Mediterranean Bank plc
Condensed
Interim Financial Statements
30 June 2011

Company Registration Number C 34125

Mediterranean Bank plc
30 June 2011

Mediterranean Bank plc

Directors' Report Pursuant to Listing Rules 5.74 et seq

For the six months ended 30 June 2011

The Directors issue their Report pursuant to the Malta Financial Services Authority Listing Rules and the Prevention of Financial Markets Abuse Act, 2005. This report, which shall be read in conjunction with the condensed interim financial statements of the Group and the Bank for the six months ended 30 June 2011, including the notes thereto, forms part of the half-yearly report of Mediterranean Bank plc, drawn up in accordance with the requirements of Listing Rules 5.74 et seq.

Principal Activities

The principal activities of Mediterranean Bank plc (the "Bank") are to provide market leading banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management and investments.

Financial Performance

The net operating income was €15.32 million for the Group (six months ended 30 June 2010: €12.77 million) and €15.32 million for the Bank (six months ended 30 June 2010: €12.77 million). Profitability continues to be driven through the Bank's focus on its Treasury management capabilities which, combined with its low cost base and superior customer service, have enabled it to position itself as a market leading provider of savings and term deposit products, primarily in the Maltese market. The Bank's portfolio reached €1.509 billion as of 30 June 2011, based primarily on the development of relationships in the wholesale banking markets and strong momentum in its client acquisition. Impairment charges of €7.8 million (six months ended 30 June 2010: € nil) related to the exchange of Greek government bonds as analysed under note 7 to the financial statements for the period ended 30 June 2011. Despite this impairment provision and increased volatility in the eurozone sovereign markets, the Bank recognised a profit for the first six months of the year.

The Bank has entered into a series of macro hedges against European peripheral risk resulting in €6.5 million realised gains (unaudited), which will be recognised in the statement of comprehensive income in the second half of 2011.

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

Strategic Development

The Bank's prime strategic objective is to be a leading provider of savings and wealth management products to the mass affluent market, both in Malta and other European Union countries. This is underpinned by a proactive Treasury management function, focused on high quality EU assets, which will enable the Bank to be competitive in the deposit market on an ongoing basis.

Over the 12 months ended 30 June 2011, the Bank's business has witnessed significant growth, with its asset base reaching €1.576 billion. This has been funded principally via the bi-lateral repo market, the open market operations of the ECB, proceeds of the Bank's bond issues, the Bank's deposit base and its capital. Growth of assets has been achieved through access to European capital markets. The Bank is confident that it can continue to grow its assets base in view of the ongoing funding needs of the European financial, public and corporate sectors and the fact that the Bank's portfolio represents a *de minimis* proportion of the markets for European public and financial sector bonds.

Strategic Development (continued)

In July the Bank opened its fourth branch, based in Mosta. During August 2011, the shareholders' continued confidence in the Bank's strategy was evidenced by an increase of €15 million in their investment in the Banking Group, which took the share capital and premium of the Bank to just under €70 million. As a result of the capital increase, the Bank's total equity increased from €61.54 million to €76.54 million.

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

Mediterranean Bank remains committed to operating with strong regulatory ratios in terms of capital and liquidity and to continue to import market leading risk management practices for the benefit of its customers, shareholders and all stakeholders. The capital increase of €15 million effected on 12 August 2011 demonstrates this commitment, and will support future growth both locally and internationally.

Outlook

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

Related Parties

During the six months ended 30 June 2011, other than the planned transaction described under note 8 to the financial statements for the six months ended 30 June 2011, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 December 2010 (note 32). During this period no related party transactions materially affected the financial position or performance of the Bank.

Statement by the directors pursuant to Listing Rule 5.75.3

We, the undersigned, declare that to the best of our knowledge, the condensed interim financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board on 30 August 2010 and signed on its behalf by:

Mr. Francis J. Vassallo
Chairman

Mr. Mark Alexander Watson
Director and Chief Executive Officer

Mediterranean Bank plc

Condensed Interim Statements of Financial Position

At 30 June 2011

	Group		Bank	
	30 Jun 11	31 Dec 10	**30 Jun 11**	31 Dec 10
	€'000	€'000	**€'000**	€'000
Assets				
Balances with the Central Bank of Malta and cash	**33,165**	10,526	**33,165**	10,526
Loans and advances to banks	**10,276**	35,801	**10,276**	35,801
Loans and advances to customers	**1,304**	1,295	**1,304**	1,295
Investments securities	**1,508,653**	1,324,114	**1,508,653**	1,324,114
Investments in subsidiaries	-	-	**63**	63
Property and equipment	**2,982**	2,682	**2,898**	2,596
Intangible assets	**401**	1,371	**401**	1,371
Non-current assets held for sale	**3,781**	-	**3,781**	-
Other assets	**1,245**	433	**1,239**	443
Prepayments and accrued income	**13,640**	14,646	**13,640**	14,646
Deferred tax asset	**139**	695	**139**	695
Total assets	**1,575,586**	1,391,563	**1,575,559**	1,391,550
Equity				
Share capital	**41,030**	41,030	**41,030**	41,030
Share premium	**13,464**	13,464	**13,464**	13,464
Retained earnings/(Accumulated Losses) brought forward	**6,382**	(8,729)	**6,321**	(8,718)
Profit/(loss) for the period/year	**1,033**	15,111	**1,003**	15,039
Exchange translation reserve	**9**	5	-	-
Fair value reserve	**(376)**	(1,410)	**(376)**	(1,410)
Total equity	**61,542**	59,471	**61,442**	59,405
Liabilities				
Amounts owed to banks	**1,196,086**	1,134,986	**1,196,086**	1,134,986
Amounts owed to customers	**285,617**	172,847	**285,690**	172,926
Debt securities in issue	**19,609**	14,735	**19,609**	14,735
Current tax	**4,443**	3,891	**4,406**	3,865
Other liabilities	**1,635**	778	**1,676**	783
Accruals	**6,654**	4,855	**6,650**	4,850
Total liabilities	**1,514,044**	1,332,092	**1,514,117**	1,332,145
Total equity and liabilities	**1,575,586**	1,391,563	**1,575,559**	1,391,550

Approved by the Board on 30 August 2011 and signed on its behalf by:

Mr. Francis J Vassallo
Chairman

Mr. Mark Alexander Watson
Director and Chief Executive Officer

Mediterranean Bank plc

Condensed Interim Statements of Changes in Equity

For the six months ended 30 June 2011

Group

	Share capital €'000	Share premium €'000	Retained earnings/ (Accumulated losses) €'000	Exchange translation reserve €'000	Fair value reserve €'000	Total €'000
Balance as at 1 January 2010	39,521	13,464	(8,729)	4	-	44,260
Total comprehensive income for the period						
Profit for the period	-	-	5,609	-	-	5,609
Other comprehensive income						
Available-for-sale assets:						
Net change in fair value	-	-	-	-	(2,787)	(2,787)
Net amount transferred to profit or loss on sale	-	-	-	-	750	750
Income tax on available- for-sale movement	-	-	-	-	713	713
Exchange translation reserve	-	-	-	7	-	7
Total other comprehensive income	-	-	-	7	(1,324)	(1,317)
Total comprehensive income for the period	-	-	5,609	7	(1,324)	4,292
Transactions with owners, recorded directly in equity - contributions by and distributions to owners						
Issue of share capital	1,509	-	-	-	-	1,509
Total contributions by owners	1,509	-	-	-	-	1,509
Balance as at 30 June 2010	41,030	13,464	(3,120)	11	(1,324)	50,061
Balance as at 1 January 2011	**41,030**	**13,464**	**6,382**	**5**	**(1,410)**	**59,471**
Total comprehensive income for the period						
Profit for the period	-	-	**1,033**	-	-	**1,033**
Other comprehensive income						
Available-for-sale assets:						
Net change in fair value	-	-	-	-	**2,712**	**2,712**
Net amount transferred to profit or loss on sale	-	-	-	-	**(1,119)**	**(1,119)**
Income tax on available-for-sale movement	-	-	-	-	**(559)**	**(559)**
Exchange translation reserve	-	-	-	**4**	-	**4**
Total other comprehensive income	-	-	-	**4**	**1,034**	**1,038**
Total comprehensive income for the period	-	-	**1,033**	**4**	**1,034**	**2,071**
Balance as at 30 June 2011	**41,030**	**13,464**	**7,415**	**9**	**(376)**	**61,542**

Mediterranean Bank plc

Condensed Interim Statements of Changes in Equity

For the six months ended 30 June 2011

Bank

	Share capital €'000	Share premium €'000	Retained earnings/ (Accumulated losses) €'000	Fair value reserve €'000	Total €'000
Balance as at 1 January 2010	39,521	13,464	(8,718)	-	44,267
Total comprehensive income for the period					
Profit for the period	-	-	5,588	-	5,588
Other comprehensive income					
Available-for-sale assets:					
Net change in fair value	-	-	-	(2,787)	(2,787)
Net amount transferred to profit or loss on sale	-	-	-	750	750
Income tax on available-for-sale movement	-	-	-	713	713
Total other comprehensive income	-	-	-	(1,324)	(1,324)
Total comprehensive income for the period	-	-	5,588	(1,324)	4,264
Transactions with owners, recorded directly in equity - contributions by and distributions to owners					
Issue of share capital	1,509	-	-	-	1,509
Total contributions by owners	1,509	-	-	-	1,509
Balance as at 30 June 2010	41,030	13,464	(3,130)	(1,324)	50,040
Balance as at 1 January 2011	**41,030**	**13,464**	**6,321**	**(1,410)**	**59,405**
Total comprehensive income for the period					
Profit for the period	-	-	**1,003**	-	**1,003**
Other comprehensive income					
Available-for-sale assets:					
Net change in fair value	-	-	-	**2,712**	**2,712**
Net amount transferred to profit or loss on sale	-	-	-	**(1,119)**	**(1,119)**
Income tax on available-for-sale movement	-	-	-	**(559)**	**(559)**
Total other comprehensive income	-	-	-	**1,034**	**1,034**
Total comprehensive income for the period	-	-	**1,003**	**1,034**	**2,037**
Balance as at 30 June 2011	**41,030**	**13,464**	**7,324**	**(376)**	**61,442**

Mediterranean Bank plc

Condensed Interim Statements of Comprehensive Income

For the six months ended 30 June 2011

	Group		Bank	
	30 Jun 11	30 Jun 10	**30 Jun 11**	30 Jun 10
	€'000	€'000	**€'000**	€'000
Interest income	**24,736**	17,695	**24,736**	17,695
Interest expense	**(11,237)**	(5,495)	**(11,237)**	(5,495)
Net interest income	**13,499**	12,200	**13,499**	12,200
Fee and commission income	**110**	60	**110**	60
Fee and commission expense	**(54)**	(384)	**(54)**	(384)
Net fee and commission (expense)/income	**56**	(324)	**56**	(324)
Net trading income	**449**	156	**449**	156
Other operating income	**1,319**	740	**1,319**	740
Net operating income	**15,323**	12,772	**15,323**	12,772
Net impairment loss on financial assets	**7,833**	-	**7,833**	-
Administrative expenses	**3,056**	2,271	**3,590**	3,258
Personnel expenses	**2,578**	2,967	**2,094**	2,011
Depreciation and amortisation	**271**	145	**263**	143
Total operating expenses	**13,738**	5,383	**13,780**	5,412
Profit before tax	**1,585**	7,389	**1,543**	7,360
Tax expense	**(552)**	(1,780)	**(540)**	(1,772)
Profit for the period	**1,033**	5,609	**1,003**	5,588
Other comprehensive income				
Net change in fair value of available for sale assets	**2,712**	(2,787)	**2,712**	(2,787)
Net change in fair value of available for sale assets transferred to profit or loss	**(1,119)**	750	**(1,119)**	750
Income tax on other comprehensive income	**(559)**	713	**(559)**	713
Exchange translation reserve	**4**	7	**-**	-
Other comprehensive income for the period, net of income tax	**1,038**	(1,317)	**1,034**	(1,324)
Total comprehensive income for the period	**2,071**	4,292	**2,037**	4,264
Basic earnings per share	**2c5**	**14c1**	**2c4**	**14c**

Mediterranean Bank plc

Condensed Interim Statements of Cash Flows

For the six months ended 30 June 2011

	Group		Bank	
	30 Jun 11	30 Jun 10	**30 Jun 11**	30 Jun 10
	€'000	€'000	**€'000**	€'000
Cash flows from operating activities				
Interest and commission receipts	**25,243**	12,820	**25,243**	12,820
Interest and commission payments	**(8,864)**	(1,943)	**(8,864)**	(1,943)
Payments to employees and suppliers	**(6,345)**	(3,238)	**(6,345)**	(2,804)
Operating profit before changes in operating assets/liabilities	**10,034**	7,639	**10,034**	8,073
(Increase)/decrease in operating assets:				
- Reserve deposits with Central Bank of Malta	**(951)**	-	**(951)**	-
- Financial assets	**(189,623)**	(704,974)	**(189,623)**	(704,974)
- Loans and advances to customers and banks	**99**	(1,558)	**99**	(1,558)
Increase/(decrease) in operating liabilities:				
- Amounts owed to customers and banks	**(204,682)**	237,017	**(204,689)**	237,017
Net cash outflows from operating activities	**(385,123)**	(461,876)	**(385,130)**	(461,442)
Cash flows from investing activities				
- Payments to acquire property and equipment	**(618)**	(405)	**(611)**	(365)
- Payments to acquire held for sale assets	**(2,770)**	(74)	**(2,770)**	(74)
- Payments to acquire available-for-sale assets	**(247,686)**	(109,787)	**(247,686)**	(109,787)
- Proceeds from sale of available-for-sale assets	**249,005**	110,527	**249,005**	110,527
- Advances to parent and ultimate parent	**36**	(177)	**36**	(177)
- Advances to subsidiary	**-**	-	**-**	(474)
Net cash flows from investing activities	**(2,033)**	84	**(2,026)**	(350)
Cash flows from financing activities				
- Proceeds from the issue of share capital	**-**	1,509	**-**	1,509
- Proceeds from the issue of debt securities	**4,874**	-	**4,874**	-
Net cash flows from financing activities	**4,874**	1,509	**4,874**	1,509
Net decrease in cash and cash equivalents	**(382,282)**	(460,283)	**(382,282)**	(460,283)
Cash and cash equivalents at beginning of period	**(323,036)**	52,570	**(323,036)**	52,570
Cash and cash equivalents at end of period	**(705,318)**	(407,713)	**(705,318)**	(407,713)

1 Reporting entity

Mediterranean Bank plc (the "Bank") is domiciled and incorporated in Malta. The condensed interim financial statements of the Bank as at and for the six months ended 30 June 2011 include the Bank and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available upon request from the Bank's registered office and are available for viewing on its website at www.medbank.com.mt.

2 Statement of compliance

These condensed interim financial statements have been prepared in accordance IAS 34 *Interim Financial Reporting* as adopted by the EU.

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of Mediterranean Bank plc as at and for the year ended 31 December 2010.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in these condensed interim financial statements are the same as those applied in the financial statements as at and for the year ended 31 December 2010.

Derivatives

During 2011, the Bank has been actively managing its exposure to interest rate risk through the use of swaptions. The Bank also employs foreign exchange currency swaps in its execution of it money market activities. Such derivatives are not held for trading purposes, are not designated in a qualifying hedge relationship and are classified at fair value through profit or loss.

Swaption premiums paid are expensed over the contracted periods.

All changes in the fair value of foreign exchange currency swaps are recognised immediately in the income statement as a component of net operating income.

4 Estimates

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

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010, except for those relating to the impairment of financial instruments.

5 Taxation

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

The Bank's and the Group's effective tax rate is 35%, which is the same rate as the applicable domestic tax rate of 35% (six months ended 30 June 2010: 24.1%). The effective income tax rate for the six months ended 30 June 2010 was lower due to the utilisation of previously unrecognised deferred tax asset arising from available tax losses brought forward.

6 Segment information

The Bank has a single reportable segment represented by the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt and sovereign related risk as detailed in note 7 below. Product and services and geographical areas are comparable to those as at 31 December 2010. Information about the financial risk, credit concentrations by sector and location and revenues from the single reportable segment can be obtained from the financial statements for the year ended 31 December 2010. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

7 Investments

Market overview

Over the last year, Greece, Ireland and Portugal, have witnessed a distinct decline in their ability to refinance public debt finances.

In May 2010, the eurozone governments and the IMF undertook to provide Greece with a €110 billion support plan in exchange for a commitment to reduce its budget deficit. As a reflection of their continual support, on 21 July 2011 representatives from the 17 eurozone member states drew up a second assistance plan of €160 billion for Greece, which included the participation by private investors amounting to an estimated €135 billion.

The support plan for Ireland, which was adopted in November 2010, provided for €85 billion in public support, while the plan for Portugal adopted in May 2011 provided for €78 billion in public support.

Each of these plans was accompanied by measures to bring about robust reductions in the public deficits.

7 Investments (continued)

Mediterranean Bank's exposure to Greek, Irish and Portuguese sovereign risk

The Bank's exposure to sovereign eurozone countries covered by a European support plan and post-Greek exchange is expected to be as follows:

	% of Total Portfolio
Greece	2.3%
Portugal	3.6%
Ireland	0.0%

In addition, the Bank holds 2.9% of its portfolio in Malta sovereign risk.

Greek sovereign debt instruments due to mature prior to 31 December 2020 are covered by provisions under the second support plan for Greece containing several options. The Bank intends to participate in this exchange and will evaluate each option as and when the final terms and conditions become available. Each option includes the availability of AAA collateral to support principal repayment and thus provide a credit enhanced exposure.

Impairment of Financial Assets

As at 30 June 2011, the Bank carried out an assessment as to whether there is objective evidence that a financial asset or a group of financial assets of the Bank is impaired, based on the following criteria:

- a loss event occurred after the initial recognition of the asset and up to 30 June 2011;
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

The total profit and loss impact is an impairment loss of €7.8 million relating to the Greek exposure.

No impairments were deemed necessary on other European sovereign instruments as to date there is no evidence that the recovery of the future cash flows associated with these securities is compromised.

Macro Hedging

During the first half of 2011, the Bank acquired an Available-for-Sale ("AFS") portfolio specifically as a macro hedge instrument. The characteristics of this portfolio are low or negative correlation with eurozone peripheral risk.

During the third quarter of 2011, the Bank crystallised a proportion of the portfolio to realise profits in excess of €6.5 million, which mitigates any losses recognised through provisioning of impairment.

8 Non-current assets held for sale

In line with the intention of Medifin Holding Limited, the Bank's parent company, to establish a separate leasing entity within the parent group, the Bank reclassified €4.2 million of intangible assets and €0.1 million of tangible fixed assets as non-current assets held for sale. These assets are measured at the lower of their carrying amount or fair value less disposal costs. The assets are not depreciated and have been presented separately on the balance sheet.

9 Debt securities in issue

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

10 Contingent liabilities

No events occurred that required any changes to the contingent liabilities of the Bank disclosed in the financial statements for the year ended 31 December 2010.

11 Commitments

At reporting date, the Bank had financial commitments amounting to €8.1 million in respect unsettled repo borrowing (settled on 5 July 2011).

At 30 June 2011, the Bank had capital commitments amounting to €1.4 million in connection with the acquisition of a new Core Banking IT System.

12 Subsequent events

Except as described below, there were no material events which occurred subsequent to the reporting date which would otherwise require adjustment or disclosure in these condensed interim financial statements.

- By an extraordinary resolution dated 12 August 2010, it was resolved to increase the fully paid up issued share capital by 15,000,000 ordinary shares of €1.00 each, to be fully paid in cash.

- Medbank Leasing limited, a fully owned subsidiary of the Bank's parent company, Medifin Holding Limited, was incorporated on 20 July 2011. The company is to act as the leasing arm of Bank and other group entities in respect of the Bank's non-current assets held for sale and new non-financial assets. Medbank Leasing Limited will lease such assets to users within the Group.

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Independent Auditors' Report on Review of Condensed Interim Financial Statements

To the Board of Directors of

Mediterranean Bank plc

Introduction

We have reviewed the accompanying condensed interim financial statements of Mediterranean Bank plc (the "Bank") and of the Group of which the Bank is the parent (the "Condensed Interim Financial Statements") set out on pages 1 to 9, which comprise the condensed statements of financial position as at 30 June 2011, and the related condensed statements of comprehensive income, condensed statements of changes in equity and condensed statements of cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of the condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. Our responsibility is to express a conclusion on these interim financial statements based on our review.

This report is made solely to the Board of Directors in accordance with the terms of our engagement and is released for publication in compliance with the requirements of Listing Rule 5.74 et seq issued by the Listing Authority. Our review has been undertaken so that we might state to the Board of Directors those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors for our review work, for this report, or for the conclusions we have expressed.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors

30 August 2011