

**Mediterranean Bank PLC
Condensed
Interim Financial Statements
30 June 2010**

Mediterranean Bank PLC

30 June 2010

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Independent Report on Review of Condensed Interim Financial Statements

Mediterranean Bank PLC

Directors' Report

For the six-months ended 30 June 2010

Principal Activities

The principal activities of Mediterranean Bank are to provide market leading banking services to the Mass Affluent and High Net Worth sectors, focusing primarily on savings, wealth management and investments.

Financial Performance

The first six months of 2010 saw Profit Before Tax grow to €7,390,160 for the Group and €7,360,653 for the Bank. This was created through the Bank's focus on its Treasury Management capabilities which, combined with its low cost base and superior customer service, has enabled it to position itself as the market leading provider of savings and term deposit products in the Maltese market. Portfolio growth was strong, reaching €1.3billion attained through the development of relationships in the wholesale banking markets and strong momentum in its client acquisition.

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

Strategic Development

Building on the work done following the change in ownership of the Bank and recapitalisation in July 2009, the first six months of 2010 witnessed significant development of Mediterranean Bank in its resources, products and capabilities.

The implementation of the business plan saw significant investment in employee numbers across the spectrum of the Bank's activities from Client Relationship Managers, through IT, Finance, Investment Analysis, Operational and Administrative capabilities. In the first quarter of the year a London based subsidiary became fully operational to provide Investment Research for the Bank's own Treasury function and to provide future investment opportunities for the Bank's burgeoning client base.

A re-branding campaign was instigated across Malta, raising the profile and awareness of the Bank and its products, its Maltese heritage and its market leading, multi currency savings and deposit rates. This has proved to be highly successful with strong momentum being created in the growth of its deposit base and subsequent client relationships.

Looking forward, the Directors are confident to build further on the strong foundations that have been put in place. In early August, the Bank's holding company announced its acquisition of 65% of Charts Investment Management Service Limited, the highly renowned Maltese stockbroker to enhance its Wealth Management offering in the local market. In late August, the Bank will open its first branch, in Sliema, with a further branch, in Paola, scheduled for late 2010. A contract has been completed to install a new, state of the art, core banking system which, together with the greater access the branches will bring, will create first class customer connectivity and enable the Bank to seamlessly grow its capabilities and product offerings.

Mediterranean Bank PLC

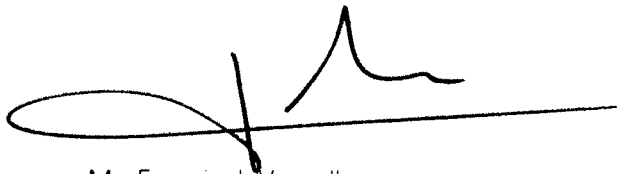
Directors' Report

For the six-months ended 30 June 2010

Strategic Development (continued)

Mediterranean Bank is ambitious to grow but 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 in its future development.

Approved by the Board on 25 August 2010 and signed on its behalf by:



Mr. Francis J. Vassallo
Chairman



Mr. Mark Alexander Watson
Director and Chief Executive Officer

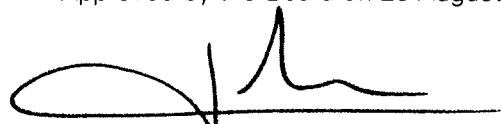
Mediterranean Bank PLC

Condensed Interim Statements of Financial Position

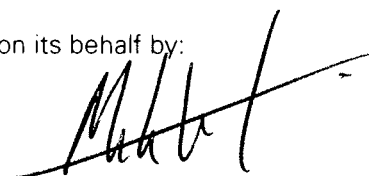
At 30 June 2010

	Group		Bank	
	30 Jun 10	31 Dec 09	30 Jun 10	31 Dec 09
	€	€	€	€
Assets				
Balances with the Central Bank of Malta and cash	2,018,749	39,756,534	2,018,749	39,756,534
Loans and advances to banks	23,219,360	14,045,344	23,219,360	14,045,344
Loans and advances to customers	254,607	8,709	254,607	8,709
Investments securities	1,333,088,647	636,322,789	1,333,088,647	636,322,789
Investments in subsidiaries	-	-	63,088	63,088
Property and equipment	1,132,610	838,880	1,093,405	838,880
Intangible assets	288,118	246,313	288,118	246,313
Other assets	685,402	478,611	1,167,546	485,831
Prepayments and accrued income	16,784,993	5,749,994	16,784,993	5,749,994
Deferred tax asset	501,258	-	501,258	-
Total assets	1,377,973,744	697,447,174	1,378,479,771	697,517,482
Equity				
Share capital	41,030,107	39,520,970	41,030,107	39,520,970
Share premium	13,464,262	13,464,262	13,464,262	13,464,262
Accumulated losses at 1 January	(8,728,940)	(7,866,660)	(8,717,783)	(7,858,081)
Profit/(loss) for the period/year	5,609,091	(862,280)	5,588,475	(859,702)
Exchange translation reserve	10,338	3,834	-	-
Fair value reserve	(1,323,792)	-	(1,323,792)	-
Total equity	50,061,066	44,260,126	50,041,269	44,267,449
Liabilities				
Amounts owed to banks	1,190,472,076	578,698,230	1,190,472,076	578,698,230
Amounts owed to customers	127,719,946	72,078,014	127,794,607	72,144,602
Other liabilities	764,615	859,210	1,227,548	857,589
Accruals	7,386,903	1,551,594	7,383,646	1,549,612
Provision for taxation	1,569,138	-	1,560,625	-
Total liabilities	1,327,912,678	653,187,048	1,328,438,502	653,250,033
Total equity and liabilities	1,377,973,744	697,447,174	1,378,479,771	697,517,482

Approved by the Board on 25 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 Changes in Equity

For the six-months ended 30 June 2010

Group

	Share capital	Share premium	Accumulated losses	Exchange translation reserve	Fair value reserve	Total
	€	€	€	€	€	€
Balance as at 1 January 2009	10,401,500	-	(7,866,660)	3,816	-	2,538,656
Total comprehensive income for the period						
Loss for the period	-	-	(754,332)	-	-	(754,332)
Total comprehensive income for the period	-	-	(754,332)	-	-	(754,332)
Balance as at 30 June 2009	10,401,500	-	(8,620,992)	3,816	-	1,784,324
Balance as at 1 January 2010	39,520,970	13,464,262	(8,728,940)	3,834	-	44,260,126
Total comprehensive income for the period						
Profit for the period	-	-	5,609,091	-	-	5,609,091
Other comprehensive income						
Available-for-sale assets:						
Net change in fair value	-	-	-	-	(2,787,080)	(2,787,080)
Net amount transferred to profit or loss on sale	-	-	-	-	750,477	750,477
Income tax on available for sale movement	-	-	-	-	712,811	712,811
Exchange translation reserve	-	-	-	6,504	-	6,504
Total other comprehensive income	-	-	-	6,504	(1,323,792)	(1,317,288)
Total comprehensive income for the period	-	-	5,609,091	6,504	(1,323,792)	4,291,803
Transactions with owners, recorded directly in equity - contributions by owners						
Issue of share capital	1,509,137	-	-	-	-	1,509,137
Total contributions by owners	1,509,137	-	-	-	-	1,509,137
Balance as at 30 June 2010	41,030,107	13,464,262	(3,119,849)	10,338	(1,323,792)	50,061,066

Mediterranean Bank PLC

Condensed Interim Statements of Changes in Equity

For the six months ended 30 June 2010

Bank

	Share capital	Share premium	Accumulated Losses	Fair value reserve	Total
	€	€	€	€	€
Balance as at 1 January 2009	10,401,500	-	(7,858,081)	-	2,543,419
Total comprehensive income for the period					
Loss for the period	-	-	(754,332)	-	(754,332)
Total comprehensive income for the period	-	-	(754,332)	-	(754,332)
Balance as at 30 June 2009	10,401,500	-	(8,612,413)	-	1,789,087
Balance as at 1 January 2010	39,520,970	13,464,262	(8,717,783)	-	44,267,449
Total comprehensive income for the period					
Profit for the period	-	-	5,588,475	-	5,588,475
Other comprehensive income for the period					
Available-for-sale assets:					
Net change in fair value	-	-	-	(2,787,080)	(2,787,080)
Net amount transferred to profit or loss	-	-	-	750,477	750,477
Income tax on available for sale movement	-	-	-	712,811	712,811
Total other comprehensive income	-	-	-	(1,323,792)	(1,323,792)
Total comprehensive income for the period	-	-	5,588,475	(1,323,792)	4,264,683
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of share capital	1,509,137	-	-	-	1,509,137
Total contributions by owners	1,509,137	-	-	-	1,509,137
Balance as at 30 June 2010	41,030,107	13,464,262	(3,129,308)	(1,323,792)	50,041,269

Mediterranean Bank PLC

Condensed Interim Statements of Comprehensive Income

For the six-months ended 30 June 2010

	Group		Bank	
	2010	2009	2010	2009
	€	€	€	€
Interest income	17,694,984	137,615	17,694,984	137,615
Interest expense	(5,495,386)	(83,733)	(5,495,386)	(83,733)
Net interest income	12,199,598	53,882	12,199,598	53,882
Fee and commission income	59,532	79,883	59,532	79,883
Fee and commission expense	(383,540)	(73,525)	(383,540)	(73,525)
Net fee and commission (expense)/income	(324,008)	6,358	(324,008)	6,358
Net trading income	740,414	-	740,414	-
Other operating income	156,460	64,172	156,460	64,172
Net operating income	12,772,464	124,412	12,772,464	124,412
Administrative expenses	2,271,427	650,070	3,258,291	650,070
Personnel expenses	2,966,961	122,901	2,010,956	122,901
Depreciation and amortisation	143,916	105,773	142,564	105,773
Total operating expenses	5,382,304	878,744	5,411,811	878,744
Profit/(loss) before tax	7,390,160	(754,332)	7,360,653	(754,332)
Tax expense	(1,781,069)	-	(1,772,178)	-
Profit/(loss) for the period	5,609,091	(754,332)	5,588,475	(754,332)
Other comprehensive income				
Net change in fair value of available for sale assets	(2,787,080)	-	(2,787,080)	-
Net change in fair value of available for sale assets transferred to profit or loss	750,477	-	750,477	-
Income tax on other comprehensive income	712,811	-	712,811	-
Exchange translation reserve	6,504	-	-	-
Other comprehensive income for the period, net of income tax	(1,317,288)	-	(1,323,792)	-
Total comprehensive income for the period	4,291,803	(754,332)	4,264,683	(754,332)
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Mediterranean Bank PLC

Condensed Interim Statements of Cash Flows

For the six-months ended 30 June 2010

	Group		Bank	
	2010	2009	2010	2009
	€	€	€	€
Cash flows from operating activities				
Interest and commission receipts	12,819,704	132,695	12,819,704	132,695
Interest and commission payments	(1,942,776)	(75,470)	(1,942,776)	(75,470)
Payments to employees and suppliers	(3,238,295)	(985,741)	(2,803,955)	(985,741)
Operating profit/(loss) before changes in operating assets / liabilities	7,638,633	(928,516)	8,072,973	(928,516)
(Increase)/decrease in operating assets:				
- Financial assets	(704,973,715)	-	(704,973,715)	-
- Loans and advances to customers and banks	(1,558,364)	(13,530,787)	(1,558,364)	(13,530,787)
Increase/(decrease) in operating liabilities:				
- Amounts owed to customers and banks	237,016,977	(11,240,437)	237,016,977	(11,240,437)
Net cash outflows from operating activities	(461,876,469)	(25,699,740)	(461,442,129)	(25,699,740)
Cash flows from investing activities				
- Payments to acquire property and equipment	(405,154)	-	(364,597)	-
- Payments to acquire intangible assets	(74,298)	-	(74,298)	-
- Payments to acquire available-for-sale assets	(109,786,869)	-	(109,786,869)	-
- Proceeds from sale of available-for-sale assets	110,527,283	-	110,527,283	-
- Advances to parent and ultimate parent	(176,739)	-	(176,739)	-
- Advances to subsidiary	-	-	(474,897)	-
Net cash flows from investing activities	84,223	-	(350,117)	-
Cash flows from financing activities				
- Proceeds from issue of share capital	1,509,137	-	1,509,137	-
Net cash flows from/(used in) financing activities	1,509,137	-	1,509,137	-
Net decrease in cash and cash equivalents	(460,283,109)	(25,699,740)	(460,283,109)	(25,699,740)
Cash and cash equivalents at beginning of period	52,570,455	34,413,482	52,570,455	34,413,482
Cash and cash equivalents at end of period	(407,712,654)	8,713,742	(407,712,654)	8,713,742
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Mediterranean Bank PLC

Notes to the Condensed Interim Financial Statements

For the six-months ended 30 June 2010

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 2010 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 2009 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

The 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 2009.

3 Significant accounting policies

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 2009. In addition, the Group classified certain acquired instruments during the period as available for sale financial instruments. The applicable accounting policy is as follows:

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income on available for sale debt instruments is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

Mediterranean Bank PLC

Notes to the Condensed Interim Financial Statements

For the six-months ended 30 June 2010

3 Significant accounting policies (continued)

Available-for-sale (continued)

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

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

4 Estimates

The preparation of interim financial statements 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 these condensed interim financial statements, 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 applied to the consolidated financial statements as at and for the year ended 31 December 2009.

5 Taxation

The Bank's and the Group's effective tax rate works out at 24.1%. When compared to the applicable domestic tax rate of 35%, the reduced effective tax rate is the result of consideration of tax losses and other deductible temporary differences brought forward, which were not recognised in the previous year.

6 Investments

No impairment allowance on investments securities was deemed necessary during the period.

Mediterranean Bank PLC

Notes to the Condensed Interim Financial Statements

For the six-months ended 30 June 2010

7 Contingent Liabilities

No events occurred that required any changes to the contingent liabilities disclosed in the financial statements for the year ended 31 December 2009.

8 Commitments

At reporting date, the Bank had financial commitments amounting to €12.4 million in respect of the acquisition of bonds.

Furthermore, the Bank had capital commitments amounting to €9.6m in connection with the acquisition of a new Core Banking IT System.

9 Subsequent events

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.

10 Share Capital

By an extraordinary resolution dated 25 May 2010, it was resolved to increase the fully paid up issued share capital by €1,509,137.

11 Other

On 3 August 2010, the Bank's parent company concluded the acquisition of a new subsidiary, Charts Investment Management Service Limited, a stock broking firm. This acquisition is expected to strengthen the Group's operations.



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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 8 which comprise the condensed statements of financial position as at 30 June 2010, 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

25 August 2010