

1 November 2012

COMPANY ANNOUNCEMENT

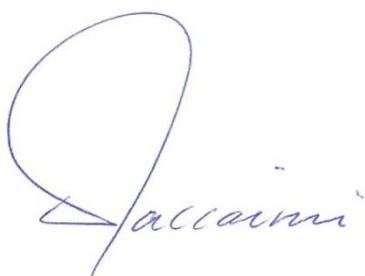
The following are company announcements issued by Mediterranean Bank plc (the "Bank") pursuant to Listing Rule 5.16.

Quote

- In a meeting of 31 October 2012, the Board of Directors of Mediterranean Bank plc approved the attached Group and Bank Condensed Interim Financial Statements for the six month period ended 30 September 2012, which are also available for viewing and download on the Bank's website at www.medbank.com.mt.
- Mediterranean Bank plc (the 'Bank') announces that during the month of October 2012 it repurchased 1,366,000 6.25% Mediterranean Bank plc Euro 2015 bonds from its bondholders through market operations. This is permitted by the Bank's Prospectus dated 13 September 2010.

All bonds so repurchased by the Bank are being cancelled.

Unquote



Edward Jaccarini
Company Secretary
1 November 2012

Mediterranean Bank plc
Condensed
Interim Financial Statements
30 September 2012

Mediterranean Bank plc

	Page
Condensed Interim Financial Statements	
Directors' Report pursuant to Listing Rules 5.74 et seq	i – iii
Condensed Interim Financial Statements:	
Condensed Interim Statements of Financial Position	1 -2
Condensed Interim Statements of Comprehensive Income	3 - 4
Condensed Interim Statements of Changes in Equity	5 - 6
Condensed Interim Statements of Cash Flows	7
Notes to the Condensed Interim Financial Statements	8 - 13
Independent Report on Review of Condensed Interim Financial Statements	

Mediterranean Bank plc

Directors' Report pursuant to Listing Rules 5.74 et seq

For the six-months ended 30 September 2012

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, investments and corporate banking.

Financial Performance

During the first six months of this financial year, the Group and Bank recorded a profit before tax of €16.356 million and €16.443 million, respectively. This was driven through the Bank's focus on its treasury management capabilities which, combined with its low cost base and superior customer service, has enabled it to position itself as a market leading provider of savings and term deposit products, primarily in the Maltese market. During the six-months ended 30 September 2012, the Bank witnessed a 10% growth of its investment securities portfolio to €1.56 billion (31 March 2012: €1.42 billion). During the same period, corporate lending activities grew by €178.2 million and at 30 September 2012 the balance stood at €205.9 million (31 March 2012: €27.7 million).

During the six-months ended 30 September 2012, the Bank registered a net interest income of €10.1 million (30 June 2011: €13.5 million) and other operating income of €16.8 million (30 June 2011: €1.3 million), resulting in a net operating income of €26.6 million (30 June 2011: €15.3 million). Total operating expenses amounted to €10.3 million (30 June 2011: €13.7 million).

The average number employees increased from 81 for the period to 30 June 2011 to 152 during the period ended 30 September 2012, with a corresponding increase in personnel expenses which amounted to €5.2 million for the six-month ended 30 September 2012 (30 June 2011: €2.6 million). The number of employees increased from 88 as at 30 June 2011 to 160 as 30 September 2012

The Directors anticipate continued stable but growing revenues for the remainder of the financial year.

Strategic Development

Mediterranean Bank continues to focus on its prime strategic objective of being a leading provider of savings and wealth management products to the mass affluent market place.

The Bank continued to expand its infrastructure in line with the execution of its strategic vision. The Bank invested in its branch network and in its human resources to provide support to its increasing deposit base. This was further complemented with significant investment in supporting technological infrastructure. The Bank is now operating within seven branches; branches in Qormi and Gozo being the most recent additions.

Customer acquisition continues to be robust, bolstered by strong retention rates, which remains strategically important as the Bank looks to comprehensively extend its customer offering through the launch of its new electronic investment platform, in the second half of the financial year.

Mediterranean Bank plc

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

For the six-months ended 30 September 2012

Strategic Development (continued)

The asset base of the Bank continues to grow, reaching €1.874 billion by 30 September 2012. This has been supported by the Bank's continued focus on the treasury portfolio and its traditional strategy of investing in very high quality and liquid assets. This has been complemented by the growth in the international corporate lending activities portfolio, which reached €206 million as at 30 September 2012. It is the Bank's intention to maintain this asset strategy whilst growing the loan portfolio as a percentage of the overall asset base.

The growth of the asset base continues to be supported by progress on funding sources; primarily the ongoing growth in deposits which reached €477 million by 30 September 2012. The Bank continues to access the international funding markets both through bi-lateral relationships and access to the Eurex repo platform. In addition, to support the growth of its lending activities, the Bank signed a 3-year term funding arrangement with a significant international counterparty, during March 2012.

Mediterranean Bank remains committed to operating with strong regulatory ratios with increasing robustness particularly regarding liquidity. At 30 September 2012 the Bank's liquidity ratio stood at 162% and reported a Tier 1 ratio of 19.4%. The commitment to growing the corporate loan portfolio will mean a greater consumption of capital over the medium term and it is envisaged that through this period the Bank will operate with lower Tier 1 ratios than has been the case in the recent past, but still far in excess of regulatory requirements. Likewise, the deployment of excess liquidity into appropriate asset growth will witness the gradual reduction in the liquidity ratio; however, likewise, this will still remain far in excess of regulatory requirements.

Outlook

Over the last few months markets, have responded positively to a number of Eurozone initiatives, including the Outright Monetary Transaction (OMT) facility implemented by the ECB and the political moves towards a broader banking union. This has led to a period of relative calm in peripheral markets and a significant narrowing of spreads for most countries relative to the core markets. However, underlying issues still exist which have been compounded by a weak economic growth outlook and the ongoing challenges of structural reform, which undoubtedly will underpin a background of weakness and concern for the foreseeable future. Despite these ongoing macro headwinds, we remain confident that the underlying strategy of the Bank remains both robust and profitable, whilst providing a solid foundation for future growth.

We will soon be launching, in Malta, our retail eBanking offering which will be the second phase of our internet offering, coming shortly after the successful launch of our corporate eBanking offering. This will be launched in conjunction with our new internet based platform for investment services which will provide cost efficient, transparent solutions, in an information rich environment for our mass affluent customer base. It is our intention, through this offering to both grow and diversify the income generation of the Bank.

Having invested in the capability to deliver investment services in a cost effective, scalable manner, alongside its traditional savings products, the Bank intends to launch its services in another European jurisdiction towards the end of its financial year.

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

For the six-months ended 30 September 2012

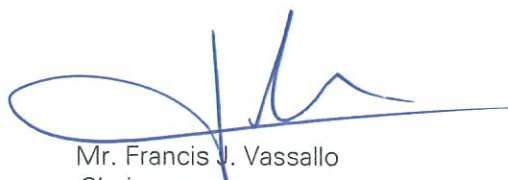
Related parties

There were no material changes in related party transactions as those detailed within the financial statements for the period ended 31 March 2012 (note 33). 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 31 October 2012 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 Statement of Financial Position

As at 30 September 2012

	Group		Bank	
	30 Sep 2012	31 Mar 2012	30 Sep 2012	31 Mar 2012
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, Treasury Bills and cash	11,778	63,656	11,778	63,656
Loans and advances to financial institutions	55,379	27,804	55,379	27,804
Loans and advances to customers	205,933	27,666	205,933	27,666
Investment securities	1,560,241	1,415,493	1,560,241	1,415,493
Derivative assets held for risk management	-	2,572	-	2,572
Investments in subsidiaries	-	-	63	63
Property and equipment	2,534	2,975	2,534	2,880
Intangible assets	290	351	290	351
Other assets	13,050	15,710	12,964	15,649
Prepayments and accrued income	24,996	19,442	24,996	19,442
Deferred tax assets	-	244	-	244
Total assets	1,874,201	1,575,913	1,874,178	1,575,820
	=====			

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Condensed Interim Statement of Comprehensive Income

For the six-months ended 30 September 2012

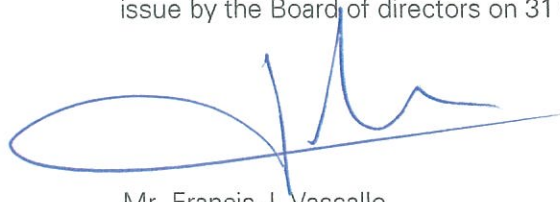
	Group		Bank	
	30 Sep 2012	31 Mar 2012	30 Sep 2012	31 Mar 2012
	€000	€000	€000	€000
EQUITY				
Share capital	56,030	56,030	56,030	56,030
Share premium	13,464	13,464	13,464	13,464
Retained earnings	18,030	7,155	17,991	7,029
Other reserves	18,611	(1,140)	18,604	(1,137)
Total equity	106,135	75,509	106,089	75,386
LIABILITIES				
Amounts owed to financial institutions	1,241,464	1,093,753	1,241,464	1,093,753
Amounts owed to customers	477,309	379,483	477,396	379,555
Debt securities in issue	19,715	19,672	19,715	19,672
Derivative liabilities held for risk management	4,457	-	4,457	-
Current tax payable	4,012	207	3,975	166
Other liabilities	1,945	683	1,918	682
Accruals	9,104	6,606	9,104	6,606
Deferred tax liability	10,060	-	10,060	-
Total liabilities	1,768,066	1,500,404	1,768,089	1,500,434
Total equity and liabilities	1,874,201	1,575,913	1,874,178	1,575,820

Memorandum

Commitments	26,417	9,500	26,417	9,500
-------------	--------	-------	--------	-------

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

The condensed interim financial statements on pages 1 to 13 were approved and authorised for issue by the Board of directors on 31 October 2012 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 Statement of Comprehensive Income

For the six-months ended 30 September 2012

	Group		Bank	
	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2011	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2011
	€000	€000	€000	€000
Interest income	24,158	24,736	24,158	24,736
Interest expense	(14,094)	(11,237)	(14,094)	(11,237)
Net interest income	10,064	13,499	10,064	13,499
Fee and commission income	313	110	313	110
Fee and commission expense	(1,156)	(54)	(1,156)	(54)
Net fee and commission (expense)/income	(843)	56	(843)	56
Net trading income	625	449	625	449
Other operating income	16,790	1,319	16,790	1,319
Net operating income	26,636	15,323	26,636	15,323
Net impairment loss on investment securities	-	7,833	-	7,833
Collective impairment provision	75	-	75	-
Administrative and other expenses	4,518	3,056	4,486	3,590
Personnel expenses	5,223	2,578	5,168	2,094
Depreciation and amortisation	464	271	464	263
Operating expenses	10,280	13,738	10,193	13,780
Profit before income tax	16,356	1,585	16,443	1,543
Income tax expense	(5,481)	(552)	(5,481)	(540)
Profit for the period	10,875	1,033	10,962	1,003

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Condensed Interim Statement of Comprehensive Income (continued)

For the six-months ended 30 September 2012

	Group		Bank	
	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2011	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2011
	€000	€000	€000	€000
Other comprehensive income				
Exchange translation	10	4	-	-
Fair value reserve (available-for-sale assets)				
Net change in fair value	46,149	2,712	46,149	2,712
Net amount transferred to profit or loss	(15,778)	(1,119)	(15,778)	(1,119)
Income taxes	(10,630)	(559)	(10,630)	(559)
Other comprehensive income for the period	19,751	1,038	19,741	1,034
Total comprehensive income for the period	30,626	2,071	30,703	2,037
Basic earnings per share	19c4	2c5	19c6	2c4

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Condensed Interim Statement of Changes in Equity

For the six-months ended 30 September 2012

Group	Share capital €000	Share premium €000	Retained earnings €000	Exchange translation reserve €000	Fair value reserve €000	Total €000
Balance as at 1 January 2011	41,030	13,464	6,382	5	(1,410)	59,471
Comprehensive income for the period						
Profit for the period	-	-	1,033	-	-	1,033
Other comprehensive income for the period						
Exchange translation	-	-	-	4	-	4
Available-for-sale assets:						
- Net change in fair value	-	-	-	-	2,153	2,153
- Net amount transferred to profit or loss	-	-	-	-	(1,119)	(1,119)
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
Balance as at 1 April 2012	56,030	13,464	7,155	(3)	(1,137)	75,509
Comprehensive income for the period						
Profit for the period	-	-	10,875	-	-	10,875
Other comprehensive income for the period						
Exchange translation	-	-	-	10	-	10
Available-for-sale assets:						
- Net change in fair value	-	-	-	-	29,997	29,997
- Net amount transferred to profit or loss	-	-	-	-	(10,256)	(10,256)
Total other comprehensive income	-	-	-	10	19,741	19,751
Total comprehensive income for the period	-	-	10,875	10	19,741	30,626
Balance as at 30 September 2012	56,030	13,464	18,030	7	18,604	106,135

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Condensed Interim Statement of Changes in Equity (continued)

For the six-months ended 30 September 2012

Bank	Share capital	Share premium	Retained earnings	Fair value reserve	Total
	€000	€000	€000	€000	€000
Balance as at 1 January 2011	41,030	13,464	6,321	(1,410)	59,405
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	-	-	-	2,153	2,153
- Net amount transferred to profit or loss	-	-	-	(1,119)	1,119
Total other comprehensive income	-	-	-	1,034	1,034
Total comprehensive income for the period	-	-	1,003	1,034	2,037
Balance at 30 June 2011	41,030	13,464	7,324	(376)	61,442
	=====	=====	=====	=====	=====
Balance as at 1 April 2012	56,030	13,464	7,029	(1,137)	75,386
Comprehensive income for the period					
Profit for the period	-	-	10,962	-	10,962
Other Comprehensive income					
Available-for-sale assets:					
- Net Change in fair value	-	-	-	29,997	29,997
- Net amount transferred to profit or loss	-	-	-	(10,256)	(10,256)
Total other comprehensive income	-	-	-	19,741	19,741
Total comprehensive income for the period	-	-	10,962	19,741	30,703
Balance at 30 September 2012	56,030	13,464	17,991	18,604	106,089
	=====	=====	=====	=====	=====

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Condensed Interim Statement of Cash flows

For the six-months ended 30 September 2012

	Group		Bank	
	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2011	1 Apr 2012 to 30 Sep 2012	1 Jan 2011 to 30 Jun 2010
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	20,868	25,243	20,868	25,243
Interest payments	(11,929)	(8,864)	(11,929)	(8,864)
Payments to employees and suppliers	(4,343)	(6,345)	(4,290)	(6,345)
Operating profit before changes in operating assets/liabilities	4,596	10,034	4,649	10,034
(Increase)/decrease in operating assets:				
- reserve deposits with Central Bank of Malta	2,037	(951)	2,037	(951)
- investment securities	32,997	(189,623)	32,997	(189,623)
- loans advanced to customers and financial institutions	(220,601)	99	(220,601)	99
(Decrease)/increase in operating liabilities:				
- amounts owed to customers and banks	503,815	(204,682)	503,830	(204,689)
Tax paid	(1,997)	-	(1,997)	-
Net cash generated from/(used in) operating activities	320,847	(385,123)	320,915	(385,130)
Cash flows from investing activities				
Payments to acquire held for sale assets	-	(2,770)	-	(2,770)
Acquisition of property and equipment	(58)	(618)	(58)	(611)
Acquisition of available-for-sale assets	(692,320)	(247,686)	(692,320)	(247,686)
Disposal of available-for-sale assets	565,728	249,005	565,728	249,005
Receipts/payments to related parties	(1,727)	36	(1,795)	36
Net cash used in investing activities	(128,377)	(2,033)	(128,445)	(2,026)
Cash flows from financing activities				
Proceeds from the issue of debt securities	-	4,874	-	4,874
Net cash from financing activities	-	4,874	-	4,874
Net change in cash and cash equivalents	192,470	(382,282)	192,470	(382,282)
Cash and cash equivalents at beginning of period	(617,268)	(323,036)	(617,268)	(323,036)
Cash and cash equivalents at end of period	(424,798)	(705,318)	(424,798)	(705,318)

The notes on pages 8 to 13 are an integral part of these condensed interim financial statements.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements

For the six-months ended 30 September 2012

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 September 2012 include the Bank and its subsidiaries (together referred to as the "Group").

The financial statements of the Group as at and for the period ended 31 March 2012 are available upon request from the Bank's registered office and are available for viewing on its website at www.medbank.com.mt.

2 Basis of preparation

2.1 Statements of compliance

This condensed interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual financial statements as at and for the fifteen-month period ended 31 March 2012. This condensed interim financial report does not include all information required as a full annual financial statements prepared in accordance with International Financial Report Standards, as adopted by the European Union.

2.2 Judgements and estimates

Preparing the interim financial report requires Management to make 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.

In preparing this condensed interim financial report, 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 period ended 31 March 2012.

2.3 Comparative information

As required by IAS 34, these interim financial statements include comparative statements of financial position information of the previous financial year end and comparative statement of comprehensive income, comparative statement of changes in equity and statement of cash flows of a comparable interim period of the immediately preceding financial year.

During the period ended 31 March 2012, the Group changed its accounting reference period to 31 March. Accordingly, the Annual Report 2012 and the related financial statements covered the fifteen-month period from 1 January 2011 to 31 March 2012. The statement of comprehensive income, the statement of changes in equity and the statement of cash flows within this interim financial report covers the six-month period from 1 April 2012 to 30 September 2012. The comparative figures presented cover the six-month period from 1 January 2011 to 30 June 2011.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements (continued)

For the six-months ended 30 September 2012

2 Basis of preparation (continued)

2.3 Comparative information (continued)

Management presents the mentioned comparable period in view of the fact that the figures have been reviewed by the Group's Independent Auditors in accordance with ISRE 2410 *Review of Interim Financial Information*. Furthermore, the Group does not suffer from seasonality or cyclicity of interim operations.

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 for the period ended 31 March 2012.

3.1 Derivatives

During the six-month interim period under review, the Bank acquired interest rate swaps to manage its exposure to changes in the fair value of fixed rate debt instruments as a result of changes in market interest rates. Such derivatives are not held for trading purposes, are classified at fair value through profit or loss and are designated in a fair value hedging relationship as described below.

3.2 Hedge Accounting

For accounting purposes there are three possible types of hedges:

- (1) Fair Value Hedges: hedges of changes in the fair value of assets, liabilities or unrecognised firm commitments;
- (2) Cash Flow Hedges: hedges of the variability of future cash flows from highly probable forecast transactions and floating rate assets and liabilities; and
- (3) Hedges of net investments in foreign operations: hedges of the translation adjustments resulting from translating the functional currency financial statements of foreign operations into the presentation currency of the parent.

The Bank makes use of Fair Value Hedge accounting.

IAS 39 prescribes the use of hedge accounting for derivatives which serve to hedge the fair value of assets or liabilities against one or more defined risks. Interest rate swaps are primarily used to hedge fixed rate debt securities that are subject to interest rate risk. Any changes in the fair value of the hedged asset or hedged liability resulting from an opposite move in the hedged risk are also recognised in profit or loss under 'interest expense'. Any portion of the changes in fair value that are not attributable to the hedged risk are accounted for in accordance with the rules of the valuation category (i.e. AFS, HTM, etc.) to which the hedged asset or liability belongs.

In fair value hedge accounting an underlying transaction is linked with one or more hedging transactions in a hedging relationship. The carrying amounts of the hedged transactions are adjusted through profit or loss in the event of changes in fair value attributable to the hedged risk.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements (continued)

For the six-months ended 30 September 2012

3 Significant accounting policies (continued)

3.2 Hedge Accounting (continued)

The application of hedge accounting rules is tied to a number of conditions. These relate above all to the documentation of the hedging relationship and also to its effectiveness. Documentation must include, in particular, the identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged and how effectiveness of the hedge is assessed.

IAS 39 requires the effectiveness of a hedge to be demonstrated during the entire term of the hedge in order for hedge accounting rules to be applied. Effectiveness in this context means the relationship between the change in fair value of the hedged item and the change in fair value of the hedging instrument attributable to the risk being hedged.

If these changes offset each other almost fully, a high degree of effectiveness exists. Proof of effectiveness requires, firstly, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness); secondly, when a hedge exists, it must be regularly demonstrated that it was highly effective during the period under review (retrospective effectiveness). Both the retrospective and prospective effectiveness must be within a range of between 0.8 and 1.25.

Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Hedge effectiveness is always assessed, even when the terms of the derivative and hedged item are matched.

Hedging derivatives are reported as 'Derivative assets held for risk management' or 'Derivative liabilities held for risk management'. In the event that a derivative is subsequently de-designated from a hedging relationship, it is transferred to financial assets/liabilities at fair value through profit or loss. Subsequent changes in fair value are recognized in net gains (losses) on financial assets or liabilities at fair value through profit or loss.

Hedge ineffectiveness is reported in 'interest expense' and is measured as the net effect of changes in the fair value of the hedging instrument and changes in the fair value of the hedged item arising from changes in the market rates.

If a fair value hedge of a debt instrument is discontinued prior to the instrument's maturity because the derivative is terminated or the relationship is de-designated, any remaining interest rate-related fair value adjustments made to the carrying amount of the debt instrument (basis adjustments) are amortised to interest income or expense over the remaining term of the original hedging relationship. For other types of fair value adjustments and whenever a fair value hedged asset or liability is sold or otherwise derecognised any basis adjustments are included in the calculation of the gain or loss on de-recognition.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements (continued)

For the six-months ended 30 September 2012

4 Operating segments

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, sovereign related risk and corporate secured lending. Product and services and geographical areas are comparable to those as at 31 March 2012. 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 2012. 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 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 2011: 35%).

6 Financial Instruments

Impairment

	Specific Impairment €000	Collective Impairment €000	Total €000
At 01.01.11	-	-	-
Charge for the period	7,833	-	7,833
At 30.06.11	7,833	-	7,833
At 01.04.12	-	-	-
Charge for the period	-	75	75
At 30.09.12	-	75	75

During the period ended 31 March 2012, Greek sovereign bonds were written down by €62.9 million as reported in the Annual Report as on 31 March 2012.

During the six-month period ended 30 September 2012, the Bank booked a collective impairment allowance of €74,780 on the loans and advances to customers.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements (continued)

For the six-months ended 30 September 2012

6 Financial Instruments (continued)

Financial Instruments - Credit Risk exposure to Euro-zone periphery

As reported in the note 4.3.5 to the financial statements of the 2012 Annual Report, the Group managed its exposure to the affected Eurozone markets very closely during the period. The Group acquired an available-for-sale portfolio specifically as a macro-hedge instrument. The characteristics of this portfolio are a low or negative correlation with Eurozone peripheral risk. The Bank realised profit through crystallisation of a proportion of the portfolio.

As of 30 September 2012, the Bank carried out an impairment review of the entire portfolio, consisting of investment securities and loans and advances to customers and it was concluded that no further specific provision for impairment was necessary.

The Bank's exposure to sovereign Euro-zone countries covered by a European support plan declined significantly during the interim period under review as the Bank maintained a cautious stance as reflected in the table below.

In April 2012 the Bank received new Greek sovereign bonds, written under English law, as part of the private sector involvement programme which as at 30 September 2012 represented 0.83% of the Bank's total portfolio after taking the necessary impairment provisions as reported in the 2012 Annual Report.

	% of total portfolio	
	30 Sep 2012	31 March 2012
Greece	0.8%	1.5%
Portugal	2.9%	3.7%
	<hr/>	<hr/>
	3.7%	5.2%

In early October, the exposure to Portuguese Government was reduced from 2.9% to approximately 2.0%.

7 Contingent Liabilities

No events occurred that required any changes to the contingent liabilities of the Bank disclosed in the financial statements for the period ended 31 March 2012.

8 Commitments

At reporting date, the Bank had financial commitments amounting to €26.417 million. These were secured corporate lending which were not yet settled.

Mediterranean Bank plc

Notes to the Condensed Interim Financial Statements (continued)

For the six-months ended 30 September 2012

9 Subsequent events

In view that the Bank is currently operating in excess of its liquidity over the target ratios, the Bank embarked in market operations to re-purchase the debt securities in issue after the financial reporting date. The number of debt securities repurchased up to the date of issue of this report is 1,366,000. All repurchase securities were at current market prices with a weighted average price of 101.

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



KPMG
Portico Building
Marina Street
Pietà PTA 9044
Malta

Telephone (+356) 2563 1000
Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Internet www.kpmg.com.mt

Independent 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 13, which comprise the condensed statements of financial position as at 30 September 2012, 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 it will not be copied or disclosed to any third party or otherwise quoted or referred to, in whole or in part, without our prior written consent. 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

31 October 2012