Deloitte

AGRIBANK PLC ANNUAL REPORT 2014

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DIRECTORS' REPORT FOR THE YEAR/PERIOD ENDED 30 JUNE 2014

The directors have the pleasure of submitting their second annual report, together with the audited financial statements of AgriBank plc ("the Bank") and its subsidiary AgriFunding 13-1 Limited (together "the Group") and AgriBank plc for the year/period ended 30 June 2014.

Principal Activities

Operational Review

The Bank is licensed as a credit institution under the Banking Act, Cap.371. The Bank has obtained wholesale bank financing and is engaged in taking online funding from customers in the UK and through financial intermediaries in Malta. The funds received by the Bank are not covered by the Depositor Compensation Scheme. It provides finance in the form of finance lease, hire-purchase agreements and loans to customers in the agricultural sector in the UK.

The second financial period of the Bank for the year ended 30 June 2014 was a period of finalising set up and ramping up its balance sheet. The financial year ending 2014 was defined by the wholesale funding acquisition which was used to finance agricultural assets in the UK through the setup of the Bank's subsidiary AgriFunding 13-1 Ltd.

Results and dividends

It was a year in which the Group saw strong growth in its statement of financial position which contributed to increasing its absolute net interest margin. In May 2014 the Group began registering a monthly profit, however it still registered a net loss for the financial period of GBP 293,398 (2013: Nil), while the Bank's net loss for the year amounted to GBP 463,651 (2013: net loss of GBP 305,033).

No dividend is being recommended as the Bank had no distributable reserves.

Board of Directors

The following directors served on the Board during the period from 1 July 2013 to date:

Dr Joseph Borg (Non-Executive Chairman)

Mr Victor Rizzo Giusti (Non-Executive Director)

Mr Roderick Psaila (Chief Executive and Director)

Mr Paul Grech (Chief Financial Officer and Director)

Ms Karen Cramer (Non-Executive Director appointed on 1st August 2013)

Mr Ronald Baird (Non-Executive Director appointed on 17th October 2013)

Preparation of Financial Statements and Directors' Responsibilities

The directors are required by the Companies Act (Cap.386) to prepare financial statements for each financial period in accordance with International Financial Reporting Standards as adopted by the EU, which give a true and fair view of the state of affairs of the Bank and Group as at the end of the financial period and of the results of their operations and cash flows for the period then ended. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business as a going concern.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and Bank and to enable them to ensure that the financial statements comply with the Banking Act (Cap. 371) and the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from

material misstatements, whether due to fraud or error. They are also responsible for safeguarding the assets of the Bank and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Bank's and Group's plans for the coming financial years, the directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in preparing the financial statements.

Auditors

A resolution to reappoint Deloitte Audit Limited as auditor of the Bank and Group will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors, authorised for issue on 15 October 2014 and signed on its behalf by:

Dr Joseph Borg	Mr Roderick Psaila	Mr Paul Grech
Chairman	Director and CEO	Director and CFO

RISK MANAGEMENT AND CONTROL

Overview of risk disclosures

These disclosures have been prepared for the Bank in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority. These disclosures will be published by the Group on an annual basis as part of the Annual Report. The Rule follows the disclosure requirements of the EU Directive 2006/48/EC; more specifically to the disclosure requirements of Chapter 5 of the Directive (Articles 145 to 149 – Disclosures by credit institutions) and Annex XII (Technical criteria on disclosure).

As per banking regulations, this report is not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the financial statements which adhere to International Financial Reporting Standards (IFRS) as adopted by the EU. The Group is satisfied that internal verification procedures ensure that these additional regulatory disclosures are presented fairly.

In accordance with the Group's Pillar 3 disclosure policy which sets out the disclosure process, verification and frequency, this report is currently published once a year.

Risk management and control principles

Taking, managing and controlling risk is core to AgriBank's business. The aim is not, therefore, to eliminate all risks but to achieve an appropriate balance between risk and return. When in full operation, AgriBank's approach to risk management and control is based on five principles:

- **business management throughout the Bank is accountable** for all the risks assumed or incurred by their business operations and is responsible for the continuous and active management of risk exposures to ensure that risk and return are balanced;

- **an independent control process** is an integral part of the Group's structure – its goal is to provide an objective check on risk-taking activities and to support senior management in achieving appropriate alignment of the interests of all stakeholders including shareholders, clients and employees;

- **comprehensive, transparent and objective risk disclosure** to senior management, the Board of Directors (BoD), shareholders, regulators, rating agencies and other stakeholders is an essential component of the risk control process;

- **earnings protection** is based on limiting the scope for adverse variations in earnings and exposure to stress events – controls are applied at the level of individual exposures and portfolios in each business and to risk in aggregate, across all businesses and major risk types, relative to the Group's risk capacity (the level of risk AgriBank is capable of absorbing, based on its anticipated earnings power); and

- **protection of AgriBank's reputation** ultimately depends on the effective management and control of the risks incurred in the course of business.

The principles are the foundation upon which the more detailed risk management and control frameworks are built. These frameworks comprise both qualitative elements, including policies and authorities, and quantitative components including limits. They are continually adapted and enhanced as AgriBank's business and the market environment evolve.

Risk management and control responsibilities

The **BoD** has a strategic and supervisory function. It is responsible for the Group's fundamental approach to risk, for approving the risk principles and for determining risk capacity and risk appetite. The **Chief Executive Officer** is the executive responsible for risk policy and its implementation and enforcement.

The **Audit Committee** acts as the Risk Council of the BoD excluding Credit Risk. In this capacity, it oversees the risk profile of the Group on behalf of the BoD and oversees implementation of the risk management and control principles.

The **Credit Risk Committee** has the overall responsibility for the development, implementation and enforcement of AgriBank's risk principles. This includes establishing risk control frameworks, formulating risk policies and determining methodologies for measurement and assessment of risk. The **Head of Credit** is the executive responsible for credit risk policy and its implementation and enforcement.

The **Chief Financial Officer (CFO)** is responsible for transparency in the financial performance of AgriBank and its business groups, including high-quality and timely reporting and disclosure in line with regulatory requirements, corporate governance standards and global best practice. The CFO is responsible for implementation of the risk principles in the areas of capital management, liquidity, funding and tax and together with the **Chief Executive Officer** is responsible for operational risk issues.

The **Head of Compliance** is responsible for implementing the risk principles in the area of compliance. Together with the **Chief Executive Officer**, the Head of Compliance is also responsible for the legal risk area.

All employees, but in particular those involved in risk decisions, must make AgriBank's reputation an overriding concern. Responsibility for AgriBank's reputation cannot be delegated or syndicated.

The risk control process

There are five key elements in the independent risk control process that is planned to be run when the Group is in full operation:

- **risk policies** to implement the risk principles, reflecting AgriBank's risk capacity and risk appetite, and consistent with evolving business requirements and international best practice. AgriBank's risk policies are principle-based, specifying minimum requirements, high-level controls and standards, and broad authorities and responsibilities – they are never a substitute for the exercise of sound business judgment but, rather, guide in determining actions and decisions;

- **risk identification** through continuous monitoring of portfolios, assessment of risks in new businesses and complex or unusual transactions, and ongoing review of the risk profile in the light of market developments and external events;

- **risk measurement** using methodologies and models which are independently verified and approved;

- **risk control** by monitoring and enforcing compliance with risk principles, policies and limits, and with regulatory requirements; and

- transparent **risk reporting** to stakeholders, and to management at all levels, on all relevant aspects of the approved risk control framework, including limits.

The Group is developing control processes around the establishment of new businesses, and the execution of complex or unusual transactions. These processes involve the business, and potentially all the control functions – risk control, legal, compliance, treasury, finance, tax and logistics, as necessary. The objective is to ensure that all critical elements are addressed across disciplines. A key aspect is whether transactions can be booked in a way that will permit appropriate ongoing risk management, measurement, control and reporting.

Senior management is tasked with compiling a dynamic **Risk Register** which defines, measures and discloses the probability and impact of all risk areas separately and combined on the Group's asset and earning base, through quantitative and qualitative calculations.

Risk categories

Business risks are the risks associated with a chosen business strategy – it is business management's responsibility to respond to fundamental changes in the economic environment and the competitive landscape. Business risks are not subject to independent risk control but will be factored into the Group's planning and budgeting process and the assessment of AgriBank's risk capacity and overall risk exposure.

The primary and operational risks inherent in business activities are subject to independent risk control.

Primary risks are:

- **credit risk** – the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. It arises on traditional banking products, such as loans and commitments, and on derivatives and similar transactions. A form of credit risk also arises on securities and other obligations in tradable form. Their fair values are affected by changing expectations about the probability of failure to meet obligations as well as actual failures. Where these instruments are held in connection with a trading activity, AgriBank controls the risk as market risk;

- **liquidity and funding risk** – the risk that AgriBank might be unable to meet its payment obligations when due, or to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments.

- **operational risk** - the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risks must be monitored, and are controlled and mitigated to the extent possible and desirable.

Quantitative controls

In principle, for risks that are quantifiable, AgriBank will be measuring potential loss at three levels – expected loss, statistical loss and stress loss.

Expected loss is the loss that is expected to arise on average over time in connection with an activity. It is an inherent cost of such activity, and must be factored into business plans. For lending instruments carried at amortised cost, expected loss is reflected through tests of impairment and any probability of default of single borrowers and immediately provided through specific allowances. General allowances will be provided based on past actual default rates.

Stress loss is the loss that could arise from extreme events, typically beyond the confidence level of the statistical loss estimate, and is normally a scenario-based measure.

Concentration controls complement portfolio risk measures. Controls are generally applied where the Group identifies that positions in different lending portfolios are affected by changes in the same risk factor or group of correlated factors and there is the potential for significant loss in the event of extreme but plausible adverse developments. AgriBank's concentration controls include credit limits for individual clients, counterparties and counterparty groups.

"Earnings-at-risk" and "Capital-at-risk"

To complement the day-to-day operating controls, AgriBank has developed and will be implementing two concepts – "Earnings-at-risk" and "Capital-at-risk" – to assess aggregate risk exposure across risk types and businesses against its financial resources. These measures assess AgriBank's ability to absorb the potential loss inherent in its business in the current economic cycle, across all business lines, and from all major sources, including primary risks, operational risks and business risks.

Earnings-at-risk focuses on AgriBank's ability to absorb losses from current earnings, while capital-at-risk considers more extreme losses and their potential to lead to a breach of minimum regulatory capital requirements or, ultimately, to insolvency. Capital-at-risk is an input to the capital management process.

Earnings-at-risk is planned to be an integral part of the risk control and is monitored by the senior management as part of the regular risk reporting cycle. The concept reflects AgriBank's view that the first and primary resource to absorb losses is a firm's earnings stream. Earnings-at-risk has three elements – risk capacity, risk exposure and risk appetite.

Risk capacity is the level of risk AgriBank considers itself capable of absorbing, based on its earnings power, without damage to its dividend paying ability, its strategic plans and, ultimately, its reputation and ongoing business viability. It is based on a combination of budgeted / forecast and historical revenues and costs, adjusted for performance-related compensation, and dividends and related taxes.

Risk exposure is an estimate of potential loss based on current and prospective risk limits and risk positions across major risk categories – primary risks, operational risk and business risk. The measure builds on the statistical loss measures used in the day-to-day operating controls as far as possible, extending their time horizons where necessary, with adjustments and supplements determined by management to reflect known coverage gaps, measurement weaknesses and potential events. The results are combined to reflect potential correlations between the various risk categories under the severe scenarios envisaged.

A comparison of risk exposure with risk capacity serves as a basis for determining the appropriateness of current or proposed risk limits, and AgriBank's ability to pay a cash dividend out of its earnings. It is also one of the tools available to management to guide decisions on adjustments to the risk profile.

Risk appetite is established by the BoD, who set an upper bound on aggregate risk exposure in the form of a "risk exposure ceiling". It is appropriate that risk exposure should be less than risk capacity.

As with any model, Earnings-at-risk is heavily dependent on the many assumptions and estimates that are necessarily entailed in determining the inputs and generating the output, not least because risk exposure includes a combination of statistical and more judgmental elements. Measured risk exposure must be understood in this context. Risk capacity and risk exposure are, furthermore, dynamic measures, affected significantly by the external environment which will impact, for example, correlations between risk categories, the liquidity of AgriBank's positions, the potential to reduce or hedge them at reasonable prices, and AgriBank's funding costs.

Capital-at-risk builds off the Earnings-at-risk concept but assesses the potential for losses to exceed earnings capacity and erode capital. For Capital-at-risk, the analysis of risk exposure is essentially the same as for Earnings-at-risk but measured at two higher confidence levels – the first in relation to AgriBank's minimum regulatory capital requirement, and the second in terms of solvency.

The Capital-at-risk measure of aggregate risk exposure is an important consideration in the assessment of capital adequacy.

Like Earnings-at-risk, Capital-at-risk relies on the day-to-day risk control measures and will potentially underestimate aggregate exposure if these measures do not fully capture the risks.

Qualitative controls

Although measurement of risk is clearly important, quantification does not always tell the whole story, and not all risks are quantifiable. Due diligence, sound judgment, common sense and an appreciation of a wide range of potential outcomes – including a willingness to challenge assumptions – are key components of a strong risk culture for both risk management and risk control.

RISK CONCENTRATIONS

A concentration of risk exists where positions in the lending financial instruments are affected by changes in the same risk factor or group of correlated factors, and the exposure could, in the event of extreme but plausible adverse developments, result in significant losses. The identification of risk concentrations necessarily entails judgment about potential future developments, which cannot be predicted with certainty. In determining whether a concentration of risk exists, risk controllers consider a number of elements, both individually and in combination including the risk reward profile of the positions. If a risk concentration is identified, it is assessed to determine whether it should be reduced or the risk should be mitigated, and the available means to do so. Identified concentrations are subject to increased monitoring.

CREDIT RISK

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to AgriBank. This can be caused by factors directly related to the counterparty, such as business or management problems, or from failures in the settlement process, for example on a foreign exchange transaction, where the Group honours its obligation but the counterparty fails to deliver the counter-value (settlement risk). Alternatively, it can be triggered by economic or political difficulties in the country in which the counterparty is based or where it has substantial assets (country risk).

Sources of credit risk

Credit risk is inherent in lending products of the Group namely asset financing through hire purchase and finance lease agreements and loans. The risk control processes applied to these products are fundamentally the same, and they are valued at amortised cost. Moreover, cash balances with other banks also carry a certain level of credit risk.

Credit risk control organization and governance

Effective credit risk control is critical to AgriBank's safety and soundness. The credit risk control framework is based on the risk management and control principles, supported by credit policies. It has both qualitative and quantitative elements. AgriBank has established processes to ensure that risks are identified, assessed, pre-approved where necessary, and continuously monitored and reported. Measures and limits are applied to the credit risk of individual counterparties and counterparty groups, and the quality and diversification of portfolios and sub-portfolios are assessed, a key objective being to control risk concentrations.

The Credit Risk Committee assesses the creditworthiness of individual counterparties and the adequacy and effectiveness of any security or credit hedges, and evaluating credit risk in portfolios, sub-portfolios and other aggregations, including country risk.

The Board of Directors may in the future be delegating appropriate authority to senior management including the Head of Credit. The level of credit authority delegated to holders depends on their seniority and experience. These authorities will encompass all aspects of the approval of credit risk, including settlement risk, and the determination of allowances, provisions and credit valuation adjustments for any impaired claims.

Credit risk control

Limits and controls

The Group has established limits to constrain exposure to individual counterparties and counterparty groups and at portfolio and sub-portfolio levels, wherever risk concentrations are identified, including exposure to specific industries and countries, where appropriate.

At the level of the individual counterparty and counterparty group, the authorised officers will establish limits for all types of exposure. Credit engagements may not be entered into without the appropriate approvals and limits.

Limits will be applied in a variety of forms to portfolios or sectors, where necessary, to restrict risk concentrations or areas of higher risk, or to control the rate of portfolio growth. The impact of variations in default rates and asset values is assessed using stress scenarios, taking into account risk concentrations. Stress loss limits will be applied to portfolios where considered necessary, including limits on exposures. For all exposures, the credit quality and cash flow generation capacity of the counterparty over the full term of the obligation are at the heart of the credit assessment.

Risk mitigation

AgriBank exerts risk mitigation techniques for its credit portfolios. For hire purchase financing and financial leasing, AgriBank holds legal title to the underlying assets for which the financing has been granted. Loan to Value ratios are kept below 80%.

Reporting

An essential element of the credit risk control process is transparent and objective risk reporting. The Head of Credit will be responsible for risk reporting covering both exposure to individual counterparties from all products and activities, and portfolio

risks. The Head of Credit will also supply regular and ad hoc risk information to the Credit Risk Committee, the Board of Directors and Regulators where applicable.

Credit risk measurement

Credit risk measurement is an essential component of the credit risk control framework. The measurement of credit exposure from a loan which is fully drawn is straightforward. The assessment of portfolio risk also entails estimations of the likelihood of defaults occurring, of the associated loss ratios if they do, and of default correlations between counterparties.

AgriBank has developed tools to support the quantification of credit risk of individual counterparties, applying the three generally accepted parameters: probability of default, loss given default and exposure at default.

In line with AgriBank's internal governance standards and the requirements of the new regulatory capital framework (Basel III), the development and maintenance of models will conform to global standards, and the models and their components will be subject to independent verification before implementation. Models must comply with established measurement standards to ensure consistency and allow meaningful aggregation of credit risk across all businesses, and will be reviewed and updated on an ongoing basis

Credit risk parameters

Three parameters will be used to measure and control individual counterparty credit risk:

- the "**probability of default**", which is an estimate of the likelihood of the client or counterparty defaulting on its contractual obligations. This probability is assessed using rating tools tailored to the various categories of counterparties. Besides their use for credit risk measurement, ratings will be an important element in setting credit risk authorities;

- the likely recovery ratio on the defaulted claims, which is a function of the type of counterparty and any credit mitigation or support (such as security or guarantee), from which the "**loss given default**" is determined;

- the current exposure to the counterparty and its possible future development, from which potential "**exposure at default**" is derived. In measuring individual counterparty exposure against credit limits, the Group considers the "maximum likely exposure" measured to a high confidence level over the full life of all outstanding obligations, whereas in aggregating exposures to different counterparties for portfolio risk measurement, the expected exposure to each counterparty at a given time horizon (usually one year) generated by the same model is used.

These parameters will be the basis for most internal measures of credit risk.

Expected loss

Credit losses must be expected as an inherent cost of doing business. But the occurrence of credit losses is erratic in both timing and amount, and those that arise usually relate to transactions entered into in previous accounting periods. In order to reflect the fact that future credit losses are implicit in today's portfolio, AgriBank uses the concept of "expected loss".

Expected credit loss is a statistically based concept which is used to estimate the annual costs that are expected to arise, on average, from positions in the current portfolio that become impaired. The expected loss for a given credit facility is a function of the three components described above – probability of default, loss given default and exposure at default. The expected loss figures for individual counterparties are aggregated to derive the expected credit loss for the whole portfolio.

Expected loss is the foundation of credit risk quantification in all portfolios. It is an input to the valuation or pricing of some products, and the determinant of credit risk costs charged to the business in the management accounts, which differs from the credit loss expense reported under International Financial Reporting Standards (IFRS). Expected loss is also the starting point for the measurement of portfolio statistical loss and stress loss.

Composition of credit risk

The measures of credit risk differ, depending on the purpose for which exposures are aggregated – financial accounting under IFRS, determination of regulatory capital, or AgriBank's own internal management view, i.e. the way credit portfolio risk is managed.

Total gross credit exposure as at 30 June 2014 for the Group to GBP 23,223,682 (2013: GBP Nil) and for the Bank to GBP 7,972,575 (2013: GBP7,284,804) inclusive of hire purchase and finance leases financing and loans (Note 23 to Financial Statements).

Settlement risk

Settlement risk arises in transactions involving exchange of value when the Group must honor its obligation to deliver without first being able to determine that the counter-value has been received.

Impairment and default – distressed claims

AgriBank has classifications for distressed claims.

A loan carried at amortised cost is considered to be "**past due**" when a significant payment has been missed. It is classified as "non-performing" where payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that the claim will be settled by later payments or the liquidation of collateral; or when insolvency proceedings have commenced against the borrower; or when obligations have been restructured on concessionary terms.

Any claim, regardless of accounting treatment, is classified as "**impaired**" if AgriBank considers it probable that it will suffer a loss on that claim as a result of the obligor's inability to meet its obligations according to the contractual terms, and after realization of any available collateral. "Obligations" in this context include interest payments, principal repayments or other payments due.

Impairment under amortised cost valuation is recognised through the creation of an allowance or provision, which is charged to the statements of comprehensive income as credit loss expense. Portfolios of claims carried at amortised cost with similar credit risk characteristics are also assessed for collective impairment. A portfolio is considered impaired on a collective basis if there is objective evidence to suggest that it contains impaired obligations but the individual impaired items cannot yet be identified.

AgriBank will be reviewing individual positions for impairment only after they have been in arrears for a certain time. Thus, to cover the time lag between the occurrence of an impairment event and its identification, collective loan loss allowances are established, based on the expected loss measured for the portfolio over the average period between trigger events and their identification for individual impairments.

Past due but not impaired loans

Past due but not impaired loans have suffered missed payments but are not considered impaired because AgriBank expects ultimately to collect all amounts due under the contractual terms of the loans or with equivalent value.

Impaired loans, allowances and provisions

There were no impaired lending agreements nor any general or specific allowances for impairments as at 30 June 2014.

In general, our practice is to write off non-performing loans, in whole or in part, much sooner than the final settlement of bankruptcy proceedings, sale of the underlying assets, or formal debt forgiveness, thereby reducing the amount of such loans and corresponding allowances recorded.

AgriBank will execute foreclosures by taking possession and disposing of the underlying assets to which it holds title or by constituting the liens. Through the liquidated values to liquidate collateral in the form of financial assets in the most expeditious manner, at prices considered fair. This may require that it purchases assets for its own account, where permitted by law, pending orderly liquidation.

Credit loss expense

AgriBank's financial statements are prepared in accordance with IFRS, under which credit loss expense charged to the statements of comprehensive income in any period is the sum of net allowances and direct write-offs minus recoveries arising in that period, i.e. the credit losses actually incurred. By contrast, for internal management reporting, credit loss expense is based on the expected loss concept described under "Credit risk measurement".

Rating system design and estimation of credit risk parameters

Probability of default

AgriBank will be assessing the likelihood of default of individual counterparties using rating tools tailored to the various counterparty segments. The performance of rating tools, including their predictive power with regard to default events, is regularly validated and model parameters are adjusted as necessary.

Loss given default

Loss given default or loss severity represents AgriBank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit mitigation. Loss given default estimates cover loss of principal, interest and other amounts due (including work-out costs), and also consider the costs of carrying the impaired position during the work-out process.

Exposure at default

Exposure at default represents the amounts AgriBank expects to be owed at the time of default.

For outstanding loans, the exposure at default will be the drawn amount or face value. For loan commitments and for contingent liabilities, it includes any amount already drawn plus the further amount which is expected to be drawn at the time of default, should it occur. This calculation is based on a "credit conversion factor", a fixed percentage per product type derived from historical experience of drawings under commitments by counterparties within the year prior to their default.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. It will be inherent in all AgriBank's activities, not only in the business the Group and the Bank conducts but due to the fact it is a business – because AgriBank is an employer, it may own and occupy property and hold assets, including information, belonging to both the Group and the Bank, as well as its clients. The approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group and the Bank have sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The CEO and the CFO share the responsibility for the independence, objectivity and effectiveness of the operational risk framework.

Operational risk framework

Every function, whether a front-end business or a control or logistics unit, must manage the operational risks that arise from its own activities. Because these risks are all pervasive, with a failure in one area potentially impacting many others, the Group's framework will be based on mutual oversight across all functions. Each area of operations will therefore have established cross-functional cooperation with the Risk Management unit as an integral part of its governance structure, to actively manage operational risk.

The foundation of the operational risk framework is the definition by all functions of their roles and responsibilities so that, collectively, they can ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. From this analysis, they will develop control objectives and standards to protect the Group's tangible and intangible assets and interests, based on the types of operational risk events that might arise, ranging from daily reconciliation problems to potentially severe events such as fraud. The Group recognizes that it cannot eliminate all risks, because errors and accidents will always happen, and that even where it is possible it is not always cost effective to do so. AgriBank's internal control framework will differentiate potential events depending on their likely frequency and impact. Its mitigation and avoidance efforts will be focused on areas where the Group believes it is most exposed to severe events – including both those that are reasonably foreseeable and those that, while not predictable, are thought to be reasonably possible. For lower impact risks AgriBank will concentrate on management and monitoring.

The functions will monitor compliance with their controls and assess their operating effectiveness in several ways, including self-certification by staff, and evaluation of responses by management. The implications of internal and external audit findings and other relevant sources of information will also be assessed.

As major operational risk events occur, AgriBank will assess their causes and the implications for its control framework, whether or not they lead to direct financial loss. This will include events affecting third parties that are relevant to the Group's and the Bank's business if sufficient information is made public. It is important to use all available information to test the control framework because, even if an internal event does not lead to a direct or indirect financial loss, it may indicate that AgriBank's standards are not being complied with.

The totality of this information will be reviewed by functional managers to assess their operational risk exposure and the actions needed to address specific issues. These issues will be formally captured on the risk register, which will form the basis of reporting to the board of directors.

Operational risk measurement

AgriBank will be developing a model for quantification of operational risk from the existent Basic Indicator Approach to the Standard Approach and after a suitable track record to the Advanced Measurement Approach, which meets the regulatory capital standard under Basel III Advanced Measurement Approach (AMA). It will have two main components.

The historical component will be based on AgriBank's own internal losses and is used primarily to determine the expected loss portion of the capital requirement.

The scenario component of the AMA model will be used primarily to determine the unexpected loss portion of the capital requirement. It will be based on a set of generic scenarios that represent categories of operational risks to which the Group will be exposed. The scenarios themselves will be generated from an analysis of internal and external event information, the current business environment, and AgriBank's own internal control environment through comparison to the risk inventory. For each scenario, AgriBank will estimate a base case mainly derived from its own experience, a stressed case mainly derived from integrating experiences of select peers and a worst case based on events experienced by an expanded set of peers in the financial industry. The scenarios will be reviewed at least annually by experts in the relevant subject matter and their risk control counterparts to ensure their validity and may be updated based on material new information or events that occur.

The Group does not set limits on operational risk but will report the measured risk through the standard reporting processes.

The operational risk framework is primarily qualitative rather than quantitative – financial losses and capital considerations are only one, and not the most important, element. The Group uses the operational risk framework as the basis for specialist internal control assessments in areas such as legal, compliance, tax and human resources and to meet internal control-related regulatory requirements, such as Basel III.

LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity risk is the risk of being unable to raise funds to meet payment obligations when they fall due. Funding risk is the risk of being unable, on an ongoing basis, to borrow funds in the market at an acceptable price to fund actual or proposed commitments and thereby support AgriBank's current business and desired strategy. Liquidity and funding are not the same, but they are closely related and both are critical to a credit institution.

Liquidity must be continuously managed to ensure that the Group and the Bank can survive a crisis, whether it is a general market event, a localised difficulty affecting a smaller number of institutions, or a problem unique to an individual firm. An institution that is unable to meet its liabilities when they fall due may collapse, even though it is not insolvent, because it is unable to borrow on an unsecured basis, or does not have sufficient good quality assets to borrow against or liquid assets to sell to raise immediate cash.

Liquidity approach

AgriBank's approach to liquidity management is to ensure that it will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to its various business franchises.

Central to the integrated framework is an assessment of all material, known and expected cash flows and the level of high-grade collateral that could be used to raise additional funding. It entails both careful monitoring and control of the daily liquidity position, and regular liquidity stress testing.

The liquidity position will be assessed and managed under a variety of potential scenarios encompassing both normal and stressed market conditions. The Group will consider the possibility that its access to markets could be impacted by a stress event affecting some part of its business or, in the extreme case, if it was to suffer a period of general market uncertainty.

Liquidity management

The Group will manage its liquidity position in order to be able to ride out a crisis without damaging the ongoing viability of its business. This is complemented by the Group's funding risk management which aims to achieve the optimal liability structure to finance its businesses cost-efficiently and reliably. The long term stability and security of AgriBank's funding in turn will help protect its liquidity position in the event of a AgriBank-specific crisis.

Liquidity modeling and contingency planning

The daily liquidity position – the net cumulative funding requirement for a specific day – will be projected under cautious assumptions for each business day from the current day out to one month to produce a cumulative "cash ladder". The short-term cash ladder is the tool used by Treasury to manage net daily funding requirements efficiently, and monitor liquidity exposure against limits set by the Chairman's Office.

AgriBank will also be regularly assessing the impact of a liquidity crisis scenario, combining a firm-specific crisis with market disruption and focusing on a time horizon starting with overnight and extending up to one year. This AgriBank-specific scenario envisages large draw-downs on otherwise stable client deposits, an inability to renew or replace maturing unsecured funding and limited capacity to generate liquidity from trading assets. Liquidity crisis scenario analysis will support the liquidity management process so that immediate corrective measures, such as the build-up of a liquidity buffer to absorb potential sudden liquidity gaps, can be put into effect.

The starting point for stress testing analyses will be a breakdown of the contractual maturity of AgriBank's assets and liabilities. Since a liquidity crisis could have a myriad of causes, the Group will focus on a scenario that encompasses all potential stress effects across all markets, currencies and products.

The assessment will include the likelihood of maturing assets and liabilities being rolled over in a AgriBank-specific crisis, and gauge the extent to which the potential crisis-induced shortfall could be covered by available funding. It will also factor in potential liquidity outflows from contingent liabilities, in particular those resulting from the drawdown of committed credit lines.

Liquidity needs may also result from commitments and contingencies, including credit lines extended to secure the liquidity needs of clients. AgriBank will be regularly monitoring undrawn committed credit facilities and other latent liquidity risks.

Liquidity limits and controls

While its estimated capacity to generate liquidity when required will naturally vary, AgriBank will generally apply a constant limit structure, which imposes a ceiling on the projected net funding requirement along the cash ladder. Limits are based on the amount of cash AgriBank believes it could raise in a firm-specific crisis.

The Group will also be developing detailed contingency plans for liquidity crisis management, the cornerstone of which is the Group's access to secured funding either from the market or from the relevant central banks, coupled with the ability to turn sufficient liquid assets into cash within a short time frame.

The liquidity contingency plan will be an integral part of the global crisis management concept, which covers all types of crisis events. It would be implemented under a core crisis team with representatives from Treasury, and from other related areas including the functions responsible for payments and settlements, market and credit risk control, collateral and margin management, and information technology and infrastructure.

Liquidity ratios

In addition to the limits and controls described above, the Group will also measure two ratios to monitor liquidity risk.

The Liquidity coverage ratio which addresses short term liquidity (one month) on a monthly basis. Banks will need to have sufficient liquidity to cover all projected outflows on a stress-tested basis, and without relying on any parent bank funding.

The Net Stable Funding Ratio which aims at ensuring a sound funding structure over one year in an extended stress scenario. Assets have to be matched, to a predetermined extent depending on their liquidity profile at a one year horizon, with sources of funding that can be considered stable over the same one year horizon.

Funding

Through broad diversification of its funding sources (by market, product and currency), AgriBank plans to create and maintain a well-balanced portfolio of liabilities, which will generate a stable flow of financing and provide protection in the event of market disruptions. This, together with its centralised funding management, will enable the Group to pursue a strategy of efficient funding of business activities.

Funding approach

Medium- and long-term funding activities will be planned by assessing the overall funding profile of the balance sheet, taking due account of the effective maturity of the asset base and the amount of maturing debt that will have to be replaced. The ability to continue to fund ongoing business activities through periods of difficult market conditions is also factored in.

To ensure that a well-balanced and diversified liability structure is preserved, the asset liability role will routinely monitor the Group's funding status and reports its findings on a monthly basis to the Board of Directors.

CAPITAL MANAGEMENT

In managing its capital, AgriBank will consider a variety of requirements and expectations. Sufficient capital must be in place to support current and projected business activities, according to both AgriBank's own internal assessment and the requirements of its regulators, in particular its regulator, the Maltese Financial Services Authority (MFSA).

Capital is also managed in order to achieve sound capital ratios that ensure that AgriBank remains a well capitalised firm in the banking sector. This will be crucial in retaining clients' confidence in the Group's financial strength and also supports the Group's funding position and favorable borrowing costs in the international financial markets.

The Group aims to maintain sound capital ratios at all times, and it therefore considers not only the current situation but also projected developments in both its capital base and capital requirements. The main tools by which AgriBank manages the supply side of its capital ratios will be active management of capital instruments and dividend payments.

Capital adequacy management

Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management. In this ongoing process, AgriBank manages towards Tier 1 and Total capital target ratios. In the target setting process AgriBank takes into account the regulatory minimum capital requirements and regulators' expectations that the bank holds additional capital above the minimum and the internal assessment of aggregate risk exposure in terms of Capital-at-risk.

Capital requirements

At 30 June 2014, AgriBank was subject to regulatory guidelines based on the Basel III framework established by the Basel Committee on Banking Supervision ("BIS guidelines / ratios"). The capital it is required to hold is determined by its risk-weighted assets – its balance sheet, off-balance sheet and market risk positions, measured and risk-weighted according to criteria defined by the MFSA. Under BIS guidelines, a financial institution's eligible capital must be at least 8% of its total risk-weighted assets.

AgriBank measures on- and off-balance sheet claims according to regulatory formulas. Claims are weighted according to type of counterparty and collateral. The least risky claims, such as claims on OECD governments and claims collateralised by cash, are weighted at 0%, meaning that no regulatory capital support is required, while the claims deemed most risky, including unsecured claims on both corporate and private clients, are weighted at 100%, meaning that 8% capital support is required.

Securities not held for trading are treated as claims, based on the net position in the securities of each issuer, including both actual holdings and exposures from derivative instruments. The Group's investments in entities which are consolidated under International Financial Reporting Standards (IFRS) and which are not active in the field of banking and finance (including consolidated industrial holdings) are treated for regulatory capital purposes as positions in securities not held for trading.

The Group will initially be controlling and reporting as per Basel III Standardised approach of allocating capital with the intention to develop its processes and information systems to arrive at the Internal Rating / Advanced approach in a reasonable time span necessary.

Other assets, most notably property and equipment, and intangibles are not subject to credit or market risk, but they represent a risk to the Group in respect of their potential for writedown and impairment and therefore require capital underpinning in accordance with regulatory formulas.

Risk-weighted assets (BIS)

On 30 June 2014, total risk-weighted assets for the Group were GBP 21,250,668 (2013: Nil), and for the Bank were GBP 7,702,229 (2013: GBP 6,916,102).

Eligible capital

The capital available to support risk-weighted assets – eligible capital – consists of Tier 1 and Tier 2 capital. To determine eligible Tier 1 and total capital, adjustments have to be made to shareholders' equity as defined under IFRS, most notably by deducting intangible assets and investments in unconsolidated entities engaged in banking and finance activities.

Eligible capital is the same under BIS guidelines and MFSA regulations.

Tier 1 capital / AgriBank shares

The majority of Tier 1 capital comprises share capital injected at inception of the Bank as reduced by the accumulated loss for the year attributable to the Bank's shareholders. As of 30 June 2014, total IFRS equity attributable to the Group's shareholders amounted to GBP 5,901,569 (2013: Nil), while that attributable to the Bank's shareholders amounted to GBP 5,731,316 (2013: GBP 6,194,967), which serves as the basis for determining the regulatory eligible Tier 1 capital.

Hybrid Tier 1 capital

Hybrid Tier 1 instruments are perpetual instruments that can only be redeemed if they are called by the issuer. The payment of interest is subject to compliance with minimum capital ratios and any payment missed is non-cumulative. As at 30 June 2014, there were no hybrid Tier 1 instruments issued by the Bank.

On 30 June 2014, BIS Tier 1 capital for the Group was GBP 5,311,565 (2013: Nil) and for the Bank was GBP 5,141,312 (2013: GBP 5,971,018) reflecting primarily the capital of the Bank at inception and the net setup costs as mitigated by the results of the second year's revenue operations of the Group.

Tier 2 capital

Tier 2 capital consists mainly of subordinated long-term debt that ranks senior to both AgriBank shares and hybrid Tier 1 instruments but is subordinated with respect to all senior obligations of AgriBank. As at 30 June 2014, there were no Tier 2 instruments issued by the Bank.

Capital ratios

The BIS ratios compare the amount of eligible capital (in total and Tier 1) with the total of risk-weighted assets.

Future capital ratios will depend on, among other factors, developments in financial markets and their impact on profit and loss, valuations and capital requirements for market risk; the development of the credit quality of the Group's obligors and counterparties; future issuances of capital instruments; capital requirements for operational risk; and future changes in the regulatory frameworks.

REMUNERATION POLICY

During the current period, the Group has been developing its Remuneration Policy which is based on the following principles:

- Clarity and transparency for all stakeholders;
- Adherence to the Group's long term objectives with reference to the relevant level of risk involved in attaining these goals;
- Maintaining a reasonable proportion between the fixed and variable part of remuneration package;
- The review of the annual staff remuneration considers the Group's results, performance, as well as local markets trends in the financial sector and individual performance in view of the risk level involved in the long term; and
- Market data is considered and target remuneration brackets per job position are set in view of level of expertise, years in the position, attraction of talent and high performers

The remuneration paid during the current period to the executive directors, whose actions have a material impact on the risk profile of AgriBank, was GBP 172,882 (2013: GBP 87,754). Directors' fees paid to non-executive directors during the period were GBP 87,899 (2013: GBP 43,548).

INTERNAL AUDIT

During the financial year ended 30 June 2014, the Bank outsourced its internal audit to an independent professional services firm, who commenced their internal audit work just after year end. The internal audit will be supporting and reporting to the Bank's Audit Committee by independently assessing the effectiveness of the Bank's system of internal controls and compliance of the Group with statutory, legal and regulatory requirements. The Audit Committee will be approving the internal auditors' audit programmes and efforts, analyse and review the audit findings and follow up on implementation of changes and improvements in controls and procedures as a result of the internal auditors' findings. Accordingly, all key issues raised by internal audit will be communicated through the Audit Committee to the management responsible from the risk and control area.

Internal audit will have unrestricted access to all accounts, books and records and will be provided with all information and data needed to fulfill its duties. Coordination and close cooperation with the external auditors will be important to enhance the efficiency of internal audit's work.

SHARES AND CAPITAL INSTRUMENTS

Shares

AgriBank shares and Tier 1 capital

The majority of Tier 1 capital comprises ordinary share capital attributed to AgriBank shareholders. As at 30 June 2014, total equity as reported in the financial statements attributable to the Group amounted to GBP 5,901,569 (2013: Nil), while for AgriBank it amounted to GBP 5,731,316 (2013: GBP 6,194,967). This serves as the basis for determining the regulatory eligible Tier 1 capital, and was represented by a total of 6,500,000 (2013: 6,500,000) issued AgriBank shares and an accumulated loss of GBP 598,431 for the Group, and GBP 768,684 (2013: GBP 305,033) for the Bank. Each outstanding share has a par value of GBP 1 and entitles the holder to one vote at the shareholders' meeting and to receive a proportionate share of the dividend that is distributed. There are no preferential rights for individual shareholders and no other classes of shares are issued by the Bank directly.

It was during the previous period that all the 6,500,000 Ordinary Shares were issued at GBP1 each.

Capital Instruments

Hybrid Tier 1 capital

Hybrid Tier 1 instruments are perpetual instruments which can only be redeemed if they are called by the issuer. If such a call is not exercised at the respective call date, the terms might include a change from fixed to floating coupon payments and, in the case of innovative instruments only, a limited step-up of the interest rate. Non-innovative instruments do not have a step-up of the interest rate and are therefore viewed as having a higher equity characteristic for regulatory capital purposes. The instruments are issued either through trusts or subsidiaries of AgriBank and rank senior to AgriBank shares in dissolution. Payments under the instruments are subject to the adherence to minimal capital ratios by AgriBank. Any payment missed is non-cumulative.

As at 30 June 2014, AgriBank had not issued any hybrid instruments.

Tier 2 capital

Up till 30 June 2014, AgriBank had not issued any Tier 2 instruments.

Distributions to shareholders

AgriBank normally pays an annual dividend to shareholders registered as of the date of the AGM (the record date). Payment is usually scheduled three business days thereafter.

The level of the dividend is dependent on AgriBank's targeted capital ratios and the cash flow generation of the Group.

The decision on dividend payments falls under the AGM's authority and is subject to shareholder approval.

Total distributions in 2014

For the period ended 30 June 2014, the Board of Directors proposes that no dividend shall be paid to the shareholders i.e. the parent company of the Bank.

Cash dividend payments are deducted from the Bank's net profits and retained earnings, which are some of the major components of the Bank's core (Tier 1) capital. In contrast, by issuing new shares in lieu of a dividend cash payment, the level of AgriBank's (Tier 1) capital base is maintained.

SHARE REGISTER INFORMATION

Directors' direct or indirect interest in the share capital of the company as at 30 June 2014 and 2013:

None

As at 30 June 2014 and 2013 the Bank's issued share capital was held by 2 shareholders. The share capital of the Bank consists of one class of ordinary shares with equal voting rights.

Shareholders holding 5% or more of the equity capital as at 30 June 2014 and 2013

Shareholder	Number of shares held	% of shares
AgriHoldings Limited	6,499,999	99.99

There were no further changes in shareholders' holding of 5% or more of the equity share capital until 15 October 2014, the date these financial statements were approved.

Company Secretary

Dr. Isabella Sant

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Exemption number: EXO2155

Independent auditor's report (continued)

to the members of

AgriBank plc

Report on the financial statements

We have audited the accompanying financial statements of AgriBank plc and its group set out on pages 26 to 57, which comprise the statements of financial position as at 30 June 2014, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year/period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the statement of directors' responsibilities in the Directors' Report on page 4, the directors of the Bank are responsible for the preparation of the Group and the Bank financial statements that give true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank and the Group. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Deloitte.

Independent auditor's report (continued)

to the members of

AgriBank plc

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank and its Group as of 30 June 2014 and of the Group's and the Bank's financial performance and cash flows for the year/period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Auditor's responsibility

The Banking Act (Cap. 371) requires us to report whether we have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof, whether the financial statements are in agreement with the books, and whether in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by law in the manner so required and give a true and fair view.

We are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act (Cap. 386).

Opinion

We have obtained all the information and explanations, which to the best of our knowledge and belief are necessary for the purposes of our audit. In our opinion, proper books of account have been kept so far as appears from our examination thereof and the financial statements are in agreement with the books.

In our opinion, the financial statements have been properly prepared in accordance with the Banking Act (Cap. 371) and the Companies Act (Cap. 386).

Sarah Curmi as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor

15 October 2014

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD ENDED 30 JUNE 2014

	Note	The Group	The Bank	
		Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
		GBP	GBP	GBP
Revenue				
Interest income	2	1,203,388	649,657	361,223
Interest expense	3	(240,969)	(47,811)	(8,959)
Net interest income		962,419	601,846	352,264
Fee and commission income		4,220	14,477	5,253
Fee and commission expense		(222,977)	(187,980)	(81,887)
Net fee and commission expense	4	(218,757)	(173,503)	(76,634)
Net operating income		743,662	428,343	275,630
Employee compensation and benefits	5	395,590	395,590	251,991
General administrative expenses		699,559	646,169	456,902
Amortisation of intangible assets	12	60,397	60,397	23,560
Depreciation	13	36,746	36,746	14,183
Total expense		1,192,292	1,138,902	746,636
Loss before tax	6	(448,630)	(710,559)	(471,006)
Income tax credit	7	155,232	246,908	165,973
Loss for the year/period / total comprehensive loss for the period		(293,398)	(463,651)	(305,033)

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	The Group	The Bank	
		2014	2014	2013
		GBP	GBP	GBP
Assets				
Cash and cash equivalents	8	2,461,720	323,005	365,969
Finance lease receivable	9	17,543,107	4,308,309	6,081,507
Loans to customers	10	1,641,563	364,665	-
Investment in subsidiary	11	-	1,857,159	-
Intangible assets	12	177,101	177,101	223,949
Property, plant and equipment	13	191,714	191,714	212,178
Deferred tax	14	412,903	412,903	165,973
Other assets	15	594,244	174,187	125,084
Prepayments and accrued income	16	201,330	163,532	110,144
Total assets		23,223,682	7,972,575	7,284,804
Liabilities				
Amounts owed to banks	17	15,000,000	-	-
Amounts owed to customers	18	884,000	884,000	884,000
Debt securities in issue	19	860,000	860,000	80,000
Other liabilities	20	223,186	264,468	27,420
Accruals	21	263,251	232,791	98,417
Current tax		91,676	-	-
Total liabilities		17,322,113	2,241,259	1,089,837
Equity				
Share capital	12	6,500,000	6,500,000	6,500,000
Accumulated losses		(598,431)	(768,684)	(305,033)
Total equity		5,901,569	5,731,316	6,194,967
Total liabilities and equity		23,223,682	7,972,575	7,284,804

The official middle rate of exchange issued by the European Central Bank between GBP Sterling and Euro as at 30 June 2014 was EUR:GBP 0.8015 (2013: EUR:GBP 0.8572). The notes on pages 30 to 57 are an integral part of these financial statements.

The financial statements on pages 26 to 57 were approved by the Board of Directors on 15 October 2014 and signed on its behalf by:

Dr Joseph Borg	Mr Roderick Psaila	Mr Paul Grech
Chairman	Director and CEO	Director and CFO

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR/PERIOD ENDED 30 JUNE 2014

The Group	Share capital	Accumulated losses	Total
	GBP	GBP	GBP
At 3 October 2013	6,500,000	(305,033)	6,194,967
Loss for the period/total comprehensive loss for the period	-	(293,398)	(293,398)
At 30 June 2014	6,500,000	(598,431)	5,901,569

The Bank	Share capital	Accumulated losses	Total
	GBP	GBP	GBP
At 26 July 2012	6,500,000	-	6,500,000
Loss for the period/total comprehensive loss for the period	-	(305,033)	(305,033)
At 1 July 2013	6,500,000	(305,033)	6,194,967
Loss for the year/total comprehensive loss for the year	-	(463,651)	(463,651)
At 30 June 2014	6,500,000	(768,684)	5,731,316

STATEMENTS OF CASH FLOWS FOR THE YEAR/PERIOD ENDED 30 JUNE 2014

	Note	The Group	The Bank	
		Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
		GBP	GBP	GBP
Cash flows from operating activities				
Interest and commission received		265,427	663,798	342,783
Interest and commission paid		(184,663)	(205,374)	(110,673)
Cash payments to employees and suppliers		(451,466)	(816,999)	(745,610)
Cash flows used in operating activities before changes in operating assets and liabilities		(370,702)	(358,575)	(513,500)
(increase)/decrease in finance lease receivable		(12,993,077)	1,364,615	(6,148,887)
Increase in amounts owed to banks and to customers		15,530,000	780,000	964,000
Net cash generated from/(used in) operating activities		2,166,221	1,786,040	(5,698,387)
Cash flows from investing activities				
Purchase of property plant and equipment		(30,464)	(30,464)	(178,045)
Purchase of intangible assets		(37,108)	(37,108)	(247,509)
Investment in subsidiary		-	(1,857,159)	-
Net cash used in investing activities		(67,572)	(1,924,731)	(425,554)
Cash flows from financing activities				
Proceeds from the issue of share capital		-	-	6,500,000
Amount received from subsidiary company		-	98,626	-
Amount advanced to parent company		(2,898)	(2,898)	(10,090)
Net cash (used in)/generated from financing activities		(2,898)	95,728	6,489,910
Net increase/(decrease) in cash and cash equivalents		2,095,751	(42,964)	365,969
Cash and cash equivalents at the beginning of the year/period		365,969	365,969	-
Cash and cash equivalents at the end of the year/period	8	2,461,720	323,005	365,969

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

a. Basis of preparation

The financial statements of AgriBank plc ('the Bank') and its subsidiaries (together 'the Group) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS). These financial statements have also been prepared in accordance with the provisions of the Banking Act, 1994 (Cap. 371) and the Companies Act, 1995 (Cap. 386). The financial statements have been prepared on the historical cost basis.

The separate and consolidated financial statements have also been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 enacted in Malta.

The Group financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those entities that are controlled by the Bank. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the power to govern the financial and operating policies of another entity. The results of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases. Intragroup balances, transactions, income and expenses are eliminated on consolidation. Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at their present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. After initial recognition, non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

The significant accounting policies adopted are set out below.

Initial application of an International Financial Reporting Standard

In the current year, the Bank has applied the following:

The June 2011 amendments to IAS 1, *Presentation of Items of Other Comprehensive Income* applicable for annual periods beginning on or after 1 July 2012 (with earlier application being permitted). These amendments require companies to group together items of other comprehensive income into two categories in the other comprehensive income section:

a) items that will not be reclassified subsequently to profit or loss and
b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

IFRS 13 *Fair Value Measurement*, applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). IFRS 13 defines fair value, establishes a single source of guidance for fair value measurements and requires disclosures about fair value measurements. IFRS 13 requires prospective application. In accordance with the transitional provisions set out in the standard, entities need not apply the disclosure requirements in comparative information provided for periods before the initial application of the standard. Consequently, the Bank has not made any new disclosures required by IFRS 13 for the 2012 comparative period. The application of IFRS 13 in the current year has resulted in the financial statements incorporating the additional disclosures that are required by the standard for certain financial and/or non-financial items.

International Financial Reporting Standards in issue but not yet effective

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial year under review. These include the following:

IFRS 9 *Financial Instruments* issued in November 2009, amended in October 2010 and then in November 2013, represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. On 20 February 2014, the IASB decided that the effective date for IFRS 9 will be 1 January 2018. This standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. This standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer that measures its own debt at fair value.

The November 2013 amendments to IFRS 9 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements:

a) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
b) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 10 *Consolidated Financial Statements* was issued on 12 May 2011, has been endorsed by the EU and will become effective on 1 January 2014. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (that is, whether an entity is controlled through voting rights of the investors or otherwise). IFRS 10 supersedes SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 12 *Disclosure of Interests in Other Entities* was issued on 12 May 2011, has been endorsed by the EU and will become effective on 1 January 2014. This standard addresses disclosure requirements for certain interests in other entities, including joint arrangements, associates, subsidiaries and unconsolidated structured entities. The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate:

a) the nature of, and risks associated with, its interests in other entities; and
b) the effects of those interests on its financial position, financial performance and cash flows.

Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* were issued on 28 June 2012, have been endorsed by the EU and will become effective on 1 January 2014. The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

IFRIC 21 was issued on 20 May 2013, will become effective on 1 January 2014 but has not yet been endorsed by the EU. This is an interpretation of IAS 32 *Provisions, Contingent Liabilities and Contingent Assets.* IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a level is the activity described in the relevant legislation that triggers the payment of the levy.

The directors are assessing the impact that the adoption of International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have on the financial statements of the Group and the Bank in the period of initial application.

b. Functional and presentation currency

The financial statements are presented in Sterling, which currency represents the functional currency of the Group and the Bank.

c. Foreign currency translation

In preparing the financial statements, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to GBP at the rates of exchange ruling at the reporting date. Gains and losses arising from such translation are dealt with in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GBP at the exchange rate prevailing on the date the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are not retranslated.

d. Loans and receivables

The Group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which financial assets were acquired. Management determines the classification of its financial assets on initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration. These comprise cash and cash equivalents and finance lease receivable.

Loans and receivables are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate.

Impairment
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost
There are two components to the Group's impairment allowances on financial assets carried at amortised cost: specific and collective allowances. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Specific impairment allowances are determined on a case-by-case basis after taking into account the cash-generating potential and the financial state of the borrower and the realisable value of collateral held against borrowings. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through an allowance account, but so that the reversal does not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

e. Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument.

Financial liabilities are initially measured at fair value plus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current period, the Group did not designate any financial liabilities at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading, unless they are designated and effective hedging instruments.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to customers and debt securities in issue.

The gain or loss on financial liabilities classified as at fair value through profit or loss is recognised in profit or loss. For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds, net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

f. Recognition, de-recognition and offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

All loans and receivables are recognised when cash is advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

g. Property, plant and equipment

Property, plant and equipment are classified into the following classes – fixtures and fittings, furniture, IT infrastructure and equipment and office equipment.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

h. Intangible assets

Intangible assets comprise trademarks, computer software, computer systems and website costs. In determining the classification of an asset that incorporates both intangible and tangible elements, judgment is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the Group's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Intangible assets are initially measured at cost. After initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses.

i. Depreciation and amortisation

Depreciation on property, plant and equipment and amortisation on intangible assets commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, other than land, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Property, plant and equipment	
Fixtures and fittings	10% per annum
Furniture	20% per annum
IT infrastructure and equipment	20% per annum
Office equipment	20% per annum
Intangible assets	
Trademark	10% per annum
Computer software	33% per annum
Computer systems	20% per annum
Website costs	33% per annum

The depreciation or amortisation method applied, the residual value and the useful life are reviewed at each reporting date.

j. Impairment of property, plant and equipment and intangible assets

At each reporting date the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss shall be treated as a revaluation decrease to the extent that it does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised directly in equity, unless an impairment loss on the same asset was previously recognised in profit or loss.

k. Provisions

Provisions are recognised when the Group has a present, legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

l. Taxation

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case it is also dealt with in equity.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in the statements of comprehensive income because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is determined under the balance sheet liability method in respect of all temporary differences between the carrying amount of an asset or liability in the statements of financial position and its tax base. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

m. Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Fees and commissions that are earned on the execution of a significant transaction are recognised as revenue when the significant transaction has been completed. Fees and commissions that are earned as services are provided to the client are recognised as revenue as the services are provided. Where fees are charged to cover the cost of a continuing service, these are recognised on an appropriate basis over the relevant period.

n. Employee benefits

The Bank contributes towards the state pension in accordance with local legislation. The costs of retirement benefits are charged to profit or loss as they accrue.

o. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 90 days; advances to banks repayable within 90 days from the date of the advance and balances with the Central Bank of Malta. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 90 days and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statements.

p. Finance leases

Assets leased to customers under agreements which transfer substantially all the risks and rewards asociated with owenrship, other than legal title, are classified as finance leases. Finance charges receivable are recognised in the statements of financial position and income is recongised over the period of the lease so as to give a constant rate of return on the net cash investment in the lease, taking into account all receipts associated with the lease.

q. Operating segments

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

The Board has considered the requirements of IFRS 8 *Operating Segments*. The shares of the Bank are not listed on a Stock Exchange. As a result the Bank is outside the scope of IFRS 8. Therefore, no reconciliation is required between the measure of gains or losses used by the Board to measure the performance of the Board and that contained in these financial statements.

r. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from such estimates.

The Group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. As a result, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The above review has resulted in no specific impairment allowance for the year ended 30 June 2014 (2013: EURNil) on the Group's loans and advances to customers.

In the process of applying the Group's accounting policies, management has made no other judgements which can significantly affect the amounts recognised in the financial statements. At the reporting date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Interest income

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
On cash and cash equivalents	151	151	1,526
Finance lease interest income	1,029,793	638,046	359,697
Loan interest income	173,444	11,460	-
Interest Income	1,203,388	649,657	361,223

During the year, GBP 163,656 (2013: GBP NIL) of the Group's interest income and GBP 7,255 (2013: GBP1,484) of the Bank's interest income consisted of income from financial leases to related parties.

3. Interest expense

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
On amounts owed to banks	193,158	-	-
On amounts owed to customers	30,371	30,371	8,873
On debt securities in issue	17,440	17,440	86
Interest expense	240,969	47,811	8,959

4. Net fee and commission income

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Arrangement fees on finance leases and loans	4,220	14,477	5,253
Fee and commission income	4,220	14,477	5,253
Origination fees on finance leases and loans	(152,322)	(152,320)	(60,870)
Other fees	(70,655)	(35,660)	(21,017)
Fee and commission expense	(222,977)	(187,980)	(81,887)
Net fee and commission expense	(218,757)	(173,503)	(76,634)

Included in the origination fees on finance leases and loans are GBP133,905 (2013: GBP 53,024) of fees that were paid to related parties.

5. Employee compensation and benefits

5.1. Key Management personnel compensation

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Directors' fees	87,899	87,899	43,548
Directors' remuneration	172,882	172,882	87,754
Total compensation to key management personnel	260,781	260,781	131,302

5.2. Personnel expenses incurred during the period are analysed as follows:

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Wages and salaries	373,453	373,453	228,016
Social security costs	16,267	16,267	7,834
Other staff costs	5,870	5,870	16,141
	395,590	395,590	251,991

5.3.The average number of employees employed during the period was as follows:

	2014	2013
	Number	Number
Senior managerial	2	2
Managerial	2	1
Clerical	5	2
Total	9	5

6. Loss before tax

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Loss before tax is stated after charging:			
Total remuneration payable to the Bank's auditors for:			
-the audit of financial statements	16,083	11,909	8,665
-other services	872	872	1,733
	16,955	12,781	10,398

7. Income tax credit

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Current tax charge	(91,698)	(22)	-
Deferred tax credit	246,930	246,930	165,973
	155,232	246,908	165,973

The credit for income tax is based on the taxable loss for the period at a rate of 35%.

The income tax credit for the period and tax applying the statutory domestic income tax rate are reconciled as follows:

	The Group	The Bank	
	Period from 3 Oct 2013 to 30 Jun 2014	Year from 1 Jul 2013 to 30 Jun 2014	Period from 26 Jul 2012 to 30 Jun 2013
	GBP	GBP	GBP
Loss before tax	448,630	710,559	471,006
Tax at the applicable rate of 35%	157,021	248,696	164,852
Tax effect of permanent differences:			
Non-allowable expenses	(1,767)	(1,766)	490
Adjustment for pre-trading expenses	-	-	631
Tax at source	(22)	(22)	-
Total income tax credit	155,232	246,908	165,973

8. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash in hand and deposits held at call with banks.

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Repayable on call and at short notice	2,461,638	322,923	365,911
Cash in hand	82	82	58
	2,461,720	323,005	365,969

Cash earns interest at floating rates based on bank deposit rates.

9. Finance lease receivables

Finance lease receivables comprises receivables in respect of asset financing provided to farmers in the United Kingdom, to finance acquisition of various agriculture-related equipment, vehicles and machinery. The financing arrangements are in the form of finance lease and hire purchase agreements. The main difference between the two types of financing is that under a finance lease, the lessee does not acquire the asset nor does he have an option to acquire the asset, and at the end of the lease, the asset is either sold to a third party or the lessee can continue the lease for a secondary period at a rent that is substantially lower than market rent. Under hire purchase financing, the lessee has the option to acquire the underlying asset for a nominal fee, at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable.

Under both types of financing arrangements, the lease term is for the most of the economic useful life of the asset and the present value of the minimum lease payments usually exceeds the fair value of the underlying asset. In the case of early settlements, the finance income is still due from the lessee, net of a rebate of 2% of the outstanding capital and finance income value.

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Gross investment in finance lease receivable	21,446,605	5,224,600	7,291,377
Unearned future income on:			
Finance lease arrangements	(2,486,948)	(520,994)	(608,460)
Hire purchase arrangements	(1,416,550)	(395,297)	(601,410)
Net investment in finance leases	17,543,107	4,308,309	6,081,507

Net investment in finance leases comprises:

The Group

	Not more than 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP
Finance lease arrangements	2,693,453	7,229,764	9,923,217
Hire purchase arrangements	2,796,195	4,823,695	7,619,890
	5,489,648	12,053,459	17,543,107

At 30 June 2014, GBP 1,297,118 of the Group's finance lease receivables were due from related parties, yielding between 11.75% and 15.33% and are repayable between 3.7 and 4.6 years (2013: Nil). At 30 June 2014, GBP 29,066 of the hire purchase receivable was due from related parties, yielding 15.33% and is repayable by 3.7 years (2013: Nil).

The Bank

	Not more than 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP
Finance lease arrangements	432,582	1,344,513	1,777,095
Hire purchase arrangements	1,285,954	1,245,260	2,531,214
	1,718,536	2,589,773	4,308,309

At 30 June 2014, GBP 23,133 of the Bank's finance lease receivables were due from related parties, yielding between 10.79% and 15.33% and are repayable between 0.7 and 3.7 years (2013: GBP31,493). At 30 June 2014, GBP 29,066 of the hire purchase receivable was due from related parties, yielding 12.39% and is repayable by 4 years (2013:Nil).

	Not more than 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP
Finance lease arrangements	3,739,462	8,670,704	12,410,166
Hire purchase arrangements	3,489,838	5,546,601	9,036,439
	7,229,300	14,217,305	21,446,605

The Bank

	Not more than 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP
Finance lease arrangements	606,198	1,691,892	2,298,090
Hire purchase arrangements	1,507,007	1,419,503	2,926,510
	2,113,205	3,111,395	5,224,600

The underlying assets have no unguaranteed residual values accruing to the benefit of the Bank or Group, nor has any contingent rent been included as part of income in the current period.

All finance lease receivables are considered recoverable and hence no allowance was made for uncollectible minimum lease payments receivable as at 30 June 2014 and 30 June 2013.

10. Loans to customers

	The Group	The Bank	
	Period from		Period from
	2014	2014	2013
	GBP	GBP	GBP
Term loans and advances	1,641,563	364,665	-
	1,641,563	364,665	-
Less impairment losses	-	-	-
Net loans and advances at amortised cost	1,641,563	364,665	-

11. Investment in subsidiary

AgriFunding 13-1 Ltd was incorporated on 3rd October 2013 with registered address at 10, Warwick Street, London. On the 6th of May 2014 it was registered on the address of the Bank as an overseas company with the local registry. The Bank holds 1,857,159 shares in AgriFunding 13-1 Ltd of GBP1 each representing 100% holding. The subisidiary prepares its financial statements to the same date, 30 June.

12. Intangible assets

The Group

	Trademark	Computer Software	Computer Systems	Website Costs	Total
	GBP	GBP	GBP	GBP	GBP
Cost					
At 3 October 2013	880	17,509	191,114	38,006	247,509
Acquisitions	-	3,050	5,420	5,078	13,548
At 30 June 2014	880	20,559	196,534	43,084	261,057
Accumulated amortisation					
At 3 October 2013	-	2,408	15,926	5,226	23,560
Charge for the period	88	6,784	39,307	14,218	60,397
At 30 June 2014	88	9,192	55,233	19,444	83,957
Carrying amount					
At 30 June 2014	792	11,367	141,301	23,640	177,101

The Bank

	Trademark	Computer Software	Computer Systems	Website Costs	Total
	GBP	GBP	GBP	GBP	GBP
Cost					
At 1 July 2013	-	-	-	-	-
Acquisitions	880	17,509	191,114	38,006	247,509
At 30 June 2013	880	17,509	191,114	38,006	247,509
Acquisitions	-	3,050	5,420	5,078	13,548
At 30 June 2014	880	20,559	196,534	43,084	261,057
Accumulated amortisation					
At 26 July 2012	-	-	-	-	-
Charge for the period	-	2,408	15,926	5,226	23,560
At 30 June 2013	-	2,408	15,926	5,226	23,560
Charge for the year	88	6,784	39,307	14,218	60,397
At 30 June 2014	88	9,192	55,233	19,444	83,957
Carrying amount					
At 30 June 2013	880	15,101	175,188	32,780	223,949
At 30 June 2014	792	11,367	141,301	23,640	177,101

13. Property, plant and equipment

The Group

	Fixtures & Fittings	Furniture	IT infrastructure & equipment	Office Equipment	Total
	GBP	GBP	GBP	GBP	GBP
Cost					
At 3 October 2013	112,338	32,846	76,835	4,343	226,361
Additions	5,487	4,363	2,786	3,645	16,282
At 30 June 2014	117,825	37,209	79,621	7,988	242,643
Accumulated depreciation					
At 3 October 2013	4,681	2,737	6,403	362	14,183
Charge for the period	11,782	7,442	15,924	1,598	36,746
At 30 June 2014	16,463	10,179	22,327	1,960	50,929
Carrying amount					
At 30 June 2014	101,362	27,030	57,294	6,028	191,714

The Bank

	Fixtures & Fittings	Furniture	IT infrastructure & equipment	Office Equipment	Total
	GBP	GBP	GBP	GBP	GBP
Cost					
At 26 July 2012	-	-	-	-	-
Additions	112,338	32,846	76,835	4,343	226,361
At 30 June 2013	112,338	32,846	76,835	4,343	226,361
Additions	5,487	4,363	2,786	3,645	16,282
At 30 June 2014	117,825	37,209	79,621	7,988	242,643
Accumulated depreciation					
At 26 July 2012	-	-	-	-	-
Charge for the period	4,681	2,737	6,403	362	14,183
At 30 June 2013	4,681	2,737	6,403	362	14,183
Charge for the year	11,782	7,442	15,924	1,598	36,746
At 30 June 2014	16,463	10,179	22,327	1,960	50,929
Carrying amount					
At 30 June 2013	107,657	30,109	70,432	3,980	212,178
At 30 June 2014	101,362	27,030	57,294	6,028	191,714

14. Deferred tax

Recognised deferred tax asset

Deferred tax asset is attributable to the following temporary differences:

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Tax value of losses and capital allowances carry-forwards	412,903	412,903	165,973
Deferred tax asset as at 30 June 2014	412,903	412,903	165,973

15. Other assets

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Receivables from related parties	209,352	50,348	71,074
VAT receivables	133,352	25,876	47,613
Other receivables	126,540	97,963	6,397
Arrangement Fee	125,000	-	-
	594,244	174,187	125,084

Receivables from related parties consist of GBP 12,989 (Group and Bank) advanced to the parent company, AgriHoldings Limited, to finance expenses and GBP 196,364 (Group) and GBP 37,360 (Bank) receivable from a related party in relation to finance lease rentals, being cash transfers in transit at end of the current period. The related parties' receivables carry no interest, no security and have no fixed date of repayment, but are expected to be realised within twelve months from the end of the reporting period.

16. Prepayments and accrued income

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Prepayments	139,502	139,502	86,451
Accrued income on finance leases and loans	61,828	24,030	23,693
	201,330	163,532	110,144

17. Amounts owed to banks

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Term loan	15,000,000	-	-
	15,000,000	-	-

The loan is secured by the collateral obtained by the subsidiary on the loans sanctioned.

18. Amounts owed to customers

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
3.35% 3 year fixed term deposits	559,000	559,000	559,000
3.50% 4 year fixed term deposits	80,000	80,000	80,000
3.60% 5 year fixed term deposits	245,000	245,000	245,000
	884,000	884,000	884,000

The deposits are repayble on maturity, with interest payable semi-annually, annually or upon maturity.

19. Debt securities in issue

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
3.35% 3 year AgriBank Saver Bonds	400,000	400,000	80,000
3.50% 4 year AgriBank Saver Bonds	80,000	80,000	-
3.60% 5 year AgriBank Saver Bonds	30,000	30,000	-
5.00% 5 year AgriBank Co-Invest Bonds	350,000	350,000	-
	860,000	860,000	80,000

The bonds represent transferable senior debt security. The bonds are redeemable at par upon maturity, with interest payable semi-annually, annually or upon maturity. All the bonds in issue are not listed on any stock exchange and are unsecured.

20. Other liabilities

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Other creditors	178,942	121,598	27,420
VAT payable	44,244	44,244	-
Amount owed to subsidiary	-	98,626	-
	223,186	264,468	27,420

The amount owed to subsidiary is interest free and unsecured. Though the borrowing has no fixed date of repayment, it is expected to be settled within 12 months from the end of the reporting period.

21. Accruals

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Accrued interest on term deposits and debt securities in issue	68,097	37,637	8,959
Other accruals	195,154	195,154	89,458
	263,251	232,791	98,417

22. Share capital

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Authorised:			
43,500,000 ordinary shares at GBP 1 each	49,999,999	49,999,999	49,999,999
1 ordinary B shares at GBP 1 each	1	1	1
	50,000,000	50,000,000	50,000,000
Issued and paid up:			
6,499,999 ordinary A shares at GBP 1 each	6,499,999	6,499,999	6,499,999
1 ordinary B shares at GBP 1 each	1	1	1
	6,500,000	6,500,000	6,500,000

The holders of the 'A' and 'B' shares rank pari passu in all respects.

23. Related party transactions

The directors consider the ultimate controlling parties to be Frank Sekula and Matthew Smart who indirectly, collectively own 100% of the issued share capital of the company.

During the course of banking operations, the Bank conducted business transactions with its subsidiary, its parent company and other related parties. Transactions and balances with related parties are disclosed in notes 2, 4, 5, 9 and 15.

No expense has been recognised in the current period for bad and doubtful debts in respect of amounts due from related parties and there are no provisions for doubtful debts in respect of outstanding amounts due from related parties.

24. Fair values of financial assets and financial liabilities

The following is a description of the fair value measurement of financial assets and financial liabilities measured on a basis other than fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Finance lease receivables and loans to customers

As at 30 June 2014, the Group's and Bank's carrying amount of finance lease receivables and loans to customers amounted to GBP 19,184,670 (2013: GBP Nil) and GBP 4,672,974 (2013: GBP 6,081,507) respectively. The finance lease receivables and loans to customers are granted on the basis of a negotated interest amount depending on the category of underlying agricultural assets being financed. Interest rates in agricultural asset financing are relatively inelastic to market rates. Finance lease receivables and loans to customers which have been granted at certain interest rates would still be granted at the same interest rates as at end of financial year. The carrying amounts therefore approximate fair value and are deemed to be a level 2 measurement.

Other financial assets and liabilities

Other financial assets and financial liabilities comprise cash and balances with Banks, accrued income, other receivables, accrued expenses and other liabilities. As at 30 June 2014 and 2013, the carrying amounts of these financial instruments approximated their fair values due to their short term maturities.

Amounts owed to banks and customers

This category of liabilities is measured at amortised cost and amounts to GBP 15,884,000 in Group and GBP 884,000 in Bank as at 30 June 2014 (2013: Bank – GBP 884,000). Amounts owed to customers are at fixed rates, whereas amounts owed to banks, GBP 15,000,000, carry a rate of interest of a margin plus one month LIBOR. These amounts owed to banks were drawn down in the second half of the year and therefore are at market rates. The remaining amounts of GBP884,000 due to customers are also at market rates. The carrying amounts therefore approximate fair value and are deemed to be a level 2 measurement.

Debt securities in issue

Debt securities in issue, like amounts owed to banks and customers, are measured at amortised cost and amount to GBP860,000 in Group and Bank (2013: GBP 80,000). GBP 780,000 of the debt securities in issue at year end, were issued during the year. The prior year debt securities in issue comprised 3 year AgriBank Saver Bonds at a coupon rate of 3.35%. During the current year, the Bank issued GBP 430,000 of 3 year to 5 year AgriBank Saver Bonds at a coupon ranging from 3.35% to 3.6% and GBP 350,000 of 5 year AgriBank Co-Invest Bonds at a coupon of 5%. The carrying amounts therefore approximate fair value and are deemed to be a level 2 measurement.

25. Risk management

The Group has exposure to the following risks from financial instruments:

-credit risk
-liquidity risk

The Group is also exposed to non-financial risks, namely operational risk.

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

Risk Management Framework

With the exception of credit risk, the Audit Committee has overall responsibility for the establishment and oversight of the risk management framework. It is made up of three non-executive members two of whom are also directors of the Bank. It assists the Board of Directors in identifying, measuring monitoring and controlling the Bank's key risks. It also reviews the current practices employed by the overall risk management structure within the Group. The Audit Committee's responsibilities extend to supervising regulatory capital management and risk-based performance measurement. This Committee is also responsible for ensuring the Group's exposures are in line with the risk appetite approved by the Board of Directors on an annual basis.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's finance lease receivable and cash and cash equivalents.

Credit risk constitutes the Group's most significant risk and arises mainly from lending acitivities. To identify, measure and manage its credit risk arising from all these activities, the Group has adequate methodologies, policies, procedures and expertise in place. The Group has adopted a policy of only dealing with creditworthy counterparties, using lending instruments which let it keep the ownership of the underlying assets in the lending contracts until expiration of the contracts, and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. In line with the exposure the Group has at the balance sheet date, the Credit Committee, made up of a mix of executive and non-executive members, monitors large client exposures and any conditions for the impairment of assets and allowances.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure and is shown gross, without taking into account any collateral or other credit enhancements, unless these credit enhancements qualify for offset in accordance with IAS 32.

Financial Instruments: Presentation. The maximum exposure at the reporting date was:

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Cash and cash equivalents	2,461,720	323,005	365,969
Finance lease receivable	17,543,107	4,308,309	6,081,507
Loans to customers	1,641,563	364,665	-
	21,646,390	4,995,979	6,447,476

The amount of exposure to credit risk of financial assets presented in the table above is equal to their carrying amount recognised on the balance sheet. The exposures are neither past due nor impaired and are graded as 'regular'.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impaired facilities are those credit facilities with payments on interest and/or capital overdue by 90 days or where the Group has reasons to doubt the eventual recoverability of funds. As at 30 June 2014, the Group had neither past due items nor any impaired facilities.

Allowances for impairment
The Group establishes an allowance for impairment losses carried at amortised cost that represents its estimate of incurred losses on its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses, if any, that have been incurred but have not been identified on facilities that are considered individually insignificant, as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Neither specific nor collective impairment allowances were deemed necessary as at the reporting date.

Write-off policy

The Group writes off a loan/security balance and related allowances for impairment losses when it determines that the loan or security is uncollectible.

This determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral and other credit enhancements obtained

In its asset financing lending, for hire purchase and finance leases, the Group owns the underlying assets up till the end of the financing contracts' duration. For loans, the Group actively uses collaterals in its credit risk mitigation. The Group policy is to obtain collateral if and when required prior to the disbursement of approved loans mainly through liens on property and parcels of agricultural lands.

Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not held over loans and advances to the parent company.

There was no collateral and other security enhancements held against finance lease receivables, as the Group owns the underlying assets.

Concentration of risks

The Group monitors concentrations of credit risk by sector, geographic location and industry. An analysis of concentrations of credit risk at the reporting date is shown below:

		The Group	
	Cash and cash equivalents 2014 GBP	Finance lease receivable 2014 GBP	Loans to customers 2014 GBP
Carrying amount	2,461,720	17,543,107	1,641,563
Concentration by sector			
-Corporates	-	17,543,107	1,641,563
-Banks	2,461,720	-	-
	2,461,720	17,543,107	1,641,563
Concentration by industry			
-Agriculture	-	17,543,107	1,641,563
	2,461,720	17,543,107	1,641,563
Concentration by geography			
-Malta	5,777	-	-
-UK	2,455,943	17,543,107	1,641,563
	2,461,720	17,543,107	1,641,563

	The Bank			The Bank	
	Cash and cash equivalents	Finance lease receivable	Loans to customers	Cash and cash equivalents	Finance lease receivable
	2014	2014	2014	2013	2013
	GBP	GBP	GBP	GBP	GBP
Carrying amount	323,005	4,308,309	364,665	365,969	6,081,507
Concentration by sector					
-Corporates	-	4,308,309	364,665	-	6,081,507
-Banks	323,005	-	-	365,969	-
	323,005	4,308,309	364,665	365,969	6,081,507
Concentration by industry					
-Agriculture	-	4,308,309	364,665	-	6,081,507
	323,005	4,308,309	364,665	365,969	6,081,507
Concentration by geography					
-Malta	5,794	-	-	12,357	-
-UK	317,211	4,308,309	364,665	353,612	6,081,507
	323,005	4,308,309	364,665	365,969	6,081,507

The Group assigns limits on the level of credit risk undertaken in relation to any single counterparty or sovereign exposure in accordance with external ratings based on the three main external credit rating institutions, 'ECAIs', namely Fitch, Moody's and Standard & Poor's.

Changes in credit ratings are monitored on a daily basis and are subject to frequent review, when considered necessary. The limits on the level of credit risk are reviewed consistently and approved by the BoD at regular intervals. Actual exposures are monitored against limits on an ongoing basis. The Group enters into security transactions only with such authorised counterparties and it invests only in securities or paper with credit quality that falls within specific parameters stated in the treasury management policy.

Maximum exposure

The carrying amount of financial assets recorded in the financial statements, represents the maximum exposure to credit risk without taking account of the value of any collateral obtained.

Loan commitments

The maximum exposure to credit risk arising on loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities is the full amount of the committed facilities.

Credit quality

Credit ratings of the financial institutions with which the Group places cash and cash equivalents are as follows:

	The Group	The Bank	
	2014	2014	2013
	GBP	GBP	GBP
Fitch ratings			
- A	2,455,926	317,211	353,612
- BBB+	5,794	5,794	12,357
	2,461,720	323,005	365,969
Moody's ratings			
- A1	317,139	317,211	-
- A2	2,138,787	-	353,612
- Not rated	5,794	5,794	12,357
	2,461,720	323,005	365,969
Standard & Poor's ratings			
- A	2,455,926	317,211	353,612
- Not rated	5,794	5,794	12,357
	2,461,720	323,005	365,969

Liquidity risk

The Group defines liquidity risk as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity position on a daily basis. The Group maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, to ensure that sufficient liquidity is maintained with the Group as a whole.

All liquidity policies and procedures are subject to review and approval by the BoD, which is subject to a liquidity limit imposed by the regulator. The Chief Financial Officer is responsible for the daily monitoring of liquidity procedures and ratios.

Liquidity gaps showing size and maturity mismatches of assets and liabilities together with liquidity stress testing are also being established.

The table below analyses the Group's and the Bank's financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date. The analysis includes both interest and principal cash flows.

The Group - 2014

	Carrying amount	Gross outflow including interest	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Amounts owed to customers	884,000	958,034		-	-	958,034	958,034
Amounts owed to banks	15,000,000	162,698	-	-	1,950,000	13,050,000	-
Debt securities in issue	860,000	986,165	-	-		986,165	986,165
	16,744,000	2,106,897	-	-	1,950,000	14,994,199	1,944,199

The Bank - 2014

	Carrying amount	Gross outflow including interest	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Amounts owed to customers	884,000	958,034				958,034	958,034
Debt securities in issue	860,000	986,165				986,165	986,165
	1,744,000	1,944,199				1,944,199	1,944,199

The Bank - 2013

	Carrying amount	Gross outflow including interest	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Total
	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Amounts owed to customers	884,000	997,619				997,619	997,619
Debt securities in issue	80,000	88,023	-	-	-	88,023	88,023
	964,000	1,085,642	-	-	-	1,085,642	1,085,642

Assets available to meet these liabilities include cash at bank and finance lease receivables.

Residual contractual maturities of financial assets and financial liabilities

The table below analyzes the principal assets and liabilities with contractual maturities that are recognised in the statements of financial position into relevant maturity groupings, based on the remaining period at balance sheet date to their contractual maturity date.

The Group - 2014

	Less than 3 months GBP	Between 3 and 12 months GBP	Between 1 and 5 years GBP	Total GBP
Assets				
Finance lease receivable	23,333	5,466,316	12,053,458	17,543,107
Loans to customers	-	315,346	1,326,217	1,641,563
Cash and cash equivalents	2,461,720	-	-	2,461,720
	2,485,053	5,781,662	13,379,675	21,646,390
Liabilities				
Amounts owed to customers	-	-	884,000	884,000
Debt securities in issue	-	-	860,000	860,000
	-	-	1,744,000	1,744,000

The Bank - 2014

	Less than 3 months GBP	Between 3 and 12 months GBP	Between 1 and 5 years GBP	Total GBP
Assets				
Finance lease receivable	21,568	1,696,968	2,589,773	4,308,309
Loans to customers	-	12,251	352,414	364,665
Cash and cash equivalents	322,988	-	-	322,988
	344,556	1,709,219	2,942,187	4,995,962
Liabilities				
Amounts owed to customers	-	-	884,000	884,000
Debt securities in issue	-	-	860,000	860,000
	-	-	1,744,000	1,744,000

The Bank - 2013

	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	Total
	GBP	GBP	GBP	GBP
Assets				
Finance lease receivable	540,193	1,649,332	3,891,982	6,081,507
Cash and cash equivalents	365,969	-	-	365,969
	906,162	1,649,332	3,891,982	6,447,476
Liabilities				
Amounts owed to customers	-	-	884,000	884,000
Debt securities in issue	-	-	80,000	80,000
	-	-	964,000	964,000

Market risk

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

Exposure to price risk and currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

At balance sheet date, the Group was not significantly exposed to price risk or currency risk on balances that were denominated in a currency other than its functional currency.

Exposure to interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not exposed to any interest rate risk.

Operational risk

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

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

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

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

Capital allocation for operational risk is based upon the basic indicator approach which takes 15% of the average net interest and non-interest income of the Group for the last three years. The operational risk capital allocation for the Group was GBP 97,027 (2013: Nil) and for the Bank it amounted to GBP69,854 (2013: GBP 12,834).

Capital risk management

The Group's capital managment approach ensures sufficient level of capitalisation to manage the risk exposures at hand while enabling business growth and providing adequate returns to the shareholders. Risk capital management does not in any way substitute risk mitigation measures. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant portion of the Group's capital resources.

The Basel III implementation program together with the ICAAP implementation have been assigned to the Group's senior management and will be executed in parallel to the growing operations of the Group.

Capital management is under the direct control of the BoD. At reporting date, the Group's funding was completely based on own funds (Tier 1) and so was the Eligible Capital.

The following table shows the components and basis of calculation of the Bank's Capital Adequacy ratios.

	The Group 2014 GBP
Own funds	
Tier 1	
-Ordinary shares	6,500,000
-Accumulated losses	(598,431)
-Intangible assets	(177,101)
-Deferred tax asset	(412,903)
	5,311,565

	Face value 2014 GBP	Risk weighted assets 2014 GBP
Credit risk		
-Cash and cash equivalents	2,461,720	492,344
-Finance lease receivable	17,543,107	17,543,107
-Loans to customers	1,641,563	1,641,563
-Other assets	1,577,292	1,476,626
	23,223,682	21,153,640
Operational risk		97,028
Total Risk Weighted Assets		21,250,668

Capital Adequacy Ratio	
Tier 1 and Total Capital Ratio	25.11%

	The Bank	
	2014	2013
	GBP	GBP
Own funds		
Tier 1		
-Ordinary shares	6,500,000	6,500,000
-Accumulated losses	(768,684)	(305,033)
-Intangible assets	(177,101)	(223,949)
-Deferred tax asset	(412,903)	-
	5,141,312	5,971,018

	Face value	Risk weighted assets	Face value	Risk weighted assets
	2014	2014	2013	2013
	GBP	GBP	GBP	GBP
Credit risk				
-Cash and cash equivalents	323,005	64,573	365,969	73,194
-Investment in subsidiary	1,857,159	1,857,159	-	-
-Finance lease receivable	4,308,309	4,308,309	6,081,507	6,081,507
-Loans to customers	364,665	364,665	-	-
-Other assets	1,119,437	1,037,669	837,328	748,567
	7,972,575	7,632,374	7,284,804	6,903,268
Operational risk		69,854		12,834
Total Risk Weighted Assets		7,702,229		6,916,102
Capital Adequacy Ratio				
Tier 1 and Total Capital Ratio		67.36%		87%

26. Events after the reporting period

There were no significant events after the reporting period which in the opinion of the Board of Directors requires disclosure in the financial statements.

27. Registered office

The registered and principal office of AgriBank plc is Level 1, SkyParks Business Centre, Malta International Airport, Luqa LQA 4000, Malta.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute "forward-looking statements", including but not limited to statements relating to the anticipated effect of transactions described herein, risks arising from the current market crisis and other risks specific to AgriBank's business, strategic initiatives, future business development and economic performance. While these forward-looking statements represent the Group's judgments and expectations concerning the development of its business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from the Group's expectations.

These factors include, but are not limited to:

(1) the extent and nature of future developments in the market segments that have been or may be affected by the current market crisis and their effect on AgriBank's assets and exposures;

(2) developments affecting the availability of capital and funding to AgriBank and other credit institutions, including any changes in AgriBank's credit spreads and ratings;

(3) other market and macroeconomic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates;

(4) changes in internal risk control and limitations in the effectiveness of AgriBank's internal processes for risk management, risk control, measurement and modeling, and of financial models generally;

(5) the degree to which AgriBank is successful in implementing its business and development plans, and whether those plans will have the effects anticipated;

(6) changes in the financial position or creditworthiness of the Group's clients, obligors and counterparties, and developments in the markets in which they operate, including possible failures resulting from the current market crisis and adverse economic environment;

(7) management changes and changes to the internal or overall structure of the Group;

(8) the occurrence of operational failures, such as fraud, unauthorised trading and systems failures;

(9) legislative, governmental and regulatory developments, including the effect of more stringent capital requirements and of regulatory constraints on the Group's activities;

(10) changes in accounting standards or policies, and accounting determinations affecting the recognition of gain or loss, the valuation of goodwill and other assets or other matters;

(11) changes in and the effect of competitive pressures, including the possible loss of key employees as a result of compensation issues or for other reasons;

(12) technological developments; and

(13) the impact of all such future developments on positions held by the Group, on its short-term and longer-term earnings, on the cost and availability of funding and on AgriBank's capital ratios. In addition, these results could depend on other factors that we have previously indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports. AgriBank is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Rounding GBP amounts presented throughout this report may not add up precisely to the totals provided in the tables. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.