 March 2015.

21 Subsidiaries

Name of subsidiary	**Country of incorporation**	**Nature of business**	**Equity interest 2015**	**Equity interest 2014**	**Carrying amount 2015**	**Carrying amount 2014**
			%	%	€000	€000
Mediterranean Corporate Bank Limited	Malta	Banking	100	-	57,714	-
MeDirect S.A.	Belgium	Banking	100	-	-	-
Mediterranean Research Limited	United Kingdom	Dormant	-	100	-	-
Medifin Estates (partnership)	Malta	Operating lease of branches	97	97	1	1
					57,715	1

21 Subsidiaries (continued)

21.1

	2015	2014
	€000	€000
Year ended 31 March		
At beginning of year	**1**	65
Acquisition of subsidiary	**57,714**	-
Liquidation of subsidiary	**-**	(64)
At end of year	**57,715**	1

21.2 On 11 April 2014 the Bank entered into an agreement to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank"). Following regulatory approval by the MFSA, on 25 September 2014, the Bank acquired 100% of the share capital of Volksbank for a cash consideration of €35.3 million (Note 22). Volksbank was subsequently re-named Mediterranean Corporate Bank Limited. The fair value of this investment is deemed to have remained constant since the date of acquisition. (Refer to Note 6)

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

21.4 Mediterranean Research Limited was liquidated on 2 May 2014. The operations of Mediterranean Research Limited are being carried out by MedBank.

21.5 Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into operating leases for property to be used as branches which are leased back to the Bank and its subsidiary.

21.6 On 25 November 2014, MedBank repaid €16.5 million of Shareholders Contributions to its parent company having received all required approvals from the MFSA.

22 Acquisition of subsidiary

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

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

22 Acquisition of subsidiary (continued)

From the date of acquisition to 31 March 2015, MedCorp contributed net interest income of €1.3 million to the Group's results and incurred a loss of €0.2 million in view of increased impairments. If the acquisition had occurred on 1 April 2014, management estimates that the consolidated net interest income would have been €35.7 million and consolidated profit for the period would have been €30.4 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition would have been the same if the acquisition had occurred on 1 April 2014.

22.1 Identifiable assets acquired and liabilities assumed

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

	2015
	€000
Balances with Central Banks and cash	**513**
Loans and advances to financial institutions	**12,189**
Loans and advances to customers	**81,230**
Investment securities	**18,509**
Derivative assets held for risk management	**886**
Property and equipment	**303**
Intangible assets	**5**
Prepayments and accrued income	**684**
Other assets	**1**
Deferred tax assets	**4,086**
Current tax asset	**107**
Amounts owed to financial institutions	**(38,704)**
Amounts owed to customers	**(16,999)**
Derivative liabilities held for risk management	**(2,986)**
Other liabilities	**(367)**
Accruals and deferred income	**(1,427)**
Contingent provisions	**(316)**
Fair value of identifiable net assets acquired	**57,714**

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

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

22 Acquisition of subsidiary (continued)

22.2 Acquisition-related costs

The Bank incurred acquisition-related costs of €0.1 million (excluding VAT) relating to external legal fees and due diligence costs. These costs have been included in 'administrative expenses' in the statement of profit or loss and other comprehensive income.

22.3 Gain on acquisition of subsidiary

Gain arising from the acquisition has been recognised as follows:

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

The gain on acquisition of subsidiary has been accounted for in profit or loss within the Group's consolidated financial statements, whereas the same gain has been accounted through Other Comprehensive Income in the Bank's separate financial statements.

As a consequence of EU state aid rules triggered by the bail-out provided by the Austrian Government, Oesterreichische Volksbanken AG decided to dispose of its non-core operations and accordingly exit the Maltese market. This decision resulted in the acquisition of Volksbank at a price which is significantly lower than the fair value of the net assets and liabilities acquired.

23 Property and equipment

Group	Improvement to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
As at 31 March 2014						
Cost	1,104	2,310	228	1,419	224	5,285
Accumulated depreciation	(829)	(1,439)	(197)	(737)	(175)	(3,377)
Net book amount	275	871	31	682	49	1,908
Year ended 31 March 2015						
At beginning of year	275	871	31	682	49	1,908
Additions	18	36	-	-	-	54
Acquisition of subsidiary (Note 21)	140	47	-	93	23	303
Disposals	-	-	-	-	(84)	(84)
Depreciation for the year	(112)	(272)	(31)	(145)	(24)	(584)
Impairment	(135)	-	-	(75)	-	(210)
Depreciation released on disposals	-	-	-	-	65	65
At end of year	186	682	-	555	29	1,452
As at 31 March 2015						
Cost	1,132	2,960	228	1,487	279	6,086
Accumulated depreciation	(946)	(2,278)	(228)	(932)	(250)	(4,634)
Net book amount	186	682	-	555	29	1,452

23 Property and equipment (continued)

Bank	Improvement to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
As at 1 April 2013						
Cost	1,104	2,220	228	1,362	214	5,128
Accumulated depreciation	(711)	(1,054)	(150)	(571)	(157)	(2,643)
Net book amount	393	1,166	78	791	57	2,485
Year ended 31 March 2014						
At beginning of year	393	1,166	78	791	57	2,485
Additions	-	90	-	71	10	171
Disposals	-	-	-	(14)	-	(14)
Depreciation for the year	(118)	(385)	(47)	(175)	(18)	(743)
Depreciation released on disposals	-	-	-	9	-	9
At end of year	275	871	31	682	49	1,908
As at 31 March 2014						
Cost	1,104	2,310	228	1,419	224	5,285
Accumulated depreciation	(829)	(1,439)	(197)	(737)	(175)	(3,377)
Net book amount	275	871	31	682	49	1,908
Year ended 31 March 2015						
At beginning of year	275	871	31	682	49	1,908
Additions	7	37	-	-	-	44
Disposals	-	-	-	-	-	-
Depreciation for the year	(111)	(281)	(31)	(146)	(20)	(589)
Depreciation released on disposals	-	-	-	-	-	-
At end of year	171	627	-	536	29	1,363
As at 31 March 2015						
Cost	1,111	2,347	228	1,419	224	5,329
Accumulated depreciation	(940)	(1,720)	(228)	(883)	(195)	(3,966)
Net book amount	171	627	-	536	29	1,363

23.1 The Group operates from nine immovable properties which are held under operating lease agreements (see note 36).

23.2 The Group's impairment charge for 2015 of €0.2 million (2014: nil) is attributable to the change in premises by MedCorp in March 2015. The related assets have been fully written down. The impairment is recorded under other administrative expenses.

23.3 There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (2014: nil).

24 Intangible assets

24.1

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Software			
As at beginning of year			
Cost	1,778	1,778	1,744
Accumulated amortisation	(1,650)	(1,650)	(1,516)
Net book amount	128	128	228
Year ended 31 March			
At beginning of year	128	128	228
Additions	50	50	34
Acquisition of subsidiary (Note 22)	5	-	-
Amortisation	(120)	(118)	(134)
At end of year	63	60	128
As at end of year			
Cost	1,833	1,828	1,778
Accumulated amortisation	(1,770)	(1,768)	(1,650)
Net book amount	63	60	128

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

25 Deferred tax assets and liabilities

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

	Assets 2015 €000	Liabilities 2015 €000	Net 2015 €000
Group			
Property and equipment and intangible assets	5	(121)	(116)
Available-for-sale securities	-	(3,242)	(3,242)
Impairment allowances	4,184	1,462	5,646
Net deferred tax assets	**4,189**	**(1,901)**	**2,288**

The Group's net deferred tax asset amounting to €2.3 million has been presented on a gross basis within the statement of financial position.

	Assets		Liabilities		Net	
	2015 €000	2014 €000	**2015 €000**	2014 €000	**2015 €000**	2014 €000
Bank						
Property and equipment and intangible assets	-	-	**(121)**	(265)	**(121)**	(265)
Available-for-sale securities	-	3,064	**(3,242)**	-	**(3,242)**	3,064
Impairment allowances	-	965	**1,462**	-	**1,462**	965
Net tax assets	-	4,029	**(1,901)**	(265)	**(1,901)**	3,764

25.2 Movements in temporary differences during the year:

	Balance at beginning of year €000	Acquisition of subsidiary €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €000
Group					
Year ended 31 March 2015					
Property and equipment and intangible assets	(265)	7	142	-	(116)
Available-for-sale securities	3,064	(307)	307	(6,306)	(3,242)
Derivative financial instruments	-	204	(204)	-	-
Impairment allowances	965	4,162	519	-	5,646
Other provisions	-	20	(20)	-	-
	3,764	**4,086**	**744**	**(6,306)**	**2,288**

25 Deferred tax assets and liabilities (continued)

	Balance at beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €000
Bank				
Year ended 31 March 2015				
Property and equipment and intangible assets	(265)	144	-	(121)
Available-for-sale securities	3,064	-	(6,306)	(3,242)
Impairment allowances	965	497	-	1,462
	3,764	**641**	**(6,306)**	**(1,901)**
Year ended 31 March 2014				
Property and equipment and intangible assets	(309)	44	-	(265)
Available-for-sale securities	(5,161)	-	8,225	3,064
Unutilised tax losses	170	(170)	-	-
Impairment allowances	238	727	-	965
	(5,062)	**601**	**8,225**	**3,764**

26 Prepayments and accrued income

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Prepayments	**2,233**	**2,136**	1,780
Deferred expenditure	**1,273**	**1,273**	2,318
Accrued income	**17,799**	**17,266**	19,164
	21,305	**20,675**	23,262

27 Other assets

27.1

	Group	Bank	
	2015	2015	2014
	€000	€000	€000
Amount receivable from:			
Immediate parent company	1,550	1,550	1,497
Subsidiary	-	363	-
Other group companies	18,706	18,706	16,648
Other assets	286	285	743
	20,542	20,904	18,888

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

28 Capital and reserves

28.1.1 Share capital

	2015	2014
	No.	No.
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	117,450,106	98,050,106
Ordinary 'B' shares of €1 each	1	1
	117,450,107	98,050,107

28.1.2 Movement in authorised and issued share capital

At 31 March 2014, the authorised share capital consisted of 100,000,000 ordinary shares of €1 each. On 3 April 2014, by an extraordinary resolution of the shareholders of the Bank, it was resolved to increase the authorised share capital of the Bank by €200 million, up to €300 million. At 31 March 2015, the authorised share capital consisted of 300,000,000 ordinary shares of €1 each. All issued shares are fully paid up.

	Notes	2015	2014
		€000	€000
Year ended 31 March			
At beginning of year		98,050	62,350
Issued for cash during the year	28.1.4	-	14,700
Bonus issue	28.1.5	19,400	21,000
At end of year		117,450	98,050

28 *Capital and reserves (continued)*

28.1.3 *Rights and entitlements attached to ordinary shares*

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 shareholders are not entitled to vote or to receive any dividends distributed.

28.1.4 *Increase in issued share capital during year ended 31 March 2014*

The directors' proposal for a final net ordinary dividend of €21 million representing €0.33 per share as bonus shares for the year ended 31 March 2013 was approved on 9 May 2013 and executed on 10 May 2013.

As at 30 October 2013, the Bank's issued share capital was increased by €4.9 million ordinary A shares divided into four million nine hundred thousand shares each with a nominal value of one Euro (€1). These were paid in cash, thereby increasing the Bank's issued share capital from €83.3 million to €88.2 million.

On 27 November 2013, the Bank's shareholders resolved to increase the Bank's share capital, on 28 November 2013, by €9.8 million ordinary A shares divided into nine million eight hundred thousand shares, each with a nominal value of one Euro (€1), through a cash contribution, thereby increasing the Bank's issued share capital from €88.25 million to €98.05 million.

28.1.5 *Increases in issued share capital during year ended 31 March 2015*

The directors' proposal for a final net ordinary dividend of €19.4 million representing €0.20 per share as bonus shares for the year ended 31 March 2014 was approved and executed on 28 May 2014.

28.2 Share premium

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

Issue date	Number of shares No.	Premium per share €	Share premium 2015 €000	Share premium 2014 €000
10 August 2010	10,000,000	0.9155	**9,155**	9,155
29 September 2010	19,119,470	0.2254	**4,309**	4,309
			13,464	13,464

28 Capital and reserves (continued)

28.3 Shareholders' contributions

During the year ended 31 March 2013, by an extraordinary resolution dated 27 March 2013, it was resolved to provide the Bank a shareholders' net contribution of €8.5 million (€9.3 million less repayment during the year ended 31 March 2013 amounting to €0.8 million).

Furthermore, by an extraordinary resolutions dated 28 June 2013 and 18 August 2014, it was resolved to provide the Bank shareholders' contributions of €1.25 million and €8.9 million respectively.

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

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

The Contribution is also eligible as Own Funds in terms of the new Capital requirements.

On 25 November 2014, the Bank repaid €16.5 million of the shareholders' contributions to its shareholders, having received all required approvals from the MFSA.

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

28.5 In accordance with Banking Rule BR/09/2013, credit institutions are required to maintain a Reserve for General Banking Risks against non-performing loans to create an additional Pillar 2 capital buffer. This reserve was transferred out of the retained earnings. As at 31 March 2015, the Reserve for General Banking Risks of the Group and the Bank was equivalent to €1.0 million and €0.7 million (2014: €91 thousand) respectively. This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 70% (2014: 40%) of the regulatory allocation by virtue of paragraph 38 of the Banking Rule. The remaining 30% (2014: 60%) will be split and set aside over the next year (2014: equally over a period of two years) in terms of the Banking Rule.

28.6 All reserves at the reporting date, except for the Bank's retained earnings and the shareholders' contribution, are non-distributable. However, the shareholders' contribution reserve is distributable only and only if, the regulatory ratios are not breached and if the terms and conditions permit, as noted in note 28.3.

28.7 Dividends

The directors have proposed a final net ordinary dividend of €0.06 (2014: €0.20) per qualifying share as bonus shares.

29 Amounts owed to financial institutions

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Repayable on call and at short notice	**23,169**	**23,425**	13,651
Term deposits	**1,142,922**	**1,142,922**	995,325
	1,166,091	**1,166,347**	1,008,976

29.1 An amount of €1.1 billion (2014: €928 million) from the Bank's term deposits are secured by a pledge over the MedBank's investments (excluding Equity instruments) (Note 20).

29.2 As at 31 March 2014, an amount of €67 million from the Bank's term deposits represents total return swap payables which were recognised in the Bank's Statement of Financial Position by virtue of the Bank retaining the risks and rewards in the underlying portfolio of loans and advances to customers and investments (Notes 19 and 20).

30 Amounts owed to customers

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Repayable on call and at short notice	**376,898**	**370,560**	176,285
Term deposits	**828,688**	**826,192**	600,430
	1,205,586	**1,196,752**	776,715

31 Debt securities in issue

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
At amortised cost:			
Debt securities in issue (Note 31.1)	**9,204**	**9,204**	14,341
Debt securities in issue through non-derecognised controlled entity (Note 31.2)	**147,933**	**147,933**	215,786
	157,137	**157,137**	230,127

31 Debt securities in issue (continued)

31.1 Debt Securities in issue

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Year ended 31 March			
At beginning of year	**14,341**	**14,341**	15,664
Nominal amount of debt securities repurchased and derecognised	**(5,242)**	**(5,242)**	(1,365)
Transaction cost amortised	**105**	**105**	42
At end of year	**9,204**	**9,204**	14,341

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

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

31.1.3 During the year ended 31 March 2015, MedBank purchased through market operations a nominal value of €5.2 million (2014: €1.4 million) of its 6.25% debt securities in issue, for cancellation in accordance with the provisions of section 7.9.8 of the Security Note forming part of the prospectus dated 13 September 2010 (as supplemented on 30 May 2011).

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

As at 31 March 2015, the contractual amount due at maturity is €9.3 million (2014: €14.5 million).

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

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

31 Debt securities in issue (continued)

31.2 Debt securities in issue through non-derecognised controlled entity

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

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

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

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

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

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

32 Subordinated liabilities

32.1

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
At amortised cost:			
Subordinated debt securities in issue (note 32.2.1)	**22,915**	**22,915**	22,385
Subordinated debt securities in issue (note 32.2.2)	**24,862**	**24,862**	-
	47,777	**47,777**	22,385

32.2

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Year ended 31 March			
At beginning of year	**22,385**	**22,385**	12,341
Debt securities issued	**25,037**	**25,037**	9,984
Foreign exchange revaluation	**642**	**642**	96
Transaction costs	**(318)**	**(318)**	(77)
Transaction costs amortised to profit or loss	**31**	**31**	41
At end of year	**47,777**	**47,777**	22,385

32.2.1 During June 2013, MedBank issued an additional euro equivalent of €10 million of 7.50% Subordinated bonds due 2019. The debt securities, which are unsecured, mature on 30 December 2019 and are listed on the Malta Stock Exchange. The interest payable is fixed at 7.50% per annum (effective interest rate 7.60%) and the bonds are redeemable at their nominal value. During December 2013 these subordinated bonds were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

32 Subordinated liabilities (continued)

32.2.2 On 3 November 2014, MedBank announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 2019 early redemption option held by the issuer. These bonds were issued in Euro and Pounds Sterling. The interest payable is fixed at 6% (effective interest rate 6.23%) and the bonds are redeemable at their nominal value. This was increased to a Euro equivalent of €25 million as a result of an over subscription. The 6.25% debt securities in issue due to mature on 30 October 2015 were exchangeable with these bonds at a discount of 4%. As a result, €5.0 million 6.25% debt securities were transferred to MedBank in exchange for the new subordinated unsecured bonds 2019 – 2024. As a result of MedBank's allotment methodology, MedBank issued £1.4 million (equivalent to €1.7 million) for bonds in Pounds sterling and euro bonds amounting to €23.3 million. Interest on these bonds commenced on 28 November 2014.

32.2.3 The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the years ended 31 March 2015 and 31 March 2014. As at 31 March 2015, the euro equivalent contractual amount due at maturity is €48.2 million (2014: €22.5 million).

32.2.4 The carrying amount of the subordinated debt securities in issue is €0.4 million (2014: €0.1 million) lower than the contractual amount due at maturity.

33 Accruals and deferred income

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Accrued expenses	**8,607**	**8,485**	5,791
Accrued interest expense	**10,586**	**10,574**	9,618
Deferred income	**5,407**	**5,407**	-
	24,600	**24,466**	15,409

34 Other liabilities

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Other liabilities	**1,103**	**859**	569
VAT payable	**793**	**782**	540
	1,896	**1,641**	1,109

35 Cash and cash equivalents

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

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Analysis of cash and cash equivalents:			
Cash in hand	**561**	**421**	184
Call deposits	**138,683**	**144,889**	62,784
Repayable on call and at short notice	**(22,747)**	**(22,739)**	(13,651)
Amounts owed to financial institutions with maturity less than 3 months	**(318,716)**	**(318,972)**	(174,563)
Per Statement of Cash Flows	**(202,219)**	**(196,401)**	(125,246)
Adjustment to reflect:			
Balance with Central Banks	**6,339**	**6,339**	4,788
Malta Government treasury bill with original maturity over 3 months	**-**	**-**	5,997
Deposits with maturity over 3 months	**36,584**	**36,576**	32,052
Amounts owed to financial institutions with maturity over 3 months	**(824,636)**	**(824,636)**	(820,762)
Per Statement of Financial Position	**(983,932)**	**(978,122)**	(903,171)

		Group	Bank	
		2015	**2015**	2014
	Notes	**€000**	**€000**	€000
Analysed as follows:				
Balances with Central Banks, treasury bills and cash	15	**14,384**	**14,068**	18,091
Loans and advances to financial institutions	18	**167,775**	**174,157**	87,714
Amounts owed to financial institutions	29	**(1,166,091)**	**(1,166,347)**	(1,008,976)
		(983,932)	**(978,122)**	(903,171)

36 Operating leases

The Group leases a number of branches and office premises under operating leases. The leases typically run for 4 to 10 years, with an option to renew the lease after that date. Some operating lease agreements provide for additional rent payments that are based on changes in a local price index. During the year, the Group leased IT-infrastructure and software from Medifin Leasing Limited that was a subsidiary of Medifin Holding Limited (the parent company of MedBank). On 27 June 2014, the shares in Medifin leasing Limited were transferred to Medifin Investments Limited (The immediate parent company of Medifin Holding Limited).

36 Operating leases (continued)

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

	Group	Bank	
	2015	**2015**	2014
	€000	**€000**	€000
Within one year	**669**	**669**	704
After one year but more than five years	**2,149**	**2,149**	1,873
More than 5 years	**812**	**812**	1,088
	3,630	**3,630**	3,665

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

37 Contingent liabilities

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

38 Commitments

38.1 Financial commitments

Financial commitments represent undrawn formal standby facilities, credit facilities and other commitments to lend. As at 31 March 2015, the Bank had commitments of €74.5 million (2014: nil) under revolving credit facilities. The Group also had undrawn facilities on term loans amounting to €16.8 million.

38.2 Capital commitments

There were no significant capital commitments.

39 Related parties

39.1 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 MedBank and its subsidiary forms part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta. The ultimate parent entity of MedBank is AnaCap Financial Partners II L.P., the registered office of which is Carinthia House, 9 -12 The Grange, St Peter Port, GY1 4BF, Guernsey.

39 Related parties

39.2 Transactions with key management personnel

In addition to their salaries (Note 11), the Bank also provides non-cash benefits to directors, relating to gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Bank amounting €0.2 million (2014: €0.2 million).

39.3 Related party balances and transactions

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

31 March 2015

Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction type
Ultimate parent company					
	-	163	-	-	Monitoring fees
Parent company					
	-	-	1,550	-	Other assets
Other Medifin Group companies					
	-	-	18,531	-	Other assets
	-	3,572	-	-	IT support
	-	3,306	-	-	Operating lease charge
	19	-	-	-	Interest income
	-	-	-	1,870	Amounts owed to customers
Key management personnel					
	-	-	28	-	Loans and advances to customers
	-	-	-	2	Amounts owed to customers
	-	141	-	-	Directors' fees
	-	2,578	-	-	Personnel expenses
Other companies controlled by key management personnel					
	-	-	-	2,017	Amounts owed to customers
	-	7	-	-	Interest expense
	-	20	-	-	Administration expenses

39 Related parties (continued)

39.3 Related party balances and transactions (continued)

31 March 2014

Related party	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction type
	€000	€000	€000	€000	
Immediate parent company					
	-	-	1,497	-	Other assets
	-	-	-	113	Amounts owed to customers
	6	-	-	-	Fee and commission income
Ultimate parent company					
	-	168	-	-	Monitoring fees
Subsidiaries					
	-	-	-	397	Amounts owed to customers
	-	-	-	52	Other liabilities
	-	16	-	-	Interest expense
	-	167	-	-	Administration expenses
	-	5	-	-	Net impairment
Other Medifin Group companies					
	-	-	16,648	-	Other assets
	31	-	-	-	Fee and commission income
	-	4,162	-	-	Operating lease expense
	-	-	-	1,842	Amounts owed to customers
	-	17	-	-	Interest expense
Directors					
	-	-	17	-	Loans and advances to customers
	-	-	-	200	Amounts owed to customers
	-	110	-	-	Directors' fees
	1	-	-	-	Interest income
	-	1	-	-	Interest expense
	-	2,082	-	-	Personnel expenses

39 Related parties (continued)

39.3 Related party balances and transactions (continued)

Furthermore, as detailed in note 28:

- €19.4 million (2014: €21 million) were paid as dividends by the Bank to the immediate parent which in turn re-invested €19.4 million (2014: €21 million) in ordinary A shares.
- In August 2014 the Bank received a shareholder contribution equivalent to €8.9 million (2014: €1.2 million). On 25 November 2014, the Bank repaid €16.5 million of Shareholders contribution to the parent company having received all required approvals from the MFSA.

The related party transactions in the preceding tables also apply to the Bank with the exception of the personnel expenses for the financial year ended 31 March 2015 that for the Bank were equivalent to €2.5 million.

In addition to the above, as at 31 March 2015 the Bank also had a bank placement by MedCorp amounting to €0.3 million and an advance granted to MedCorp amounting to 6.4 million. The amount due by MedCorp as at 31 March 2015 represents a loan agreement entered into on 23 September 2014, which is unsecured and has a maximum principal amount of not more than €50 million. Interest income amounting to €0.2 million was charged by the Bank on this advance during the period.

40 Segmental information

The Group has a single reportable segment represented by the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related risk and corporate secured lending. Information about the products and services and geographical areas are set out in notes 4, 19, 20 and 21 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.

In accordance with Article 89 of CRD IV, a credit institution must disclose, by country in which it operates through a subsidiary or a branch, information about turnover, number of employees, profit before tax, tax and public subsidies received. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

	Turnover *	Full-time equivalent staff	Profit before tax	Tax
	2015	31 March 2015	2015	2015
	€000	No	€000	€000
Malta	111,060	245	39,836	(4,414)
Belgium	5,429	4	(5,383)	-
	116,489	249	34.453	(4,414)
	2014	31 March 2014	2014	2014
	€000	No	€000	€000
Malta	98,643	227	36,141	(10,490)
Belgium	5	3	(6,275)	-
	98,648	230	29,866	(10,490)

40 Segmental information (continued)

* Turnover is defined as interest income, fee and commission income and other operating income. The 2015 turnover allocated to Belgium include interest charged to Head Office amounting to €5.3 million.

The MedBank Group carried out its activities in the countries listed above under the name of Mediterranean Bank in Malta, Mediterranean Corporate Bank Limited in Malta and MeDirect in Belgium. Activities in Malta and Belgium include banking and wealth management.

41 Investor compensation scheme

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

42 Trust and custody activities

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

At 31 March 2015, the total assets held by the Bank on behalf of customers were €139.7 million (2014: €27.8 million).

43 Events after the reporting date

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

The Bank's commitment to the further strengthening of the controls and corporate governance of the Group will be reinforced by the SSM process. It is also a good opportunity to continue strengthening the reputation which the Group enjoys both in Malta and internationally. The Group is confident that it will meet the high expectations of the ECB.

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

43.3 On 1 June 2015, the National Bank of Belgium issued a credit institution licence to MeDirect. The assets and liabilities of MedBank's Belgian branch were transferred from the branch to MeDirect on 1 June 2015. As of 1 June 2015, MeDirect became a member of the Belgian depositor compensation scheme.

43.4 Subsequent to end of the financial reporting period, the Bank had already repurchased €51 million of the Senior Secured Floating Rate notes. Furthermore, on 5 June 2015, MedBank, as holder of the Subordinated Notes of GH I notified the noteholders of its intention to cause GH I to redeem all remaining outstanding notes. Such outstanding notes were redeemed in July 2015.

43.5 Subsequent to year end, the Bank bought back a further €34,900 nominal value of its 6.25% Bonds due 2015 through market operations.

43.6 As described in notes 14 and 28, €7.0 million will be distributed from the retained earnings as a final dividend by way of a bonus share issue subject to regulatory approval. This will transfer substantially all retained earnings as permanent capital.

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

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Independent Auditors' Report

To the Members of 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 25 to 142, which comprise the statements of financial position as at 31 March 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act, and 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 2015 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

Report on Other Legal and Regulatory Requirements

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 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

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

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 Directors' Report for the financial year 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.

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 Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

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Independent Auditors' Report (continued)

To the Members of Mediterranean Bank plc

Report on Other Legal and Regulatory Requirements

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 1 to 11.

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 1 to 11 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

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

KPMG
Registered Auditors

29 July 2015

Medifin Holding Group

Additional Regulatory Disclosures in terms of CRR
For the Year Ended 31 March 2015

Contents

1 Introduction

The European Parliament has approved the new capital reforms, being Regulation (EU) No.575/2013 of the European Parliament and of the Council of 26 June 2013, also known as Capital Requirements Regulations ("CRR") and the Capital Requirements Directive ('CRD IV'). These reforms implement the Basel III measures into Europe with the sole objective to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress which in turn, mitigate spill-over damage to the real economy. The CRD IV legislation has been implemented with an effective date of 1 January 2014.

Key elements of the CRR include:

- Reduced Capital Resources through changes to the definition of capital and grandfathering of old instruments. Permanent interest bearing shares ('PIBS') and subordinated debt will be phased out over ten years from 2013. Over the period 2014 -18, there will be changes and additions to capital deductions from Core Tier 1 and Tier 2 capital including pension deficit, Fair-value reserve[4], assets rated below BB- and Expected Loss.
- Increased Capital Requirements through Asset Value Correlations, Credit Value Adjustments and deduction of Deferred Tax Assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities.
- New limits and capital buffers: Higher thresholds for all forms of capital with an increased focus on Core Tier 1, with a potential to hold a ratio of up to 12.5% including Capital Conservation, Countercyclical and Systemic Risk Buffers.
- Introduction of the Leverage Ratio, with set minimum Tier 1 leverage ratio of 3%.

2 Overview

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

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

Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Annual Report. These Disclosures have been appropriately verified internally by the Group's management including a review by the Group's internal auditor.

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

3 Risk Management Function

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

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

As at 31 March 2015, the Group's Risk Management team comprised nine full-time professionals under the management of the Group Chief Risk Officer. Their responsibilities are divided as follows:

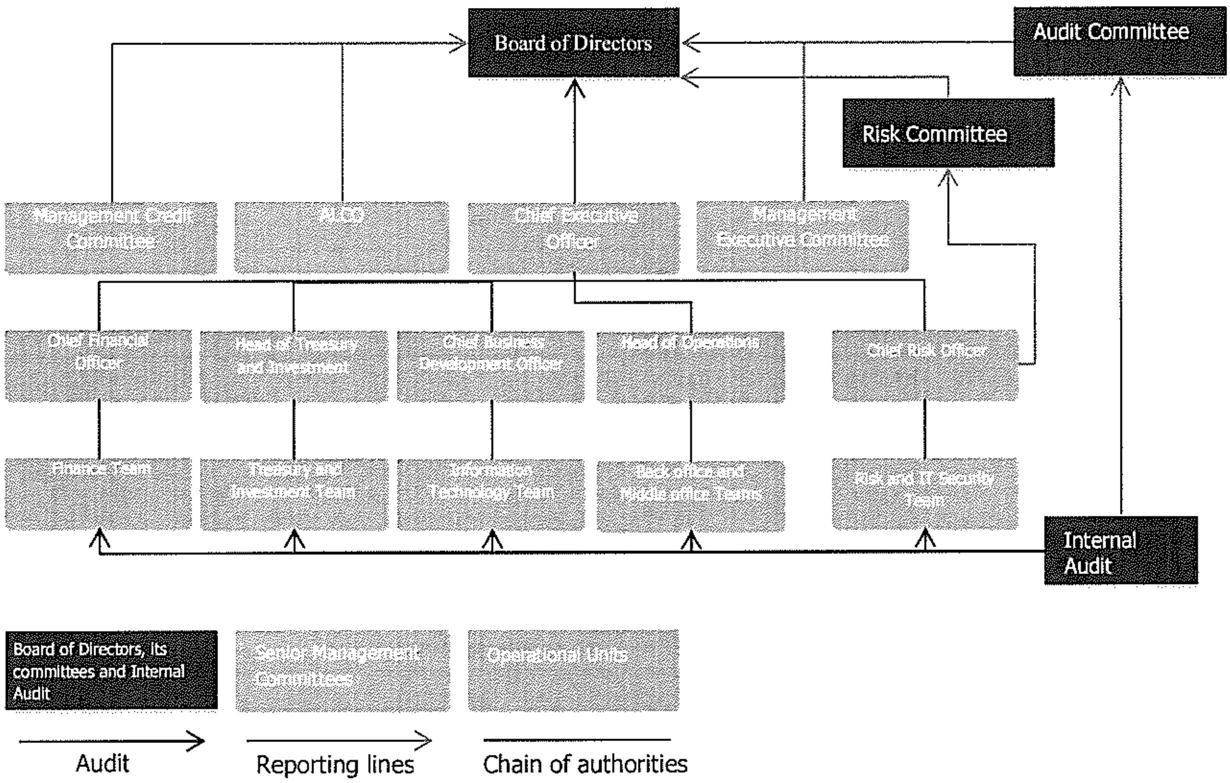
- Risk Architecture (4 staff members) – portfolio-level analysis and risk reporting, Operational Risk management and reporting.
- Risk Analysis (2 staff members) – credit, liquidity and market risk analysis and review, supported by and working with analysts from the Treasury and Investments team as appropriate.
- Risk Management (1 staff member) – risk strategy, credit risk management of asset portfolio, operational risk management around banking and wealth management services, capital management and funding and contact with regulatory authorities.
- System Support (2 staff members) – maintenance, enhancement and development of the Group's primary risk reporting and portfolio management information system. Although using a well-known third-party system, the Group has taken advantage of its open architecture to develop a number of additional capabilities.
- Information Security Manager (1 staff member) – ensuring that adequate policies, procedures and processes are in place to ensure the integrity of the Group's information systems and associated data.

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

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

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

3.1 Risk Management Governance



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

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

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

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

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

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

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

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

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

B. The **Treasury Services Committee** considers 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.

3.2 Risk Management Framework and Policies

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

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

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

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

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

3.3 Risk Management Initiatives

During the year, the Group's Risk Management function carried out risk assessments on a number of business areas within the Group, in particular the International Corporate Customers (ICC) business and MedCorp's local loan portfolio. The latter assessment was carried out in conjunction with an independent consultant, and resulted in a number of recommendations to strengthen internal controls over this function, which are now in the process of implementation.

The Group has continued to deepen the level of analysis performed in association with, and to support, its periodic risk reporting. This applies across all areas of risk. These results are presented to the Bank's ALCO monthly, as well as to the board and shareholder representatives.

4 Own Funds

4.1 Total available capital

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

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

4.1.1 Common Equity Tier 1 - composition

Common Equity Tier 1 Capital which includes:

- ordinary share capital;
- share premium;
- shareholders' contribution;
- retained earnings;
- reserve for general banking risks;
- fair value reserve; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme and the carrying amounts of investment in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.[5]

4.1.2 Common Equity Tier 1 Capital – terms and conditions

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

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

iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to Medifin whereby Medifin has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return and has no obligation to repay the Contribution. These terms and conditions of such Contribution renders this instrument to be equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.

[5] More details are included in the notes to the Financial Statements.

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

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

v. Reserve for General Banking Risks – in accordance with article 25 of CRR, the Group has allocated from its Retained Earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to further details in Note 28 "*Capital and reserves*" to the financial statements.

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

4.1.3 Tier 2 Capital

Tier 2 Capital consists of subordinated liabilities in issue, which rank behind the claims of all depositors (including financial institutions) and all other creditors. As at 31 March 2015, subordinated liabilities included within Tier 2 Capital the following debt securities issues which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

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

4.2 Own Funds – other disclosures

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

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

For the year ended 31 March 2015, the dividends declared by MedBank at year end will be in the form of issue of shares and, being capitalised Retained Earnings, would be eligible to be included as part of the CET 1.

4.3 Own Funds

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

Below is a table showing the composition of the own funds of the Group in accordance to CRR and the related captions within the Statement of Financial Position of the Annual Report 2015.

	2015 **€000**
CET 1 Capital	**165,585**
Common Equity tier 1 capital: instruments and reserves	**166,343**
Capital instruments and the related share premium accounts	69,494
Retained earnings	98,872
Accumulated Other Comprehensive Income and other reserves, to include unrealised gains and losses under the applicable accounting standards	(3,052)
Funds for general banking risk	1,029
Common Equity Tier 1 (CET1) capital : regulatory adjustments	**(758)**
Intangible assets (net of related tax liability)	(758)
TIER 2 Capital	**52,024**
Subordinated loans	46,744
Oher Comprehensive Income	5,280
Total Capital	**217,609**
Deferred tax assets not deducted from CET1 capital	**4,189**
Total Risk weighted assets	**1,468,374**
Capital Ratios	
Tier 1 capital	11.3%
Total capital	14.8%

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013, Part Eight Article 437 (1) of the CRR the following is a full reconciliation of the Group's Own Funds items to the audited financial statements as at 31 March 2015.

Capital Base	**2015 €000**	**Note**
Shareholders' equity according to the Group's balance sheet	178,195	
Anticipated dividend	-	
Additional value adjustments	(11,852)	1
Deferred tax assets	-	2
Intangible assets	(758)	
Common Equity Tier 1 capital/Total Tier 1 capital	165,585	
Tier 2 instrument	52,024	
Total Tier 2 capital	52,024	
Total capital base	217,609	

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

Note (2): The Group's deferred tax assets which stood at €4.2 million at 31 March 2015 are exempted from deduction from Common Equity Tier 1 items in accordance with CRR Article 470 and are risk weighted at 250%.

5 Capital Requirements

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

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

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

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

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

- Foreign Exchange Risk – The Group has adopted the Basic Method to determine its foreign Exchange Risk requirement in accordance with Article 351 of the CRR. Accordingly, the Group complies with the standard association of the external ratings of ECAIs with the credit quality steps prescribed in the CRR.

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

The following table shows the exposure values after credit risk mitigation associated with each credit quality step, gross of off-balance sheet exposures and after removing asset items deducted from Own Funds.

Credit risk exposure – analysis by credit quality step

	Credit quality step 1 €000	Credit quality step 2 €000	Credit quality step 3 €000	Credit quality step 4 €000	Credit quality step 5 €000	Credit quality step 6 €000	Unrated €000	Total €000
Central Government or Central Banks	267,919	49,711	2,621	49,923	-	-	31,038	401,212
Multilateral Development Banks	96,100	-	-	-	-	-	-	96,100
International organisations	43,077	-	-	-	-	-	-	43,077
Institutions	18,097	104,605	8,139	-	-	-	133,400	264,241
Corporates	-	-	-	-	-	-	1,060,648	1,060,648
Retail	-	-	-	-	-	-	4,194	4,194
Secured by mortgages on immovable property	-	-	-	-	-	-	31,357	31,357
Exposure in default	-	-	-	-	-	-	48,642	48,642
Items associated with particular high risk	-	-	-	-	-	-	27,902	27,902
Covered bonds	506,107	278,471	24,794	-	-	-	-	809,372
Equity exposure	-	-	-	-	-	-	2,790	2,790
Other	-	-	-	-	-	-	16,319	16,319
Total	931,300	432,787	35,554	49,923	-	-	1,356,290	2,805,854

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

	Exposure value €000	Exposure value average €000	Risk weighted assets €000	Capital required €000
Central Government or Central Banks	401,213	358,971	-	-
Multilateral Development Banks	96,100	93,706	-	-
International organisations	43,077	57,520	-	-
Institutions	264,241	245,815	82,689	6,615
Corporates	1,060,648	974,499	1,052,137	84,171
Retail	4,194	3,506	1,555	124
Secured by mortgages on immovable property	31,357	31,357	20,148	1,612
Exposure in default	48,642	48,642	67,466	5,397
Items associated with particular high risk	27,902	27,900	41,614	3,329
Covered bonds	809,372	699,028	114,463	9,157
Securitisation positions	-	3,024	-	-
Equity exposure	2,790	2,632	2,790	223
Other	16,319	15,015	21,923	1,754
Total	2,805,854	2,561,615	1,404,785	112,382

The following table shows the total capital requirements for credit, operational and foreign exchange risks which totalled €117.5 million:

Total capital requirements

	Risk weighted assets €000	Capital required €000
Credit risk	1,404,785	112,382
Operational risk	62,583	5,006
Foreign exchange risk	-	-
Credit valuation adjustment risk	1,006	81
Total	1,468,374	117,469

Own Funds of the Group as at 31 March 2015 stood at €217.6million.

As the Group does not have a trading book, no capital is allocated for trading book market risk.

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

Capital instruments' main features

Instruments	Medifin Holding Limited Ordinary shares	Medifin Holding Limited Share premium	Mediterranean Bank plc 7.5% Subordinated Bonds EUR 2019	Mediterranean Bank plc 7.5% Subordinated Bonds GBP 2019
Unique identifier	N/A	N/A	MT0000551227	MT0000551235
Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
Regulatory treatment				
Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
Post-transitional CRR rules	Tier 1	Additional Tier 1	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidatec
Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EUR17.9 million	EUR3.9 million
Nominal amount of instrument	EUR55.7 million	EUR 13.8 million	EUR18.7 million	EUR4.1 million
Issue price	EUR1 per share	EUR0.335 per share	EUR100 per bond	GBP100 per bond
Redemption price	N/A	N/A	EUR100 per bond	GBP100 per bond
Accounting classification	Share capital	Share Premium	Liability - amortised cost	Liability - amortised cost
Original date of issuance	10 June 2004	10 June 2004	21 November 2012 (Note 1)	21 November 2012 (Note 1)
Perpetual or dated	Perpetual	Perpetual	Dated	Dated
Original maturity date	N/A	N/A	14 December 2019	14 December 2019
Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
Coupons / dividends				
Fixed or floating dividend/coupon	Floating	Floating	Fixed	Fixed
Coupon rate and any related index	N/A	N/A	7.5% per annum	7.5% per annum
Existence of a dividend stopper	No	No	No	No
Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	Fully discretionary	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	Fully discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	N/A	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
Write-down features	No	No	No	No
Position in subordination hierarchy in liquidation	Subordinated to Mediterranean Bank plc subordinated bonds	Subordinated to Mediterranean Bank plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
Non-compliant transitioned features	No	No	No	No

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

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

Capital instruments' main features

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

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

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

6 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP is a procedure, adopted under Basel II, Pillar 2, to ensure that:

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

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

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

7 Counterparty Credit Risk

7.1 Scope and Nature of Counterparty Credit Risk

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

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

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

7.2 Counterparty Credit Risk Exposure

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

Below is tabulated the CCR exposure of the Group as at 31 March 2015:

Contract type	*Residual Maturity*	*Notional Amount (€'m)*	*Applicable percentage*[6]	*Mark-to-Market (€'m)*	*Gross Exposure (€'m)*	*Risk-weight*[7]	Value (€'m)
Interest Rate Swaps	Over one year, not exceeding five years	417	0.5%	-	2.085	2%	0.042
Interest Rate Swaps	Over five years	680	1.5%	-	10.200	2%	0.204
Swaption	Over five years	90	1.5%	.076	525.838	50%	263.919
Foreign currency contracts	One year or less	265	1%	3.101	2.648	20%	.530
Foreign currency contracts	One year or less	2	1%	.02	0.001	50%	.001
					540,772		263.695

8 Credit Risk

8.1 Scope and Nature of Credit Risk

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

Credit risk by exposure type

	Statement of financial position value €000	Exposure value €000	Exposure percentage %
Balances with Central Banks and cash	14,384	14,384	0.51%
Derivative assets held for risk management	3,197	3,197	0.11%
Loans and advances to financial institutions	168,278	168,278	6.00%
Loans and advances to customers	1,047,194	1,047,194	37.32%
Investments	1,503,696	1,503,696	53.59%
Investment in subsidiaries	-	-	-
Property and equipment	1,501	1,501	0.05%
Intangible assets	758	758	0.03%
Deferred tax assets	4,199	4,199	0.15%
Prepayments and accrued income	21,310	21,310	0.76%
Other assets	26,472	26,472	0.94%
Total assets	**2,790,989**	**2,790,989**	**99.46%**
Off-balance sheet items and value adjustments		15,627	0.56%
Asset items deducted from own funds		(762)	(0.03)%
Total exposure		**2,805,854**	**100.0%**

[6] Applicable percentages per Table 1 of Article 274 (2) (c)
[7] Based on counterparty ratings

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

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

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

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

1) Credit risk exposure – analysis by exposure class

	Exposure value €000	Exposure percentage %
Central Government or Central Banks	401,212	14%
Multilateral Development Banks	96,100	3%
International organisations	43,077	2%
Institutions	264,241	9%
Corporates	1,060,648	38%
Retail	4,194	0%
Secured by mortgages on immovable property	31,357	1%
Exposures in default	48,642	2%
Items associated with particular high risk	27,902	1%
Covered bonds	809,372	29%
Equity exposures	2,790	0%
Other	16,319	1%
Total	**2,805,854**	**100%**

2) Credit risk exposure – analysis by geographical distribution

	Australia €000	Europe €000	North America €000	Total €000
Central Government or Central Banks	527	400,685	-	401,212
Multilateral Development Banks	-	96,100	-	96,100
International organisations	-	43,077		43,077
Institutions	-	263,941	300	264,241
Corporates	-	936,094	124,554	1,060,648
Retail	-	4,194	-	4,194
Secured by mortgages on immovable property	-	31,357	-	31,357
Exposures in default	-	48,642	-	48,642
Items associated with particular high risk	-	27,902	-	27,902
Covered bonds	-	768,633	40,739	809,372
Equity exposure	-	2,790	-	2,790
Other	-	16,319	-	16,319
Total	**527**	**2,639,734**	**165,593**	**2,805,854**

3) Credit risk exposure – analysis by residual maturity

	Less than 1 year €000	1 to 5 years €000	Over 5 years €000	Total €000
Central Government or Central Banks	40,697	79,439	281,076	401,212
Multilateral Development Banks	-	31,627	64,473	96,100
International organisations	-	43,077	-	43,077
Institutions	133,400	46,307	84,534	264,241
Corporates	109,357	885,035	66,256	1,060,648
Retail	2,645	1,017	532	4,194
Secured by mortgages on immovable property	6,507	2,686	22,164	31,357
Exposures in default	7,595	28,998	12,049	48,642
Items associated with particular high risk	9,028	12,409	6,465	27,902
Covered bonds	-	336,761	472,611	809,372
Equity exposure	2,790	-	-	2,790
Other	14,818	1,501	-	16,319
Total	**326,837**	**1,468,857**	**1,010,160**	**2,805,854**

8.2 Managing Credit Risk

8.2.1 Risk Management Objectives

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

Hedging and mitigation of credit risk

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

8.2.2 Credit and Investment Policy

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

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

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

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

8.2.3 Treasury Management Policy (TMP)

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

The Treasury Management Policy includes the following approved limits:

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

8.2.4 Credit Quality Analysis

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

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

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

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

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

8.2.5 Impairment Loss Measurement Guidelines

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

In accordance with the policy, impaired investment securities and loans are those where a loss event has occurred and the Group establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

8.2.6 *Reconciliation of collective impairment allowance*

	Local corporate lending €000	Senior secured corporate lending €000	Investment securities €000	Total €000
Year ended 31 March 2015				
At beginning of year	-	872	463	1,335
Acquisition through business combination	1,140	-	-	1,140
Additions charged to profit or loss	(262)	2,228	(463)	1,503
At end of year	**878**	**3,100**	**-**	**3,978**

8.2.7 *Reconciliation of specific impairment allowance*

	Local corporate lending €000	Senior secured corporate lending €000	Investment securities €000	Total €000
Year ended 31 March 2015				
At beginning of year	-	1,422	-	1,422
Acquisition through business combination	8,671	-	-	8,671
Additions charged to profit or loss	(136)	(357)	-	(493)
Exchange movement	-	13	-	13
At end of year	**8,535**	**1,078**	**-**	**9,613**

8.3 Settlement Risk

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

Mitigation of settlement risk

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

8.4 Credit Valuation Adjustment (CVA)

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

Using the regulatory formula, capital required in respect of CVA risk as at 31 March 2015, is calculated to be €81 thousand on a total exposure of €1.0 million.

8.5 Exposures in Equities

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

The mark-to-market value of the exposure in equity is of €2.6 million, with capital gains amounting to €0.1 million recorded in the profit or loss for the year ended 31 March 2015.

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

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

The total Equity holding does not fall under the definition of "qualifying holding"[8] and is below the small trading book business threshold (Article 94 of CRR) given that it is less than 5% of total assets and therefore is not eligible to be part of a trading book.

9 Leverage

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

A monitoring period has been allowed which runs till January 2017, during which time a minimum ratio of 3% should apply – this limit will then be reassessed in 2017, pending a political decision in the EU on whether it should be included as a Pillar 1 requirement beginning in 2018. The Group's Leverage Ratio is determined and monitored on a regular basis and is well above the 3% minimum requirement.

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

The Leverage Ratio is a three-month average of capital as proportion of total exposures in which both are defined according to Basel III.

- Capital: Tier 1 capital as per CRR
- Exposures: Total on and off balance sheet exposures less the deductions applied to Tier 1 Capital as per CRR requirements.

$$\text{Leverage ratio} = \frac{\text{Tier 1 Capital}}{\text{Total on} - \text{and off} - \text{balance sheet assets adjusted for deductions}}$$

	Tier 1 capital €000	Total on/off adjusted assets €000	Leverage ratio %
As at 31 March 2015	165,585	2,800,215	5.9%

10 Liquidity Risk

10.1 Scope and Nature of Liquidity Risk

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

10.2 Managing Liquidity Risk

10.2.1 Risk Management Objective

The Group's objective in 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 Group's reputation.

Management of liquidity risk is the responsibility of the Group's Treasury Department and the Risk Office, under the oversight of the Board, ALCO, Risk Committee and the Risk Department and under an approach set out in its Treasury Management Policy (TMP).

10.2.2 Treasury Management Policy

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

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

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

10.2.3 Management Asset-Liability Committee (ALCO)

ALCO meets at least monthly (and more frequently as necessary) to analyse and review the liquidity position of the Group, to formulate this strategy to manage and optimise the Group's asset-liability mix, and to oversee the Group's market risk position.

As such, ALCO is the executive-level body that oversees the Group's compliance with the TMP, and that receives much of the analysis specified in it.

10.2.4 Board Risk Committee

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

10.2.5 Roles and responsibilities

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

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

10.2.6 Funding Strategy

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

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

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

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources while recognising its position as a regulated credit institution. Potential funding sources may include, but are not limited to:

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

Residual contractual maturities of the Group's financial liabilities

	Carrying amount €000	Gross nominal outflow €000	Less than 1 month €000	1 month to 3 months €000	3 months to 1 year €000	1 year to 5 years €000	Over 5 years €000
As at 31 March 2015							
Non-derivative liabilities							
Amount owed to financial institutions:							
- Due to central banks	250,000	250,032	-	250,032	-	-	-
- Due to clearing houses	879,000	882,009	73,275	70,197	422,380	316,157	-
- Due to other banks	37,091	37,175	18,169	18,762	-	244	-
Amounts owed to customers	1,203,715	1,238,497	397,725	359,450	140,911	339,606	805
Debt securities in issue	9,204	9,843	-	-	9,843	-	-
Debt securities in issue through non derecognised controlled entity	147,933	173,011	-	-	2,174	8,702	162,135
Subordinated liabilities	47,777	72,285	-	-	3,291	36,153	32,841
	2,574,720	2,662,852	489,169	698,441	578,599	700,862	195,781
Derivative liabilities							
Derivative liabilities held for risk management							
- Interest rate swaps	3,114						
- Inflows		16,699	-	-	1,336	11,288	4,075
- Outflows		(17,835)	-	-	(1,428)	(12,043)	(4,364)
- Foreign exchange swaps	2,086	890	(12)	880	22	-	-
	5,200	(246)	(12)	880	(70)	(755)	(289)

10.3 Liquidity Reporting

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

- Before the relevant liquidity provisions under the Capital Requirements Regulations and Directive become effective in 2015, the Group is required to maintain its liquid asset ratio of net cash to short-term customer liabilities, in excess of 30%. The calculation of this ratio is performed by Finance and submitted to the MFSA as part of the Group's statutory monthly returns. Liquidity ratio, being the ratio of net cash to wholesale (margin-sensitive) funding. This cash buffer is designed to ensure that the Group can meet any additional margin requirement that might be imposed by the ECB or by repo counterparties, resulting either from changes in market values of assets or from increases in applicable haircuts.

A summary of MFSA Liquidity Asset Ratios during the year is shown below and all measures are well above the statutory minimum of 30%:

	2015
At 31 March	73.5%
Average for the year	115.9%
Maximum for the year	168.2%
Minimum for the year	73.5%

CRR will introduce the Liquidity Coverage Ratio (LCR), which is aimed at ensuring short-term resilience of financial institutions. They will be required to hold at all times liquid assets, the total value of which equal, or is greater than, the net liquidity outflows which might be experienced under stressed conditions over a short period of time (30 days). Net cash outflows are to be computed on the basis of a number of assumptions concerning run-off and draw-down rates. The LCR was being monitored in the EU since January 2013. Calibration is expected to be further undertaken regarding liquid assets and net cash outflows. This fine-tuning will provide input for the level-two regulations to be introduced by the European Commission before October 2015, when the LCR is expected to come into effect for all credit institutions in the EU.

The LCR is subject to an observation period and shall be introduced in accordance with a phase-in approach, whereby a minimum requirement of 60% will be required as from 1 October 2015, increasing it gradually to 100% as from 1 January 2018.

The Net Stable Funding Requirement (NSFR) requires that available stable funding (equity and liability financing expected to remain stable over a one-year time horizon) at least equals the matching assets, i.e. illiquid assets which cannot be easily turned into cash over the following 12 months. In the European Union the components of the NSFR are being monitored with a view to introducing a binding requirement in 2018.

11 Market Risk

11.1 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 Group's income or the value of its holdings of financial instruments.

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

11.2 Managing Market Risks

11.2.1 Risk Management Objectives

The key objective of managing market risk is to maximise the Group'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 (which is negligible), all foreign exchange risk within the Group is managed and hedged by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Group's investment portfolio 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.

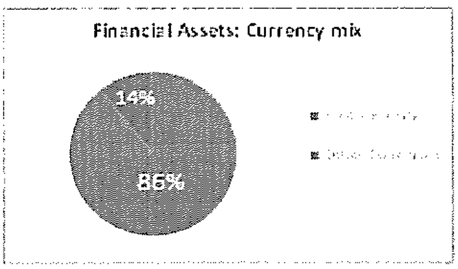
The Bank's *Treasury Management Policy* provides the framework within which treasury prudently manages interest rate, foreign exchange, funding, liquidity, counterparty and investment risk, and any other associated risks related to managing the assets and liabilities presented on the Statement of Financial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

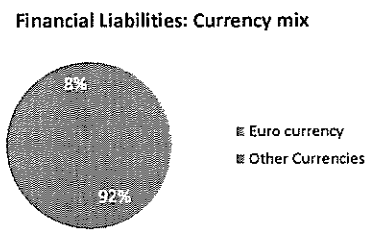
The Bank's *Asset-Liability Management Policy* establishes the standards, internal controls, reporting requirements and approval processes that govern the on-going management of (i) the liquidity and asset-liability mix of the Group and (ii) the Group's market, interest rate and currency risk.

11.3 Foreign exchange Risk

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

The following diagrams depict an analysis of the financial assets and financial liabilities of the Group into relevant currency mix.





12 Interest Rate Risk in Non-Trading Book

12.1 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.

12.2 Managing Interest Rate Risk – risk management

12.2.1 Interest Rate Risk Management

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

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

12.2.2 Interest Rate Risk Reporting and Analysis

The Risk Department prepares an interest rate risk report of the Group on a monthly basis. This report outlines the effects of potential yield curve moves on:

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

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

31 March 2015		Re-pricing in:		
	Carrying amount €000	Less than 3 months €000	3 months to 1 year €000	More than 1 year €000
Balances with Central Banks	13,823	13,823	-	-
Loans and advances to financial institutions	168,278	168,278	-	-
Loans and advances to customers	1,047,194	956,412	83,171	7,611
Investments (excluding equity investments)	1,500,906	319,575	32,707	1,148,624
	2,730,201	**1,458,088**	**115,878**	**1,156,235**
Amounts owed to financial institutions:				
- Due to central bank	250,000	250,000	-	-
- Due to clearing houses	879,000	143,000	421,000	315,000
- Due to other banks	37,091	37,091	-	-
Amounts owed to customers	1,203,715	745,464	122,160	336,091
Debt securities issued	9,204	-	9,204	-
Debt securities issued through non derecognised controlled entity	147,933	-	147,933	-
Subordinated liabilities	47,777	-	-	47,777
	2,574,720	**1,175,555**	**700,297**	**698,868**
Interest rate gap	**155,481**	**282,533**	**(584,419)**	**457,367**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios. The estimated impact on Net Interest Margin (NIM) as a result of a 100 basis points (bps) movement and on Fair Value Reserve as a result of a 100 basis points (bps) parallel fall or rise in the yield curves, after taking into account the effect of hedge accounting, and making the assumption that market rates will never become negative, would be as follows:

31 March 2015	100 bps parallel increase €million	100 bps parallel decrease €million
Impact on NIM	17.2	(17.7)
Impact on EV	27.4	(21.9)

10.2.3 Hedging and mitigation of interest rate risk

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

13 Operational Risk

13.1 Scope and Nature of Operational Risk

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

13.2 Managing Operational Risk

13.2.1 Risk Management Objective

The objective of operational risk management is to manage the likelihood of material financial losses or reputational damage within the Group's risk tolerance, while aiming to maintain overall cost effectiveness or the use of control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

Key to achieving this objective is to ensure that the Group has in place an appropriate and effective controls framework. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

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

13.2.2 Operational Risk Management and Principles

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

The operational risk framework is objectively formulated within the context of the Group's operations and specified risk appetite and tolerance in line with industry standards and is ultimately intended to embed and maintain a strong operational risk and internal control culture.

13.2.3 IT Security Risk Management

The Group 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 development function. Moreover, accompanying security risks are being managed by the IT Security team, which is involved in selecting and overseeing the operations of the Group's security solutions, establishing the Group's security stance through policy, architecture and awareness, and carrying out vulnerability audits and assessments.

13.2.4 Business Continuity Planning

The Business Continuity Plan (BCP) is intended to provide the Group with a plan of actions necessary to restore business to a minimum acceptable level in the event of a disruption, with specific focus on the prioritisation of the recovery of the business processes and the technology required to support such processes.

The main objective of the plan is to restore critical business operations in a timely manner in the event of a business disruption by minimising the number of critical decisions to be made at the time of the event by:

- Ensuring that clear instructions regarding the action plan are communicated to staff members and relevant parties; and

- Ensuring that all necessary human resources, material resources and technology are in place to support critical processes.

In the event that any of the critical business units experience a significant disruption, the Business Continuity Team is responsible for directing the business effectively and as efficiently as possible.

The Risk function ensures that the BCP remains effective by keeping the plan up to date as the business evolves, and by testing the plan on a regular basis.

Additionally, the Group also put in place an 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 adequate 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 Group may execute critical business processes in a disaster scenario.

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

14 Remuneration Policy and Practices

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

15 Recruitment and Diversity Policy Statement

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

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

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

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

16 Other Directorships

The number of other directorships held by members of MedBank's Board are listed in the table below:

Director		**Number of other directorships held** No
Francis J. Vassallo	Independent Non-Executive Director	46
Frederick Mifsud Bonnici	Independent Non-Executive Director	3
Benjamin Hollowood	Non-Executive Director	5
Mark A. Watson	Executive Director	4
Henry C. Schmeltzer	Executive Director	3
Joaquin Vicent	Executive Director	3
Vincent Chatard	Executive Director	None

Medifin Holding Group

Asset Encumbrance Disclosures
As at 31 March 2015 as per Banking Rule 7/2014, Appendix 3

A. Assets

	Carrying amount of encumbered assets 2015 €000	Fair value of encumbered assets 2015 €000	Carrying amount of unencumbered assets 2015 €000	Fair value of unencumbered assets 2015 €000
Equity instruments	-	-	2,790	2,790
Debt securities	1,170,037	1,170,037	343,922	343,922
Other assets	358,371	358,371	915,869	915,869
Assets of the reporting institution	1,528,408	1,528,408	1,262,581	1,262,581

B. Collateral received

	Fair value of encumbered collateral received or own debt securities issued 2015 €000	Fair value of collateral received or own debt securities issued available for encumbrance 2015 €000
Collateral received by the reporting institution	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-

C. Encumbered assets/collateral received and associate liabilities

	Matching liabilities, contingent liabilities or securities lent 2015 €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2015 €000
Carrying amount of selected financial liabilities	1,142,716	1,152,334

D. Information on importance of encumbrance

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

The unencumbered assets disclosed in Table A under item Other Assets include Loans and advances, Cash and short term funds, property, plant and equipment, tax assets and other assets.

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

Five Year Comparison
For the Year Ended 31 March 2015

Statements of Profit or Loss and Other Comprehensive Income: Five year comparison

	Group	Bank			
	31 Mar 2015 €000	31 Mar 2014 €000	31 Mar 2013 €000	31 Mar* 2012 €000	31 Dec 2010 €000
Interest income	**73,979**	64,567	50,945	64,067	41,834
Interest expense	**(40,156)**	(33,589)	(27,668)	(34,327)	(14,188)
Net interest income	33,823	30,978	23,277	29,740	27,646
Net fee and commission income/(expense)	**1,022**	634	(1,826)	(171)	(1,030)
Net trading income	**417**	2,292	1,111	1,252	346
Net (loss)/gain from financial instruments carried at fair value through profit or loss	**(4,154)**	1,883	4,156	547	-
Gain on initial accounting of a subsidiary	**22,414**	-	-	-	-
Other operating income	**21,593**	28,028	27,534	48,931	3,280
Total operating income	**75,115**	63,815	54,252	80,299	30,242
Net impairment loss	**(4,265)**	(2,081)	(676)	(62,885)	-
Administrative and other expenses	**(19,716)**	(17,186)	(9,920)	(9,020)	(5,625)
Personnel expenses	**(15,767)**	(13,785)	(11,164)	(6,461)	(5,137)
Depreciation and amortisation	**(914)**	(877)	(945)	(772)	(365)
Profit before tax	**34,453**	29,886	31,547	1,161	19,065
Taxation	**(4,414)**	(10,490)	(11,064)	(453)	(3,955)
Profit	30,039	19,396	20,483	708	15,110
Other comprehensive income					
Fair value reserve (Available-for-sale financial assets):					
- Net change in fair value	**37,192**	1,457	44,505	37,103	2,877
- Net amount transferred to profit or loss	**(19,172)**	(24,948)	(28,020)	(36,977)	(5,046)
Related tax on Other Comprehensive Income	**(6,307)**	8,222	(5,770)	147	759
Other comprehensive income, net of tax	**11,713**	(15,269)	10,715	273	(1,410)
Total comprehensive income	**41,752**	4,127	31,198	981	13,700

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

Statements of Financial Position: Five year comparison

	Group	Bank			
	31 Mar 2015 €000	31 Mar 2014 €000	31 Mar 2013 €000	31 Mar* 2012 €000	31 Dec 2010 €000
Assets					
Balances with Central Banks, treasury bills and cash	14,384	18,091	70,055	63,656	10,526
Derivative assets held for risk management	3,197	404	1,152	2,572	-
Derivative assets held for trading	-	404	-	-	-
Loans and advances to financial institutions	167,775	87,714	20,131	27,804	35,801
Loans and advances to customers	1,047,194	621,747	402,174	27,666	-
Investments	1,503,462	1,427,337	1,564,034	1,415,493	1,324,114
Investment in subsidiaries	-	1	65	63	-
Property and equipment	1,452	1,908	2,485	2,880	2,682
Intangible assets	63	128	228	351	1,371
Deferred tax asset	4,189	3,764	-	244	695
Prepayments and accrued income	21,305	23,262	27,996	19,442	14,646
Other assets	20,542	18,888	13,598	15,649	1,728
Total assets	**2,783,563**	**2,203,648**	**2,101,918**	**1,575,820**	**1,391,563**
Equity					
Share capital	117,450	98,050	62,350	56,030	41,030
Share premium	13,464	13,464	13,464	13,464	13,464
Shareholders' contribution	2,103	9,750	8,500	-	-
Reserve for general banking risks	1,029	91	-	-	-
Fair value reserve	6,022	(5,691)	9,578	(1,137)	(1,410)
Retained earnings	29,197	19,496	21,191	7,029	6,382
Exchange differences on consolidation	-	-	-	-	5
Total equity	**169,265**	**135,160**	**115,083**	**75,386**	**59,471**
Liabilities					
Derivative liabilities held for risk management	5,200	2,973	-	-	-
Amounts owed to financial institutions	1,166,091	1,008,976	1,368,995	1,093,753	1,134,986
Amounts owed to customers	1,205,586	776,715	566,047	379,555	172,847
Debt securities in issue	157,137	230,127	15,664	19,672	14,735
Subordinated liabilities	47,777	22,385	12,341	-	-
Current tax liabilities	4,110	10,794	7,660	166	3,891
Deferred tax liabilities	1,901	-	5,062	-	-
Accruals and deferred income	24,600	15,409	9,966	6,606	4,855
Other liabilities	1,896	1,109	1,100	682	778
Total liabilities	**2,614,298**	**2,068,488**	**1,986,835**	**1,500,434**	**1,332,092**
Total equity and liabilities	**2,783,563**	**2,203,648**	**2,101,918**	**1,575,820**	**1,391,563**

Statements of Cash Flows: Five year comparison

	Group	Bank			
	31 Mar 2015 €000	31 Mar 2014 €000	31 Mar 2013 €000	31 Mar* 2012* €000	31 Dec 2011 €000
Cash flows from operating activities					
Interest and commissions receipts	**105,852**	78,759	52,741	60,158	38,158
Interest and commission payments	**(37,621)**	(30,256)	(30,128)	(30,287)	(13,828)
Payments to employees and suppliers	**(35,617)**	(29,064)	(15,715)	(26,984)	(9,328)
Operating profit before changes in operating assets/liabilities	**32,614**	19,439	6,898	2,887	15,002
(Increase)/decrease in operating assets:					
Reserve deposit with Central Banks	**(1,551)**	(855)	(1,360)	(68)	(1,971)
Loans and advances to customers and financial institutions	**(325,644)**	(200,665)	(297,583)	(27,250)	(1,038)
Investment securities	**(255,353)**	(670,319)	91,657	1,091,620	(694,718)
Increase/(decrease) in operating liabilities:					
Amounts owed to customers and financial institutions	**376,008**	290,750	474,850	(171,114)	291,006
Tax paid	**(11,735)**	(7,960)	(4,038)	(3,847)	-
Net cash flows (used in)/from operating activities	**(185,661)**	(569,610)	270,424	892,228	(391,719)
Cash flows from investing activities					
Acquisition of subsidiary	**(35,300)**	-	-	-	-
Acquisition of property and equipment	**(54)**	(171)	(431)	(1,026)	(2,142)
Disposal of property and equipment	**25**	9	-	109	-
Acquisition of intangible assets	**(50)**	(34)	-	(4,517)	(1,191)
Disposal of intangible assets	**-**	-	-	5,401	-
Acquisition of available-for-sale assets	**(722,352)**	(335,871)	(1,170,867)	(3,184,077)	(81,489)
Disposal/redemption of available-for-sale assets	**987,220**	1,126,144	941,592	1,987,289	84,768
Acquisition of assets held-for-risk management	**(37,087)**	(4,851)	(13,749)	(4,728)	-
Advances to parent	**-**	(15)	(200)	(1,273)	(77)
Advances to Group companies	**107**	(5,329)	(2,071)	(3,575)	-
Net cash from/(used in) investing activities	**192,509**	779,882	(245,726)	(1,206,397)	(131)
Cash flows from financing activities					
Proceeds from the issue of share capital	**-**	14,700	6,320	15,000	1,509
Net movement in shareholder's contribution	**(7,647)**	1,250	9,325	-	-
Proceeds from the issue of debt securities	**-**	237,359	-	4,937	14,735
Re-purchase of debt securities	**(75,204)**	(22,912)	(4,095)	-	-
Net proceeds from the debt securities in issue and subordinated liabilities	**25,037**	9,907	12,341	-	-
Dividends paid	**-**	-	(7,143)	-	-
Net cash from/(used in) financial activities	**(57,814)**	240,304	16,748	19,937	16,244
Movement in cash and cash equivalents	**(50,966)**	450,576	41,446	(294,232)	(375,606)
Cash and cash equivalents acquired through business combination	**(26,007)**	-	-	-	-
Cash and cash equivalents at beginning of period	**(125,246)**	(575,822)	(617,268)	(323,036)	52,570
Cash and cash equivalents at end of period	**(202,219)**	(125,246)	(575,822)	(617,268)	(323,036)

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

Accounting Ratios: Five year comparison

	Group	Bank			
	31 Mar 2015 %	31 Mar 2014 %	31 Mar 2013 %	31 Mar* 2012 %	31 Dec 2010 %
Net interest income and other operating income to total assets	3.0%	3.0%	3.0%	5.4%	2.9%
Operating expenses to total assets	1.6%	1.6%	1.2%	5.3%	1.1%
Cost to income ratio	54.1%	53.2%	41.9%	98.4%	37.0%
Profit before tax to total assets	1.3%	1.4%	1.7%	0.08%	1.8%
Profit after tax to total assets	1.2%	0.9%	0.11%	0.05%	1.44%
Profit before tax to equity	22.6%	23.9%	33.1%	1.72%	36.6%
Profit after tax to equity	19.7%	15.5%	21.5%	1.05%	29.0%

	Group	Bank			
	31 Mar 2015 No	31 Mar 2014 No	31 Mar 2013 No	31 Mar* 2012 No	31 Dec 2010 No
Shares in issue	117,450,107	98,050,107	62,350,107	56,030,107	41,030,107

	Group	Bank			
	31 Mar 2015 €	31 Mar 2014 €	31 Mar 2013 €	31 Mar* 2012 €	31 Dec 2010 €
Net assets per share	1.44	1.38	1.85	1.35	1.34
Earnings /(loss) per share (cents) based on profit after tax	26c	23c	36c	1c	37.4c

The equity and total assets figure are based on the simple average value for the financial year.

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

Mediterranean Bank plc

Shareholder register information

Analysis of the share capital of the Mediterranean Bank plc as at 31 March 2015:

Mediterranean Bank plc C34125

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Medifin Holding Limited	Ordinary A	117,450,106	100	1.000000

	Number of shares	Number of holders
Class A	117,450,106	1
Class B	1	1

	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

Analysis of the share capital of the parent company of the parent company of Mediterranean Bank plc, Medifin Holding Limited, as at 31 March 2015:

Medifin Holding Limited C34111

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Medifin Investments Limited	Ordinary A	56,406,546	100	1.000000
Mark Watson Holdings Limited	Ordinary B	1	100	1.000000

Company Secretary

Jaccarini, Edward

Senior Management

Watson, Mark A.	Chief Executive Officer
Bonello Ghio, Lorraine	Head of Administration and Human Resources
Calleja, Raymond	Head of Consumer Banking
Catania, Deo	Head of Operations
Chatard, Vincent	Chief Business Development Officer
Wallace, Tyler	Head of Corporate Credit
Jaccarini, Edward	Chief Financial Officer
Camilleri, Owen	Deputy Chief Financial Officer
Schmeltzer, Henry C.	Head of Commercial Strategy and Legal
Vicent, Joaquin	Head of Treasury and Investment
Wallace, Dominic	Chief Risk Officer
Cini, Charles	Chief Officer – MedCorp
De Pauw, Xavier	Chief Officer – MeDirect

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