

**Mediterranean Bank plc**  
**Condensed Consolidated**  
**Interim Financial Statements**  
**30 September 2014**

**Mediterranean Bank plc**  
30 September 2014

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# Mediterranean Bank plc

## Interim Directors' Report pursuant to Listing Rules 5.74 et seq

For the six-months ended 30 September 2014

### Principal Activities

The principal activities of Mediterranean Bank plc (the "Bank") and its principal subsidiary, Mediterranean Corporate Bank (together referred to as the 'Group') are to provide market leading banking services primarily to the mass affluent sector, focusing primarily on savings, wealth management, investments and corporate banking.

### Financial Performance

The Group reported a profit before tax of €24.9 million for the six months ended 30 September 2014 compared with €16.7 million for the same period last year, representing an increase of 49%. This performance was positively impacted by a gain of €22.4 million recorded on the acquisition of Mediterranean Corporate Bank Limited (previously Volksbank Malta Limited) on 25 September 2014.

During the six-months ended 30 September 2014, the Bank registered net interest income of €17.5 million (30 September 2013: €14.7 million) and other operating income of €27.1 million (30 September 2013: €14.4 million), resulting in a total operating income of €42.5 million (30 September 2013: €31.4 million). Total operating expenses amounted to €15.8 million (30 September 2013: €14.5 million).

The Bank continued to build its investments and loan portfolios. As at 30 September 2014, the Bank investment securities portfolio stood at €1.805 billion (31 March 2014: €1.427 billion). Corporate lending activities stood at €735.8 million (31 March 2014: €621.7 million). A balance of €52.3 million recorded as contingent assets relate to corporate lending, being transactions traded but not yet acquired.

### Business Development

The Bank'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 other European Union countries.

On 25 September 2014, the Bank acquired 100% of the share capital of Volksbank Malta Limited for a cash consideration of €35.3 million. This acquisition is intended to develop the corporate banking platform of the Mediterranean Bank group in Malta and to broaden and deepen its relationships with corporate customers in the Maltese market. Volksbank Malta Limited was re-named Mediterranean Corporate Bank Limited.

The Bank has made significant investments in technology that have allowed it to introduce new online banking and investment services for its customers, together with systems to support such services. Investment services include online execution of brokerage transactions in respect of equities, bonds and funds as well as foreign exchange execution capabilities. The Bank is also introducing 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. The Belgian branch is currently an online provider of savings and investment products. Through its online platform for savings, e-brokerage and e-wealth management, it 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 online investment analysis and tools; and competitive savings rates.

# Mediterranean Bank plc

## Interim Directors' Report pursuant to Listing Rules 5.74 et seq (continued)

For the six-months ended 30 September 2014

Supported by a robust liability structure, the asset base of the Bank has continued to grow, having reached €2.668 billion as at 30 September 2014. The Bank 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 corporate credit portfolio consisting primarily of senior secured loans and bonds.

The Group's corporate credit portfolio stood at €735.8 million as of 30 September 2014 (31 March 2014: €621.7 million), net of collective impairment loss allowances of €2.3 million (31 March 2014: €0.9 million) and specific impairment loss allowances of €10.7 million (31 March 2014: €1.4 million), of which €8.671 million were recognised on acquisition of subsidiary. The Bank's corporate credit 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 corporate credit portfolio is diversified geographically and across industries, with most lending focused on core European countries and the UK.

The Bank continues to fund its portfolios through deposits and through the international wholesale banking markets. The growth of the Bank's deposit base, both in Malta and internationally (primarily in Belgium), have strengthened and made more robust the Bank's funding platform. Access to the Eurex repo platform and the Bank's €218 million secured note facility issued through a Netherlands funding vehicle have also provided efficient funding for the Bank's treasury and corporate credit portfolios. The Group's core deposit offering is a range of attractively priced fixed-term and other savings products. As at 30 September 2014, the Group's deposit base reached €952.7 million. Growth of the Bank's deposit base has also provided a potential customer base for investment and wealth services products.

Mediterranean Bank remains committed to operating with strong regulatory ratios and a robust liquidity position. At 30 September 2014 the Bank's consolidated Capital Adequacy Ratio stood at 14.25% with a regulatory liquidity ratio stood of 105%.

### Outlook

The increasing overall stability of the European markets and the reduction of interest rates by the ECB have had an overall positive effect on the Bank's funding cost and securities portfolios. Increasing stability in the international capital markets is also expected to have a positive effect on the Bank's wealth management and investment services businesses, as greater investor confidence is expected to increase customer interest in investment products offered by the Bank.

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 Bank's asset portfolios and businesses. Despite these ongoing challenges, the Bank remains confident that its underlying strategy will continue to result in profitable growth.

The Bank has applied to convert its Belgian branch into a subsidiary of the Bank and to obtain a full banking license from the National Bank of Belgium. The Bank aims to have conversion process completed by the end of Q1 2015.

The Bank has grown, and plans to continue to grow, its corporate credit portfolio as a percentage of its overall asset base. As corporate credit assets typically attract higher risk weightings than the highly-rated investment securities in which the Bank has historically invested, the Bank's capital adequacy ratio has decreased during the past two financial years. Notwithstanding the foregoing, the Bank intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements provided by the CRR and also in conformity with any other guidance issued by the MFSA.

# Mediterranean Bank plc

## Interim Directors' Report pursuant to Listing Rules 5.74 et seq (continued)

For the six-months ended 30 September 2014

### Related parties

There were no material changes in related party transactions from those detailed in the financial statements for the period ended 31 March 2014 (note 35). During this period no related party transactions materially affected the financial position or performance of the Bank.

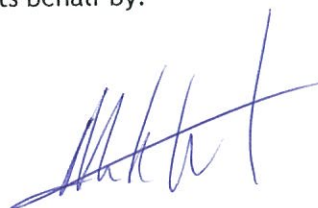
### Statement by the directors pursuant to Listing Rule 5.75.3

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 and that the interim directors report includes a fair review of the information required in terms of Listing Rules 5.81 to 5.84;

Approved by the Board on 26 November 2014 and signed on its behalf by:



Francis J. Vassallo  
*Chairman*



Mark A. Watson  
*Director and Chief Executive*

# Mediterranean Bank plc

## Condensed Consolidated Interim Statement of Financial Position

As at 30 September 2014

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	30 Sep 2014	31 Mar 2014
	€000	€000
<b>ASSETS</b>		
Balances with Central Bank of Malta, treasury bills and cash	6,664	18,091
Loans and advances to financial institutions	57,171	87,714
Loans and advances to customers	735,835	621,747
Investment securities:		
- Corporate	358,006	293,235
- Treasury	1,447,460	1,134,102
Derivative assets held for risk management	1,001	404
Derivative assets held for trading	-	404
Property and equipment	1,893	1,908
Intangible assets	102	128
Other assets	20,822	18,889
Prepayments and accrued income	32,115	23,262
Deferred tax assets	7,372	3,764
<b>Total assets</b>	<b>2,668,441</b>	<b>2,203,648</b>

# Mediterranean Bank plc


## Condensed Consolidated Interim Statement of Financial Position

As at 30 September 2014

	30 Sep 2014	31 Mar 2014
	€000	€000
<b>EQUITY</b>		
Share capital	117,450	98,050
Share premium	13,464	13,464
Shareholders' contribution	18,640	9,750
Reserve for general banking risk	851	91
Retained earnings	23,217	19,496
Fair value reserve	(3,879)	(5,691)
<b>Total equity</b>	<b>169,743</b>	<b>135,160</b>
<b>LIABILITIES</b>		
Amounts owed to financial institutions	1,266,223	1,008,976
Amounts owed to customers	952,743	776,715
Debt securities in issue	230,321	230,127
Derivative liabilities held for risk management	4,538	2,973
Subordinated liabilities	22,628	22,385
Current tax liabilities	962	10,794
Other liabilities	2,543	1,109
Accruals and deferred income	18,740	15,409
<b>Total liabilities</b>	<b>2,498,698</b>	<b>2,068,488</b>
<b>Total equity and liabilities</b>	<b>2,668,441</b>	<b>2,203,648</b>
<b>Contingent assets</b>	<b>52,636</b>	<b>27,700</b>
<b>Commitments</b>	<b>54,052</b>	<b>4,430</b>

The notes on pages 7 to 17 are an integral part of these interim financial statements.

The condensed consolidated interim financial statements on pages 1 to 17 were approved and authorised for issue by the Board of directors on 26 November 2014 and signed on its behalf by:



Francis J. Vassallo  
Chairman



Mark A. Watson  
Director and Chief Executive Officer

# Mediterranean Bank plc

## Condensed Consolidated Interim Statement of Comprehensive Income

For the six-months ended 30 September 2014

	1 Apr 2014 to 30 Sep 2014	1 Apr 2013 to 30 Sep 2013
	€000	€000
Interest income	36,844	30,484
Interest expense	(19,353)	(15,782)
<b>Net interest income</b>	<b>17,491</b>	<b>14,702</b>
<b>Net fee and commission income</b>	<b>436</b>	<b>555</b>
Net trading income	1,117	2,694
Net loss from financial instruments at fair value through profit or loss	(3,630)	(901)
Other operating income	27,103	14,351
<b>Total operating income</b>	<b>42,517</b>	<b>31,401</b>
Administrative and other expenses	8,627	7,406
Personnel expenses	6,803	6,614
Depreciation and amortisation	378	467
<b>Total operating expenses</b>	<b>15,808</b>	<b>14,487</b>
<b>Net operating income before impairment charges</b>	<b>26,709</b>	<b>16,914</b>
Net impairment charges	(1,802)	(179)
<b>Profit before income tax</b>	<b>24,907</b>	<b>16,735</b>
Income tax expense	(1,026)	(5,850)
<b>Profit for the period</b>	<b>23,881</b>	<b>10,885</b>
<b>Other comprehensive income</b>		
Fair value reserve - Available-for-sale assets		
Net change in fair value	5,267	(3,509)
Income tax - Net change in fair value	(1,844)	1,228
Net amount transferred to profit or loss before tax	(2,479)	(12,535)
Income tax - Net amount transferred to profit or loss	868	4,387
<b>Other comprehensive income for the period (net of tax)</b>	<b>1,812</b>	<b>(10,429)</b>
<b>Total comprehensive income for the period</b>	<b>25,693</b>	<b>456</b>
<b>Basic earnings per share (cents)</b>	<b>21c5</b>	<b>13c8</b>

The notes on pages 7 to 17 are an integral part of these financial statements.



# Mediterranean Bank plc

## Condensed Consolidated Interim Statement of Changes in Equity

For the six-months ended 30 September 2014

	Share capital €000	Share premium €000	Shareholders' contribution €000	Retained earnings €000	Fair value reserve €000	Total €000
Balance at 1 April 2013	62,350	13,464	8,500	21,191	9,578	115,083
Total comprehensive income for the period: Profit for the period	-	-	-	10,885	-	10,885
Other comprehensive income for the period: Available-for-sale assets: - Net change in fair value - Net amount transferred to profit or loss	-	-	-	-	(2,281) (8,148)	(2,281) (8,148)
Total comprehensive income for the period, net of tax	-	-	-	10,885	(10,429)	456
Transactions with owners, recognised directly in equity						
Contributions and distributions: issue of bonus shares Shareholders' contribution	21,000	-	-	(21,000)	-	1,250
	-	-	1,250	-	-	1,250
Total contributions and distributions	21,000	-	1,250	(21,000)	-	1,250
Balance at 30 September 2013	83,350	13,464	9,750	11,076	(851)	116,789

The notes on pages 7 to 17 are an integral part of these financial statements.

# Mediterranean Bank plc

## Condensed Consolidated Interim Statement of Changes in Equity (continued)

For the six-months ended 30 September 2014

	Share capital €000	Share premium €000	Shareholders' contribution €000	Retained earnings €000	Reserve for general banking risks €000	Fair value reserve €000	Total €000
Balance at 1 April 2014	98,050	13,464	9,750	19,496	91	(5,691)	135,160
Total comprehensive income for the period:							
Profit for the period	-	-	-	23,881	-	-	23,881
Transfer of retained earnings to reserve for general banking risks	-	-	-	(760)	760	-	-
Other comprehensive income for the period:							
Available-for-sale assets:							
- Net change in fair value	-	-	-	-	-	3,424	3,424
- Net amount transferred to profit or loss	-	-	-	-	-	(1,612)	(1,612)
Total comprehensive income for the period, net of tax	-	-	-	23,121	760	1,812	25,693
Transactions with owners, recognised directly in equity							
Contributions and distributions:							
Issue of bonus shares	19,400	-	-	(19,400)	-	-	-
Shareholders' contribution	-	-	8,890	-	-	-	8,890
Total contributions and distributions	19,400	-	8,890	(19,400)	-	-	8,890
Balance at 30 September 2014	117,450	13,464	18,640	23,217	851	(3,879)	169,743

The notes on pages 7 to 17 are an integral part of these interim financial statements.

# Mediterranean Bank plc

## Condensed Consolidated Interim Statement of Cash flows

For the six-months ended 30 September 2014

	1 Apr 2014 to 30 Sep 2014	1 Apr 2013 to 30 Sep 2013
	€000	€000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	36,787	37,890
Interest payments and commission expense	(16,530)	(13,268)
Payments to employees and suppliers	(16,155)	(12,781)
	-----	-----
<b>Operating profit before changes in operating assets/liabilities</b>	4,102	11,841
(Increase)/decrease in operating assets:		
- reserve deposits with Central Bank of Malta	(1,260)	(71)
- loans advanced to customers and financial institutions	(9,892)	10,272
- investment securities	(235,268)	(312,094)
(Decrease)/increase in operating liabilities:		
- amounts owed to customers and financial institutions	372,394	(29,735)
Tax paid	(11,248)	(7,709)
	-----	-----
<b>Net cash generated from/(used in) operating activities</b>	118,828	(327,496)
	-----	-----
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary	(35,300)	-
Acquisition of property and equipment and intangible assets	(30)	(125)
Acquisition of available-for-sale assets	(219,920)	(336,067)
Disposal/redemptions of available-for-sale assets	121,616	652,203
Derivative assets held for risk management	(21,268)	10,486
Net payments to related parties	(2,181)	(4,389)
	-----	-----
<b>Net cash (used in)/ from investing activities</b>	(157,083)	322,108
	-----	-----
<b>Cash flows from financing activities</b>		
Proceeds from shareholders' contribution	8,890	1,250
Re-purchase of debt securities	(192)	(1,452)
Net proceeds from the issue of subordinated debt securities	-	9,978
Proceeds from issue of debt securities through funding structure	-	237,367
Re-purchase of debt securities issued through funding structure	-	(21,546)
	-----	-----
<b>Net cash from financing activities</b>	8,698	225,597
	-----	-----
<b>Net change in cash and cash equivalents</b>	(29,557)	220,209
Cash and cash equivalents acquired through business combination	(26,002)	-
Cash and cash equivalents at beginning of period	(125,246)	(575,822)
	-----	-----
<b>Cash and cash equivalents at end of period</b>	(180,805)	(355,613)
	=====	=====

The notes on pages 7 to 17 are an integral part of these interim financial statements.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements

For the six-months ended 30 September 2014

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### 1. Reporting entity

Mediterranean Bank plc (the "Bank") is domiciled and incorporated in Malta. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 September 2014 comprise the Bank and its subsidiary, Mediterranean Corporate Bank Limited (together referred to as the 'Group').

The financial statements of the Bank as at and for the year ended 31 March 2014 are available upon request from the Bank's registered office and are available for viewing on its website at [www.medbank.com.mt](http://www.medbank.com.mt).

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

### 2. Basis of preparation

#### 2.1 Statements of compliance

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Report Standards, as adopted by the European Union. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements as at and for the year ended 31 March 2014.

Except for the adoption of IFRS 10, *Consolidated Financial Statements*, there were no other new standards that were adopted during the period ended 30 September 2014.

As a result of the immateriality of the subsidiaries held by the Bank as at March 2014, the consolidated financial statements of the Group, of which the Bank is the parent, were not prepared. Following the acquisition of Mediterranean Corporate Bank Limited during the period, the Bank adopted IFRS 10. This standard which came into effect on 1 January 2014 and therefore applicable to the Bank during the financial period starting 1 April 2014, introduces 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.

#### 2.2 Judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 March 2014.

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.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

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### 2. Basis of preparation (continued)

#### 2.2 Judgements and estimates (continued)

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

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in Note 6 - Financial Instruments.

#### 2.3 Comparative amounts

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

### 3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these interim condensed financial statements are consistent with those applied in the financial statements for the period ended 31 March 2014.

On the acquisition of Mediterranean Corporate Bank Limited, the Bank has adopted IFRS 3, 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. Gains on acquisitions of subsidiaries are 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.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 3. Significant accounting policies (continued)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration 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.

### 4. Operating segments

The Group has principally 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. Product and services and geographical areas are comparable to those as at 31 March 2014. 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 period ended 31 March 2014. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

### 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 Group's effective tax rate is 4%, which is lower than the applicable domestic tax rate of 35% (six months ended 30 September 2013: 35%). The lower effective tax rate is attributable to the fact that the gain on the acquisition of Mediterranean Corporate Bank (note 10.3) is not taxable and other non-allowable expenses.

## 6 Financial instruments

### 6.1 Impairment

	Individually assessed allowances €000	Collective allowances €000	Total €000
<b>Loans and advances to customers</b>			
At 1 April 2014	1,422	872	2,294
Acquisition through business combination	8,671	1,140	9,811
Exchange movement	19	-	19
Charge for the period	628	290	918
At 30 September 2014	10,740	2,302	13,042
<b>Investment securities</b>			
At 1 April 2014	-	463	463
Charge for the period	-	226	226
At 30 September 2014	-	689	689

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 6 Financial instruments (continued)

#### 6.1 Impairment (continued)

	Individually assessed allowances €000	Collective allowances €000	Total €000
<b>Loans and advances to customers</b>			
At 1 April 2013	-	676	676
Charge for the period	-	(30)	(30)
At 30 September 2013	-	646	646
<b>Investment securities</b>			
At 1 April 2013	-	-	-
Charge for the period	-	209	209
At 30 September 2013	-	209	209

#### 6.2 Carrying amounts versus fair values

The carrying amount of financial assets and financial liabilities of the Group represents a reasonable approximation of fair value except for 'held to maturity' investment securities with a carry value of €1,171.0 million, the fair value of which is €1,196.2 million and 'loans and advances to customers' having a carry value of €461.3 million, the fair value of which is €456.2 million.

Furthermore, the fair value of 'loans and advances to customers' with a carry value of €274.5 million and Notes issued through a funding structure within 'debt securities in issue' with a carry value of €216.1 million cannot be reliably measured due to observable prices not being available.

No specific impairment allowances are deemed necessary, other than those disclosed in note 6.1, above.

Disposals of 'loans and advances to customers' take place after due consideration is provided on a case by case basis of the underlying commercial viability. Loans and advances amounting to a carry value of €34.9 million were disposed or redeemed during the interim period realising profits of €0.4 million.

All aspects of the Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 March 2014.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 6 Financial instruments (continued)

#### 6.3 Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used.

	Level 1	Level 2	Level 3	Total
At 30 September 2014	€000	€000	€000	€000
<b>Assets</b>				
Investment				
- Available-for-sale	632,741	-	-	632,741
- Equity instruments	-	2,356	-	2,356
Derivative assets held for risk management	-	1,001	-	1,001
<b>Total financial assets carried at fair value</b>	<b>632,741</b>	<b>3,357</b>	<b>-</b>	<b>636,098</b>
<b>Liabilities</b>				
Derivative liabilities held for risk management	-	4,538	-	4,538
<b>Total financial liabilities carried at fair value</b>	<b>-</b>	<b>4,538</b>	<b>-</b>	<b>4,538</b>
<b>At 31 March 2014</b>				
<b>Assets</b>				
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
<b>Total financial assets carried at fair value</b>	<b>488,349</b>	<b>6,505</b>	<b>-</b>	<b>494,854</b>
<b>Liabilities</b>				
Derivative liabilities held for risk management	-	2,973	-	2,973
<b>Total financial liabilities carried at fair value</b>	<b>-</b>	<b>2,973</b>	<b>-</b>	<b>2,973</b>

Level 2 fair value of derivatives held for risk management are based on valuation models and the methodology is to calculate the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument. 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.



# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 6 Financial instruments (continued)

#### 6.4 Transfers between levels

Equity instruments amounting to €2.356 million (which at 31 March 2014 were valued at €2.474 million) were transferred from Level 1 to Level 2 of the fair value hierarchy during the six months ended 30 September 2014. There were no transfers between Level 1 and Level 2 during the year ended 31 March 2014.

#### 6.5 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 interim period ending 30 September 2014, HTM investments having an amortised cost of €110.4 million (Mar 2014: €38.1 million) were disposed of or reclassified to AFS. The events that caused the Bank to reclassify included a deterioration of the issuer's credit standing which could not reasonably have been foreseen when the investments were originally classified as HTM and that has significantly altered the economic rationale at the time of acquisition.

All investments reclassified from HTM to AFS during the interim period ending 30 September 2014 were sold.

- 6.6 A private placement with a carrying amount of €50.6 million as at 31 March 2014, met the definition of Loans and Receivables on initial recognition. This financial asset was classified as Held-to-Maturity rather than Loans and Receivables. The statement of financial position for the current and the comparative year has been adjusted to reflect the correct classification of the financial asset as Loans and Receivables. There is no impact on the profit or loss as instruments under both classifications are carried at amortised cost less impairment.

### 7. Capital and reserves

	30 Sep 2014	31 Mar 2014
7.1 Share capital	No.	No.
Issued and fully paid up:		
Shares of €1 each		
Ordinary 'A' shares	117,450,106	98,050,106
Ordinary 'B' share	1	1
	-----	-----
	117,450,107	98,050,107
	=====	=====

- 7.2 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 30 September 2014 the authorised share capital consisted of 300,000,000 (31 March 2014: 100,000,000) ordinary shares of €1 each.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 7. Capital and reserves (continued)

#### 7.3 Issued share capital

	Note	30 Sep €000	31 Mar €000
As at 1 April 2014/1 April 2013		98,050	62,350
Issued for cash during the period		-	14,700
Bonus issue during period	7.4	19,400	21,000
		<u>117,450</u>	<u>98,050</u>
Balance as at 30 September 2014/31 March 2014		=====	=====

7.4 The directors' proposal for a final gross ordinary dividend of €19,400,000 representing €0.20 per share as bonus shares for the period ended 31 March 2014 was approved on 28 May 2014 and executed on 29 May 2014.

7.5 By an extraordinary resolution dated 18 August 2014, the shareholders approved a contribution to the Bank amounting to €8,890,000. The following terms and conditions of the Contribution granted renders this instrument to be equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation in view that:

- 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 Contribution.

The Contribution is also eligible as Own Funds in terms of MFSA Banking Rule 3.

7.6 All reserves at the reporting date, except for 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.

### 8. Debt securities in issue

8.1		30 Sep 2014	31 Mar 2014
	Notes	€000	€000
At amortised cost:			
Debt securities in issue	8.2	14,200	14,341
Debt securities in issue through funding structure	8.3	216,121	215,786
		<u>230,321</u>	<u>230,127</u>
		=====	=====

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 8. Debt securities in issue (continued)

8.2	Movement in debt securities in issue	30 Sep 2014	31 Mar 2014
		€000	€000
	Balance at 1 April 2014/1 April 2013	14,341	15,664
	Debt securities repurchased and cancelled	(189)	(1,365)
	Transaction cost amortised	48	42
	<b>Balance at 30 September 2014/31 March 2014</b>	<b>14,200</b>	<b>14,341</b>

During the six-month period ended 30 September 2014, the Bank purchased through market operations a nominal value of €188,600 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). All bonds so purchased by the Bank were cancelled.

As at 30 September 2014, the contractual amount due at maturity is €14,309,200.

8.3	Movement in Debt securities through funding structure	30 Sep 2014	31 Mar 2014
		€000	€000
	Balance at 1 April 2014/1 April 2013	215,786	-
	Debt securities issued	-	240,000
	Debt securities repurchased and derecognised	-	(22,000)
	Transaction costs	-	(2,633)
	Transaction costs amortised to income statement	335	419
	<b>Balance at 30 September 2014/31 March 2014</b>	<b>216,121</b>	<b>215,786</b>

As at 30 September 2014, the contractual amount due on maturity is €218 million.

8.4 The Bank has not had any defaults of interest or other breaches with respect to its debt securities in issue during both years ended 31 March 2014 and period ended 30 September 2014.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 9. Subordinated liabilities

#### 9.1 Movement in subordinated liabilities in issue

	30 Sep 2014 €000	31 Mar 2014 €000
At amortised cost:		
Balance at 1 April 2014/1 April 2013	22,385	12,341
Issue of subordinated liabilities		
- nominal value	-	9,984
- related transaction costs	-	(77)
- effect of foreign exchange revaluation	228	96
- transaction costs amortised to profit or loss	15	41
<b>Balance at 30 September 2014/31 March 2014</b>	<b>22,628</b>	<b>22,385</b>

9.2 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 did not default on any interest or have other breaches with respect to its subordinated debt securities during both years ended 31 March 2014 and period ended 30 September 2014.

9.3 As at 30 September 2014, the contractual amount due on maturity is €22.7 million.

### 10. Acquisition of subsidiary

On the 25th September 2014, the Bank acquired 100% of the share capital of Mediterranean Corporate Bank Limited (previously Volksbank Malta Limited), after receiving full regulatory approval. The Bank paid a cash consideration of €35,300,000 for this acquisition.

Mediterranean Corporate Bank is a fully owned subsidiary of the Bank. The Bank reorganised the activities of Mediterranean Corporate Bank Limited with the existing Corporate Banking services of the Bank to form Malta's newest Bank focused exclusively on Corporates operating in Malta.

From the date of acquisition to 30 September 2014, Mediterranean Corporate Bank contributed net interest income of €374 thousand to the Group's results and incurred a loss of €56 thousand 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 €18.9 million and consolidated profit for the period would have been €23.5 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.

#### 10.1 Acquisition-related costs

The Bank incurred acquisition-related costs of €108,373 (excluding VAT) relating to external legal fees and due diligence costs. These costs have been included in 'administrative expenses' in the condensed consolidated interim statement of comprehensive income.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

### 10. Acquisition of subsidiary (continued)

#### 10.2 Identifiable assets acquired and liabilities assumed

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

	€000
Balances with Central Bank of Malta 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 receivable	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)
Accrual and deferred income	(1,427)
Contingent provisions	(316)
	-----
<b>Fair value of identifiable net assets acquired</b>	<b>57,714</b>
	-----

The contingent provisions relate to guarantees provided by Mediterranean Corporate Bank's on credit cards and a provision in relation to a severance payment. The recognised fair value of €316,000 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.

#### 10.3 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)
	-----
<b>Gain on acquisition of subsidiary</b>	<b>22,414</b>
	-----

The gain acquisition of Mediterranean Corporate Bank Limited is recognised in 'Other operating income'. As a consequence of a government bailout, 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 Malta Limited at a price which is significantly lower than the fair value of the net assets and liabilities acquired.

# Mediterranean Bank plc

## Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six-months ended 30 September 2014

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### 11. Contingent assets

At reporting date, the Bank had financial unsettled amounts of €52.6 million relating to secured corporate lending and investment portfolios which were traded but not yet settled.

### 12. Commitments

	30 Sep 2014	31 Mar 2014
	€000	€000
Lease commitments	6,080	4,430
Undrawn credit facilities and other commitments to lend	47,972	-
	<u>54,052</u>	<u>4,430</u>

### 13. Subsequent events

#### Subordinated Unsecured Bonds

On 3 November 2014, the Bank 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 are issued in Euro and Pounds Sterling. This was increased to 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 are exchangeable with these bonds at a discount.

#### Debt securities repurchased

In addition to the above, the nominal amount of debt securities repurchased on the local exchange through market operations up to the date of issue of this report is €20,000. All repurchase securities were at current market prices with a weighted average price of 102.

#### Repayment of capital contribution

During prior financial years, the shareholders advanced €16.5 million to the Group, with a view that this may be repaid only if the Group's financial position and cash flow permits. After seeking and obtaining formal regulatory approval by the Malta Financial Services Authority this shareholders' contribution was repaid in November 2014.



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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 consolidated interim financial statements of the Group of which Mediterranean Bank plc (the "Bank") is the parent (the "Condensed Interim Financial Statements") set out on pages 1 to 17, which comprise the condensed consolidated statement of financial position as at 30 September 2014, and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement 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 condensed 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 5.75.4 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 for the six month period ended 30 September 2014 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

26 November 2014